

**Divulapitiya Pradeshiya Sabha  
Gampaha District**

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01. Financial Statements

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1:1 Presentation of Financial Statements

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Financial statements for the year under review had been presented to audit on 24 March 2011 and the financial statements for the preceding year had been presented for the audit on 12 April 2010.

1:2 Opinion

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In view of the comments and observations appearing in this report, I am unable to express an opinion on the financial statements of the Divulapituya Pradeshiya Sabha for he year ended 31 December 2010 presented for audit.

1:3 Comments on Financial Statements

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1:3:1 Accounting Deficiencies

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- (a) A provision of Rs.172,783 for creditors had been made for the Value Added tax of Rs.111,318 collected in the fourth quarter of the year 2010.
- (b) The difference of Rs.219,381 between the total of the balances of fixed assets and the balance of the Revenue Contribution to Capital Outlay Account brought forward from the preceding year had not been rectified.
- (c) The value of the office equipment purchased in the year under review amounting to Rs.52,050 had not been brought to account.
- (d) The one per cent Nation Building Tax paid for buildings and the 10 per cent retention money deducted totalling Rs.110,990 had not been capitalized.
- (e) A sum of Rs.167,672 paid for 03 construction works had been brought to account under recurrent expenditure instead of being brought to account under capital expenditure.

- (f) Seven individual balances in the Schedule of Staff Loans presented with the financial statements totalled Rs.495,313 whereas those balances appearing in the Register of Staff Loans totalled Rs.486,073 thus revealing a difference between the balances.
- (g) A difference of Rs.6,831,574 was revealed between the Statement of Arrears of Revenue for December 2010 and the Revenue Debtors in the balance sheet.
- (h) The financial aid amounting to Rs.11,625,827 made available by the Department of Local Government (Western Province) on the basis of deducting from the Stamp Fees in terms of provisions in the Supply of Financial Aid to Local Authorities Statute, No. 05 of 2008, had not been brought to account. Nevertheless, the Stamp Fees Revenue due to be received for January to June 2008 amounting to Rs.4,518,424 had been set off against such financial aid without making adjustments in the accounts.
- (i) A sum of Rs.100,000 received from the Ministry of Local Government for the purchase of compost barrels had been brought to account in the Deposit Account while the relevant portion out of the sum of Rs.287,500 spent on the purchase of compost barrels had been brought to account as expenditure instead of charging the Deposit Account.
- (j) The Members' allowances reimbursements receivable for October and November 2010 amounting to Rs.233,000 had not been brought to account.
- (k) The sum of Rs.527,817 representing the Value Added Tax deposits and the 10 per cent retention money included in the Register of Deposits had not been included in the financial statements.
- (l) The stock of the general stores, field stores and the electrical stores amounting to Rs.1,381,410 had not been brought to account.
- (m) The balance stock of 11 compost barrels as at 31 December 2010 valued at Rs.25,300 had been omitted from the accounts.

- (n) Difference of Rs.10,159 was observed between the value in the financial statements and the balances of inventory register pertains to the electrical inventory items.
- (o) The 10 per cent retention money deducted on works amounting to Rs.1,298,139 had not been brought to account.
- (p) A sum of Rs. 1,180,000 relating to 03 projects completed and paid for under the Maga Neguma Project 2010 and a sum of Rs,666,769 relating to 06 projects completed and paid for under the financial aid receivable from the Assistant Commissioner of Local Government in the year 2010 had not been brought to account under the Debtors Account.

1:3:2 Unreconciled Control Accounts

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The balances of 04 items of accounts according to the relevant Control Accounts totalled Rs.31,824,538 whereas according to the schedules/ records relating thereto, balances of those accounts totalled Rs.23,030,591.

1:3:3 Accounts Payable

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The balances of Accounts Payable older than 01 year as at 31 December 2010 totalled Rs.2,482,808.

1:3:4 Lack of Evidence for Audit

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Non-submission of Information to Audit

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Transactions totalling Rs.95,301,392 could not be satisfactorily vouched in audit due to the non-submission of required information to audit.

