

Kotikawaththa Mulleriyawa Pradeshiya Sabha

Colombo District

1 Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2016 had been presented to audit in 31 March 2017 and the financial statements for the preceding year had been presented in May 2016. The report of the Auditor General for the year 2016 had been forwarded to the Secretary of the Sabha on 04 October 2017.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters shown in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position as at 31 December 2016 and its financial performance of the Kotikawaththa Mulleriyawa Pradeshiya Sabha for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following accounting deficiencies were observed in audit.

- (a) The following values had not been brought to account.
 - (i) The values of all land and buildings of the Sabha.
 - (ii) The sum of Rs.97,500 being fees for preparation of accounts.
 - (iii) Provision for audit fees payable for the current year.
- (b) Purchase of ayurvedic drugs valued at Rs.761,050 had been accounted twice.
- (c) Overstatement of value added tax by Rs.1,592,300.
- (d) The rates and taxes obtained for the previous year amounted to Rs.8,338,941. This had been brought to account as rates and taxes prepaid.
- (e) Understatement of the balances of loan of the Local Loans and Development Fund by Rs.305,618.
- (f) The stamp fees of Rs.1,522,335 obtained in respect of the previous year had been credited to the Stamp Fees Account instead of being credited to the Accumulated Fund.

- (g) The Nation Building Tax of Rs.343,122 had been shown as balance receivable in the financial statements instead of being shown as payables.
- (h) The salaries and the member's allowances which had not been reimbursed amounted to Rs.20,771,523 and Rs.630,000 respectively. These had been brought to account as revenue receivable.

1.3.2 Unreconciled Control Accounts

The balances of 11 items of accounts aggregated Rs.355,773 as per accounts whereas the balances of those accounts aggregated Rs.297,892,073 as per subsidings registers/reports.

1.3.3 Accounts Receivable and Payable

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- (a) The balances of 02 items of accounts receivable and the balance of 01 item of account payable aggregating Rs.714,014 continued to be brought forward in the financial statements for a long time without being settled.
 - (b) The balances of employees' loans amounted to Rs.10,376,697. Included in these were balances of loans aggregating Rs.412,924 recoverable from 13 employees who had vacated posts, suspended from service, transferred, retired and expired.

1.3.4 Lack of Evidence for Audit

Transactions aggregating Rs.56,315,059 could not be satisfactorily vouched in audit due to non rendition of necessary information to audit.

2. Financial Review

2.1 Financial Results

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.89,048,114 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.109,999,705.

2.2 Bank Accounts

Three cheques amounting to Rs.16,669 issued 03 years ago and remaining unrealized and additions of Rs.25,215 and deductions of Rs.56,239 which had not been confirmed had been shown as adjustments in the bank reconciliation statement prepared as at 31 December 2016.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and the Arrears of Revenue

The information relating to the estimated revenue, actual revenue and the arrears of revenue for the year under review and the previous year, as furnished by the Sabha is shown balance.

| Item of Revenue | 2016 | | | | 2015 | | | |
|-----------------|---------------------------------------|------------|-------------------|--|---------------------------------------|------------|-------------------|--|
| | Balance of arrears as at January 2016 | Billing | Actual Recoveries | Accumulated Arrears as at 31 December 2016 | Balance of arrears as at January 2015 | Billing | Actual Recoveries | Accumulated Arrears as at 31 December 2015 |
| Rs.000 | Rs.000 | Rs.000 | Rs.000 | Rs.000 | Rs.000 | Rs.000 | Rs.000 | Rs.000 |
| Rates and Taxes | 55,467,503 | 43,663,465 | 45,852,897 | 53,278,074 | 54,878,212 | 64,127,053 | 49,037,228 | 69,968,038 |
| Licence Fees | 242,715 | 66,060 | 357,710 | 551,065 | 485,430 | 617,860 | 626,960 | 476,330 |
| Rent | 5,221,055 | 3,157,200 | 4,425,482 | 3,952,774 | 7,119,965 | 9,330,600 | 6,177,252 | 10,273,310 |
| Business Tax | 115,540 | 1,864,140 | 1,060,520 | 919,160 | 231,080 | 1,065,581 | 1,177,811 | 118,850 |

2.3.2 Rates and Taxes

- (a) The rates and taxes had decreased by Rs.10,729,292 as compared with 2015. The error occurred while computing the balance of arrears of Rs.69,968,038 as at the last date of 2015 had been corrected by an adjustment amounting to Rs.12,222,967 through a journal entry which had caused the decrease.
- (b) Thirty six percent of the arrears of previous years had been recovered in 2016 and 59 percent of the billing of rates and taxes for the current year had been recovered.

