

**Kotmale Pradeshiya Sabha**

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**Nuwara Eliya District**

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**1. Financial Statements**

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**1.1 Presentation of Financial Statements**

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The financial statements for the year under review had been submitted to Audit on 04 April 2017 while financial statements relating to the preceding year had been submitted on 31 March 2016. The Auditor General's Report relating to the year under review was sent to the Secretary of the Sabha on 29 August 2017.

**1.2 Qualified Opinion**

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In my opinion except for the effect on 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 Kothmale 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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(a) Even though stamp fees of Rs.3,385,100 receivable relating to the period from July to December in the year under review had been shown under revenue debtors, it had not been taken to the revenue of the year. As such, the revenue from stamp fees had been understated by Rs.3,385,100 in the financial statements. As accounting had been done in this manner, it was not clear in audit how the accounts had balanced.

- (b) Revenue from charges on water amounting to Rs.816,560 relating to the year under review had not been shown in the statement of financial operations and as accounting had been done in this manner, it was not clear in audit how the accounts had balanced.
- (c) Interest on revenue amounting to Rs.126,180 relating to the fixed deposit of Rs.5,000,000 invested in fixed deposits by the Sabha on 13 October of the year under review had been credited to the Revenue Debtors Account instead of crediting to the revenue of the year. As such, the revenue on interest of the year had been understated by that amount while the revenue debtors balance had been understated by Rs.252,360.
- (d) Even though the value of fixed deposits amounted to Rs.22,646,698 as at 31 December of the year under review, it had been overstated by Rs.4,339,796 and shown in the financial statements as Rs.26,986,494.
- (e) Even though the balance of the Accumulated Fund Account was Rs.42,294,421 as at 31 December of the year under review, it had been overstated by Rs.5,000 and shown in the balance sheet as Rs.42,299,421. As accounting had been done in this manner, it was not clear in audit how the accounts had balanced.
- (f) Even though the balance of the **Expenditure Creditors Account** was Rs.48,626,462 as at 31 December of the year under review, that balance had been shown as Rs.46,168,111 and Rs.48,697,529 in the financial statements and the Register of Industrial Creditors respectively.

### **1.3.2 Unreconciled Control Accounts**

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Even though the revenue from rates and taxes amounted to Rs.3,638,259 according to the financial statements, it was Rs.3,514,994 according to the Register of Rates and Taxes, thus observing a difference of Rs.123,265.

### **1.3.3 Accounts Receivable and Payable**

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#### **(a) Accounts Receivable**

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The Industrial debtors balance receivable as at 31 December of the year under review was Rs.48,176,643, out of which, a sum of Rs.3,637,708 was unrecovered for over a period of one year.

#### **(b) Accounts Payable**

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The Industrial creditors balance payable as at 31 December of the year under review was Rs.48,626,462, out of which, a sum of Rs.3,988,337 had lapsed for over a period of one year.

### **1.3.4 Lack of Documentary Evidence for Audit**

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Title Deeds and Schedules required for Audit had not been made available. As such, 2 balances of accounts amounting to Rs.52,101,113 could not be satisfactorily vouched in Audit.

## **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 Sabha for the year ended 31 December of the year under review amounted to Rs. 24,420,600 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 10,434,742 thus indicating an improvement of Rs. 13,985,858 in the financial result.

### **2.2 Analytical Financial Review**

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The increase of revenue in 2 Items of Revenue and the increase in one Item of Expenditure had been the main reason for the improvement of Rs.13,985,858 in the financial result.

### **2.3 Working Capital Management**

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The value of current assets and current liabilities amounted to Rs.75,100,525 and Rs.51,819,950 as at 31 December of the year under review respectively and as such, the current ratio was 1.45:1.

### **2.4 Revenue Administration**

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#### **2.4.1 Rates**

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The arrears of rates and revenue from tax as at 31 December of the year under review amounted to Rs.1,587,290 and out of that, a sum of Rs.652,789 had remained unrecovered for over a period of one year.

#### **2.4.2 Lease Rents**

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Arrears of rents as at 31 December of the year under review amounted to Rs.152,722 and out of that, a sum of Rs.41,472 had remained unrecovered for over a period of one year.

#### **2.4.3 Other Revenue**

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Liquidated damages of Rs.32,164 recoverable to the Sabha as a result of incompleteness of work as at the due date relating to 2 road reconstruction projects implemented within the council area had not been recovered.

#### **2.4.4 Court Fines and Stamp Fees**

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Stamp fees of Rs.4,785,750 had not been recovered as at 31 December of the year under review from the Chief Secretary and the other authorities of the Provincial Council.

#### **2.5 Surcharge**

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A sum of Rs.146,330 was recoverable as at 31 December of the year under review relating to surcharges levied against persons responsible under provisions mentioned in Section 172(3) of the Pradeshiya Sabha Act.

### **3. Operating Review**

#### **3.1 Management Inefficiencies**

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(a) Government quarters belonging to Helboda and Maldeniya sub offices had not been maintained properly and repairs of buildings as well had not been carried out.

(b) As there was no protective fence around the land of the Harangala sub office premises, certain persons had attempted to change the position of the existing boundary fence.

### **3.2 Idle/Underutilized Assets**

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- (a) An ambulance of the make Nissan Caravan costing Rs.534,402 and two Landmasters costing Rs.264,113 shown in the financial statements had been removed from running for over a period of 6 years and action had not been taken to repair or dispose of them.
- (b) Two motor cycles in running condition costing Rs.138,260 in the financial statements had been removed from running for over a period of 1 ½ years.

### **3.3 Contract Administration**

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In the reconstruction of 3 roads within the council area , laying tar for the second time had not been carried out in a manner so as to properly cover the stones of the road surface.

### **3.4 Delays in Execution of Projects**

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Water pipes valued at Rs.1,897,315 purchased on 31 December 2016 for the Randagalboda Water Scheme proposed to be implemented within the council area and 51 water pipes of 4 inches in diameter and in different lengths discarded in the development of the Bogahawatte Kalapitiya road had remained idle without being utilized even by 17 May 2017 and the activities of the water scheme as well had not been commenced.

### **3.5 Solid Waste Management**

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In the inspection of the Kosgahapathana and Hapugasthalawa garbage disposal areas within the council area , it was observed that garbage had been dumped in the open area without proper waste management and the polythene brought with the garbage had been burnt.

### 3.6 Environmental Issues

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The number of unauthorized constructions identified within the council area from the year 2013 up to the year under review had been 96 and no appropriate actions whatsoever had been taken even by 02 May 2017 in that connection.

## 4. Accountability and Good Governance

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### Budgetary Control

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According to the budget prepared for the year under review, variances ranging from 11 per cent to 118 per cent relating to 06 Items of Revenue and variances ranging from 12 per cent to 83 per cent relating to 06 Items of Expenditure were observed between the estimated revenue and expenditure and the actual revenue and expenditure, thus indicating that the budget had not been made use of as an effective instrument of control.

## 5. Systems and Controls

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

<b>Area of Systems and Controls</b>	<b>Observations</b>
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(a) Revenue Administration	Arrears of revenue receivable to the Sabha had not been recovered.
(b) Debtors/Creditors Control	Failure in the settlement of money receivable and payable.
(c) Accounting	Occurrence of various deficiencies in accounting assets and liabilities and revenue and expenditure relating to the year of accounts.