

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 the Audit on 06 May 2016 and the whilst the financial statements for the preceding year had been presented to the Audit on 18 May 2015. The Report of the Auditor General for the year under review was sent to the Secretary of the Sabha on 03 January 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 Mulatiyana 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 Policies

The accounting policies adopted for the preparation of financial statements had not been disclosed in the financial statements.

1.3.2 Accounting Deficiencies

The following observations were made in audit.

- (a) The adjustments relating to the fixed assets costing Rs.2,380,000 sold by auction in the preceding year, had not been made and settled the accounts.
- (b) The expenditure of Rs.10,180,322 met from the Sabha Fund for the construction of the new building had not been capitalized.
- (c) Provision had not been made in the accounts for the contribution accounting to Rs.1,209,603 payable to the Local Government Services Pension Fund as at the end of the year under review.
- (d) Stamps Duty amounting to Rs.2,229,770 in respect of the preceding year received in the year under review had been brought to account as revenue for the year.
- (e) The Courts Fines receivable as at the end of the year under review and the balance of the fixed deposits had been overstated by sum of Rs.445,984 and Rs.174,352 respectively whilst the interest revenue on fixed deposits had been understated by a sum of Rs.81,200 in the accounts.

1.3.3 Unreconciled Control Accounts

Difference totaling Rs11,397,835 were observed between the balances of 09 items of account shown in the financial statements and the balances shown in the Subsidiary Registers / Schedules relating thereto.

1.3.4 Suspense Account

Action had not been taken even during the year under review for the settlement of the credit balance of the Suspense Account amounting to Rs.36,289 brought forward without change from the year 2013.

1.3.5 Accounts Receivable and Payable

Action had not been taken for the settlement of the balance of the Advance Account balance of Rs.3,251,893 , the balance of the Fixed Deposit Interest Account amounting to Rs.900,196 , the misplaced money amounting to Rs.7,290 the Value Added Tax amounting to Rs.7,365 and the balance of specific 5 per cent charges amounting to Rs.112,296 and the sum of Rs.30,335,734 included in the outstanding revenue balance brought forward from the year 2014, brought forward from the preceding year.

1.3.6 Lack of Evidence for Audit

In view of the failure to produce the documents such as the Registers, title deeds, the Annual Boards of Survey Reports and schedules in respect of lands and buildings totaling Rs.19,754,624 , the Register of Fixed Assets and the Board of Survey Reports in respect of 03 classes of assets totalling Rs.46,041,095 , the Registers and schedules in respect of advances amounting to Rs.3,317,919 , the Detailed schedules, the confirmation of balances and the Registers of Debtors in respect of outstanding other revenue totalling Rs.53,263,909 and the schedules, confirmation of balances and age analysis in respect of the creditors totalling Rs.20,535,208 those could not be satisfactorily examined in audit.

1.3.7 Non-compliance with Laws, Rules and Regulations

Instances of non-compliance given in detail below were observed during the course of audit.

Reference to Laws, Rules and
Regulations

Non-compliance

(a) Pradeshiya Sabhas (Financial
and Administration) Rules 1988

(i) Rule 33

The List of Persons Defaulting the Payment of Rates and Taxes and the Lists of Warrants on Distraint of Properties had not been prepared.

(ii) Rule 193

A Statement of the actual expenditure of the items of expenditure and the reasons for excesses and shortfalls had not been furnished together with the budgeted and the Supplementary Votes expenditure.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over the recurrent expenditure of the Sabha for the year ended 31 December 2015 amounted to Rs.13,430,062 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounting to Rs.8,851,738. Accordingly, the financial results for the year under review, indicated an improvement of Rs.4,578,324.

2.2 Analytical Financial Review

(a) A Summarized Statement of the total Recurrent Revenue, Revenue Grants, the Self-generated Revenue and the Recurrent Expenditure of the Sabha of the year under review and the two preceding years 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	44,377,383	26,720,460	17,656,923	30,947,321	(13,290,398)
2014	34,793,334	20,527,943	14,265,391	25,941,595	(11,676,204)
2013	27,163,150	11,283,100	15,880,050	19,937,898	(4,057,848)

The following observations are made in this connection.

- (i) The Revenue Grants of the Sabha, during the year under review and the two preceding years as well as the self-generated revenue of the year under review as compared with the preceding year indicated an improvement.
- (ii) Even though the recurrent expenditure of every year had continuously increased by considerable amounts, the attention of the Sabha had not been paid for controlling that position.
- (iii) Even though the recurrent expenditure of all three years had increased in considerable amounts exceeding the self-generated revenue, it indicate that it would not have been possible in whatsoever manner to cover the recurrent expenditure from the self-generated revenue of the Sabha if the Revenue Grants had not been received.

