

Muthur Pradeshiya Sabha

Trincomalee District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year 2018 had been submitted to audit on 26 February 2019 and the summarized Auditor General's Report, Management Report relating to the year under review were sent to the Chairman on 06 May 2019 and 31 May 2019 respectively.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph of basis for qualified opinion, financial statements give a true and fair view of the financial position of the Muthur Pradeshiya Sabha as at 31 December 2018 and its financial performance and the cash flow for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Basis for Qualified Opinion

1.3.1 Lack of Evidence for Audit

Account Item	Value	Evidence not submitted	Recommendation	Comments of the Accounting Officer
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	Rs.			
Advance Balances	11,139,745	Advance Register	Evidences to verify the balances shown in the financial statements should be presented.	Your report reveals that the advance register was not submitted to the audit with respect to advances balance of Rs.11,139,745. Much of it has been featured in financial statements for a long time and information on advances before 2006 could not be obtained due to the turmoil in Muthur in the year 2006. Also, in the future, all matters relating to advance accounts will be completed and submitted to your audit.

1.4 Non-Compliances

Non-compliances with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules, Regulations and Management Decisions	Non-Compliances	Recommendation	Comments of the Accounting Officer
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulations 571	Other deposits of Rs.37,300 over 03 to 04 years had not been settled or transferred to income as per the financial regulations.	Action should be taken according to financial regulations.	
b) Appendix X of the Pradeshiya Sabhas, Financial and Administrative Rules 1988			
(i) Section 191	Certified copies of monthly committee reports were not submitted to the audit.	Certified copies of monthly committee reports should be submitted to the audit	A certified copy has been sent in accordance with the decisions of the monthly meeting held on 17 January 2019. Will be repaired in near future.
(ii) Section 193	Actual Revenue and Expenditure Details for the year under review were not compared to the budget plan and a statement containing explanations for the variation was not submitted to the audit.	Reports containing explanations for variations should be prepared and submitted to the audit.	We have prepared detailed reports on these variations for the year 2018 and identified the variances. They will be corrected in the future.

- (c) Section 203 of the Motor Traffic Act Revenue licenses must be obtained for all vehicles every year. However, revenue licenses for the nine vehicles used by the Sabha were not obtained in the year under review. Revenue licenses must be obtained for all vehicles every year. Revenue license for these vehicles could not be obtained as the documents for relevant vehicles could not be obtained from donated institutions. Although the documents for these vehicles have been requested by our letter No.MUPS/WP/RMP/ 2017 dated 25.10.2017, those were not received. The ownership transfer forms for the 03 vehicles donated by the Urban Development Authority in the year 2018 were signed and handed over to the Urban Development Authority. The work is being carried out continuously.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the revenue over recurrent expenditure for the year ended 31 December 2018 amounted to Rs. 12,170,412 when compared with the revenue over recurrent expenditure of the preceding year amounted to Rs. 103,812.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Arrears Revenue

Information of estimated revenue, billed revenue, collected revenue and arrears of revenue relating to the year under review and previous year are shown below.

Revenue Item	2018				2017			
	Estimated Revenue	Billed Revenue	Recovered Revenue	Arrears as at 31 December	Estimated Revenue	Billed Revenue	Recovered Revenue	Arrears as at 31 December
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
(i) Rates and Taxes	850	850	422	428	806	816	460	346
(ii) Rental	17,295	14,512	14,014	3,281	11,960	9,477	11,057	902
(iii) Licence Fee	1,398	1,369	1,180	218	1,075	1,398	1,043	32

The arrears of Rates and Taxes for the year under review had increased by Rs.82,000 over the previous year. This indicates the slow form of recovering Rates and Taxes. Furthermore, the increase in shop rent and license fee arrears by Rs. 2,379,000 and Rs. 186,000, respectively, reveals the slowdown in revenue recovery.

2.2.2 Rates and Taxes

Audit Observation	Recommendation	Comments of the Accounting Officer
In terms of Section 134 of the Pradeshiya Sabha Act No 15 of 1987, action has not been taken to recover the Rates and Taxes amounting to Rs. 6,213.099 from the land and built houses and buildings in the Sabha area from 2005 to date.	Action should be taken to recover arrears of taxes.	The following are the reasons for the increase of arrears rates and taxes from Rs.82,000 in the year under review. rates and taxes collection had decreased during the year under review. The landowners could not be identified due to the majority of lands in our area is not shared among individuals and the name has not been changed. There are great difficulties in collecting rates and taxes. At present special programs have been prepared to collect the rates of arrears and all measures are being taken to recover these arrears.

