

Mutur Pradeshiya Sabha
Trincomalee District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 28 March 2013 and the financial statements for the preceding year had been presented on 27 February 2012. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 30 October 2013.

1.2 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Mutur Pradeshiya Sabha had maintained proper accounting records for the year ended 31 December 2012 and except for the effects on the financial statements of the matters referred to in my report forwarded to the Chairman, the financial statements have been prepared in accordance with Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Mutur Pradeshiya Sabha as at 31 December 2012 and the financial results of its operations and cash flows for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Accounting Policy

The Sabha had utilized fixed assets aggregating Rs.29,146,308 for earning revenue and providing services during the year 2012. But, provision for depreciation of fixed assets had not been made in the accounts. Thus it was observed that the expenditure incurred on earning the revenue had not been reflected in the financial statements.

1.3.2 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a.) Books valued at Rs.62,400 had not been brought to account
- (b.) Provision for audit fees of Rs.17,615 had not been made.
- (c.) Loan given to officers had been understated in the accounts by Rs.28,809.
- (d.) Capital goods purchased for Rs.74,880 in 2012 had been entered as revenue expenditure.

1.3.3 Accounts Receivable and Payable

- (a.) Unpaid telephone charges of Rs.23,806 for the year 1997 had been shown in the Deposits Account.
- (b.) Contributions to the Employees' Provident Fund and Widowers' and Orphans' Pension Fund amounting to Rs.35,609,022 recovered from the employees from 1986 had not been remitted to the respective institutions.
- (c.) Action had not been taken to pay or to transfer to Revenue Account the sum of Rs.615,702 withheld from contractors in 2003.
- (d.) The sum of Rs.26,115 payable to the Commissioner of Agrarian Services on 31 October 2000 remained in the Deposit Account for over 10 years without being remitted.
- (e.) Pensionery contributions of Rs.3,891 recovered from the salaries of employees of the Sabha from 22 January 2004 was in the Deposit Account without being remitted to the Department of Pensions.

1.3.4 Lack of Evidence for Audit

The following items could not be satisfactorily vouched in audit due to lack of evidence indicated against each item.

| Item | Value | Evidence |
|-----------------------|--------------|--|
| ----- | ----- | ----- |
| | Rs. | |
| Land and Buildings | 4,443,627 | Register of fixed assets Survey maps Title deeds |
| Plant and Machinery | 618,617 | } Register of fixed assets Board of survey reports |
| Motor Vehicles | 23,026,590 | |
| Revenue Deposits | 16,607,885 | } Age analysis, detailed schedules |
| Tender Deposits | 2,328,850 | |
| Contractors' Deposits | 67,845 | |
| Sundry Deposits | 287,280 | |
| Electricity Deposits | 1,598,625 | } Detailed schedules |
| Advances Paid | 3,832,978 | |
| Security Deposits | 6,858,099 | |

1.3.5 Suspense Account

Action had not been taken to settle the credit balance of Rs.16,574 lying in the Suspense Account since 2000.

1.3.6 Non -Compliance with Laws, Rules and Regulations

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

| Reference to Laws, Rules and Regulations | Non compliance |
|---|---|
| (a.) <u>Pradeshiya Sabha Act No.15 of 1987</u> | |
| (i.) Part II Section 158 | Assessment rates had not been recovered within the authoritative area of the Sabha. |
| (ii.) Part II Section 4 | Assessment tax notices should be sent to tax payers before 31 December of each year. But, it had not been sent. |
| (b.) <u>Financial and Administrative Rules of the Pradeshiya Sabha 1989</u> | |
| (i.) Chapter VII Section 140 | Advances of Rs.3,832,977 paid 03 years ago had not been recovered yet. |
| (ii.) Chapter VII Section 152 | Monthly summary of receipts had not been balanced. |
| (iii.) Chapter VII Section 153 | Monthly summary of arrears of revenue had not been balanced. |
| (iv.) Chapter VII Section 154 | Sub office collection Account had not been balanced. |
| (v.) Chapter VII Section 164 | Accounting records had not been daily verified and initialled by the Secretary or an officer delegated by him. |
| (vi.) Chapter IX Miscellaneous 181-184 | Security deposits had not been obtained from officers handling cash and stores. |

(c.) Financial Regulations

(i.) 396

Action had not been taken to encash 53 cheques valued at Rs.376,578 issued in 2012 and remaining uncashed for over 06 months.

(ii.) 571(2)

A sum of Rs.3,742,088 continues to be shown as lapsed deposits for the last 30 years. Action had not been taken in this regard up to 31December 2012.

(d.) Provincial Financial Regulations

(i.) No.751

Stocks valued Rs.883,480 purchased in 2012 had not been entered in the register of stock.

(ii.) No.432

Daily running charts of vehicles for the year 2012 had not been furnished.

2. Financial and Operating Review

2.1 Financial Results

According to the financial statements presented, the recurrent expenditure exceeding the revenue of the Sabha for the year ended 31 December 2012 was Rs.27,575,995 as against the revenue exceeding the recurrent expenditure of the preceding year amounting to Rs.7,203,924.

2.2 Revenue Administration

2.2.1 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 given below.

| Item of Revenue | Estimated | Actual | Cumulative Arrears as at 31 December |
|----------------------|-----------|---------|---|
| ----- | ----- | ----- | ----- |
| | Rs.'000 | Rs.'000 | Rs.'000 |
| (i.) Rates and Taxes | 4,456 | 226 | 4,230 |
| (ii.) Lease Rent | 14,005 | 2,801 | 11,499 |
| (iii.) Licence Fees | 564 | 472 | 91 |
| (iv.) Other Revenue | 9 | 1 | 8 |

2.3 **Salaries Paid Without Approval**

During the year 2012, a sum of Rs.6,415,310 had been paid from the funds of the Sabha to 30 labourers appointed without following the scheme of recruitment and without the approval of the Commissioner of Local Government.

2.4 **Human Resources Management**

The approved and actual cadre of the Sabha as at 31 December 2012 appears below.

| Category of Post | Approved Cadre | Actual Cadre | Vacancies/ Excesses |
|--------------------|----------------|--------------|---------------------|
| ----- | ----- | ----- | ----- |
| Staff Grades | 16 | 13 | 3 |
| Supportive Staff | 14 | 8 | 6 |
| Minor Employees | 51 | 43 | 8 |
| Others | - | 32 | (32) |
| (Casual/Temporary) | | | |
| | ----- | ----- | |
| | 81 | 96 | |
| | ===== | ===== | |

2.5 Deficiencies in Contract Administration

- (a.) Estimates had not been serially entered in the register.
- (b.) Public quotations had not been called for, in terms of Section 178(5) of Chapter VII of the Financial and Administrative Rules of Pradeshiya Sabhas whenever the contract works exceeds Rs.100,000.
- (c.) Bank guarantees had not been obtained from the contractors.
- (d.) Documents required as per Section 3.9.1 of the Procurement Guidelines had not been furnished while awarding contracts to approved societies.

3. Systems and Controls

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

- (a.) Budget
- (b.) Accounting
- (c.) Fixed Assets
- (d.) Stock
- (e.) Advances
- (f.) Revenue Collection