

**Kotikawaththa Mulleriyawa Pradeshiya Sabha**

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**Colombo District**  
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**1. Financial Statements**

**1.1 Presentation of Financial Statements**

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The financial statements for the year 2017 had been presented for audit on 29 March 2018 and the report of the Auditor General on the financial statements had been forwarded to the Chairman on 15 October 2018.

**1.2 Qualified Opinion**

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In my opinion, except for the effects of the matters shown in paragraph 1.3 of this report, the financial statements of the Kotikawaththa Mulleriyawa Pradeshiya Sabha give a true and fair view of the financial position as at 31 December 2017 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

**1.3 Comments on Financial Statements**

**1.3.1 Accounting Deficiencies**

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The following accounting deficiencies were observed.

- (a) The closing stock should be accounted under the cost or net realizable value whichever is less. However, the value of stock of ayurveda medicine as at 31 December 2017 had been accounted under market value. As such, the value of stock had been overstated by Rs. 64,480.
- (b) While rectifying the refund of deposits which had not been entered in the deposit account during years prior to 2017, the sum of Rs. 4,591,883 which was not included in the opening balance had been written off from the accounts.
- (c) Wrong journal entries had been made to correct the balance in the Dishonoured Cheques Account as at end of the year under view. As a result, the Dishonoured Cheques Account had been understated and the Accumulated Fund Account had been overstated by Rs. 341,405.
- (d) The commission paid for receipt of rates during the year under review amounted to Rs. 2,864,805. This had been debited to the Accumulated Fund Account instead of being accounted as expenditure of the year. As a result, the current year's surplus had been overstated and the Accumulated Fund Account had been understated by similar amounts.

- (e) Stamp fees receivable for 2016 alone had been included in the opening balance of the Stamp Fees Receivable Account. However, the stamp fees of Rs. 1,083,985 receivable for 2014 which had been received during the current year had been credited to the Stamp Fees Receivable Account. As such, the Accumulated Fund Account and the Stamp Fees Receivable Account had been understated by similar amounts.
- (f) Advances amounting to Rs. 43,926 paid to officers during the previous year had been settled in 2017 without being settled during the previous year. This had been entered as expenditure of the current year. As a result, the expenditure of the year had been overstated by Rs. 43,926.
- (g) A finger print machine had been purchased for Rs. 60,409 during the current year. This had not been capitalized. Therefore, the assets account and the revenue contributions to capital outlay account had been understated by the above amount.

### **1.3.2 Contingent Liabilities**

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Four outsiders had filed cases against the Sabha during the year under review claiming compensation and the cases were pending. compensation for 02 cases had not been determined where as compensation amounting to Rs. 600,000 had been determined for 02 cases. This had not been disclosed in the financial statements.

### **1.3.3 Unreconciled Accounts**

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A difference of Rs. 37,764,821 was observed between 07 items of accounts shown in the financial statements presented for audit and the related subsidiary books / schedules .

### **1.3.4 Accounts Receivable and Payable**

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#### **Accounts Receivable**

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- (a) The sum of Rs. 199,477 shown as receivable from Colombo Development Council continued to be brought forward since 2004 without being settled.
- (b) The electricity charges of Rs. 207,548 receivable for 2004 had not been received.

### **1.3.5 Lack of Necessary Documentary Evidence**

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#### **Non rendition of Information for Audit**

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Five items of accounts aggregating Rs.22,354,446 could not be satisfactorily vouched in audit due to non rendition of detailed schedules.

### 1.3.6 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non compliance with laws, rules, regulations and management decisions appear below.

Reference to Laws, Rules, Regulations and Management Decisions	Value	Non-compliance
	Rs.	
(a) Special Provisions Act No48 of 1971 of Local Authorities	-	Immovable properties within the area of the Sabha should be assessed every 05 years for recovery of rates. However, the Sabha had recovered rates on the rates assessed 07 years ago.
(b) 1988 Pradeshiya Sabha (Finance and Administration) Rules 59 to 66	-	Action had not been taken to carry out a survey of business establishments in the area at commencement of the year so as to recover tax.
(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
(i) F.R. 371(5)	332,000	Twelve advances aggregating Rs. 332,000 granted in 2017 had not been settled even by 31 December 2017.
(ii) F.R. 571	50,000	Deposits exceeding 02 years since the date of deposits should be identified / investigated and credited to revenue. However, 10 deposits aggregating Rs. 50,000 made for partitioning of the T.B Illangaratne playground in 2015 and 2016 had not been credited to revenue.
(iii) F.R. 1646	-	Copies of daily running charts and monthly performance summaries of vehicles of the Sabha had not

been furnished to the Auditor General.

