

**Dehiowita Pradeshiya Sabha**  
**Kegalle District**

**1 Financial Statements**

**1.1 Presentation of Financial Statements**

The financial statements for the year under review had been presented to audit on 01 April 2016 and the financial statements for the preceding year had been presented on 08 July 2015. The report of the Auditor General for the year under review had been forwarded to the Secretary of the Sabha on 28 June 2016.

**1.2 Opinion**

In my opinion, except for the effects of the matters shown in paragraphs 1.3 of this report, the financial statements give a true and fair view of the financial position of the Dehiowita Pradeshiya Sabha as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

**1.3 Comments on Financial Statements**

**1.3.1 Accounting Deficiencies**

- (a) The interest on 2 fixed deposits at the Bank of Ceylon for the year under review amounted to Rs.156,691. This had been accounted as Rs.65,000. As such, the value of investments as at 31 December 2015 and the surplus for the year under review had been understated in the financial statements by Rs.156,691 and Rs.91,691 respectively.
- (b) The correct surplus for the year under review amounted to Rs.12,284,526. However, this had been shown as Rs.12,473,922 in the financial operating statement.
- (c) The employees' loans of Rs.191,926 receivable as at 31 December of the year under review and the employees' loans received in advance amounting to Rs.3,500 had not been accounted for.
- (d) The rates and taxes amounting to Rs.234,405 received prior to 31 December of the previous year had been credited to the Warrant charges and Fines Account by the Journal Entry No.11. As such, the revenue from rates and taxes had been understated by Rs.234,405 and the Warrant charges and fines had been overstated by a similar amount in the financial statements.
- (e) The revenue from rates and taxes receivable as at 31 December of the year under review and the rates and taxes received in advance had been understated in the accounts by Rs.115,060 and Rs.240,247 respectively. As such, the surplus for the year under review had been overstated by Rs.125,187 and the value of revenue debtors and the revenue received in advance as at 31 December amounting to Rs.115,060 and Rs.240,247 respectively had been understated in the financial statements.

- (f) The correct balance of the changes in net assets statement as at 31 December 2015 amounted to Rs.451,145,535. However, this had been accounted as Rs.836,045,986 resulting in an overstatement of the value of net assets as at 31 December of the year under review by Rs.384,900,451.

### 1.3.2 **Unreconciled Control Accounts**

The balances of 04 items of accounts aggregated Rs.7,741,071 as per financial statements and the balances amounted to Rs.7,488,622 as per subsidiary registers/reports showing a difference of Rs.252,449.

### 1.3.3 **Suspense Account**

Action had not been taken to settle the credit balance of Rs.45,552 of the suspense Account existing since 2009.

### 1.3.4 **Accounts Receivable and Payable**

- (a) The Value Added Tax, Nation Building Tax and the Withholding tax collected on behalf of the Commissioner General of Inland Revenue for the years 2010/11 aggregated Rs.3,015,033. This had been shown as accounts payable without being remitted to the Commissioner General of Inland Revenue up to 31 May 2016.
- (b) Action had not been taken to recover the arrears of garbage tax, rent of stalls in the market and fines of meat stalls and fish stalls totalling Rs.102,446 existing from 1989 and 1992. Instead, these had been shown under balances receivable.

### 1.3.5 **Non-compliance with Laws, Rules, Regulations and Management Decisions**

The following non-compliances with laws, rules, regulations and management decisions were observed in audit.

#### **Reference to Laws, Rules, Regulations and Non-compliance Management decisions**

- (a) 1998 Pradeshiya Sabha Finance and Administration Rules Code – Rule 59 and A survey of trade, professions and industries conducted within the authoritative area of the Sabha had not been carried out.

- (b) Financial Regulations of the Republic of Sri Lanka
- (i) F.R.371 Four Ad-hoc imprests totalling Rs.1,377,523 paid during 2011 to 2015 had not been settled up to 31 May 2016.
- (ii) F.R.396 Action had not been taken in terms of financial regulation with regard to 10 cheques valued at Rs.160,866 issued, but not presented for payments within 06 months.
- (c) Sections 1.6 and 4 of Chapter XXIV of the Establishments Code of the Republic of Sri Lanka Action had not been taken to recover the balances of loans amounting to Rs.75,526 from 3 employees of the Sabha who had been suspended from work/transferred.
- (d) Circular of the Director General of Pensions No.02/2011 of 20 July 2011 Casual, temporary, substitute and daily paid employees recruited by the local authorities cannot contribute to the Public Service Provident Fund. A sum of Rs.49,889 had been contributed to the Employees' Trust Fund on behalf of 07 such employees.
- (e) Circular of the Commissioner of Local Government of the Sabaragamuwa Provincial Council No.2005/04 dated 01 June 2005 One per cent of the temporarily assessed value should be obtained while selling blocks of land and subsequently one per cent of the sales value should be recovered as tax. However, one per cent of the temporarily assessed value amounting to Rs.576,125 had been recovered with regard to 2 blocks of land.

## 2. **Financial 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 2015 amounted to Rs.13,493,328 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.8,591,446 showing an increase in financial results of the year under review by Rs.4,901,882.

## 2.2 Analytical Financial Review

The Increase in 03 items of revenue and the decrease in 05 items of expenditure had mainly attributed to the improvement in financial results by Rs.4,901,882.

## 2.3 Revenue Administration

### 2.3.1 Performance in Collection of Revenue

- (a) The information relating to revenue billed, actual revenue and arrears of revenue as furnished by the Secretary for the year under review appears below.