1:3:5 Non-compliance with Laws, Rules and Regulations

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Non-compliances with the following laws, rules and regulations were observed during the course of audit.

Reference to Laws, Rules and Regulations	Non-compliance
(a) Pradeshiya Sabha Act, No. 15 of 1987	
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Section 24(1)(a)	The Register of Thoroughfares maintained in terms of the Section referred to had not been updated. Roads of Sabha had not been published though the gazette since the month of February 2002.
(b) Pradeshiya Sabha (Finance and Administrative) Rules 1988	
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(i) Rule 5(5)	An Annual Development Plan for the year under review had not been prepared.
(ii) Rule 19	Even though all counterfoil books should be kept in the custody of the Secretary, the counterfoil books of the Sabha had been kept in the custody of the officer in charge of the stores.
(iii) Rule 31	Whenever cheques are dishonoured, the persons concerned should be notified to pay the value of the cheques in cash. Nevertheless, such action had not been taken on dishonoured cheques valued at Rs.158,260 brought forward over a number of years.
(iv) Rules 59 and 60	Even though an authorized officer of the Sabha should carry out a survey of the industries in the area of authority of the Sabha at the beginning of each year, prepare a list of industries in terms of Section 150(1) of the Pradeshiya Sabha Act, No. 15 of 1987 and submit such list to the Secretary of the Sabha before 31

March it had not been so done.

(v) Rule 169(3)

Even though the Officer in charge of works should maintain a Register of Metal and Gravel, such a register had not been maintained for recording the materials such as. metal, sand, earth and gravel, procured for the construction and development of thoroughfares.

(vi) Rule 203

A complete survey of all the lands and buildings owned by the Sabha had not been conducted annually by a Board of Survey consisting of members as specified in the Rule referred to.

(vii) Rule 217

The particulars of all the lands and buildings owned by the Sabha had not been maintained in a registers in Form PS 46.

(viii) Rule 218

The Chairman had not taken action to cause an annual survey of all the lands and buildings owned by the Sabha by a Board of Survey consisting of members as specified in the Rule referred to.

(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

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(i) Financial Regulation 110

A Register of Damage and Losses had not been maintained.

(ii) Financial Regulation 396(d)

Action in terms of the regulation referred to had not been taken on 85 lapsed cheques valued at Rs.723,042 issued but not presented to the Bank by 31 December 2010. It was revealed that a cheque valued at Rs.452,562 drawn for purchase of furniture but cancelled subsequently is also included among such cheques.

2. Financial and Operating Review  
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2:1 Financial Result  
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According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2010 amounted to Rs.3,867,075 as compared with the corresponding excess of revenue over recurrent expenditure amounting to Rs.25,693,515 for the preceding year.

2:2 Financial Control  
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The following observations are made.

- (a) Follow up action on 14 unrealized cheques and 11 Money Orders valued Rs.11,480 relating to the Head Office and 03 Sub Offices of the Pradeshiya Sabha had not been taken.
- (b) The deficit of Rs.7,282 caused by writing cheques for amounts exceeding the specified amounts in 11 instances during the years 1991 to 2006 had been carried forward in the Bank Reconciliations without being recovered from those responsible.
- (c) Direct debits of Rs.1,000 and direct credits of Rs.227 made to the Bank Accounts had not been identified.

2:3 Revenue Administration  
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2:3:1 Estimated Revenue, Actual Revenue and Arrears of Revenue  
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Even though a request to furnish the information on the estimated revenue, the actual revenue and the arrears of revenue for the year under review and the preceding year was made to the Chairman by my letter No.WN/LG/AR/2011/01 of 07 February 2011, such information had not been furnished.

2:3:2 Arrears of Rates

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 The Secretary of the Sabha had not taken action in terms of the provisions in Section 158(1) of the Pradeshiya Sabha Act, No. 15 of 1987 to recover the rates outstanding by December 2010 amounting to Rs.10,947,925.

