

Kotapola Pradeshiya Sabha

Matara District

1. Financial Statements

1.1 Presentation of Financial Statements

The Financial Statements for the year under review had been presented to the Audit on 05 April 2016 and the financial statements for the preceding year had been presented to the Audit on 31 March 2015. The Report of the Auditor General for the year under review was sent to the Secretary of the Sabha on 03 January 2017.

1.2 Qualified Opinion

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

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following accounting deficiencies were observed during the course of audit.

- (a) The adjustment of the over estimation of the Stamp Duty Revenue of Rs.770,725 in the preceding year made in the year under review had been credited to the Suspense Account instead of being adjusted to the Accumulated Fund.
- (b) The specific charges collected amounting to Rs.255,674 had been written off from the Suspense Account instead of being remitted to the Commissioner General of Inland Revenue.
- (c) The sum of Rs.4,000,000 received in respect of the preceding year under the Pradeshiya Sabhas Strengthening Programme had been brought to account as revenue of the year under review, thus overstating the revenue for the year by a similar amount.
- (d) The value of 13 buildings and 02 lands belonging to the Sabha and the value of water equipment received as donations amounting to Rs.99,850 had not been shown in the financial statements whilst the Water Rates Stock Account balance had been overstated by a sum of Rs.116,175.
- (e) The sum of Rs.1,524,000 transferred from the Works Account to the General Account in the year under review had been debited to the Creditors Account and as such the Creditors balance had been understated a similar amount.

1.3.2 Suspense Account

Instead of settling the balance of the Suspense Account totalling Rs.1,460,875 by making the relevant adjustments, the Suspense Account had been settled by writing off to different accounts.

1.3.3 Accounts Receivable and Payable

The balance of the Accounts Receivable as at the end of the year under review amounting to Rs.70,078,685 included 74 balances older than 03 years amounting to Rs.1,331,796 , whilst the balance of the Accounts Payable totalling Rs.71,461,313 included 92 balances older than 03 years amounting to Rs.35,212,286.

1.3.4 Lack of Evidence for Audit

In view of the failure to produce the documents such as the Register of Fixed Assets properly prepared according to the classes and the title deeds for lands in respect of the fixed assets totalling Rs.104,562,609 and the schedules and the age analysis in respect of 14 deposit balances totalling Rs.2,535,552 , those could not be satisfactorily examined in audit.

1.3.5 Non-compliance with Laws, Rules and Regulations

A statement of excess or saving under each item of expenditure as compared with the budget and the Supplementary votes together with an explanation on the cause of the excess or unexpended balance had not been presented with the accounts in terms of Rule 193 of the Pradeshiya Sabhas (Financial and Administrative) Rules 1988.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over the recurrent expenditure of the Sabha for the year ended 31 December 2015 amounted to Rs.2,854,361 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounting to Rs.4,439,133. Accordingly, the financial results for the year under review, indicated a deterioration of Rs.1,584,772.

2.2 Analytical Financial Review

- (a) The total recurrent expenditure for the year under review, as compared with the preceding year, represented a substantive 94 per cent of the total recurrent revenue.
- (b) A Summarized Statement of the Revenue Grants, the Self-generated Revenue and Recurrent Expenditure of the Sabha of the year under review and the two preceding year is given below.

Year	Total Recurrent Revenue	Revenue Grants	Self- generated Revenue	Total Recurrent Expenditure	Recurrent Expenditure exceeding the Self- generated Revenue
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	Rs.	Rs.	Rs.	Rs.	Rs.
2015	46,896,438	25,245,266	21,651,172	44,042,077	(22,390,905)
2014	38,812,421	16,453,104	22,359,317	34,373,288	(12,013,971)
2013	32,199,000	11,596,580	20,602,420	26,602,163	(5,999,743)

The following observations are made in this connection.

- (i) Even though an improvement of the Revenue Grants had been indicated in the year under review and the two preceding years, the self-generated revenue of the year under review, as compared with the preceding year, indicated a decrease.
- (ii) Even though the recurrent expenditure of all years had increased continuously in considerable amounts at a fast pace, the attention of the Sabha had not been paid for controlling that position.
- (iii) The recurrent expenditure of the year under review had exceeded more than double the self-generated revenue of the Sabha.
- (iv) If not for the receipt of the Revenue Grants, it would not have been possible in whatever manner to cover the recurrent expenditure from the recurrent expenditure from the self-generated revenue.
- (v) In view of the matters shown in the paragraphs Nos. (i) to (iv) above, it is observed that the attention of the Sabha should be paid for increasing the revenue position and that a formal course of action for that purpose should be prepared and implemented and if such action is not taken, it would create problems relating to the financial position due to the weak financial management prevailing in the Sabha, thereby causing adverse impacts on the going concern of the Sabha.

2.3 Working Capital Management

The working capital of the year under review, as compared with the preceding year, had improved by a sum of Rs.7,081,537. Nevertheless, the view of the existence of debtor balance amounting to Rs.45,083,975 in the debtors balance without being recovered over periods exceeding 03 years, a liquidity position as depicted in the working capital did not exist.