2.3.3 Rent of Stalls

- (a) The arrears of rent of stalls due from 28 stalls of the Kotikawaththa Public Market Complex as at the last date of the year under review amounted to Rs.904,460. Included in these were arrears due from 11 stalls which had not paid any rent during 2016. Such arrears amounted to Rs.623,450.
- (b) Twelve trade stalls at the Ambatale Junction had been administered by the Kotikawaththa sub office. The arrears of rent and the penalties due from them as at 31 December 2016 amounted to Rs.250,282 and Rs.20,380 respectively.
- (c) The Sabha had not taken action to recover the accumulated arrears of rent of Rs.326,775 due from the lecture hall at the trade stall of the Baron Jayathilaka upper floor.

2.3.4 House Rent

The arrears of house rent due from 38 houses at the Kotikawaththa housing complex and the Kotikawaththa Apartments Complex amounted to Rs.1,388,728 which was 92 percent of the total arrears

3. Operating Review

3.1 Management Inefficiencies

3.1.1 The Sabha could implement projects by maintaining a bank account on behalf of the Urban Development Authority, collect adequate amount, identify a project with a feasibility report and by requesting approval for withdrawal of the money in terms of the Planning Circular No.15 of 18 November 1993. However, a sum of Rs.1,950,704 remained idle for many years in the said account as at 31 December 2016.

3.1.2 Idle and under utilized Assets

Action had not been taken to repair 04 obsolete vehicles valued at Rs.3,200,000 and to dispose of a tractor valued at Rs.500,000 which could not be repaired.

3.1.3 Identified Losses

Penalties amounting to Rs.8,177 and Rs.2,153 respectively had been paid while making payments for electricity and water on behalf of the properties of the Sabha during the year under review

3.1.4 Contract Administration

Eighty nine jobs costing Rs.62,185,831 financed by decentralized budget, rural infrastructure facilities and local government infrastructure facilities had been approved. Of these, 02 jobs valued at Rs.1,531,211 had been abandoned.

3.1.5 Solid Waste Material Management

The following matters were observed.

- (a) It was observed that the entire garbage collected within the area of the Sabha had been used for manufacturing compost and the non decayable garbage had been dumped in a barren land of the area.
- (b) A sum of Rs.5,674,032 had been paid during the year 2016 for the chain dozer hired for grinding the garbage and the Sabha had not considered to purchase such a vehicle.

- (c) According to Paragraph 59 of Chapter 6 of the rules relating to Urban Garbage Management No. 01 of 2008 of the Western Province published in the Gazette Extra Ordinary No. 1560/6 of 30 July 2008, all the local authorities are required to organize bio-gas composting or any other useful technical method with regard to carbonic wastages with the intervention of the Garbage Management Authority. Although the Sabha had maintained a compost division, it was observed that it was not adequate for the overall garbage composting.
- (d) According to Section 18(1) of Chapter 2 of the Urban Solid Waste Material Management Rules, in addition to the tax paid to the local authorities, fees should be collected from house occupants for door to door collection of garbage.

4. Good Governance and Accountability

4.1 Budgetary Control

Significant variances were observed between the budgeted and actual revenue and expenditure showing that the budget had not been utilized as an efficient instrument of management control.

4.2 Action Plan

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

4.3 Procurement Plan

A Procurement plan had not been prepared for the year under review

4. Systems and Controls

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

- (a) Accounting
- (b) Financial Control
- (c) Stock Control
- (d) Revenue Administration
- (e) Contract Administration
- (f) Internal Audit