2:3:3 Arrears of Acreage Tax an Other Revenue

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 The arrears of Acreage Tax, Entertainment Tax, Industries and Business Tax, Trade Stall Rents and Lease Rents and other arrears of revenue by December 2010 totalled Rs.10,424,914 and the Secretary of the Sabha had not taken action in terms of the provisions of Section 159(1) of the Pradeshiya Sabha Act, No. 15 of 1987 for the recovery of the arrears.

2:4 Expenditure Structure

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 The budgeted and the actual expenditure of the Sabha for the year under review and the preceding year together with the variance are given below.

Item of Expenditure	2010			2009		
	Budgeted	Actual	Variance	Budgeted	Actual	Variance
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<u>Recurrent Expenditure</u>						
Personal Emoluments	39,962	34,417	5,545	39,599	34,662	4,937
Others	14,202	23,338	(9,136)	12,956	18,862	(5,906)
Sub-total	54,164	57,755	(3,591)	52,555	53,524	(969)
Capital Expenditure	62,150	38,731	23,419	22,025	31,533	(9,508)
Grand Total	116,314	96,486	19,828	74,580	85,057	(10,477)

2:5 Human Resources Management  
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Approved and Actual Cadre  
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Information on the approved and the actual cadre of the Sabha as at 31 December 2010 is given below.

<u>Grades of Employees</u>	<u>Approved</u>	<u>Actual</u>
Staff	02	02
Secondary	26	20
Primary	123	108
Others (Casual/ Temporary)	--	06
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Total	151	136
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2:6 Assets Management  
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2:6:1 Idle and Underutilized Physical Resources  
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Particulars revealed during the course of audit test checks of idle and underutilized physical resources are given below. The information on the value of those had not been recorded in the books.

<u>Item</u>	<u>Idle Period -Years</u>
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(i) Madampella Public Market Building	Over 01 year
(ii) Yanmar Hand Tractor	} Over 03 years
(iii) Hand Tractor Trailer	
(iv) Kolas Sprayer	

2:6:2 Accounts Receivable  
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The balances of Accounts Receivable as at 31 December 2010 totalled Rs.8,242,374 and the value of balance of 03 items brought forward from the preceding years without any change amounted to Rs.161,672.

2:6:3 Staff Loans Recoverable  
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The information relating to the posts of the persons who obtained the loans, reasons for non-recovery of loans, age analysis and the files on the loans relating to staff loans amounting to Rs.268,224 due from 15 officers remaining without being recovered over several years, was not made available to audit.



2:6:4 Non-moving Current Assets  
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The value of assets remaining non-moving for more than 01 year by 31 December 2010 amounted to Rs.101,092. The non-moving current assets included 30 plastic chairs and 02 main switches, the value of which could not be obtained.

2:6:5 Assets not Surveyed  
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The value of assets not supported by Physical Verification / Board of Survey Reports as at 31 December 2010 and computed on the book values amounted to Rs.80,167,351.

2:7 Identified Losses and Damage  
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- (a) A shortage of electrical equipment valued at Rs.1,157,162 was revealed according to the information revealed at physical checks and the balances appearing in the stock books maintained by the Sabha.
- (b) The hand tractor No. 74-4130 valued at Rs.200,000 received as a donation to the Sabha in the year 2000 had met with an accident on 10 October 2003. The preliminary investigation on that had not been conducted for the purpose of obtaining insurance indemnity on that and for the recovery of the loss from those responsible for the accidents.
- (c) According to the stock book of electrical goods, a shortage of electrical goods amounting to Rs.551,035 was revealed.

2:8 Irregular Transactions  
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The following matters are observed.

- (a) Stationery and office equipment valued at Rs.6,744 had been issued to the Members of the Pradeshiya Sabha from August to December 2010 even though there is no specific provision for that purpose in the Pradeshiya Sabha Act, No. 15 of 1987.
- (b) A sum of Rs.107,490 had been paid for 10 cordless telephones obtained from a private Telecommunications Company and for the settlement of bills on them. Those telephones had not been recorded in the books of the Sabha and handed over to the specific officers. Two telephones had been

issued to the Sub-offices at Kotadeniyawa and Keselella which have telephone facilities at present. Even though telephones had been provided to 07 libraries and the Marandagahamula Crematorium, the information relating to the needs for such supplies had not been made available to audit.

