

Mahaoya Pradeshiya Sabha

Ampara District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2016 had been presented to audit on 27 March 2017 and the financial statements for the preceding year had been presented on 28 March 2016. The report of the Auditor General for the year 2016 had been forwarded to the Secretary of the Sabha on 06 September 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 Mahaoya Pradeshiya Sabha as at 31 December 2016 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

The following accounting deficiencies are observed.

- (a) A sum of Rs.4,456,010 incurred to construct a lavatory system and 02 vehicle yards in the weekly fair, Mahaoya during the year under review had not been brought to account as fixed assets.
- (b) A sum of Rs.9,750,775 incurred by the Sabha for constructions such as Kekirihena Shopping Complex, retaining wall of the Library and “Unuwathura Bubula” restaurant during the year 2016 had not been brought to account as fixed assets and as such fixed assets had been understated by similar amount.
- (c) The expenditure amounting to Rs.261,800 incurred in respect of tyres, tubes and batteries for motor vehicle repairs during the year under review had been capitalized as fixed assets and as such the operating profit of the year had been overstated by similar amount.
- (d) A sum of Rs.105,488 paid during the year 2016 out of the payable interest as at 30 March 2014 to the Local Loans Development Fund had been adjusted as interest expense for the year under review and as such the operating surplus had been understated by similar amount.

- (e) The total loan balance had been shown in the financial statements as non-current assets without being categorized as current assets of Rs.147,347, and non-current assets of Rs.5,658,110 out of the loan balance of Local Loans Development Fund amounting to Rs.5,805,457.
- (f) A sum of Rs.1,636,060 payable in respect of 02 projects carried out under Puraneguma Project as at 31 December of the year under review had not been shown as working creditors and as such the current liabilities had been understated by similar amount.
- (g) Even though, the value of the stamp fees recovered and remitted to the Department of Inland Revenue since the year 2013 up to the year 2016 had been Rs.281,912, it was shown as Rs.230,100 in the financial statements and as such the current liabilities had been understated by Rs.51,812.

1.3.2 Non-compliance with Laws, Rules, Regulations and Management Decisions

 The following non-compliances with laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules and Regulations etc.	Non-compliance
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(a) Pradeshiya Sabha Rules 180	The security had not been furnished by 3 officers who performed duties relating to cash, stores and collection of revenue.
(b) Financial Regulation 1647 (e) of the Democratic Socialist Republic of Sri Lanka.	A Register of Motor Vehicles indicating particulars such as the category and the model of the vehicle, Registered number, date of taking over, date of vesting and the details thereon had not been maintained.
(c) Treasury Circular No.IAI/2002/02 dated 28 November 2002.	Even though, there were 07 computers belonging to the Sabha, a Register of Computers and Computer Accessories had not been maintained.

2. Financial Review

2.1 Financial Results

 According to the financial statements presented, the operations of the Pradeshiya Sabha for the year ended 31 December 2016 had resulted in an excess of revenue over recurrent expenditure amounted to Rs.6,777,757 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounting to Rs.3,935,959. Accordingly an improvement of Rs.2,841,798 was shown in the financial results.

2.2 Analytical Financial Review

In analyzing the recurrent revenue, for the year under review as compared with that for the preceding year an increase in a range from 0.02 per cent to 36 per cent was shown with regard to the revenue sources such as rates and taxes, lease rent, licence fees, service charges, fines and warrant charges and other grants and a decrease of 11 per cent was shown in other revenue.

In analyzing the recurrent expenditure for the year under review as compared with that for the preceding year an increase in a range from 19 per cent to 46 per cent was shown with regard to the expenditure items such as repairs to capital assets, supplies and equipment and a decrease in a range from 04 per cent to 62 per cent was shown with regard to the expenditure items such as salaries and allowances, travelling expenses, transport, payments of interest, grants and pensions.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Item of Revenue	Estimated Revenue for the year 2016	Actual Revenue for the year 2016	Accumulated Arrears as at 31 December 2016
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	Rs.	Rs.	Rs.
Rates and Taxes	60,000	61,000	-
Lease Rent	5,928,850	5,929,702	352,500
Licence Fees	505,000	408,530	-
Service Charges	3,210,000	4,450,653	-
Fines and Warrant Charges	606,000	1,765,473	231,333
Other Revenue	252,500	248,223	136,795
Other Grants	17,427,528	13,260,641	-

2.3.2 Rates and Taxes

Even though, the authoritative area of the Mahaoya Pradeshiya Sabha is consisting with the required preliminary facilities, recovery of rates and taxes had not been made by the Sabha up to now. Further, action had not been taken to make requests from the Department of Valuation to carry out an assessment for rates.

2.3.3 Other Revenue

- (a) Seven telecommunication transmission towers had been installed in the authoritative area of the Sabha. Even though, an initial fee of Rs.140,000 at the rate of Rs.20,000 per tower should be recovered in terms of the Gazette Notification No.1597/8 dated 19 April 2009 from the telecommunication towers, the Sabha had not recovered those fees.

- (b) Action had not been taken up to now to recover vehicle parking fees from September of the year under review.

2.3.4 Stamp Fees

A sum of Rs.104,795 should have been recovered as stamp fees from the Registrar General in respect of the year 2015.

3. Operating Review

3.1 Management Inefficiencies

The following matters were observed.

- (a) Action had not been taken to recover a sum of Rs.162,274 paid as advances of pensions for an officer retired from the Sabha prior to 05 years.
- (b) Action had not been taken to recover a sum of Rs.15,070 over paid in payments made for the Welfare Society before 05 years.
- (c) The stamp fees amounting to Rs.230,100 payable to the Department of Inland Revenue had not been paid from the year 2013 to 2016.
- (d) Action had not been taken to recover the staff loan balance amounting to Rs.25,359 recoverable since the year 2013 from 03 officers.

3.2 Operating Inefficiencies

The following matters were observed.

- (a) Action had not been taken to obtain revenue licences on due date for 04 motor vehicles belonging to the Sabha and as such a sum of Rs.3,000 had to be paid by the Sabha as fines.
- (b) Even though, the Kekirihena Trade Complex constructed by incurring Rs.33,083,469 since the year 2012 had been handed over by the contractor to the Sabha on 10 November 2016, it was not utilized for the intended purpose.

3.3 Contract Administration

In awarding contracts to the Community Based Organisations in terms of Guideline 3.9.1 of the Government Procurement Guidelines the total value of the balance work of contracts already awarded and the total of the proposed contracts should not be exceeded Rs.02 million.

Nevertheless, the Sabha had awarded 02 contracts valued at Rs.3,138,332 to the a Praja Mandalay during the period from 01 August 2016 to 05 September 2016.

4. Accountability and Good Governance

4.1 Budgetary Control

Variances ranging from 02 per cent to 98 per cent were observed between the budgeted and the actual expenditure thus indicating that the budget had not been made use of as an effective instrument of management control.

4.2 Annual Procurement Plan

An Annual Procurement Plan for the year 2016 had not been prepared by the Sabha in terms of National Budget Circular No.128 issued on 24 March 2006.

5. Systems and Controls

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

System	Area needed Attention
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(a) Accounting	Accounting of assets.
(b) Revenue Administration	i Recovery of arrears of revenue. ii Imposing of by-laws. iii Identification of revenue sources.
(c) Contract Administration	Execution of work as per circulars.
(d) Stores Administration	Storing of goods in a manner to check accuracy quickly.
(e) Assets Control	Vesting of ownership of fixed assets.