

Mathugama Pradeshiya Sabha

Kalutara District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Audit on 29 April 2016 while Financial Statements relating to the preceding year had been submitted on 31 March 2015. The Auditor General's Report relating to the year under review was sent to the Secretary of the Sabha on 29 July 2016.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Mathugama Pradeshiya Sabha as at 31 December 2015 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

Following deficiencies are observed.

- (a) Although two plots of land valued at Rs. 3,276,800 in extent of 98.84 perches vested in the Sabha in auctioning lands in the area of authority of the Sabha had been recorded in the Register of Lands, it had not been shown in the financial statements. Due to that; value of Land and Buildings had been understated in a sum of Rs. 3,276,800 in the financial statements.
- (b) While the Works Grant relevant to the year under review was Rs. 8,546,998, it had been shown as Rs. 13,389,346 in the Revenue and Expenditure Account. Due to that; value of Work Grants had been overstated in a sum of Rs. 4,842,348 in the financial statements.
- (c) Although the Works Expenditure relevant to the year under review was Rs. 8,546,998, it had been shown as Rs. 29,056,134 in the Revenue and Expenditure Account. Due to that; value of Work Expenditure had been overstated in a sum of Rs. 20,509,136 in the financial statements.
- (d) Although the Suspense Account should be debited in a sum of Rs. 3,482,240 having credited the Accumulated Fund Account to make the correction referred to in paragraph 2.2.1 (d) in the 2011 Audit Report, a sum of Rs. 4,439,581 had been debited in the Suspense Account and credited in the Accumulated Fund Account respectively. Due to that; debit balance in the Suspense Account and the credit balance in the Accumulated Fund had been overstated to the extent of Rs. 957,341.

- (e) Although the amount payable to the Local Government Director General of Pensions as at 31 December 2015 was Rs. 6,976,357, it had been shown as Rs. 6,920,036. Due to that; amount payable to the Local Government Director General of Pensions had been understated in a sum of Rs. 56,321.
- (f) While the balance of the Fixed Assets account as at 31 December 2015 was Rs. 232,526,246, balance of the Contribution from Revenue to Capital Outlay Account had been Rs. 232,538,836. Accordingly, a difference of Rs. 12,590 was observed between those two accounts.
- (g) Capital expenditure amounting to Rs. 2,870,610 relevant to Program 6 of the year under review had been shown as a recurrent expenditure under Pensions, Pension Benefits and Gratuities.
- (h) Machinery and Equipment, Furniture Equipment and Library Books valued at Rs. 240,149 purchased during the year under review had been shown under recurrent expenditure without being shown as a Capital expenditure.
- (i) The sum of Rs. 61,460 received during the year under review in respect of the ensuing year had not been shown as a receipt in advance.
- (j) Although the expenditure incurred amounting to Rs. 50,150 relevant to the year under review for repairing the Backhoe Machine, but not paid up to now should be debited to the Revenue and Expenditure Account for the year under review and should be shown as Creditors in the financial statements, it had not been done accordingly.
- (k) Although Stamp Fees amounting to Rs. 27,663,773 relevant to the preceding year, received during the year under review should be credited to the Accumulated Fund account in the absence of an opening balance of Stamp Fees in arrears, it had been credited to the Stamp Fees in Arrears Account. Although a sum of Rs. 37,500,000 had been estimated as Stamp Fees Revenue for the year under review and shown in the financial statements, only a sum of Rs.5,961,365 had been shown as Stamp Fees Receivable. Accordingly, Stamp Fees Receivable had been understated in a sum of Rs. 31,538,635 in the financial statements.
- (l) Although the balance of General Stores at the end of the year under review was Rs. 498,453, it had been shown as Rs. 5,961,965 in the financial statements. Due to that, General Stores balance had been understated in a sum of Rs. 189,778 in the financial statements.
- (m) Although the balance of Staff Loans at the end of the year under review was Rs. 14,671,547, it had been shown as Rs. 12,459,319 in the financial statements. Due to that, Staff Loans balance had been understated in a sum of Rs. 2,212,228 in the financial statements.

1.3.2 Non-reconciled Control Accounts

 While balances relevant to 5 items of accounts according to accounts was Rs. 232,092,923, the balance according to the schedules relevant to those had been Rs. 205,980,054. Accordingly a sum of Rs. 26,112,869 had been observed.

1.3.3 Lack of Evidence for Audit

Three items of accounts totaling Rs. 13,306,920 could not be satisfactorily vouched in audit due to non-remission of 1 detailed schedules and Deposits Certificates.

1.3.4 Accounts Receivable and Payable

Following matters are observed.

- (a) Action had not been taken during the year under review as well, to recover Street Lamps Grants amounting to Rs. 358,225 and Private Bus Stand Revenue amounting to Rs. 96,000, which were being brought forward during a long period.
- (b) Action had not been taken to settle the sum of Rs. 6,920,036 payable to the Local Government Pension Department which was being brought forward during a long period.