- (c) The assessments of the special business premises in the area of authority of the Keselella Sub-office made in the year 2009 by a person posing as a Private Assessor had been reduced as a result of rescrutiny following subsequent objections and revised assessments had been made by reducing the assessments by abnormal percentages of 91 per cent. Confirmation of experience possessed by the Assessor had not been obtained while the reasons for such abnormal reductions in the annual values had not been furnished.

## 2:9 Operating Inefficiencies

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The following matters are observed.

- (a) Action had not been taken to investigate 47 Environmental Permits which had expired by November 2010 and to take legal action against the unauthorized conduct of businesses.
- (b) A Register of Public Complaints had not been maintained while no action had been taken even by the end of the year on 03 complaints of public nuisance received by the Sabha from the residents of the area.
- (c) A sum of Rs.41,250 exceeding the expenditure incurred on the purchase of 33,000 concrete bricks from a private institutions for paving the approach road of the Hunmulla Naval Village, had been obtained as reimbursement from the Ministry of Highways.
- (d) Two Members of the Sabha had been assigned very close to the expiry of the official term of the Sabha to follow the Higher Diploma Course on Local Governance conducted by the Sri Lanka Institute of Local Governance. The course fee of Rs. 80,000 had been paid from the Sabha Fund in the year under review.
- (e) Even though 33 1/3 per cent of the Value Added Tax payable to contractors should be retained and remitted to the Commissioner General

of Inland Revenue in terms of the Value Added Tax (Amendment) Act, No. 14 of 2007, a sum of Rs.100,708 had neither been retained nor remitted in the year.

2:10 Contract Administration

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- (a) A sum of Rs.15,600 had been overpaid to a private company for motor grading of Nawana Puwakwatta Road, Mahagama Halpe Nariyamulla Road, Kudagammana Banduragoda Road and the Rassapana Circular Road.
  - (b) Metal, sand and bitumen valued at Rs,205,769 had been issued from the store to the Technical Officer and paid a sum of Rs.21,250 as salaries of labourers for the filling of pot-holes and tarring in section of the Divulapitiya Horagasmulla Road from Illukkade Junction up to 12 mile post. Nevertheless the Technical Officer had reported to the Sabha that only a part of the Project had been completed.
  - (c) Metal, sand and bitumen valued at Rs.183,900 had been issued to the Technical Officer and paid a sum of Rs.31,100 as salaries of laboureres for filling of pot-holes and tarring of the Dunagaha Induragara Wela Meda Road. According to the report of the Technical Officer the value of work completed amounted to Rs.149,928 and as such, underutilization of materials valued at Rs.65,072 were observed. While the Sabha was repairing the damage and tarring the road on an estimated of Rs.400,000 the road was rehabilitated to the Western Provincial Road Development Authority. As such the expenditure of Rs.285,210 incurred by the Sabha had become an uneconomic expenditure.
  - (d) Rubble stones and bitumen valued at Rs.424,645 had been issued to the Technical Officer for tarring and repair the run down section of the Nawana Puwakwatta Road on the right side at the Old Junction of Divulapitiya Kurunegala Road. According to the report of the Technical Officer the value of materials used amounted to Rs.226,852. As such it was observed that rubble, stones and bitumen valued at Rs.197,793 had been underutilized.
  - (e) A quantity of 3.44 cubes of rubble stones valued at Rs.14,050 had been issued in excess of the quantity in the estimate prepared for filling of pot-holes and tarring of the Millcastle Estate first lane, of the Negombo

Mirigama Road. The materials issued in excess had not been returned to the stores by the Technical Officer.

- (f) A sum of Rs.302,648 had been paid to a Rural Development Society for concreting the road near the Agrarian Services Centre Marandaghamula. The recommendation of the Technical Officer was not available for the payments. Evidence of the work done under the supervision of the Sabha was not made available.

2:11 Internal Audit

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Even though an Internal Auditor had been appointed an adequate internal audit of the Sabha had not been carried out.

03. Systems and Controls

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Special attention is drawn to the following areas of systems and controls.

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