

Matara 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 the Audit on 15 March 2016 and the financial statements for the preceding year had been presented to the Audit on 30 March 2015. The Report of the Auditor General for the year under review was sent to the Secretary of the Sabha on 31 August 2017.

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 Matara Pradeshiya Sabha as at 31 December 2015 and its financial performance for the year then ended in accordance with the Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The value of one motor vehicle as at the end of the year under had been overstated by a sum of Rs.2,490,398 and the value of two other motor vehicles had been understated by a sum of Rs.7,316,537 in the financial statements.

1.3.2 Accounts Receivable and Payable

The following observations were made.

- (a) The balances of 11 Accounts Receivable older than 03 years as at the end of the year under review totaled Rs.59,884,738 whilst the balances of 08 Accounts Payable older than 03 years totaled Rs.24,710,415.
- (b) Even though balances totalling Rs.1,942,225 had been shown as receivable as at the end of the year under review, from the Matara Municipal Council such balance did not appear in the financial statements of the Matara Municipal Council.
- (c) Steps had not been taken for the settlement of the Stamp Duty amounting to Rs.44,017, the Value Added Tax amounting to Rs.229,380 and the Nation Building Tax amounting to Rs.45,338 brought forward from the preceding years.

1.3.3 Lack of Evidence for Audit

In view of the failure to produce documents such as the title deeds and Registers of Vesting in respect of lands totaling Rs.58,226,232 , the schedules, files and the confirmation of balances

in respect of the works debtors balances amounting to Rs.21,981,649 and creditors balances amounting to Rs.22,452,139 , the Register of Grants and the detailed schedules in respect of the outstanding Capital Grants amounting to Rc.23,592,358 and the outstanding Revenue Grants amounting to Rc.7,931,031 and the Daily Running Charts and the Monthly Performance Summaries of 15 motor vehicles in respect of expenditure amounting to Rs.2,714,653 those transactions could not be examined and established in audit.

1.3.4 Non-compliance with Laws, Rules and Regulations

A cheque for Rs.264,583 had been issued without complying with the Financial Regulation 261(3) of the Financial Regulation of the Republic of Sri Lanka, when there was no balance available in the cash book.

2. Financial Review

2.1 Financial Results

According to the financial statements presented to Audit, the excess of revenue over the recurrent expenditure of the Sabha for the year ended 31 December 2015 amounted to Rs.24,096,340 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounting to Rs.12,009,842. Accordingly, the financial results for the year under review indicated an improvement of Rs.12,086,498.

The capital expenditure incurred during the year under review had exceeded the Capital Grants received amounting to Rs.4,677,092 by a sum of Rs.2,356,982.

2.2 Analytical Financial Review

The following observations are made.

- (a) Even though the recurrent expenditure for the year under review, as compared with the preceding year, had indicated a decreased of 9.5 per cent, the total recurrent expenditure represented a high level of 67 per cent of the total recurrent revenue.
- (b) A Summarized Statement of the total Recurrent Revenue, the Revenue Grants, the Self-generated Revenue and the total Revenue Expenditure of the Sabha for the year under review and the two preceding year is given below.

Year	Total Recurrent Revenue	Revenue Grants	Self-generated Revenue	Total Recurrent Expenditure	Recurrent Expenditure exceeding the Self-generated Revenue
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	Rs.	Rs.	Rs.	Rs.	Rs.
2015	73,238,787	36,189,968	37,048,819	49,142,448	(12,093,629)
2014	52,273,818	21,774,125	30,499,693	40,263,976	(9,764,283)
2013	38,365,975	18,812,585	19,553,390	40,787,313	(21233,923)

The following observations are made in this connection.

- (i) The Revenue Grants and the Self-generated Revenue of the year under review, as compared with the two preceding years, indicated an improvement whilst the recurrent expenditure of the year under review as well had increased by a considerable amount.
- (ii) If not for the receipt of the Revenue Grants, it would not have been possible in whatsoever manner to cover the recurrent expenditure from the self-generated revenue in the year under review as well as in the preceding years.

2.3 Working Capital Management

Even though the current and quick ratios for the year under review indicated a satisfactorily level in the year under review, it was observed that a liquidity position according to the current ratio does not exist due to the existence of unrecovered balances older than 03 years amounting to Rs.59,844,738 in the debtors balance.

