

Kotikawatta-Mulleriyawa Pradeshieya Sabha

Colombo District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 05 May, 2016 and the financial statements for the preceding year had been presented to audit on 01 April, 2015. The report of the Auditor General for the year under review was furnished to the Chairman of the Sabha on 29 July, 2016.

1.2 Adverse Opinion

Because of the significance of the matters referred to in Paragraph 1.3 of this report, The financial position of the Kotikawatta-Mulleriyawa Pradeshieya Sabha as at 31 December, 2015, and the financial performance thereof for the year then ended do not give a true and fair view in accordance with the Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following observations are made.

- (a) The value of all the lands and buildings owned by the Sabha, had not been computed and brought to accounts.
- (b) The fixed assets valued at Rs. 3,719,075 purchased in the year under review, had not been capitalized.
- (c) The value of the Cab amounting to Rs. 3,178,457 received by the Sabha from the Western Provincial Council in the year 2013, had not been capitalized.
- (d) As the value of the library books purchased in the year under review amounting to Rs. 2,140,900 had been accounted as Rs. 74,365,309, fixed assets had been overstated by a sum of Rs. 72,224,409.
- (e) The value of 07 motor vehicles amounting to Rs. 37,473,920 received as donations in the year under review, had not been capitalized.
- (f) As the value of goods amounting to Rs. 57,086,904, and Rs. 4,706,140 purchased in respect of the preceding years on credit basis for general stores and electricity stores respectively, had been credited to the Cumulative Fund, that account had been overstated by a sum of Rs. 61,793,044.
- (g) Although the financial assistance receivable from the Provincial Council and the Decentralized Fund for the year under review amounted to Rs. 26,939,142, that value had been brought to account as Rs. 27,494,857. As such, the revenue of the year had been overstated by a sum of Rs. 555,715.
- (h) As the discount of Rs. 1,366,073 on Rates had not been accounted as an expense of the year under review, the expenditure of the year had been understated by that value.

- (i.) The revenue aid received in the year 2015 in respect of the year 2014 totaled Rs. 8,728,222. Nevertheless, it had been accounted as Rs. 3,622,315, and as such, the revenue of the year under review had been overstated by Rs. 5,105,907.
- (j.) The provisions for debtors amounting to Rs. 44,095,145 as at the end of the year under review, had been adjusted only to the Sundry Creditors Account. As such, electricity creditors and the general planning creditors had been credited by understating sums of Rs. 2,298,407, and Rs. 41,796,738 respectively.
- (k.) The balance of the Register of Creditors amounted to Rs. 45,529,453 as at 31 December, 2015. However, the value shown in the Creditors Account amounted to Rs. 44,095,145, and hence, the creditors had been understated by Rs. 1,434,308 in the accounts.
- (l.) The sum of Rs. 1,257,302 shown in the register as the deposits of the Urban Development Authority since the year 2010, had not been brought to the investment account of the Urban Development Authority deposits.
- (m.) The loan balance of the Local Loans and Development Fund amounting to Rs. 16,992,433 as at the end of the year under review, had not been shown in the accounts.
- (n.) The interest of the Surety Deposit Savings Account, amounting to Rs. 6,323 had not been brought to the Employee Surety Account, and the Employee Surety Deposit Investment Account.
- (o.) The value of 04 vehicles received by the Sabha from the Ministry of Local Government and the Waste Management Authority up to 31 December, 2015, had not been accounted.
- (p.) The summary of all receipts and payments of the Sabha had not been shown in the cash book and balanced. The summary of monies directly transferred to the bank account of the Head office from the Sub-office had not been shown in the cash book.

1.3.2 Unreconciled Control Account

Differences amounting to Rs. 111,198,049 was observed between the balances of accounts and utility books/ schedules in respect of the balances of 09 Items of Accounts shown in the financial statements presented for audit.

1.3.3 Unsettled Accounts

The account balances totalling Rs. 714,014 pointed out in the audit reports of the preceding years, had been brought forward over several years without being settled.

1.3.4 Lack of Evidence for Audit

- (i) Due to non-availability of documentary evidence in respect of 14 Items of Account totalling Rs. 282,981,606, those balances could not be satisfactorily vouched in audit.
- (ii) Documentary evidence had not been made available to audit in order to verify the accuracy of an unusual debit balance of Rs. 5,177,568, and an unusual credit balance of Rs. 190,889 shown in the financial statements.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the revenue collected for the year ended as at 31 December, 2015 in excess of the recurrent expenditure of the Sabha , amounted to Rs. 109,999,705 whilst the revenue in excess of the recurrent expenditure of the preceding year, amounted to Rs. 78,435,100.

2.2 Bank Accounts

The following observations are made.

- (a.) The bank reconciliation statement prepared as at 31 December, 2015 for the account bearing No. 098-01-002-3-3913965, included 03 cheques valued at Rs. 8,667 not realized despite being deposited in the years 2012 and 2013
- (b.) Additions amounting to Rs. 73,528 and deductions amounting to Rs. 20,578,530 existing over several years, had been adjusted to the bank reconciliation statement without verifying the balances.
- (c.) Bank reconciliation statements had not been prepared in respect of 03 bank accounts in the year under review.
- (d.) Action had not been taken in terms of Financial Regulation 396 (d) of the Democratic Socialist Republic of Sri Lanka on 23 cheques valued at Rs. 222,201 not presented for payment despite being issued.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information on the estimated revenue, actual revenue and the arrears of revenue relating to the year under review as presented by the Chairman is shown below.

