

**Kotapola Pradeshiya Sabha**  
**Matara 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 presented to the Audit on 31 March 2017 and the financial statements for the preceding year had been presented to the Audit on 05 April 2016 and the Report of the Auditor General for the year under review was sent to the Secretary of the Sabha on 04 September 2017.

**1.2 Qualified Opinion**

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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 2016 and its financial performance for the year then ended in accordance with the Generally Accepted Accounting Principles.

**1.3 Comments on Financial Statements**

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**1.3.1. Accounting Deficiencies**

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

- (a) It was shown in the financial statements that the excess balance of Rs. 902,595 in furniture and equipment account and contribution from revenue for capital input account; and shortage of Rs. 996,288 in water stores stock balance.
- (b) The value of Aninkanda Pachchamarama land of Rs. 750,000 had not been capitalized.
- (c) Provisions had not been made in financial statements for audit fees for the year under review.
- (d) An overstatement balance of Rs. 4,330,915 was shown in stamp fees revenue account with relating to the year under review.

**1.3.2 Unreconciled Control Accounts**

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Differences totaling Rs. 100,159,271 were observed between the balances of 06 items of account shown in the financial statements totaling Rs. 152,315,964 and the balances appearing in the subsidiary registers / schedules relating thereto.

### **1.3.3 Suspense Account**

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It was observed a difference of Rs. 515,051 in suspense account due to showing in financial statements only the debit balance of Rs. 255,674 adjusted to defined charges which should be remitted to Commissioner General of Inland Revenue and non-making adjustment of Rs. 770,725 with relating to stamp fees.

### **1.3.4 Accounts Receivables and Payables**

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The following observations were made.

- (a) Balances over 03 years period of Rs. 37,692,927 had been included in debtor balance aggregating Rs. 93,232,230 as at the end of the year under review.
- (b) Balances over 03 years period of Rs. 38,549,840 had been included in creditor balance aggregating Rs. 72,315,064 as at the end of the year under review.
- (c) Deposit balances over 03 years period of Rs. 170,601 had been included in deposit balance aggregating Rs. 3,948,783 as at the end of the year under review.
- (d) Actions had not been taken to settle loan account of Pitabeddara Pradeshiya Sabha of Rs. 442,997 and Nation Building Tax account of Rs. 327,733 and property loan interest account of Rs. 205,423 which were continuously carrying forward even before the previous year without settling.

## **2. Financial Review**

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### **2.1 Financial Results**

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According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2016 amounted to Rs. 17,796,793, as compared with the excess of recurrent expenditure over revenue amounting to Rs. 2,854,361 for the preceding year. Accordingly, the financial results for the year under review indicated an improvement of Rs. 14,942,432. The main reason for this improvement of Rs. 14,942,432 in the financial result had been the increase in other revenue and revenue grants and reimbursement.

### **2.2 Analytical Financial Review**

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The following observations were made.

- (a) It was observed that the expenditure was in higher level as compared with Sabha revenue due to the total recurrent expenditure represented more than 70 per cent of the total recurrent revenue of the year under review.
- (b) The recurrent expenditure had been increased more than the Self-generated Revenue by significant amounts in the year under review as well as the previous two years and it was

shown situation where recurrent expenditure could not be recovered at any mean from Self-generated Revenue.

## **2.3 Working Capital Management**

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It was observed that a liquidity position does not exist as per the current and quick ratios due to the existence of unrecovered balances older than 03 years was Rs. 37,692,927 in the debtor balance remained as at the end of the year under review.

## **2.4 Revenue Administration**

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### **2.4.1 Rates and Taxes**

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#### **(a) Rates**

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While there was opening arrears amounting to Rs. 191,521, and a sum of Rs. 355,072 had to be recovered including the billings of Rs. 163,551 of the year. The arrears balance as at 31 July 2017 was Rs. 128,136 due to the total recoveries was Rs. 226,936.

#### **(b) Acreage Tax**

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While there was opening arrears amounting to Rs. 238,090, and a sum of Rs. 281,760 had to be recovered including the billings of Rs. 43,670 of the year. The arrears as at the end of the year were Rs. 211,009 due to the total recoveries was Rs. 70,751.

