

Manmunai South and Eruvilpattu Pradeshiya Sabha -2017
Batticaloa District

1. Financial Statements

1.1 Presentation of Financial Statements

The Financial Statements for the year 2017 had been submitted to Audit on 14 March 2018 and the report of the Auditor General had been furnished to the Chairman on 13 September 2018.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.3 of this report, the financial statement for the year ended 31 December 2017 had been prepared accordance with Generally Accepted Accounting Principles and give a true and fair view of the financial position of the Manmunai South and Eruvilpattu Pradeshiya Sabha as at 31 December 2017 and the financial results of its operation and cash flow for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

Following accounting deficiencies were observed.

- (a) Even though the arrears of stamp duty for the year 2016 was Rs.17,595,800, only Rs.4,600,000 had been shown as opening outstanding balance. Due to this the final outstanding had been shown in the final statements by reducing Rs.12,995,800.
- (b) The Montero vehicle holding the No.KE 8126 and the motor cycle donated by UNOPS in 2017, had not been valued and included in the financial statements.

1.3.2 Accounts Receivables

Action had been taken to the electricity charges amounted to Rs.1,656,338, either to recover the dues receivable or write off from the books relevant to the period 1987.

1.3.3 Lack of Documentary Evidence

Evidence indicated against the each of the following items of financial statements had not been furnished to audit.

<u>Item</u>	<u>Value</u> Rs.	<u>Lack of Evidence</u>
Lands and Buildings	154,758,806	} Title Deed Register of Fixed Assets
Plant and Machineries	2,151,123	
Motor Vehicles and Carts	13,147,424	

1.3.4 Non-compliance with Laws, Rules, Regulations and Management Decisions.

Instances of non-compliances with laws, rules and regulations are analyzed and given below.

Reference to Laws, Rules, Regulations etc.	Non-compliance
(a) 1988 Pradeshiya Sabha (Financial and Administration) Rules	
(i) Chapter 1 of Section 5 (XII)	No security had been obtained from two officers who performed duties as in charge of cash, stores and issuing cheques.
(ii) Chapter X of Section 193	Actual annual Income and Expenditure details for the year, compared to the Budget and explanation of contradiction statement had not been prepared and furnished to Audit.
(b) Treasury Circular No. IAI/2002/02 dated 28 November 2002.	A separate register had not been maintained by the Sabha to record the 24 computers, computer accessories and software.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, the excess of Revenue over Recurrent Expenditure for the year ended 31 December 2017 had amounted to Rs. 10,691,626. Compared to this, the excess of Revenue over Recurrent Expenditure for the previous year amounted to Rs. 15,595,655 thus indicating adeterioration of Rs. 4,904,029 in the financial results.

2.2 Working Capital Management

According to the Cash Book maintained by the Sabha, the cash balance at the end of each month during the year under review ranged from Rs. 22 million to 29 million. As action had not been taken to deposit the money in an effective way to earn income the Sabha is losing approximately Rs. 2.2 million of interest income annually.

2.3 Revenue Management

2.3.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Following observations were made.

- (a) Action had not been taken to recover the rent arrears amounting to Rs. 561,086 as at 31 December 2017.
- (b) Lease income to be recovered at the end of the previous year was Rs.2,600,509. But the increase in the cost of Rs.4,717,005 towards the end of the year shows a recession in lease recovery.

2.3.2 Other Revenue

No action had been taken to collect trade stall rental outstanding of Rs.699,625 and lease amount of Rs.4,047,379 as at December 2017.

3. Performance Review

3.1 Performance

Sustainable Development Goals

According to resolutions at the 2015 Sustainable Development conference chaired by the Head of States of United Nations, no action had been taken to develop measurable indicators for the development Agenda to be achieved by the Sabha by 2030.

3.2 Management Inefficiencies

Following observations were made.

- (a) Action had not been taken to transfer the ownership of the motor grader machine donated by UNDP to the name of Sabha received in the year 2006.
- (b) Out of 31 vehicles and engines existed during the year under review, 17 types of them had not obtained vehicle license and action also had been taken to obtain similar.

- (c) In accordance with the Butchery law, goats are kept at the slaughter house for not less than 24 hours within the area authoritative area of Sabha, contrary to this, goats more likely to be slaughtered without proper health checks. Therefore, it is possible to slaughter unhealthy goats.
- (d) The average cash balance of the Sabha was around Rs.22 million. But a loan of Rs.9.5 million was obtained through the Local Government Development Fund to purchase a JCB and had to pay a totaled Rs.2,258,612 only as loans interest for 60 months. If the JCB was purchased with the sufficient funds of the Sabha interest payment would have been avoided.

3.3 Maternal and Child Welfare

In accordance with the 2017 statistics report of Batticaloa District Regional Health Services Director, of the 1079 children born, 113 were born underweight in the Authoritative area of Sabha. Even though, Rs.500,000 was allocated in the budget for maternal and child welfare by the Sabha, Rs.343,500 only had been spent for the programme. Further, 104, 80 and 105 underweight children were born in 2014, 2015 and 2016 respectively. The Sabha had spent on the provision allocated to the subject over the years, but adequate funds had not been allocated.

3.4 Utilization of Vehicle

No action had been taken to repair the 3 defective vehicles of Sabha over the years.

3.5 Procurement

3.5.1 Procurement Plan

Rs.865,275 had been spent on stationary purchases, but it had been observed that it had been purchased in excess of the necessity without making a proper purchase plan

3.6 Contract Administration

Laying Gravel to Roads

When the local authorities are setting up the roads, implementing the Development Projects under the capital fund as per paragraph 1.2 of the Circular dated 30 December 2015 of the Finance Commission, it was advised that the carpet road, tar road or concrete road should be put instead of gravel road to be used for longer period, despite of that a total of Rs.3,057,594 had been spent by the Pradeshiya Sabha to put gravel to 08 roads.

4. **Systems and Controls**

Special attention is required in respect of the following items of systems and controls.

Controls	Items that need special attention
(a) Revenue Management	Action to be taken to recover the revenue in arrears.
(b) Budgetary Control	Past cost should be taken to consideration when preparing a budget.
(c) Control of Fixed Assets	(i) Maintenance of Fixed Assets Register. (ii) Action should be taken to use fixed assets that are not used in Sabha.