

Divulapitiya Pradeshiya Sabha
Gampaha District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 29 April 2013 and the financial statements for the preceding year had been presented on 20 March 2012. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 30 January 2014.

1.2 Opinion

In view of the comments and observations appearing in my report, I do not express an opinion on the financial statements of the Divulapitiya Pradeshiya Sabha for the year ended 31 December 2012 presented to audit.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following observations are made.

- (a.) Stamp fees revenue amounting to Rs.13,240,352 relating to the period from May to August 2011 received on 07 January 2013 had been taken to the revenue for the year according to the accrued concept. But, the stamp fees amounting to Rs.30,654,375 received during the period January to July 2013 had not been taken to the revenue of the year according to the said concept.
- (b.) The value of tractors received as donations in 2007 and 2009 amounted to Rs.1,269,000 and it had been taken to accounts by January Entry No.01 as Rs.12,690,000. Therefore the balance of the motor cars and carts account and the balance of the donations account had been overstated by Rs.11,421,000.
- (c.) Lands valued at Rs.6,433,370 that could not be brought to accounts from 2006 to 2012 had been capitalized by Journal Entry No.08. However, according to the schedule submitted, the value of lands not accounted during the said period

amounted to Rs.7,709,371. Therefore, value of lands not yet accounted was Rs.1,276,000.

- (d.) The total of the fixed assets of the year under review amounted to Rs.106,983,999 and the total of the revenue contribution to capital outlay account and the donations account amounted to Rs.108,522,381 and therefore, a difference of Rs.1,538,382 was revealed.
- (e.) Bank reconciliation statements had been prepared, without taking into consideration the cash-in-hand amounting to Rs.116,551 at sub-offices.
- (f.) Only the bankings had been taken into consideration while preparing the bank reconciliation, without taking into account the total receipts and payments according to P.S.10.
- (g.) Electrical equipment valued at Rs.913,000 and Rs.880,000 respectively purchased on 14 January 2011 and 08 February 2011 that had not been brought to accounts had been credited to the general stores accounts by Journal Entry No.63 while rectifying this; instead of debiting the electrical stock account and crediting the creditors for general supplies account. Therefore, stock of stores had been understated by Rs.1,613,700.
- (h.) Stock of general stores amounting to Rs.1,315,428 issued under 16 issue orders during the year under review had not been included in the account as issues, and therefore, the stock of general stores had been overstated by a similar amount.
- (i.) The land to the extent of 2.1365 hectares of Balagallawatta valued at Rs.18,900,000 acquired by the Sabha had not been brought to account as fixed assets.
- (j.) A sum of Rs.5,000,000 reimbursed during 2013 in respect of Maga Neguma Rural Development Programme 2012 and a sum of Rs.300,000 reimbursed during 2013 in respect of Provincial Council Project No.261523010037 had not been shown in the financial statements as debtors.

1.3.2 Lack of Evidence for Audit

Transactions totaling Rs.38,009,846 could not be satisfactorily vouched in audit due to the non-submission of required information to audit.

2. Financial and Operating Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2012 amounted to Rs.23,560,349 as against the excess of recurrent expenditure over revenue amounting to Rs.28,824,949 for the preceding year.

2.2 Financial Control

The following financial control deficiencies were observed.

- (a.) Action had not been taken in terms of the financial regulations to take into the revenue the 16 unrealized cheques totaling Rs.34,559 for over 06 months.
- (b.) Five cheques valued at Rs.57,167, written in September 2012 had been retained even as at 07 October 2013 the date of audit without being referred to the relevant parties.
- (c.) Expenditure amounting to Rs.3,990,087 had been incurred in excess of provisions relating to 05 Expenditure Heads in contrary to the provisions in Rule No.14 of the Pradeshiya Sabha (Financial and Administrative) Rules 1988.
- (d.) Although additional money had been transferred in addition to the estimated expenditure of 03 expenditure heads, a sum of Rs.63,920,669 had been spent in excess of the provisions.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information on the estimated revenue, actual revenue and the arrears of revenue in respect of the year under review as presented by the Chairman is shown below.

Item of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
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	Rs.'000	Rs.'000	Rs.'000
(i.) Rates and Taxes	8,819	8,871	6,243
(ii.) Lease Rent	3,044	3,808	3,721
(iii.) Licence Fees	379	289	131
(iv.) Other Revenue	75,339	78,328	131

2.3.2 Rates ad Taxes in Arrears

The balance of rates and taxes in arrears at Divulapitiya Sub-office as at 31 December 2012 amounted to Rs.4,732,338 and the balances over Rs.10,000 amounted to Rs.3,106,792. This included a balance of Rs.292,297 in arrears for periods ranging 05 to 22 years. The authorities had not taken action to recover the said money in terms of Paragraph 158(1) of the Pradeshiya Sabha Act No.15 of 1987. Although the assessment of rates and taxes should be revised once in 05 years the rates had not been assessed after year 2003.

2.3.3 Acre Tax

The balance of Acre Tax recoverable as at 31 December 2012 relating to Divulapitiya, Kehelella, Kotadeniyawa Sub-offices amounted to Rs.362,822.

2.3.4 Industry Tax

The balance of Industry Tax in arrears as at 31 December 2012 relating to Divulapitiya Sub-office amounted to Rs.331,290 and of this, balances over 05 years amounted to Rs.258,625.