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|-----|--|-----------|---|
| (d) | Urban Solid Waste Material Management Rule 18(1) of the Western Province No.01 of 2008 | -         | The Sabha had not recoverd garbage tax from 1060 houses and business establishments of the area to meet the expenditure incurred on door to door collection of garbage, in addition to the tax paid to the local authority. |
| (e) | Planning Circular No 15 of 18 November 1993 of the Urban Development Authority         | 5,608,253 | Necessary activities had not been performed to utilize the money in the Urban Development Authority Account for an identified project.  |

### **1.3.7 Transactions without Adequate Authority**

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According to the ledger of the Sabha, there was a debit balance of Rs. 47,233 in the cash account relating to the People's Bank current account as at 31 December 2015. This account was in existence from the inception of the Pradeshiya Sabha up to 30 June 2010 and had been closed contrary to the instructions in the letter of the Assistant Commissioner of Local Government, Western Province dated 09 July 2010. But, a sum of Rs. 47,233 had been shown as cash balance (old) in the financial statements of the year under review. However, such a balance was not physically in existence in the sabha.

## **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 2017 amounted to Rs.99,183,339 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.89,048,114.

### **2.2 Financial Control**

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- (a) Three cheques valued at Rs. 16,669 which had been deposited in 2011, 2012 and 2013 had not been realized. This was observed in the bank reconciliation statements prepared for the Account No. 098-01-002-3-3913965 as at 31 December 2017.
- (b) While preparing bank reconciliation statements for 04 bank accounts maintained by the Sabha, additions and deductions totalling Rs. 111,607,900 and Rs. 318,072,018 respectively had been adjusted in the cash book without being settled for a number of years.

## 2.3 Revenue Administration

### 2.3.1 Estimated Revenue, Revenue Billed, Revenue Collected and the Arrears of Revenue

Information relating to the estimated revenue, revenue billed, revenue collected and the arrears of revenue furnished for the year under review and the previous year appear below.

Source of Revenue	2017				2016			
	Estimated Revenue	Revenue Billed	Revenue Collected	Total arrears as at 31 December	Estimated Revenue	Revenue Billed	Revenue Collected	Total arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	54,202,384	48,439,066	57,976,651	60,692,872	55,467,503	43,663,465	45,852,897	53,278,074
Rent	3,992,508	3,489,440	5,497,628	2,452,609	5,221,055	3,157,200	4,425,482	3,952,774
Licence Fees	-	566,110	566,110	-	242,715	666,060	357,710	551,065
Other Revenue	-	77,306,864	77,306,864	-	-	92,187,961	92,187,961	-

### 2.3.2 Rates and Taxes

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- (a) The total arrears of rates recoverable from 06 private properties which had arrears of over Rs. 50,000 as at 31 December 2017 amounted to Rs. 63,350.
- (b) The rates recoverable from 08 government properties within the area of the Sabha as at 31 December 2017 amounted to Rs. 130,610. Of these, the arrears of rates due from 05 properties were over their assessment value of Rs. 93,610.

### 2.3.3 Rent

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- (a) Rent and fines due from 88 stalls of the trade complex, trade stalls and from 28 small stalls belonging to the Sabha for the years 2016 and 2017 amounted to Rs. 2,293,799 and Rs. 2,567,197 respectively. Out of the total of Rs. 4,860,996 of these, a sum of Rs. 1,491,000 remained as arrears as at end of the year under review.
- (b) No money, whatsoever, had been recovered from 03 stalls of the Kottikawaththa new market and from 10 small stalls of the public market during 2017. The total of arrears of rent and fines recoverable as at 31 December 2017 amounted to Rs. 656,095. Action had not been taken to take over these stalls and the small stalls which had not settled the arrears for a long time, with the view to give them on lease again.
- (c) The rent of arrears and fines due from Stall No. 01 of the Gothatuwa public market complex as at 01 January 2017 amounted to Rs. 46,675 and Rs. 12,025 respectively. The total sum of these amounting to Rs. 58,700 had not been recovered even by end of the year under review.
- (d) Action had not been taken to assess all the stalls every 05 years and to revise the rent and enter into new agreements with lessees.
- (e) Rent and fines totalling Rs. 441,076 was due from 10 houses of the upper floor housing complex of the Kotikawaththa public market as at 31 December 2017. The recovery of arrears of rent during 2017 was at a very low percentage of 25 percent of the total rent recoverable. No recoveries had been made from 03 houses.
- (f) Arrears of rent as well the rent for the current year had not been recovered from 05 houses of the Kotikawaththa low rental housing complex. The arrears of rent and fines recoverable from those houses as at 31 December 2017 aggregated Rs. 291,065 and the arrears further due as at 22 May 2018 amounted to Rs. 262,565.
- (g) The rent of 38 houses in the Kotikawaththa trade complex had been based on the assessment made by the government valuer in 1997. The government valuer had assessed the new rent on 10 April 2015. However, action not been taken to revise the above rent accordingly and to enter into lease agreements and recover the rent. As a result, the

revenue from rent of Rs. 4,254,000 for the period third quarter of 2015 to 31 December 2017 had been deprived of.

- (h) A property given on rent to the Provincial Road Development Authority had been taken over by the Sabha in 2013. However, action had not been taken to recover the rent of Rs. 220,282 and the fines amounting to Rs. 28,510 due as at that date.