2. Financial and Operating Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2015 had been Rs.14,075,479 as compared with the corresponding excess of revenue over recurrent expenditure amounted to Rs. 11,549,979 in the preceding year.

2.2 Revenue Administration

2.2.1 Arrears of Revenue

Arrears of Revenue totaling Rs. 12,983,647 at the end of the year under review had not been recovered in terms of provisions in Sections 158 and 159 in the Pradeshiya Sabha Act No. 15 of 1987.

2.2.2 Rates

- (a) While the Rates Billings during the year under review was Rs. 4,352,531, out of those a sum of Rs. 1,543,250 or 36 percent had been recovered.
- (b) While a sum of Rs. 3,497,543 or 44.3 percent had been recovered out the balance of Rates in arrears as at the beginning of the year under review, total arrears at the end of the year had been Rs. 5,931,007. Accordingly, overall progress in recovery of Rates had been 51.4 percent.

- (c) Out of the Rates Payers as at 31 December 2015, the number of Rates Payers indicating balances exceeding Rs. 10,000 had been 42. Steps had not been taken to recover the balance of Rs. 795,822 due to be recovered from them.

2.2.3 Acreage Tax

Although a sum of Rs. 42,834 had been billed as Acreage Tax during the current year, out of that only a sum of Rs. 40,106 had been recovered. Similarly, a sum of Rs. 76,864 only had been recovered out of the balance in arrears amounting to Rs. 94,486 at the beginning of the year. Accordingly, the overall balance in arrears as at 31 December of the current year had been Rs. 20,350.

2.2.4 Business Tax

- (a) While the Business Tax Revenue billed during the year under review was Rs.1,979,008, out of that a sum of Rs. 214,041 or 11 percent had been recovered as at 31 December 2015.
- (b) While the balance in arrears at the beginning of the year had been Rs. 151,750, a sum of Rs. 53,660 out of that balance in arrears had not been recovered. Overall arrears as at 31 December 2015 had been Rs. 267,500.

2.2.5 Trade Center Rent

- (a) While Trade Center Rent Revenue billed during the year under review was Rs.2,791,119, a sum of Rs.2,260,503 had been recovered out of that. The overall Trade Center Rent in arrears as at 31 December 2015 had been Rs. 516,623.
- (b) While Stalls Rent of Rs. 241,426 was due to be recovered from 12 stalls sealed and demolished, those balances had been in arrears during a period from 05 to 38 months as at 31 December 2014.

2.3.6 Charges for Name Boards and Publicity Advertisements

Action had not been taken to recover a sum of Rs. 872,600 as Charges for Name Boards and Publicity Advertisements fixed in the area of authority of the Sabha.

2.3.7 Court Fines and Stamp Fees

A sum of Rs. 24,461,365 was due to be received from the Chief Secretary to the Provincial Council and other authorities as shown below.

| | Rs. |
|-------------|------------|
| Court Fines | 18,500,000 |
| Stamp Fees | 5,961,365 |

2.3.8 Tax on Land Sales

- (a) In terms of Section 154(1) of the Pradeshiya Sabha Act No. 15 of 1987, 1 percent of the selling price of lands auctioned in the area of authority of the Sabha should be obtained by the Sabha. However, without taking action accordingly, one percent tax of the gross estimate prepared by the Revenue Overseer of the Sabha, had been recovered.
- (b) The one percent tax recovered from the auction sale of land situated in Bondupitiya, Alawathugoda Estate (New City) had been under recovered in a sum of Rs. 330,696.

3. Operational Review

3.1 Operational Inefficiencies

- (a) It had not been possible to produce Block Stones to the specified standard through the machine purchased for a sum of Rs. 130,862 during the year 2010. Due to that; it had been sold for a sum of Rs. 31,060 during the year 2014 causing a loss of Rs. 99,802 to the Sabha.
- (b) While the Backhoe Machine and the Tipper Vehicle had been used for Sabha works and outside works, the entries in the register maintained for using the machine did not tally with entries in the running charts. The deployment of this machine and supervision works had not taken place properly.

3.2 Lands Allocated for Common Amenities

Following matters are observed.

- (i) While two allotments in extent of 118.65 perches had been vested in the Sabha for common amenities in the Manikgoda, Kurunduwatta Land during the year 2008, it was observed that the allotment in extent of 31 perches out of the two allotments was a place filled with water not suitable for common amenities and that other allotment in extent of 87.65 perches too had been situated at the end of the land adjoining a paddy field and a canal.
- (ii) Although that land had been partitioned for allotments and public portion had been transferred to the Sabha during the year 2008, those transferred portions had not been surveyed and separated the boundaries, a fence had not been erected and name boards had not been fixed indicating as common portion of the Sabha. Those allotments of land had to be surveyed again and a sum of Rs. 56,700 had to be paid on 22 September 2015 as surveying fees, as those lands had been encroached.
- (iii) The extent of 08 allotments of public land relevant to Play Grounds, Public Wells, Burial Grounds etc. belong to the Sabha had not been separated with fences to make it possible to identify as the allotments of the Sabha. Due to that; a sum of Rs. 270,974 had to be paid out of the Sabha Fund during the year 2015 for surveying those lands again.

