

Kotapola Pradeshiya Sabha
Matara District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to the Audit on 31 March 2015 while Financial Statements relating to the preceding year had been submitted on 26 March 2014. The Auditor General's Report relating to the year under review was issued to the Secretary to of the Sabha on 31 August 2015.

1.2 Opinion

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 Kotapola Pradeshiya Sabha as at 31 December 2014, its financial performance for the year then ended and cash flows in accordance with Public Sector Accounting Standards of Sri Lanka.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

Following matters are observed.

- (a) While Southern Province Local Government Department had recovered a sum of Rs. 517,950 as Motor Cycle Loans Instalments of the Members of the Sabha who were provided with Motor Cycles on loan basis when making reimbursement of Members Allowance, that amount had not been accounted under Revenue Grants.
- (b) Value of 05 Community Centers belong to the Sabha had not been assessed and accounted.
- (c) Water Equipment valued at Rs. 61,475 purchased for the Water Project of the Sabha had been accounted as recurrent expenditure without being accounted as capital expenditure.

- (d) Although the value of the books purchased and received as donations for the 02 Libraries of the Sabha during the year under review was Rs. 323,669, a sum of Rs. 313,389 only had been capitalized and therefore Assets had been understated in a sum of Rs. 10,280.
- (e) Although discount received amounting to Rs.55,727 in purchasing library books had not been debited to the Capital Expenditure Head and credited to the Revenue Head, Library Books Account had been debited.
- (f) The sum of Rs. 202,059 receivable for maintenance of street lamps had not been accounted as Debtors.
- (g) While expenditure amounting to Rs. 222,350 to be capitalized under Land and Buildings had been capitalized under Furniture and Equipment, value of doors removed had not been deleted from books.

1.3.2 Suspense Accounts

Debit balance of Rs.1,460,873 in the Suspense Account shown in the Balance Sheet at the end of year under review had been brought forward without action being taken to settle it.

1.3.3 Accounts Receivable and Payable

- (a) Value of Balances Receivable that had been outstanding for more than a year as at 31 December 2014 was Rs. 29,959,394.
- (b) Value of Balances Payable that had been outstanding for more than a year as at 31 December 2014 was Rs. 23,463,829.

1.3.4 Lack of Evidence for Audit

Board of Survey Reports relating to Land and Buildings valued at Rs. 32,925,550, Deposits Certificates and Register of Deposits relating to Fixed Deposits valued at Rs. 211,819 as well as Tax Register for Value added Tax amounting to Rs. 346,834 and Schedules relating to Rent Control Account amounting to Rs. 93,060 were not furnished to audit.

1.3.5 Non-compliance with Laws, Rules, and Regulations

Instances of non-compliance with Laws, Rules and Regulations observed in audit are shown below.

| <u>Reference to Laws, Rules, and Regulations</u> | <u>Non-compliance</u> |
|--|--|
| (a.) <u>Pradeshiya Sabha (Financial and Administrative) Rules of 1988</u> | |
| (i.) Rule 193 | A statement showing reasons for the surpluses and deficits, had not been submitted having compared the Budgeted and Supplementary Votes Expenditure with the actual expenditure. |
| (ii.) Rules 218 | Although the Chairman should take action to inspect all Lands and Buildings utilized and used for occupation by the Sabha at least once a year, such action had not been taken. |
| (b.) Treasury Circular No. IAI/2002/02 dated 28 November 2002 of the Secretary to the Treasury | A Fixed Assets Register had not been maintained for Computer Accessories and Software. |

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2014 had been Rs.4,439,133 as compared with the corresponding excess of revenue over recurrent expenditure amounted to Rs.5,596,838 in the preceding year.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Information furnished by the Chairman relating to Estimated Revenue, Actual Revenue and Arrears of Revenue for the year under review is shown below.

| Item of Revenue | Estimated | Actual | Cumulative Arrears as at 31 December |
|----------------------|-----------|---------|---|
| ----- | ----- | ----- | ----- |
| | Rs.'000 | Rs.'000 | Rs.'000 |
| (i.) Rates and Taxes | 1,063 | 1,310 | 264 |
| (ii.) Rent | 6,797 | 5,593 | 1,539 |
| (iii.) Other Income | 10,701 | 10,630 | - |

2.2.2 Rates

While Rates billed for the year 2014 was Rs. 1,063,000, receipts during the year out of that had been Rs. 1,310,124. While the balance of Rates in arrears as at 01 January 2014 was Rs. 264,234 amount recovered was Rs. 72,004. Accordingly, the progress of recovery of amount in arrears was 27 per cent.