2.4 Revenue Administration

2.4.1 Rates and Taxes

The opening outstanding balance of the year under review amounting to Rs.264,234 together with the billings for the year amounting to Rs.431,356 remained recoverable. Recovery of 45 per cent of the outstanding opening balance and 73 per cent of the billings had been made in the year. The arrears balance of each year had been high due to the failure to take action in

terms of Section 158(1)(A) of the Pradeshiya Sabhas Act, No. 15 of 1987 for the recovery of the arrears of revenue.

2.4.2 Acreage Tax

The outstanding balance of the year under review amounting to Rs. 320,694 together with the billings totaling Rs.360,505 remained recoverable. Recovery of 29 per cent of the outstanding opening balance and 61 per cent of the billings had been made. The attention of the Sabha had not been paid for the preparation and implementation of a course of action for the recovery of the arrears remaining continuously.

2.4.3 Lease Rent of Fish Sale Spots of the Fair

The outstanding balance as at the beginning of the year under review amounted to Rs.97,255 and no recoveries out of that had been made. A formal course of action had not been taken for the recovery of arrears of lease rent.

2.4.3 Water Rates

A sum of Rs.4,042,777 comprising the opening outstanding balance of Rs.1,262,303 and the billings of the year amounting to Rs.2,780,474 remained recoverable. As 87 per cent of the outstanding opening balance and 57 per cent of the billings for the year only had been recovered a considerable outstanding balance existed as at the end of the year.

3. Operating Review

3.1 Management Inefficiencies

The following matters were observed.

(a) Cases filed against the Sabha

Even though a period of 3 years had elapsed after the settlement of the case filed against the Sabha in the District Court Matara, action had not been taken for the recovery of the deposit of security of Rs.40,000 made in connection with the case.

(b) Human Resources Management

Even though 12 persons exceeding the approved number in the Primary Level had been recruited, action had not been taken for the formalizing of that excess cadre and for the filling of 03 vacancies in the Secondary Level.

3.2 Identified Losses

The following matters were observed.

(a) The case filed in the District Court Matara for the recovery of the sum of Rs.419,132 from the Thusitha Cinema in respect of the period May 1996 to July 2005 had been dismissed as no officer representing the Sabha had been present in the Court. In view

of that position, the recovery of the arrears is uncertain and is observed as a loss caused to the Sabha Fund.

- (b) In view of the failure of the Commissioner of Local Government to settle the interest on the property loans, the interest recoverable as at the end of the year under review amounted to Rs.205,423.
- (c) A penalty of Rs.35,051 had to be paid due to the failure to remit the Value Added Tax payable by the Sabha to the Commissioner General of Inland Revenue on the due dates.

3.3 Solid Waste Management

It was observed that the solid waste of one factory out of 20 factories in the area of authority of the Sabha is being disposed of by the Sabha whilst the information on the methodology of disposal of the solid waste of other factories had not been furnished to Audit.

4. Good Governance and Accountability

4.1 Budgetary Control

According to the budget for the year under review, the entire provision of Rs.2,322,000 of one item of expenditure and the savings of 07 items of expenditure amounting to Rs.159,960,687 existed whilst the limits of expenditure under 02 items had exceeded by Rs.56,111,304 and the targets not achieved under 3 items of revenue amounted to Rs.167,039,492. As such the budget had not been made use of as an effective instrument of management control.

4.2 Internal Audit

Even though an adequate internal audit had not been carried out as specified in the Financial Regulations 133 and 134 of the Financial Regulations of the Republic of Sri Lanka and the Circular No. දපපා/යන/01/නවමේ dated 24 February 2014 of the Commissioner of Local Government of the Southern Province, the Internal Audit Officer had been paid a sum of Rs.441,964 as salaries and allowances in the year under review.

4.3 Audit and Management Committee

Action in terms of the provisions in the Management Audit Circular No. DMA/2009(i) dated 09 June 2009 had not been taken even by the end of the year under review for the establishment of the Audit and Management Committee.

4.3 Assets Management

The following matters were observed.

(a) Idle and Underutilised Assets

- (i) The exercise equipment set received in the year 2009 from the Ministry of Sports and Youth Affairs of the Southern Provincial Council had been idling

even by the end of the year under review due to the lack of a Training Instructor.

- (ii) The Mitsubishi Cab Motor Vehicle of the Sabha had been idling from February 2014 and the Sabha had not taken any action whatsoever either for repairing the vehicle and use it for running or for its disposal.
- (iii) Fifty three musical instruments received by the Sabha under decentralized budget provisions remained idle without being used for any purpose whatsoever.

(b) Annual Board of Survey

A stock of timber valued at Rs.64,037 recommended for sale by auction according to the Board of Survey for the year under review had not been auctioned even by August 2016.

5. Systems and Controls

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

- (a) Accounting
- (b) Budgetary Control
- (c) Assets Management
- (d) Human Resources Management