<u>Source or Revenue</u>	<u>Balance in Arrears as at 01 January</u>	<u>Billing</u>	<u>Actual Recovery</u>	<u>Cumulative Arrears as at 31 December</u>
	Rs.		Rs.	Rs.
Rates	81,035,995	69,769,866	71,574,400	75,979,925
License Fees	485,430	617,860	626,960	476,330
Lease Rents	7,119,965	9,330,600	6,177,252	10,273,310
Business Tax	231,080	1,065,581	1,177,811	118,850

2.3.2 Rates

The balance of the Rates recoverable for the period 2011-2015 had increased from Rs. 35,240,812 to Rs. 69,968,038

2.3.3 Stalls Rent

The following matters are observed.

- (a.) Title Deeds had not been made available to audit to verify that the Sabha reserved the legal rights of 178 stalls.

- (b.) Tenders had not been called afresh by cancelling the lease permits of the lessees when 17 stalls had been subleased. Instead, the Sabha had taken action to hand over the said stalls to the sub-lessees themselves, or the parties currently occupying the stalls, contrary to the provisions of the Section 07 of the Circular, No. 1980/46 of the Commissioner of Local Government, dated 31 December, 1980,
- (c.) No action whatsoever had been taken by the Sabha on the lessees of 30 stalls for which stalls rent totalling Rs. 1,335,813 had not been paid over many years.
- (d.) As 05 fish and meat stalls had not been leased out for the year 2015, the revenue that the Sabha had been deprived of, amounted to approximately Rs. 170,500 as compared with the preceding year.

3. Operating Review

3.1 Operating Inefficiencies

3.1.1 Payment of Machine Rent

The following matters are observed.

- (a.) A bill to the value of Rs. 1,227,570 had been paid for obtaining a Chain Dozer on lease basis to handle garbage at the compost yard. In terms of the service agreement entered into between the Sabha and the service provider, repairs should be performed as soon as possible in the event of a malfunction of the machine or a part thereof, whilst a Caterpillar machine of the same type should have been provided service provider for daily activities. However, the machine supplied, often remained non-functional.
- (b.) It is observed in accordance with the bills presented that the objective of minimizing costs by obtaining service for a lesser number of machine hours from a machine with high capacity, had not been achieved. The value of all the bills either paid so far or to be paid by the Sabha totals Rs. 12,974,620. Hence, it was observed in audit that purchasing a new Chain Dozer would be even profitable.

3.2 Management Inefficiencies

The following matters are observed.

- (a.) Three Three-wheelers had been purchased on 30 June, 2015 at the cost of Rs. 1,637,250. An excess expenditure of Rs. 137,250 had been incurred by the Sabha Fund to purchase the 03 Three-wheelers by exceeding the maximum limit approved by the Department of National Budget. As the purchase had not been made based on the first quotation, the Sabha Fund had sustained a loss of Rs. 117,120 from the overall transaction.
- (b.) As the register of vehicles of the Sabha had not been updated, the information relating to the vehicles purchased prior to the year 2003 at an aggregate value of Rs. 11,779,199, running charts, and monthly summaries of the vehicles of the Sabha, had not been made available to audit.

- (c.) The balance of the Urban Development Authority bank account of the Sabha amounting to Rs. 1,950,704 as at 31 December, 2015, had remained idle over many years without being utilized for implementing the projects of the Sabha.
- (d.) The balance of the unsettled advances brought forward continuously, amounted to Rs. 3,715,414.
- (e.) Action had not been taken by the Accounting Officer in terms of Financial Regulation 757 of the Democratic Socialist Republic of Sri Lanka on the recommendations of the shortages and surpluses identified at the survey.
- (f.) Deeds or orders of transfer had not been obtained in respect of 135 properties belonging to the Sabha.
- (g.) The loan balance recoverable from 08 employees transferred as at 31 December, 2015 amounted to Rs. 869,135, whilst the loan balance of 03 employees who had vacated the service amounted to Rs. 44,800, and the loan balance of 03 employees whose service had been suspended, amounted to Rs. 408,120.

3.3 Contract Administration

Thirty eight projects had been approved under Provincial Councils, province-specific, and 100 Days Development Programme. One province-specific project therefrom had been abandoned, whilst 06 projects had not been completed under 100 Days Programme.

4. Accountability and Good Governance

(a.) Action Plan

An Action Plan and a Procurement Plan had not been prepared for the year under review.

(b.) Internal Audit

As stated in the Financial Regulation 134 (1), (2), and (3) of the Democratic Socialist Republic of Sri Lanka, the internal audit programmes should be prepared with the concurrence of the Auditor General, and the copies of the internal audit reports should be presented to the Auditor General. However, the Sabha had not taken action in accordance with the referred provisions.

- (c.) Meetings of the Audit and Management Committee had not been held in the year under review in terms of the provisions of the Public Finance Circular, No. PED/12, dated 03 June, 2003.

5. **Systems and Controls**

Special attention is needed in respect of the following areas of Systems and Controls.

- (a.) Internal Audit
- (b.) Accounting
- (c.) Revenue Administration
- (d.) Assets Management