2.2.3 Shop Rental Income

Following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
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<p>(a) Bus station stall rental income</p> <p>-----</p> <p>The following observations are made regarding the leasing of the 40 stalls constructed in 2013 in the year 2014 under the financial provisions of the Pura Neguma project at a cost of Rs. 22,820,738.</p>		
<p>(i) In terms of Section 173 of the Pradeshiya Sabha Act No 15 of 1987, agreed shops should be rented and out of the above 40 stalls, only 33 stalls were leased out for long term, without specifying the lease term.</p>	<p>According to the Pradeshiya Sabha act, agreements should be signed immediately for the stalls which have not been signed. Also, lease period should be mentioned when signing agreements,</p>	<p>Seven stalls that failed to pay security bond were not signed during the period. Security deposits have been obtained for 33 shops to date and arrangements have been made to recover the outstanding dues and to sign agreements on their behalf. Also, past arrears for these stalls are being recovered in part this year (2018). Arrears of rent are being recovered in part and legal action is taken against those who are not paid.</p>
<p>(ii) With regard to the leased outlets, the Sabha has not taken action to recover the arrears of rent of Rs.1,247,630 which were to be recovered from 1 January 2014 to the audit date of 31 December 2018.</p>	<p>Action should be taken to recover arrears. Further, action should be taken to recover rentals as which will not be arrears.</p>	<p>Arrears of rent are being recovered in part and legal action is taken against those who are not paid.</p>
<p>(iii) According to clause 6 of the agreement, the Sabha had the right to take further action on behalf of the lessee, who defaulted on the payment of rent, but no action had been taken by the Sabha up to now.</p>	<p>Those who defaulted on rent payments should be dealt with in accordance with the agreement.</p>	

<p>(iv) According to Article 2 of the Agreement it has been proposed to increase the rent value by 10% per year from 2016, but this increase has not been made.</p>	<p>According to the agreement, the rent should be increased by 10%. The amounts for the previous year that have not been increased must be calculated and added to the arrears rent.</p>	<p>Under Section 2 of the agreement, arrangements have been made to increase the rental value by 10% per year and to make the charges in part.</p>
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(b) **Renting shop line at Nawalawadi Junction**

The following observations are made during the inspection of renting out the shop line at Nawalawadi Junction.

<p>(i) In terms of Section 173 of the Pradeshiya Sabha Act No 15 of 1987, The agreement had not been signed for the 06 stalls rented by the Sabha in 2016. As a result, legal action cannot be initiated against the individuals concerned.</p>	<p>According to the Pradeshiya Sabha act, agreements should be signed for shops which have not signed agreements.</p>	<p>Action will be taken to enter into contracts for these stalls immediately and arrangements will be made to recover the rent.</p>
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<p>(ii) Although the arrears rent for these stalls is Rs.185,400 up to the year under review, these arrears have not been recovered as of the audit date, 21 March 2019.</p>	<p>Action should be taken to recover the arrears rental. Also, rent should be charged in a manner that arrears will not arise in the future.</p>	<p>Agreements for these stalls should be entered into immediately and action should be taken to recover the arrears of rent.</p>
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(c) **Office rent arrears**

Although the arrears rent for 14 office rooms is Rs.914,894, action had not been taken to recover these arrears as of the audit date, 21 March 2019.

Action should be taken to recover the arrears rental. Also, rent should be charged in a manner that arrears will not arise in the future.

The security deposits were paid for a period of 20 months for office shops. Action has been taken to recover the monthly arrears not exceeding this value.

(d) **Market Stall Revenue**

The following observations are made during the audit of renting out the 82 stalls belonging to the Sabha.

- (i) In terms of section 173 of the Pradeshiya Sabha act no 15 of 1987, the council has not yet signed agreements for the 82 stalls rented out 20 years ago.

In terms of the Pradeshiya Sabha act, agreements should be signed for stalls which have not entered into agreements. As you have noted, you will be required to submit a copy of the agreement.

Since the agreements were not renewed, arrangements have to be made to renew it immediately.

- (ii) Although the arrears rent of these stalls is Rs.1,591,692 up to the year under review, these arrears have not yet been recovered as of the audit date, 21 March 2019.

Action should be taken to recover the arrears rental. Also, rent should be charged in a manner that arrears will not arise in the future.

A sum of Rs.86,290 had been recovered as at 30.04.2019. Although this may seem low in comparison, all the money will be charged soon by given the relevant deadlines. Also, legal action will be taken against shops that do not pay arrears during the period.

- (iii) Although, the current rental value in this area is at least Rs.3,000 to Rs.5,000, the rent value has been decided in the range of Rs.150 to Rs.500 which was decided by the Sabha 20 years ago.

Action should be taken to value the rent.

Through our Office Revenue Supervisors, we have decided to recover a temporary rent based on the area of the shop.

- (iv) In a sample inspection of 30 stalls, 15 stall tenants who rented stalls had sub-leased the stalls to a monthly rental of Rs. 700 to Rs. 4,500. These were retrieved from them and verified by audit in writing.