### **2.4.2 Water Charges**

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While there was opening arrears balance amounting to Rs. 1,372,300, and a sum of Rs. 4,652,354 had to be recovered including the billings of Rs. 3,280,054 of the year. Further arrears balance as at 31 July 2017 was Rs. 799,460 due to the total recoveries was Rs. 3,852,894.

### **2.4.3 Courts Fines and Stamp Duty**

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Courts fines amounting to Rs. 1,053,942 and the Stamp Duty amounting to Rs. 17,654,846 had been remained as receivable from the Chief Secretary to the Provincial Council and other Authorities as at the end of the year under review.

### **3. Operating Review**

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#### **3.1 Performance**

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The following observations were made.

- (a) According to the budget estimate of the year, though plans had been approved to implement 50 work proposals of Rs. 37,800,000 by the Sabha under sundry provisions, only 07 contracts of Rs. 3,199,156 had been implemented during the year.
- (b) Seven contracts of Rs. 8,800,000 had been approved under Pradeshiya Sabha strengthen programme and only 03 contracts of Rs. 5,300,000 had been completed.

#### **3.2 Management Inefficiencies**

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The following observations were made.

- (a) Actions had not been taken to fill 01 secondary level post and primary level 03 posts and to streamline 12 excess posts in 03 posts in approved staff carder plan.
- (b) Receivable interest amount of Rs. 205,425 from Commissioner of Local Government with regarding property loan had not been reimbursed even as at 31 December 2016.

#### **3.3 Operating Inefficiencies**

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Even though 18 vehicles and machineries had been included in the vehicle fleet belonging to the Sabha, only 05 drivers had been deployed for those vehicles.

#### **3.4 Idle and Underutilized Assets**

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##### **(a) Land and Building**

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Multipurpose building constructed by spending a sum of Rs. 4,500,000 in the year 2015 and Nisala Uyana building of Rs. 3,800,000 which was received to the Sabha in the year 2001 were remained idle up to 30 June 2017.

##### **(b) Motor Vehicles and Cart**

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Though 03 vehicles at a cost of Rs. 13,774,000 for over 09 years, Tractor of Rs. 914,000 from the year 1997 belonging to Sabha had been kept idle, actions had not been taken to utilize them by making repairs or to dispose and the Backhoe received to Sabha in the year 2015 at a cost of Rs. 17,649,179 had been kept under-utilized.

### **3.5 Identified Losses**

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According to the Circular No. 5/2/2/10(ii) of Urban Development Authority dated on 30 September 1992, the land extent of 237.24 perches had be lost to Sabha which should be received on 10 per cent when portioning lands for selling.

### **3.6 Solid Waste Management**

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A sum of Rs. 7,077,825 had been spent during the year 2016 by the Sabha for waste management and though a sum of Rs. 3,923,161 had been spent to produce 12218 kilograms of organic fertilizer, a sum of Rs. 117,400 had only been generated from selling.

### **3.7 Environmental Issues**

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According to the Gazette Notification No. 16/1533 dated on 25 January 2008, Environment Protection License should be issued for 25 Industries. Sabha had lost an income of Rs. 108,400 due to non-taking Environment Protection License by 41 business tax paying Institutions. Remedial actions had not been taken by the Sabha against the adverse impact caused to the environment.

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

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### **4.1 Budgetary Control**

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It was observed that the budget had not been made use of as an effective instrument of financial management control due to remaining the savings aggregating Rs. 17,218,086 in 08 expenditure votes included in the budget estimate for the year under review and non-achieving targets aggregating Rs. 12,953,015 in 04 revenue votes.

### **4.2 Internal Audit**

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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.SPLA/G/01/MCC dated 24 February 2014 of the Commissioner of Local Government of the Southern Province, a sum of Rs. 473,448 had been paid to the Internal Audit Officer deployed by the Sabha as salaries and allowances in the year under review.

## **5. Systems and Controls**

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

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