2.3.5 Lease Rent

- (a.) The balance due from the stalls of the Maradagahamula General Market amounted to Rs.162,452 and action had not been taken to recover this amount, even though the balance is due, since prior to 2000.
- (b.) Lease rent due relating to Kehelella, Kotadeniyawa and Divulapitiya Sub-offices amounted Rs.3,302,652 and this was due for over 05 years.
- (c.) According to Circular No80/46 dated 31 December 1980 of the Commissioner of Local Government, stall rent should be assessed at least once in 05 years. However, action had not been taken according to the Circular in respect of stalls belong to the Pradeshiya Sabha, Divulapitiya.
- (d.) The balance recoverable in respect of 11 stalls of the Maradagahamula General Market since 2000 amounted to Rs.23,461 and the rent recoverable from the weekly fair and fish stalls relating to the Divulapitiya Sub-office amounted to Rs.468,370 and action had not been taken to recover the above, even though a period of over 05 years had passed.

2.3.6 House Rent

House rent recoverable relating to the Kotadeniyawa Sub-office amounted to Rs.179,013 and this is carrying forward since 2000.

2.4 Sub-division of Lands

The following observations are made.

- (a.) The following lands allocated for common amenities of the Sabha had not been capitalized as assets.

Plan No.	Name of the Land	Extent
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3643	Weralugaha Godella Land in Balagolla Village	36 (Perches)
4280	Burvinton Watta at Kotadeniyawa	57.24
510017	Delgahawatta Land at Henpitagedara	27

- (b.) According to Paragraph 5(5) of the By-laws of the Gazette Extra-ordinary No.1053/17 dated 13 November 1998, 8% of the land to be sub-divided excluding the reservation for access roads should be allocated for community services and entertainment activities. However, it had not been acted accordingly in the following instances.
- (i.) Plan No.4146 – Meegahawatta land – 03 Acres 31.70 Perches
 - (ii.) Plan No.510017 – Delgahawatta land – 1.53110 Hectares
 - (iii.) Plan No.8553 – Kudumiris – Pinnalanda land – 5 Acres 5 Roods 22.5 Perches
- (c.) Although 8% of the land excluding street lines should be allocated for community and entertainment activities in terms of the above recruitments; 03 instances were observed where allocations had been made less than the above requirement and as such Sabha had lost 68.47 Perches.
- (d.) According to Paragraph 5(9) of the above Gazette Notification; after approving the sub-division plan and before selling the blocks the applicant should vest with the Sabha the part of land allocated for community services and entertainment activities through a title deed. However, the Sabha had not taken action to obtain title deeds.

- (e.) The relevant register does not show allocation of land for common facilities in respect of the following lands and the respective files had not been made available for audit.

Name of the Land -----	Extent of the Land -----
Kudumiris Pinnalanda (8553)	5 Acres, 05 Roods, 22.5 Perches
Meegahawatta Land	03 Acres, 31.70 Perches

- (f.) Sub-division plans had not been referred to the Planning Committee while giving approval for the above.
- (g.) It was not clear to audit, the reasons for allocating lands for common facilities at 02 locations as Lot No.58 and Lot No.13 respectively to the extent of 14.79 Perches and 39.93 Perches from the Kotadeniyawa, Burvintonwatta land. Action had not been taken to use these blocks of land for any common facility and it was observed at the physical check that no name board had been erected to show the ownership of the Sabha for the land.
- (h.) According to Paragraph 06(i), (j) and (l) of the above Gazette Notification, the written recommendation of the Water Supply and Drainage Board to the effect that drinking water can be obtained if there is no pipe born water supply to the land to be sub-divided, the recommendation of the Medical Officer of Health in charge of the area to that effect that the land is suitable for housing purposes and a certificate of the Electricity Board for supply of electricity if there is no electricity facilities; should be obtained. Nevertheless the Chairman had given approval subject to conditions without obtaining such certificates.
- (i.) Although the Lot No.55 (36 Perches) had been allocated for common facilities from the Weralugaha Godella Land at Balagallawatta, this allocation had not been included in the sub-division plan No.3643.

- (j.) A physical check carried out on 24 October 2013 about the Weralugaha Godella land at Balagallawatta revealed the following matters.
- (i.) Electricity supply had not been given for the relevant land.
 - (ii.) A building had been constructed for a maternal clinic in the block of land allocated for common amenities and electricity supply had been provided to it through a temporary electricity line.
 - (iii.) There was no water supply for the land and well water had been provided to the maternal clinic.
 - (iv.) Approval had been given for this sub-division in December 2011 subject conditions and electricity and water had not been provided for this land even as at 24 October 2013.

2.5 Operating Inefficiencies

The following observations are made.

- (a.) The Sabha had failed to implement 03 projects of which the total value was Rs.24,000,000 proposed to implement in terms of annual budget for 2012.
- (b.) Action had not been taken to remit to the Commissioner General of Inland Revenue the 12% Value Added Tax amounting to Rs.182,469 relating to the 4th quarter of 2012, even as at 07 October 2013; the date of audit examination.
- (c.) Stamp fees amounting to Rs.91,957 received during the period 2009 to 2012 had not been remitted to the Commissioner General of Inland Revenue.

3. Systems and Controls

Special attention is needed in respect of the following areas of systems and controls.

- (a.) Accounting
- (b.) Financial Control
- (c.) Internal Audit
- (d.) Revenue Administration
- (e.) Stock Control
- (f.) Assets Management