Proper legal action should be taken against those who have been sub-leased.

All stalls will be checked and action will be taken.

(e) **Leasing Meat Stalls**

Meat shop lessees, in the event of defaulting lease, without recovering the lease amount from their security deposits,

All outstanding arrears should be recovered and action should be taken on other matters.

Although, at the beginning of the year 2017, arrears meat stall income were Rs.10,142,162, out of the arrears amount of

arrears rent of Rs.8,297,399 had been presented in the financial statements. Further, the balance of the audit could not be verified as the Sabha did not submit the age analysis to the audit for these arrears.

2017 only a sum of Rs. 1,839,008 was recovered. It was reduced up to Rs. 8,303,154 at the end of the year 2017 and it was further decreased up to Rs.8,297,399 at the end of the year under review(2018).

3. Operational Review

3.1 Performance

Following matters were revealed relating to the functions which should be performed by the Sabha to regulate and administrate public health, public utility services and public roads and luxury, convenience and welfare of the people under section 3 of the Pradeshiya Sabha Act.

(a) Failure to Achieve Expected Results

Audit Observation	Recommendation	Comments of the Accounting Officer
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(i) The gas building which was built on 7 December 2016 under the Provincial Specific Development Fund at a cost of Rs.1,115,226 has not been used for gas production up to now.	Taking action to utilize by producing gases.	Mr.K.M.C.W.B Wickramatilaka, a specialist in Isuru Bio Construction, had inspected the slaughterhouse of our Sabha on 13.10.2018 and certified that it produces bio gas. It will be processed quickly to use.
(ii) The maternity care center constructed in the year 2017 at a cost of Rs.4,094,702 under the Pura Neguma project in the Sampur area, was provided to the community center without being used for the purpose.	Action shall be taken to use it for relevant purposes.	Considering the need to protect the buildings and goods belonging to the council, there is a shortage of security personnel, the Sampoor Vinegar Community Center has been temporarily provided with the guidance of Muthur Health Medical Officers to maintain, supervise and supervise the Sampur Maternity Care Center and provide necessary facilities to the general public during the operation of the Maternity Care Center. Nearly 500 meters away from

this center, a long-term Maternal Child Care Center is in operation, and there is a shortage of staff in the office of the Health Medical Officer to maintain our center and therefore this center cannot be operated. Action will soon be taken to achieve the said objective through the Muthur Medical Officer.

(b) Sustainable Development Goals

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
According to the decision of the Sustainable Development Conference of 2015, led by the Heads of State of the United Nations Member States, Sabha did not establish the indicators for the Sustainable Development Programs Agenda to be achieved by 2030.	The Council should take full clarification on this matter and initiate operations to achieve the Sustainable Development Goals.	It will be promptly implemented after being made aware of its goals and objectives in sustainable development.

3.2 Management Inefficiencies

Following observations are made.

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
(a) Even though a balance of Rs.55,351 has been in existence in one non-performing bank account, for 11 years, no action has been taken to transfer the account to a profitable manner even by the audit date of 21 March 2019.	Transfers should be made in a manner that can generate income.	Current Account Opened at the Bank of Ceylon Main Branch in Trincomalee during the Special Commissioner's Period of 2004. After opening the accounts at Muthur Branch, the current account mentioned was not used. The balance of Rs. 55,351.69 in this account to be transferred to the current account, in accordance with the decision No. 150 dated 16.08.2018, this matter is

addressed to the Manager, Bank of Ceylon, Trincomalee by letter No. MUPS/Acct/FD-01/BA/ 2018 dated 25.09.2018. Also been requested to provide advice and assistance. Continuous action will be taken for this purpose.

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| (b) A sum of Rs.11,344 had paid 25 December 2016 to provide water supply facilities to three resettled beneficiaries in the Sampur area under the UNICEF financial grant, But so far, no water connections have been provided. | Action should be taken to recover the money. Also action should be taken to provide water connection. | As a result of the immediate action taken in the year 2018, 12 beneficiaries have been provided with water supply on 23.07.2018. The remaining three beneficiaries were not provided with water connection. They had planned to provide water connections last year, but were not provided with the water, due to difficulties such as widening the road, stones boards on the road, and blocking the pipes due to the surrounding walls. Due to this problem, action is being taken to recover the payments made for the water connection. In the case of water connection, these payments will be refunded. |
| (c) Even though the determined selling price of chicken for the half year starting from 2019 will be Rs. 400 for half year 2019 , one kilogram of chicken is being sold for Rs570 in the stalls, located in the council area, No action has been taken by the council. | Action should be taken to supply the chicken at a fixed price, and legal action should be taken against those who do not. | With regard to the selling price of chicken, it will be dealt with very soon. |
| (d) In terms of Sections 1.6 and 4 of Appendix xxiv of the Establishment Code of the Democratic Socialist Republic of Sri Lanka, loans amounting to Rs. 129,620 loans granted to 03 employees remained in arrears for a period of 03 to 09 years. | Action should be taken to investigate matters and recover the outstanding loan balances. | Out of the arrears loans amounting to Rs3,000 from Mr. Musawfeek, Rs.24,000 from Mr. Bisrul Hafi, Rs.102,620 from Mr. U.R.Sanoos, the loan of Rs.24,000 granted to Mr. U.R. Bisru; Hafi had been fully settled on 25.04.2019. Even though, the letters had been sent to the Director of Muthur Zone to collect the loan of Rs.3,000 receivable from Mr. Musawfeek, The money has not |

