

Deraniyagala 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 31 March 2016 and the financial statements for the preceding year had been presented on 31 March 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 paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Deraniyagala 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) Provision had not been made for the sum of Rs.140,000 payable as incentive allowances for preparation of bills relating to court fines amounting to Rs.2,800,000 during the year under review.
- (b) Provision had not been made for the fees payable for preparation of entry notes for stamp fees revenue for the period July to December of the year under review and for the audit fees payable for the year.
- (c) Retention money of Rs.39,072 of 2 works implemented in 2011 and 2012 had been refunded. In spite of this, this had been shown under the General Deposits resulting in an overstatement of the year's liabilities by a similar amount.
- (d) The sum of Rs.2,305,983 deposited by consumers of water for supply of water during the period 2010 to 2015 had been spent on activities connected with water supply. In spite of this, this had been shown under the General Deposits resulting in an overstatement of balances of the General Deposits Account by a similar amount.
- (e) The value of 02 computers, 02 UPSS and the multi module machine obtained under the Puraneguma Project had not been accounted for. As such, the value of fixed assets had been understated in the accounts.
- (f) The value of balances of hume pipes purchased under the capital expenditure for road construction of the Sabha amounting to Rs.611,464 had not been accounted for. As such,

the capital expenditure had been overstated and the value of fixed assets had been understated by similar amounts.

- (g) The expenditure on supplies and equipment had not been adjusted through the Expenditure Control and the Creditors' Control Accounts. Instead, it had been directly debited to the Object and accounted for.
- (h) The expenditure of Rs.15,800 incurred on purchasing a file rack had been accounted under the recurrent Object of stationery and office equipment. As such, the recurrent expenditure had been overstated and the capital expenditure had been understated.
- (i) The value of land and buildings had been understated as a result of not computing the value of 03 blocks of land of 01 Acre, 03 Roods and 30 perches of the Sabha and to make necessary entries in the accounts.
- (j) The interest receivable on 03 fixed deposits as at 31 December of the year under review amounted to Rs.166,366 whereas it had been accounted as Rs.248,966 resulting in an understatement of the deficit of the year under review by Rs.82,630 and an overstatement of Revenue Debtors as at 31 December 2015 by a similar amount.
- (k) The capital expenditure payable and the capital aid receivable as at 31 December 2015 on behalf of 07 completed work of the year under review carried out under the Local Government Road Development and the Gama Neguma Programme amounted to Rs.358,252. However, this had been shown as Rs.597,946 in the accounts. As a result, the capital expenditure payable and the capital aid receivable had each been overstated by Rs.239,694.

1.3.2 **Unreconciled Control Accounts**

The balances of two items of accounts as per financial statements amounted to Rs. 4,312,081 and the balances amounted to Rs.1,925,192 as per subsidiary registers/reports resulting in an unreconciled balance of Rs.2,386,889. The value of General Deposits amounted to Rs.7,342,014 as per accounts. However, the correctness of this could not be confirmed as the Register of General Deposits had not been balanced.

1.3.3 **Accounts Receivable and Payable**

- (a) The value of balances receivable as at 31 December 2015 amounted to Rs.47,655,242 of which Rs.29,564,596 represented balances of over one year.
- (b) The value of balances payable as at 31 December 2015 amounted to Rs.37,216,560 of which Rs.1,399,332 represented balances of over one year.

1.3.4 **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 Management decisions **Non-compliance**

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| (a) Section 158(1) of the Pradeshiya Sabha Act No.15 of 1987 | Action had not been taken in terms of the said regulation to recover the rates and taxes of Rs.94,946 from 10 properties and the balance of acreage tax of Rs.158,980. |
| (b) Financial Regulations of the Republic of Sri Lanka
(i) F.R.371(5) | The advance of Rs.60,687 remained unsettled as at 31 December 2015. |
| (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 loan balances of Rs.242,384 recoverable from 09 employee since 2006. |
| (d) Public Administration Circular No.2014/25 of 12 November 2014 | The prior approval of the Department of Management should be obtained before recruiting employees on temporary, casual (daily), substitute, contract or concessionary basis. However, contravening this, 10 employees had been recruited during the year under review and a sum of Rs.1,547,228 had been paid as salaries and allowances. |
| (e) Circular of the Director General of Pensions No.02/2011 of 20 July 2011 | All casual, temporary, substitute and daily paid employees should contribute to the Public Service Provident Fund. However, Rs.110,310 had been paid to the Employees' Trust Fund to 22 employees recruited on service agreement. |

3. Financial Review

3.1 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.3,608,013 as against the excess of recurrent expenditure over revenue of the preceding year amounting to Rs.5,519,908 resulting in an improvement of Rs.9,127,921 in the financial results of the year under review.

3.2 Analytical Financial Review

Increase in 03 items of revenue and decrease in 04 items of expenditure had mainly attributed to the improvement in financial results by Rs.9,127,921.

3.3 Revenue Administration

3.3.1 Performance in Collection of Revenue

The information relating to the estimated revenue, actual revenue and the arrears of revenue for the year under review, as furnished by the Secretary, appear 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.	Rs.
(i) Rates and Taxes	2,787,771	1,828,186	5,725,671	4,150,722	959,585	1,574,949	2,534,534
(ii) Lease Rent	318,969	274,760	4,055,058	3,957,423	44,209	97,635	141,844
(iii) Licence Fees	102,850	17,250	477,425	477,425	85,600	-	85,600
(iv) Other Revenue	40,795,282	12,320,080	80,592,652	61,412,612	28,475,202	19,180,040	47,655,242

3.3.2 Licence Fees

Action had not been taken to recover from trade institutions of the authoritative area of the Sabha, the arrears of licence fees of Rs.79,100 for the year 2014 and the trade licence fees of Rs.10,000 from 10 carpentry shops for the year under review.