2.2.3 Lease Rent

While Lease Rent in arrears as at the end of the year under review was Rs. 1,477,723, amount recovered out of that amount in arrears had been Rs. 132,832. Accordingly, the recovery percentage had been 9 per cent.

2.2.4 Court Fines and Stamp Fees

Amounts receivable from the Chief Secretary to the Provincial Council and other authorities as at 31 December 2014 are shown below.

| | Rs. |
|----------------|-----------|
| i. Court Fines | 760,589 |
| ii. Stamp Fees | 6,178,634 |

2.2.5 Water Charges

A sum of Rs. 625,307 from 1089 water consumers who were provided with water supply through the water project in operation in the area of authority of the Pradeshiya Sabha and a sum of Rs. 161,662 from water consumers whose water supply had been disconnected were outstanding to be recovered as at 31 December 2014. Action had not been taken to recover those amounts.

2.2.6 Entertainment Tax

Although a case had been filed for recovery of Entertainment Tax amounting to Rs. 419,132 outstanding to be recovered for 10 years commencing from May 1995 to July 2005 from Deniyaya Cinema Hall, the case had been set aside as representatives of the Sabha had not appeared for case sessions and therefore it had not been possible to recover the amount in arrears.

3. Operating Review

3.1 Management Inefficiencies

3.1.1 Reimbursement of Street Lamps Maintenance Grants

A sum of Rs. 202,059 due for the maintenance of street lamps by the Pradeshiya Sabha for the period from the year 2009 to 2014 had not been got reimbursed by the Sabha.

The Sabha had not paid attention to paragraph 1.2 of the Circular No. PE/01//01 and 2010/17 dated 17 August 2010 of the Secretary to the Ministry of Power and Energy in this connection.

3.2 Human Resources Management

Information relating to the approved and actual Cadre of the Sabha as at 31 December 2014 is shown below.

| Category of Employees | Approved | Actual | Vacant | Excess |
|--|----------|--------|--------|--------|
| Executive | 01 | 01 | - | - |
| Tertiary | 01 | 02 | - | 01 |
| Secondary | 19 | 15 | 04 | - |
| Preliminary | 41 | 51 | - | 10 |
| Others (Casual/Temporary/Contract basis) | - | 15 | - | 15 |
| | 62 | 84 | 04 | 26 |

- (i.) While a sum of Rs. 16,086,730 had been reimbursed from the Commissioner of Local Government as Salaries and Allowances and Members Allowance during the year under review, a sum Rs. 18,276,739 had been spent as Salaries and Allowances and Members Allowance resulting in a financial burden of Rs. 2,190,009 to the Sabha Fund.
- (ii.) While recruitment of employees on the basis of casual/substitute/contract or other basis had been suspended vide Management Services Circular No. 17 dated 03 January 2002 of the Secretary to the Treasury, it was observed that a sum of Rs. 1,426,702 had been paid having recruited 15 employees, overriding the above mentioned circular instructions.

4. Accountability and Good Governance

4.1 Audit and Management Committees

Audit and Management Committees had not been established by the Sabha.

4.2 Budgetary Control

The Budget had not been made use of as an effective tool of financial management as material variations were observed between budgeted revenue and expenditure and the actual revenue and expenditure.

5. Systems and Controls

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

- (a) Accounting
- (b) Financial Control
- (c) Budgetary Control
- (d) Assets Management.
- (e) Revenue Administration
- (f) Stores Administration
- (g) Human Resources Management