been repaid to date. This money will be recovered quickly. The Management Assistant Mr. U.R. Sanoos who had obtained the loan of Rs.102,620.00 passed away after he had left the service. Since he has more than 10 years of service in borrowing, there are no guarantors and he has no subsequent owners, advice will be taken and action will be taken to recover the loan. You will be notified at the time of action.

3.3 Human Recourse Management

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>Out of the 07 office assistants in the Sabha, only 03 were transferred continuously. It was observed that the other 04 employees were not taken into account in making these transfers.</p>	<p>When making transfers, take action to provide everyone responsible and Please inform us about these transfers.</p>	<p>Previous transfers and temporary recruitment were given to the needs of the employees as per the requirement. These matters will be checked and action will be taken. Also, the action taken will be communicated to you at the time of need.</p>

3.4 Assets Management

3.4.1 Assets not Transferred the Ownership

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>Twelve vehicles donated by other institutions have been used by the Sabha for over13 years but they have not been transferred to the name of the Sabha.</p>	<p>Action should be taken transfer in the name of the Sabha.</p>	<p>The vehicles were donated by the Chief Secretary of the Eastern Province and the National Water Supply and Drainage Board. The activities of signing forms and transfer to the Sabha is being carried out from of this transfer of ownership of vehicles donated by the National Water Supply and Drainage Board, To obtain</p>

the details of the vehicle owners, Letters have been sent to the Department of Motor Traffic by the letter No. MUPS / WP / RMP / 2017 dated 25.10.2017. To date, there have been difficulties in obtaining documentation for this. Activities on this transfer of ownerships will be expedited and I will inform you of the action to be taken at that time.

3.4.2 Failure to Obtain Income from Assets

Audit Observation	Recommendation	Comments of the Accounting Officer
A room in the council building in Kopur has been provided to operate a sub office of the Ceylon Electricity Board since 2006, to date, no agreements have been taken to signed the agreements and recover rental. no lease arrangements have been made	There is no file in the Sabha on this matter. Similarly, action should be taken to signed agreements and generate revenue.	Immediate action will be taken after inspecting the relevant file regarding the building provided to the CEB in Kopur. I will inform you of the action to be taken at that time.

3.4.3 Idle Assets

Audit Observation	Recommendation	Comments of the Accounting Officer
Even though, 02 tractors and pickup vehicles owned by the Sabha, could be used after repaired, and used, and it has been idled for over 02 years without repairing or selling it at auction.	Repairs should be made to vehicles that can be repaired and used, and necessary arrangements should be made for vehicles that cannot be repaired	For the pickup vehicle, there have been high expenses in the previous period. Also, this vehicle is very old. As maintenance costs may increase in the future, For revaluation estimates made by the Engineer of the Eastern Province, action will be taken to return the vehicle to the vehicle supplier without repairing it, as re-assessing the price of MUPS / FD / QUO / 2018 dated 01.02.2018 can cost more than Rs.1 million. Also, two tractors will be repaired and used.

3.5 Procurement

Construction Administration

Following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>On October 30, 2017, Walarmadi Community Center was awarded a contract worth Rs 1,926,960 for the construction of the Vallikkeni main road using the funds of the council. This work was to be completed and handed over by the Contractor on 30 December 2017, but only "Mucky" had been done for a sum of Rs.354,207 as at the audit date of 20 June 2018. Further, this contract had to be terminated because it had been handed over to a community organization by the Sabha instead of elect to award the right qualified contractor at the outset.</p> <p>The matter was mentioned in last year's report, but the Sabha has not yet taken any action.</p>	<p>The industry that was started should be completed to benefit the public.</p>	<p>With the objective of strengthening the community center, development projects below Rs. 2 million will be provided to the community organization in that area. Accordingly, the Valarmadi organization in the Vallikkenni area had been assigned the task. Due to heavy rains, Mucky and gravel were not available, and due to delays in obtaining sand and gravel permits during this period, there was a huge blockage of obtaining sand and gravel required for this purpose. Because of this, the work was completed by 31 December. The decision No. 21 had been taken on 17 January 2019 to carry out this task continuously. With that continuous process, the rest of the road will be expedited.</p>