	Source of Revenue	Arrears as at 01.01.2015	Recoveries out of the arrears as at 31.12.2015	Amount billed for 2015	Recoveries out of the amount billed for year	Arrears as at 01.01.2015	Arrears out of the amount billed for the year	Total Arrears
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i)	Rates and Taxes	5,723,698	935,036	3,271,534	1,610,919	4,788,662	1,660,615	6,449,277
(ii)	Lease Rent	77,401	-	3,448,191	2,911,086	77,401	537,105	614,506
(iii)	Licence Fees	114,908	-	397,025	397,025	114,908	-	114,908
(iv)	Other Revenue	19,720,895	17,273,045	40,046,737	24,193,672	2,447,850	15,853,066	18,300,916

- (b) The budgeted revenue of rates and taxes for the year under review had been treated as the revenue billed and accounted for accordingly. As such a difference of Rs.58,388 was observed between the arrears of revenue report as at 31 December 2015 furnished by the Secretary and the debtors shown in the financial statements.

### 2.3.2 Environmental Licence Fees

Two industries had not obtained environmental licences according to the Environmental Act No. 49 of 1980 as amended by the Acts No. 56 of 1988 and No.52 of 2000 and as such the Sabha had been deprived of a revenue of Rs.8,000.

### 2.3.3 Fees from Advertisement Boards

A sum of Rs.22,100 at the rate of Rs.50 per square feet had not been recovered from 18 permanent advertisement boards within the authoritative area of the Sabha.

#### 2.3.4 **Business Tax**

- (a) Business tax amounting to Rs.21,000 had not been recovered from 07 telecommunication towers of 04 telecommunication companies established within the authoritative area of the Sabha.
- (b) Although it was required to recover fees from businesses and professions operating within the authoritative area of the Sabha, business tax amounting to Rs.18,000 had not been recovered from 36 business enterprises during the year under review.

#### 2.3.5 **Court Fines and Stamp Fees**

The amount receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2015 appear below.

	Rs.
(1) Revenue from court fines	7,697,925
(11) Revenue from stamp fees	8,154,878

#### 2.3.6 **Lease of Fish Stalls**

Nine unauthorized fish stalls in front of the Thaldewa week end fair premises and 02 unauthorized fish stalls permanently operating at the fair premises had affected the sale of fish at the fish stalls within the fair premises and as such the first tenderer had not paid the monthly tender fees of Rs.17,583. The Sabha had acquired the fish stall in March 2013. Accordingly, the Sabha had been deprived of Rs.158,247 pertaining to 09 months.

#### 2.3.7 **Processing Fees**

The processing fees of Rs.116,000 had not been recovered from 05 telecommunication towers established by 04 telecommunication companies within the authoritative area of the Sabha.

#### 2.3.8 **Rent of Machinery**

- (a) A sum of Rs.96,750 was due for 38.7 machine hours performed by the J C B machine in 2014. However, a sum of Rs.41,760 only had been recovered and as such a sum of Rs.54,990 had been recovered less.
- (b) Machinery hire relating to the J C B machine should be recovered without delay. However, there were delays ranging from 10 days to 03 months while recovering the charges for 54.9 machine hours performed during 12 days in the years 2014 and 2015.

- (c) Deposits should be obtained from the parties concerned before the hire of J C B machine. However, deposits had not been obtained for 244 machine hours performed during 08 days in the year 2014.

### 3. **Financial Review**

#### 3.1 **Irregular Transactions**

- (a) According to the agreement pertaining to the contract, the average daily working hours of the Operator of the J C B machine was 09 hours. However, the operator of the machine had worked less than the average working hours of 09 for 199 days during January to December 2014 for which a sum of Rs.204,200 had been paid to him as allowances for 1021 machine hours at the rate of Rs.200 per machine hour.
- (b) Allowances amounting to Rs.415,240 had been paid to the operator of the J C B machine for 2076.2 machine hours at the rate of Rs.200 per machine hour during the period June 2013 to December 2014. A sum of Rs.488,418 had also been paid to him as daily pay for 534 days during this period.

#### 3.2 **Operating Inefficiencies**

- (a) The revenue from J C B machine bearing No.ZA-0126 during the period 2014 and 2015 amounted to Rs.1,573,320 and the operating expenses amounted to Rs.4,114,306 causing an operating loss of Rs. 2,540,986 to the Sabha.
- (b) The Sabha had obtained 07 vehicles valued at Rs.9,912,220 from the Sabaragamuwa Provincial Council and from the Secretary to the Ministry of Local Government and Provincial Councils. Action had not been taken to acquire the rights of these vehicles in favour of the Sabha.

#### 3.3 **Assets Management**

##### **Idle Assets**

Two cabs, a tractor and a road roller belonging to the Sabha remained idle in the old Sabha premises from 2015, 2010 and 2014 respectively.

#### 3.4 **Disposal of Garbage**

The Sabha had not implemented a Solid Waste Management Project. The garbage collected within the authoritative area of the Sabha had been irregularly disposed of, by digging trenches in the Thalduwa fair premises.

#### **4. Accountability and Good Governance**

##### **4.1 Budgetary Control**

Provision totalling Rs.3,364,246, made up of 100 per cent of the provision made for 07 Objects totalling Rs.1,418,000 and 56 to 96 per cent of the provision made for 07 Objects totalling Rs.1,946,246, as appearing in the budget furnished for the year under review, had not been utilized for activities of the Sabha.

#### **5. Systems and Controls**

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

- (i) Accounting
- (ii) Assets Management
- (iii) Revenue Administration
- (iv) Budgetary Control