#### 2.3.4 Court fines and Stamp Fees

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Court fines amounting to Rs. 41,000,000 and stamp fees amounting to Rs. 137,266,799 were due from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2017.

### 3. Operating Review

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#### 3.1 Performance

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The following matters were revealed with regard to duties to be fulfilled in terms of Section 3 of the Pradeshiya Sabha Act, such as regularization and control of matters relating to public health, common amenities and public highways, healthy environment of the public, facilities, welfare etc.,

#### (a) Work Abandoned

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- (i) According to the annual action plan 2017 prepared by the Sabha, an estimate for Rs. 30 million had been prepared to renovate the roads of the area under the development of infrastructure facilities. According to the information furnished to audit by the Sabha, 56 work costing Rs. 18.6 million had been completed and 16 work estimated at a cost of Rs. 8.3 million had been abandoned due to lack of provision.
- (ii) Six work estimated at a value of Rs.3,862,908 under the 2017 Decentralized Budget Programme had been fully abandoned without commencement. Details appear below.

Work	Qty. of Work	Total Estimated Value	Observations
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Rural infrastructure facilities development programme	04	Rs. 2,880,077	Protests made by people of the area

Subitha Purawara Kuda  
Nagara Development  
Project Scheme

02

982,831

Protests made by  
people of the area  
and the problem  
faced in naming  
the project.

**(b) Solid Waste Material Management**  
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- (i) The garbage collected in the authoritative area of the Sabha comprising 29.6 square kilometres had been disposed of, in a barren land of about 3.7 acres where compost had been produced by using the degradable garbage. It was observed that the garbage had not been properly segregated during this process.
- (ii) According to paragraph 59 of Chapter 6 of the rules relating to the urban waste material management bearing No. 01 of 2008 of the Western Province, all local authorities are required to organize bio-gas, composting or any other practical, technical method for carbonic waste material in collaboration with the Waste Material Management Authority. Accordingly, the Sabha had maintained a compost sector. However, it was not adequate for the overall degradable composting of the area. The compost sector had not been expanded or to produce bio-gas and / or to implement any other technical methods by using the garbage.

**3.2 Management Inefficiencies**  
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- (a) Ninety five pairs of footwear valued at Rs. 80,275 had been purchased in December 2016 under the programme for distribution of school equipment among children of low income earning families to enable them to successfully carry out educational activities. These remained at the stores for 17 months without being used for the required purpose. A physical verification carried out on 09 March 2018 revealed that there were only 86 pairs of footwear out of the 95 pairs purchased. Accordingly, 09 pairs of footwear valued at Rs. 7,605 had been misplaced.
- (b) Pop corn machines had been distributed to 10 persons under the programme for promoting self employment opportunities with the objective of alleviating poverty. The cost of these machines were to be covered in 20 instalments by recovering the total of Rs. 10,000 at a monthly instalment of Rs. 500 each, commencing from end of the sixth month period of handing over the machine. However, the Sabha had not continuously recoverd the amount. Further, 02 pop corn machines valued at Rs. 66,000 had been lying at the stores.



### 3.3 Human Resources Management

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(a) The details of actual cadre and approved cadre of the Sabha appear below.

<b>Category of Post</b> -----	<b>Approved</b> -----	<b>Actual</b> -----	<b>Vacancies / Excess</b> -----
Senior	03	03	-
Secondary	41	37	04
Primary	216	190	26
Total	-----	-----	-----
	260	230	30
	=====	=====	=====

(b) None of the loan instalments due from 04 employees who had obtained Rs. 285,248 during the current year and the sum of Rs. 534,112 given to 06 employees during the previous years, both totalling Rs. 819,360 had been recovered during the year under review.

### 3.4 Procurement Plan

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A procurement plan had not been prepared for the year under review.

## 4. Good Governance and Accountability

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### 4.1 Budgetary Control

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Variances ranging from 50 percent to 100 percent were observed during the comparison of the recurrent and capital revenue / expenditure with the actual revenue and capital expenditure showing that the budget had not been utilized as an effective instrument of management control. The following observations are made in this connection.

(a) The entire provision totalling Rs. 84,110,000 made for 89 Objects had been saved.

(b) The provision made for 39 Objects amounted to Rs. 57,111,700. However, over 50 percent of it amounting to Rs. 40,035,295 had not been spent.

## 5. Systems and Controls

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Deficiencies observed during the course of audit were brought to the notice of the Sabha from time to time. Special attention is needed in respect of the following areas of control.

**System**

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**Deficiency**

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|-----------------------------|---|
| (a) Accounting              | (i) Omissions in accounts   |
|                             | (ii) Overstatements and under statements in accounts.                           |
| (b) Revenue Administration  | (i) Inadequacy in collection of arrears of revenue.                             |
|                             | (ii) Non implementation of new assessment of rent.                              |
| (c) Financial Control       | Existence of unrealized cheques without being cashed or settled for many years. |
| (d) Stock Control           | Closing stocks without verification.  |
| (e) Contract Administration | Abandonment and delays.   |