2.4 Revenue Administration

2.4.1 Revenue Collection Performance

Out of the total recurrent revenue amounting to Rs.10,077,185 estimated under 05 items of revenue for the year 2015, a sum of Rs.4,570,216 only had been collected. Accordingly, the progress of revenue collection had been 45 per cent.

2.4.2 Rates and Taxes

Recoveries of 43 per cent of the opening outstanding balance of the year under review and 58 per cent of the billings only had been made and as such the closing outstanding balance had been as high as Rs.2,446,730. Action in terms of Section 158(1)(A) of the Pradeshiya Sabhas Act, No. 15 of 1987 had not been taken for the recovery of arrears.

2.4.3 Acreage Tax

Recoveries of 7 per cent of the opening outstanding balance of the year under review and 59 per cent of the billings only had been made and as such the recovery of the Acreage Tax had not been at a satisfactorily level.

2.4.4 Rent Revenue

Forty six per cent of the opening outstanding balance only had been recovered due to the failure to take action in terms of Section 159(1)(b) of the Pradeshiya Sabhas Act, No. 15 of 1987.

2.4.5 Courts Fines and Stamp Duty

Courts fines amounting to Rs.4,546,400 and the Stamp Duty amounting to Rs.20,000,000 remained receivable as at 31 December 2015 from the Chief Secretary to the Provincial Council and other Authorities.

2.4.6 Trade Stall Rents

Even though arrears of rent amounting to Rs.184,024 existed at the time of demolition of the Trade Stalls at Swarnapura in the year 2005, action for the recovery of arrears could not be taken as proper agreements had not been entered into. Even though the District Court, Matara had issued an Order for the recovery of a sum of Rs.116,313 out of that balance, action had not been taken even for the recovery of that amount.

3. Operating Review

3.1 Operating Inefficiencies

The following observations are made.

- (a) According to the cash books maintained for the Bank Current Accounts of the Sabha, an average monthly balance of Rs.12,152,061 existed. Nevertheless, the attention of the Sabha had not been paid for investing such money and earn additional revenue by way of interest.
- (b) Action had not been taken for the settlement of the deposit of Rs.80,667 made in excess and 04 cheques valued at Rs.600,819 not presented for payment appearing in the Bank Reconciliation Statement as at 31 December 2015 relating to the Water Account.

3.2 Transactions of Contentious Nature

The following matters were observed.

- (a) Even though the works had been commenced before the receipt of provision made under the "Gamin Gamata Dorin Dorata" Project and spent a sum of Rs.3,570,187 from the Sabha Fund, reimbursement of the money had not been obtained even by the end of the year under review.
- (b) Fixed deposits amounting to Rs.2,500,000 had been encashed prior to maturity without obtaining a decision of the Sabha and that money had been deposited in 02 Collection Current Accounts of the Sabha. As such, interest revenue amounting to Rs.728,100 that could have been earned had been deprived of to the Sabha.

4. Good Governance and Accountability

4.1 Budgetary Control

The following observations are made.

- (a) Estimated provision of Rs.145,600,000 had been made in the budget for 192 work proposals approved in the year under review and none of those proposals had been implemented. Despite such position, 06 work proposals not approved had been implemented by spending a sum of Rs.279,777 from the Sabha Fund.
- (b) The savings under 08 items of expenditure in the budget for the year under review totaled Rs.175,875,362. A sum of Rs.2,798,183 exceeding the limit of one item of expenditure had been spent and the non-achievement of the targets of revenue of 07 items of revenue totaled Rs.144,367,075. As such the budget had not been made use of as an effective instrument of management control.

4.2 Internal Audit

An Internal Audit Unit had not been established in terms of paragraph 8 of the Circular No. 03 on the Local Government Reforms dated 08 November 2005 of the Secretary to the Ministry of Provincial Councils and Local Government.

4.3 Audit and Management Committee

The Audit and Management Committee had not been established in accordance with the letter No. 030/වංස/වි/ක dated 22 December 2004 issued by the Assistant Commissioner of Local Government giving reference to the Public Finance Circular No. PN/PE/P7 dated 15 March 2000.

4.4 Unresolved Audit Queries

The rectification of two Audit Queries of quantifiable value amounting to Rs.3,448,462 relating to the preceding year had not been made even during the year under review.

5. Systems and Controls

Special attention of the Sabha is drawn to the following areas of systems and controls.

- (a) Accounting
- (b) Financial Control
- (c) Budgetary Control
- (d) Revenue Administration
- (e) Assets Management