3.3.3 Other Revenue

The following matters are observed.

- (a) Action had not been taken to recover Rs.99,000 from 100 three wheelers of 06 three wheeler parks during the year 2014 and the arrears of parking charges totalling Rs.319,200 due from 196 three wheelers at the rate of Rs. 219,300 each.

- (b) Action had not been taken to recover the arrears of water charges of Rs.276,170 from 37 water supply stations where the arrears were over Rs.2,000.
- (c) Fees from 18 advertisement boards installed in shops within the town had not been recovered.
- (d) Action had not been taken to recover the sum of Rs.117,750 for 47.1 machine hours and Rs.83,750 for 33.5 machines hours from the National Water Supply and Drainage Board and the Polgaswaththa Gama Neguma Rural Organization respectively on behalf of the Becko Loader Machine given on hire.
- (e) Business Tax of Rs.12,000 had not been recovered from 04 telecommunication towers installed within the authoritative area of the Sabha.

3.3.4 **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.

(1) Court fines	Rs. 4,540,586
(11) Stamp fees	Rs. 3,185,807

4. **Operating Review**

4.1 **Management Inefficiencies**

- (a) The period of service of 11 employees employed on the basis of obtaining their services for a period of one year only, as decided by the Sabha, had ended. Subsequently, salaries and allowances amounting to Rs.1,243,809 had been paid. Meanwhile, a sum of Rs.371,637 had been paid for the services of 3 employees who had been employed without entering into service agreements.
- (b) Action had not been taken to recover the sum of Rs.105,232 paid to the Employees' Provident Fund and the sum of Rs.28,962 paid to the Employees' Trust Fund for the period 1993 to 2014 during which the librarian of the Sabha had functioned on a casual basis.
- (c) A sum of Rs.106,882 had been paid to the Employees' Provident Fund and a sum of Rs.26,721 had been paid to the Employees' Trust Fund for the period November to December 2009 to 16 employees who had been confirmed in service and contributions had also been made to the Widows' and Orphans' Pension Fund for the said period.

4.2 **Operating Inefficiencies**

The programme for the ensuing month should be presented by field officers to the head of the institution for his approval. However, one field officer had not presented the programme for approval for the ensuing period of June to December 2015.

4.3 **Contract Administration**

(a) **Construction of a latrine pit at the Deraniyagala Bus Stand**

Two private latrines had been constructed at the premises of the Deraniyagala bus stand on 25 November 2014 by spending Rs. 994,145 on the basis of collecting money from users. It was observed at a physical verification carried out on 9 May 2016 that these latrines had been used for storage of waste materials.

(b) **Construction of a retention wall close to the Lihiniyagala Riverside Estate Bungalow and Concreting the Road**

A sum of Rs.88,190 (2.21 X 39,905) had been paid on 21 December 2015 stating that 2.21 cubes of concrete had been used for laying concrete on the road for a length of 50 ft, breadth of 10 ft and thickness of 5.33 inches as per Work Item No.6 of the survey report prepared by the technical officer of the Pradeshiya Sabha. It was observed at a physical verification carried out on 06 May 2016 with regard to the work that concrete had been laid for a length of 48 ft with water gates of 24 feet each, breadth of 9.6 ft and thickness of 5.33 inches. Accordingly, a sum of Rs.6,783 had been overpaid for 0.17 cubes as work had been carried out with 2.04 cubes of concrete alone.

(c) **Concreting the Udapola Endegala Road**

A sum of Rs.203,880 (15 X 13,592) had been paid for 15 cubic metres of concrete (48 X 2.5X0.125) for concreting the road with a length, breadth and thickness of 48 metres, 2.50 metres and 0.125 metres using 1.2.4 cement and sand mixture, as per Work Item No.2 of the survey report prepared by the technical officer of the Sabha. The work was subjected to a physical verification carried out on 06 May 2016 and it was observed that the road had been concreted for a length of 47.1 metres only and 14.7 cubic metres of concrete had been made use of (47.1 X 2.5 X 0.125). Accordingly, it was observed that a sum of Rs.4,077 had been overpaid to the contractor for 0.3 cubic metres of concrete.

4.4 **Assets Management**

Under utilized Assets

The following machinery shown under the value of machinery for the year under review remained idle without being used.

<u>Type of Asset</u>	<u>Value</u>
	Rs.
Tar boilers	70,000
Concrete mixing machine	185,000
Machine producing concrete stones	168,789

4.5 **Environmental Problems**

- (a) The garbage collected in the authoritative area of the Sabha had been disposed of, in an open area of the crematorium situated in the vicinity of the Sithawaka river, without being recycled or without a method adopted for its proper disposal.
- (b) Although the report of the sample of water tested by the Department of Food and Water showed that the water supplied by the water supply scheme of the Sabha consisted of adverse bacterias, a method to supply purified water had not been adopted.

5. **Accountability and Good Governance**

5.1 **Budgetary Control**

A total sum of Rs.634,767 made up of one hundred per cent of the provision made for 05 Objects totalling Rs.105,000 and 75 to 99 per cent of the provision of Rs.529,767 relating to 09 Objects allocated in the budget presented for the year under review had not been used for activities of the Sabha.

5.2 **Unresolved Audit Queries**

Replies had not been furnished for 2 audit queries issued during the year under review.

6. **Systems and Controls**

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

- (a) Accounting
- (b) Internal Control
- (c) Creditors' Control
- (d) Revenue Administration
- (e) Budgetary Control