

Mulatiyana Pradeshiya Sabha

Matara District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 24 June 2014 and the financial statements for the preceding year had been presented on 30 May 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 29 December 2015.

1.2 Qualified Opinion

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 Mulatiyana Pradeshiya Sabha as at 31 December 2013 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 Non-compliance with Sri Lanka Public Sector Accounting Standards

The following matters were observed.

- (a) The Local Authorities should prepare the financial statements as per Sri Lanka Public Sector Accounting Standards with effect from 01 January 2011 in accordance with the Circular No. PED/54 of the Director General of Public Enterprises dated 19 January 2010. However, those standards had not been followed.
- (b) Cash flow statement had not been presented together with the financial statements for the year under review.

1.3.2 Accounting Standards

Accounting standards that had been followed during the preparation of accounts had not been disclosed together with the financial statements presented for the year under review.

1.3.3 Accounting Deficiencies

The following matters are observed.

- (a.) Fixed assets worth Rs. 81,496 purchased during the year under review had not been accounted.
- (b.) The value of the stock in hand amounting to Rs. 313,573 as per the financial statements of the year under review, had been accounted without being classified.

- (c.) Although the interest income receivable with regard to 02 fixed assets owned by the Sabha amounted to Rs. 353,502, the receivable interest income had been shown as Rs. 900,196 in the financial statements, thus the income had been overstated by a sum of Rs. 546,694 in the account.
- (d.) The interest income of Rs. 726,480 received during the year under review, had been accounted as a receivable income instead of being accounted as a received income.
- (e.) Although the court fine receivable by the end of the year under review amounted to Rs. 247,646 according to the register , the value was Rs. 210,220 according to the court fine ledger, thus the understated amount was Rs. 37,426.
- (f.) The payable contribution for pensions amounting to Rs. 1,189,720 by the end of the year under review, had not been accounted as a payable amount.
- (g.) According to the financial statements of the Sabha for the year under review, there had not been an outstanding license fee under due income. However, there had been an outstanding license fee of Rs. 11,300 according to the report on the recovery of income presented to the audit.

1.3.4 Unreconciled Control Accounts

According to the financial statements presented, the value of 07 items of accounts amounted to Rs. 2,867,183 , whereas the value was Rs. 3,533,011 in accordance with the schedules presented, indicating a difference of Rs. 665,828.

1.3.5 Suspense Account

The balance of the suspense account amounting to Rs. 36,288 shown in the financial statements by the end of the year under review, was being brought forward without being settled.

1.3.6 Accounts Receivable and Payable

The following matters are observed.

- (a.) The value of receivable balances that had exceeded 01 year as at 31 December 2013, amounted to Rs. 2,096,220.
- (b.) The value of payable balances that had exceeded 01 year as at 31 December 2013, amounted to Rs. 63,764,871.

1.3.7 Non-settled Accounts

Two account balances amounting to Rs. 18,058 had been shown in the financial statements for the year under review without being settled.

1.3.8 Lack of Evidence for Audit

Evidence had not been presented to audit in connection with 09 items of account valued at Rs. 177,277,732.

1.3.9 Non-compliance with Laws, Rules, and Regulations

Instances of non-compliance with laws, rules and regulations observed in audit are as follows.

<u>Reference to Laws, Rules, and Regulations</u>	<u>Non-compliance</u>
(a) Pradeshiya Sabha Rules (Financial and Administrative) 1988 Rule 5(12)	Action had not been taken as per regulations with regard to 14 cheques valued at Rs. 168,705 that had exceeded 6 months despite being issued.
(b) Rule 217 & 218	Although the lands and buildings owned by the Sabha should be surveyed annually, it had not been so done for the year under review.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of recurrent expenditure over revenue for the year ended 31 December 2013 amounted to Rs.7,225,252 as compared with the excess of recurrent expenditure over revenue amounting to Rs.3,464,683 for the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Actual Revenue, and Arrears of Revenue

Particulars on the estimated revenue, actual revenue, and arrears of revenue presented by the Chairman, are as follows.