- (b) The Capital expenditure met in the year under review had exceeded the Capital Grants amounting to Rs.7,100,968 received in the year under review by a sum of Rs.10,278,436.

2.3 Revenue Administration

2.3.1 Acreage Tax

The opening outstanding Acreage Tax balance of Rs.157,586 and the billings of the year amounting to Rs.21,648 totalling Rs.179,234 had been recoverable. Even though 7 per cent of the opening outstanding balance and 63 per cent of the billings had been recovered, 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 that arrears of revenue.

2.3.2 Rents

The opening outstanding balance of Rs.461,630 and the billings of the year amounting to Rs.2,956,300 totalling Rs.3,417,930 had been recoverable and 95 per cent of the billings for the year and 25 per cent of the arrears balance had been recovered.

2.3.3 Trade Stall Rents

Lease rent amounting to Rs.224,900 and one off lease rent amounting to Rs.443,500 had not been recovered until the takeover by the Sabha in the year 2013 six trade stalls of the upper floor of Makandura Public Market Complex for which had agreements had been entered into in the year 2008.

2.3.4 Courts Fines and Stamp Duty

The courts fines amounting to Rs.115,270 and the Stamp Duty amounting to Rs.8,763,050 remained receivable as at 31 December 2015 from the Chief Secretary of the Provincial Council and other Authorities.

3. Operating Review

3.1 Performance Evaluation

- (a) Out of the sum of Rs.7,000,000 received under the Pradeshiya Sabhas Strengthening Programme in the year 2014 an unspent sum of Rs.1,423,460 had been remitted to the Ministry of Local Government and Provincial Councils in March 2016. A sum of Rs.821,500 had been spent as on activities contrary to the objectives specified in the Circular No. 1/2014 dated 05 May 2014 of the Secretary to the Ministry of Local Authorities and Provincial Councils.
- (b) In view of the failure to furnish the progress on spending the sum of Rs.1,000,000 received for the year 2015 even by November 2015 the balance sum of Rs.6,000,000 had been credited to the Public Revenue.

3.2 Management Inefficiencies

Action in terms of Section 126(vii)(e) , (g) and the Subsidiary legislation under Section 126 had not been taken on 73 unauthorised constructions identified in the area of authority of the Sabha during the 06 preceding years and the penalty, in terms of the Notification published in the Gazette Extraordinary No. 1597/8 dated 17 April 2009, had not been recovered.

3.3 Identified Losses

A fixed deposit for Rs.2,500,000 due for maturity in July 2016 had been cashed on 13 May 2016 without any special need and as such interest revenue receivable amounting to Rs.177,055 had been deprived of to the Sabha.

3.4 Contract Administration

A sum of Rs.6,782,281 had been spent from the year 2014 to the year 2016 for the construction of a side wall for the protection of the office building constructed under the "Pura Neguma Project". The following observations are made in this connection.

- (a) In granting extensions of time of the work action had not been taken for the extension of the Performance Bond of Rs.541,026.
- (b) The period of the Certificate of Conformity issued by the National Building Research Organization for the land on which the office and the sidewall were constructed had expired. The earth had collapsed due to the failure to take action in accordance with the conditions set out in that certificate. The walls of the building under construction had developed cracks damaging the windows as well.
- (c) The building constructed at a cost of Rs.50 million was exposed to a risk due to the excavation of the embankment without complying with the engineering advice.

3.5 Solid Waste Management

Action had not been taken for the enactment of by-laws for the Solid Waste Management or for obtaining the Environmental Permit. Fees had not been charged for the garbage disposed of by 10 factories in the area of authority of the Sabha.

4. Good Governance and Accountability

4.1 Budgetary Control

The targets of five items of revenue included in the budget for the year under review not achieved amounted to Rs.735,729 whilst there were savings totalling Rs.142,193,872 in 8 items of expenditure. As such the budget had not been made use of as an effective instrument of management control.

4.2 Assets Management

Idle Resources

The vibrating roller of 104 tons valued at Rs.7,697,142 given to the Sabha in the year 2015 by the Ministry of Public Administrative, Provincial Councils, Local Authorities and Democratic

Governance had been parked in the Compost Yard of the Sabha without being used for any effective purpose whatsoever.

5. Systems and Controls

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

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