- (iv) Although the lands described below had been allocated to the Sabha for common amenities, a portion of the land had been encroached by outside individuals.

| Name of Land ----- | Location ----- | Extent of Land ----- | Particulars ----- |
|-------------------------|-------------------|-------------------------|---|
| Bodaragama Park | Yatadola | 02 Rudes 30 Perches | The resident in lot 79 situated adjoining the land allocated for common amenities had had encroached 06.06 Perches. Ejection notices had been sent. |
| Velkandala Catelanda | Velkandala | 02 Acres 33Perches | Cultivations works had been carried out by residents living near this land. |

3.3 Contracts Administration

- (a) Although the Sabha should ensure that the total number of contracts to be performed by a society during a particular period should be less than three, in terms of paragraph 3.9.1 of the Procurement Guldens as per Circular No. 08 dated 26 January 2006 of the National Procurement Agency, one society had signed agreements for 07 Projects valued at Rs.3,498,100 during a period of one month such as 26 October 2015 to 27 November 2015, relevant to final 04 months of the year 2015, violating provisions in Procurement Guidelines. Although the advance payable for contract works should be limited to a maximum of 20 percent of the estimated amount in terms of paragraph 5.4.4 (i) 4, payments amounting to Rs. 1,199,846 and Rs. 908,451 had been made exceeding the above limit in 2 instances.
- (b) At the physical inspection carried out on 26 August 2015 of the Walagedera Kosdeniya Road developed on contract basis through financial grants under Batahira Ran Aruna Project of the Divisional Secretariat, it was observed that the length of the part of road developed (tar applied) was 473.62 meters. However, according to measurements obtained on 09 December 2014 for final payment report of the Technical Report, a sum of Rs. 65,339 had been overpaid for 704.50 square meters.
- (c) According to the estimate for concreting Mandagala Kanda Road under Provincial Criteria Development Grants - 2015, it was 102 meters long and 2.5 meters wide. While work of this Project had been finalized on 01 October 2015, it was observed at the physical inspection carried out on 01 October 2015 relevant to the Project, cement plaster had been washed out and concrete metal had appeared in two places in extent at the rate of a square meter and a stretch of granite in a size of 6.5 meters long and 1.40 meters width in the road constructed. Accordingly, concrete mixture expenditure relevant to that that size amounting

to Rs. 14,858 should be deducted from final payment reports for final payment reports. However, payments had been made for full length and width without doing so.

3.4 Construction of Yatadolawatta Indoor Badminton Stadium and Auditorium

While an estimate of Rs. 5,580,222 had been prepared and approved for the above mentioned Work, at the physical inspection carried out on 01 October 2015, following matters were observed.

- (a) A sum of Rs. 1,073,150 for fixing doors to the stadium and a sum of Rs. 7,068,391 for closing the openings above the walls had been paid.
- (b) While the construction of Indoor Badminton Stadium and Auditorium had been made on contract basis as well as on direct labor basis, estimates had not been prepared in a manner showing those separately.
- (c) Open quotations had not been called for roller doors and covering with Mono Sheets for this building.
- (d) Contract agreements had not been signed for roller doors and covering with using mono sheets.
- (e) While an estimate for Rs. 1,540,854 had been approved for stage 1, that estimate had been increased in a sum of Rs. 1,936,590 without an approval.
- (f) While measurements of works had not been taken and a work completion report had not been prepared at the end of the Work, there was no confirmation by the Technical Officer / Work Superintendent to the effect that the relevant jobs have been satisfactorily completed.

3.5 Human Resources Management

Details relating to approved and actual cadre of the Sabha as at 31 December 2015 were as shown below.

| | Approved | Actual | Surplus | Vacant |
|---|----------|--------|---------|--------|
| Staff | 3 | 3 | -- | -- |
| Secondary | 53 | 50 | -- | 3 |
| Junior | 118 | 152* | 34 | -- |
| Casual / Temporary (Ayurvedic Medical Officer) | -- | 1 | 1 | -- |
| | 174 | 206 | 35 | 3 |
| | ===== | ===== | ===== | ===== |

* The number of employees made permanent after completion of 180 days in terms of Public Administration Circular No. 25/2014 dated 19 December 2014 as well included in the actual cadre. The Council had not taken action immediately in terms of paragraph 05 of the Circular, to report to the Director General of Management Services in order to update the cadre.

4. Systems and Controls

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

- (a) Accounting
- (b) Revenue Administration
- (c) Assets Management
- (d) Contracts Control
- (e) Budgetary Control
- (f) Human Resources Management.