<u>Source of Revenue</u>	<u>Estimated</u>	<u>Actual</u>	<u>Cumulative Arrears as at 31 December</u>
	<u>Rs. 000</u>	<u>Rs. 000</u>	<u>Rs.,000</u>
Acreage tax	49	75	141
License fees	582	644	11
Other Income	22,945	23,961	106,068

2.2.2 Performance of Collecting Revenue

The following matters are observed.

- (a.) The due acreage tax as at 31 December of the preceding year amounted to Rs. 81,666 and there had been bills during the year amounting to Rs. 22,111. A sum of Rs. 10,769 had been recovered from the bills during the year under review ,whereas a sum of Rs. 28,560 had been recovered for the preceding years. The progress of recovery was as minimal as 48 per cent and 35 per cent respectively.
- (b.) The license fees that remained due as at 31 December of the preceding year amounted to Rs. 11,800. As only a sum of Rs. 500 had been recovered during the year under review, the progress of recovery was as minimal as 4 per cent.

2.2.3 Court Fines and Stamp Fees

The value of stamp fees that remained receivable from the Chief Secretary and other officers of the Provincial Council by the end of the year under review was Rs. 144,840.

3. Operating Review

3.1 Management Inefficiencies

3.1.1 Control and Maintenance of Street Lamps

The approved number of street lamps within the area of authority of the Pradeshiya Sabha was 54. On behalf of 376 lamp posts erected in the area of authority, a sum totaling Rs. 358,101 including a sum of Rs. 106,273 for equipment , and a sum of Rs. 251,826 for salaries had been spent in the year 2013.

In installing street lamps in accordance with the Circular No. PE/01/01 dated 07 August 2010 issued by the Secretary to the Ministry of Power and Energy, the domestic and general consumption of electricity in the area of authority should not exceed the retail electricity consumption by more than 3 per cent. However, attention of the Sabha had not been drawn on that.

3.1.2 Illegal Constructions

Action had not been taken as per by- laws (f) (g) and 126 (ix) in 126 (viii) of Pradeshiya Sabha Act, No. 15 of 1987 in connection with 11 unauthorized constructions within the area of authority.

3.2 Irregular Transactions

According to Section 132(a) of Pradeshiya Sabha Act, No. 15 of 1987, a certain amount , decided by the Sabha, can be granted to an incorporated fund that had been established in view of the welfare of the Sabha or providing relief for the officers of the Sabha in case of a disaster. Nevertheless, a sum of Rs. 119,000 had been paid for an educational tour.

3.1 Human Resources Management

Position of cadre of the Sabha as at 31 December 2013 is as follows.

<u>Category of Employee</u>	<u>Approved</u>	<u>Actual</u>	<u>Vacancies</u>	<u>Excess</u>
Executive	02	01	01	-
Secondary	25	25	-	-
Primary	28	23	05	-
Other (Substitute/casual/contract basis)	-	<u>8</u>	-	<u>08</u>
	<u>55</u>	<u>57</u>	<u>06</u>	<u>08</u>

- (i) A sum of Rs. 11,024,900 had been reimbursed by the Commissioner of Local Authorities as employee salaries and allowances for members of Parliament during the year under review. As the said expenditure during the year amounted to Rs. 14,012,142, the Sabha Fund had incurred an additional expense of Rs. 2,987,242.
- (ii) According to the Management Services Circular, No. 14 issued by the Secretary to the Treasury dated 03 January 2002, and Management Services Circular, No. 28 issued by the Secretary to the Ministry of Finance and Planning dated 10 April 2006, it had been stated that recruitments made by the local authorities on temporary, casual, substitute, contract or any other basis, should be suspended with immediate effect. However, the Pradeshiya Sabha had recruited 08 employees in the year 2013, and a sum of Rs. 1,899,201 had been paid.

4. Accountability and Good Governance

4.1 Audit and Management Committees

Audit and Management Committees had not been established by the Sabha.

4.2 Budgetary Control

It was observed that the budget presented for the year under review, had not been made use of as an effective instrument of management control.

5. Systems and Controls

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

- (a.) Accounting
- (b.) Revenue Administration
- (c.) Assets Management