

## **Pathadumbara Pradeshiya Sabha**

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### **Kandy District**

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#### **1. 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 submitted to the Audit on 30 March 2017 while Amended Financial Statements and Financial Statements relating to the preceding year had been submitted on 16<sup>th</sup> June 2017 and 31<sup>st</sup> March 2016 respectively.

##### **1.2 Qualified Opinion**

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In my Opinion, except for the effect of the matters described in paragraph 1.3 of this report. Financial Statements give a true and fair view of the Financial position of the Pathadumbara Pradeshiya Sabha as at 31 December 2016 and its Financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

##### **1.3 Comments on Financial Statements**

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###### **1.3.1 Accounting Deficiencies**

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Following observations were made:

- (a) Provision for Audit fees were not provided on the accounts of current year under review.
- (b) Bank Guarantee of Rs.5,798,287 issued to Customs Department to clear machinery, that received as gift for Japan Technological Compost project was not receivable in the Financial Statement.

###### **1.3.2 Contingent Liabilities**

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Although legal actions instituted at court by 11 parties against Council for widening roads, demolishing walls, pulling down unauthorized constructions, and blocking of culverts and such acts were not disclosed in the Financial Statements.

###### **1.3.3 Non-reconciled Control Accounts**

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A difference of Rs.24,433,443 was noticed among the total balance value of 8 items of accounts aggregate amount of financial statements which is Rs.36,908,481 and balances of subsidiary books.

#### 1.3.4. Accounts Receivable and Payable.

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**(a) Accounts Receivable**  
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Total value of 6 accounts receivable for the year under review which ends from 31<sup>st</sup> of December is Rs.20,390,628 and it comprises Rs.9,089,127 from the total balances for 1-5 year period and Rs.11,301,501 from the total balances for more than 5 years period.

**(b) Accounts Payable**  
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Total of two creditor accounts for the current year which ends from 31<sup>st</sup> of December is Rs.22,342,879. Balance of Rs.4,491,813 which exceeded the period of one year was included in the aforementioned value.

#### 1.3.5 Lack of Written Evidence for Audit

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Transaction totaling Rs.28,233,339 could not be examined satisfactorily in audit due to non-submission of required information.

#### 1.3.6 Non – compliance with Laws, Rules and Regulations.

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Following instances of non – compliance with Laws, Rules and Regulations were observed in audit.

<b>Reference to laws, rules and regulations</b> -----	<b>Non – compliance</b> -----
(a) Section 126 (vii) f. of Pradeshiya Sabhas Act (No.15 of 1987)	A revenue of Rs.179,500 was lost due to non-inspection of advertisement hoardings exhibited within the Pradeshiya Sabha limits.
(b) Financial Regulation 762	Water equipment of Rs.1,600,040 idling at stores stocks due to purchases more than the necessity.

## **2 Financial Review**

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### **2.1. Financial Results**

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According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2016 amounted to Rs.11,993,024 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs.31,271,762. Accordingly, a reduction of Rs.19,278,738 was observed, when compared with the previous year.

### **2.2 Analytical Financial Review**

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Main reason for the decrease of Rs.19,278,738 in the financial result of the year, is due to abatement of other revenue of Rs.18,989,760.

### **2.3 Working Capital Management**

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Ratio of total current assets and total current liabilities were respectively 1.8:1 and 2.5:1 for the current year under review and previous year.

### **2.4. Revenue Administration**

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#### **2.4.1. Performance of Income Gathering**

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Following observations were made.

- a) Lack of interest shown by the Pradeshiya Sabha to generate income through the machinery supplied to establish a machinery unit.
- b) No measure was taken to collect garbage and waste tax from large scale businesses.

#### **2.4.2. Rates**

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A due of Rs.3,390,518 was present at the commencement of the current year and bills of the relevant year are assessed at Rs. 5,580,364. Rate collection of the current year was 47 percent of the total due amount and 59 percent of the billings. Due balance by 31<sup>st</sup> of December 2016 was marked Rs 4,061,470 and out of them Rs.1,799,065 has exceeded a period of one year.

#### **2.4.3. Rent**

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Only Rs.73,640 has been collected from the due amount of Rs. 401,331 which is 18 percent from the total due.

#### **2.4.4. Other Sources of Revenue**

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##### **Water Charges**

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Only Rs. 170,148 has been collected from the due amount of Rs. 382,701 which is 44 percent from the total due.

#### **2.4.5. Court Fines and Stamp Fares**

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By 31<sup>st</sup> of December of the current year Rs.1,101,819 of court fines and Rs.17,684,093 of stamp duty were receivable from the Chief Secretary of the Provincial Council and from other Authorities.

### **3 Review of Operations**

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#### **3.1. Performance**

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Ground floor of the Madawala General Market was under-utilized as its plan was not suitable for a general market. But no measure was taken to use it for any other purpose.

#### **3.2. Management Inefficiencies.**

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Following observations were made:

- a) As the tenant who ran a meat shop in Pathadumbara Sabha area had a personal meat stall in Kundasale the Pradeshiya Sabha had to confront a loss of Rs.2,635,247
- b) Although 10 stalls of the Pradeshiya Sabha were rented on 01<sup>st</sup> of February 2015 for a time period of 3 years, detriment occurred as rents were not collected at once.
- c) As 2 stalls of 89 square feet were not used from 2013 for any purpose Pradeshiya Sabha was disentitled to an income.

#### **3.3. Operational Inefficiencies**

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Following observations were made:

- a) A sum of Rs.2,443,194 received from Commissioner of Local Government and Ministry of Local Government were remained in the general deposit account for more than 2 years without proper allocation.
- b) Although valuation of Madawala Shopping Complex was completed on 11<sup>th</sup> of August 2014, non-collection of rent resulted a loss of Rs. 244,200
- c) Gulley truck and an excavator which worth of Rs.3,480,000 and Rs.3,000,000 respectively, remained at the dumping area of the Pradeshiya Sabha without using.

#### **3.4. Idle / Underutilized Assets.**

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No sufficient measure was taken to repair or remove 3 vehicles of Rs.1,260,000 which were inactive for a period of 8 years.

### **3.5. Delaying of Projects.**

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Four industrial projects of Rs. 325,000 were not completed by 31<sup>st</sup> of May 2017, although the approvals were granted since 2016.

### **3.6. Solid Waste Management.**

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Approximately two tons of solid waste which generate on daily basis were collected by the staff and machines and handed over to Kundasale Solid Waste Management Project after separating decaying waster from non-decaying.

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

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### **4.1. Budgetary Control**

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Even after provision of income and expenses items were exchanged, a noticeable change among budgeted and real revenue/expenses did occur. Hence budget was not observed as an effective managerial tool. Following observations were also made in align with above:

- a) Rs.5,346,000 which has been granted for 46 revenue items was remained.
- b) In 6 items of expenses the difference among net provision and real values dispersed from 11 percent to 72 percent.
- c) In 6 items of income the difference among estimated and real values dispersed from 6 percent to 55 percent.

### **4.2. Annual Procurement Plan.**

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No annual procurement plan has been prepared for the current year.

### **4.3. Internal Audit.**

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Although an officer has been appointed for the purpose of internal audit, sufficient audit has not been carried as the official was assigned few other tasks.

### **4.4. Audit and Management Committees.**

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Although audit and management committees were established only 3 meetings had been taken by them.

**5. Systems and Controls.**

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

- a) Fixed assets
- b) Accountancy
- c) Vehicle control
- d) Revenue control
- e) Creditors and Debtors
- f) Contract control