

**Manthai East Pradeshiya Sabha
Mullaitivu District**

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2018 had been presented to Audit on 31 March 2019 and the summary report of the Auditor General on the financial statements and the detailed management report had been forwarded to the Chairman on 31 July 2019 and 10 October 2019 respectively.

1.2 Qualified Opinion

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

1.3 Basis for Qualified Opinion

(a) Accounting Policies

Audit Observation	Recommendation	Comment of the Accounting Officer
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Accounting policies to be adopted in preparing and submitting the financial statements of the Sabha had not been disclosed in the financial statements for the year under review.	Action should be taken by the Secretary of the Sabha and Commissioner of the Local Government to disclose generally accepted accounting policies adopted by the Sabha in preparing and submitting the financial statements, in the financial statements after getting approval properly.	Action will be taken in future periods.

(b) Accounting Deficiencies

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer -----
A pickup and a tractor valued at Rs. 7,290,725 issued by the Secretary to the Ministry of Provincial Councils and Local Government and a tractor valued at Rs. 1,020,000 issued by the Chief Secretary of the Northern Province had not been owned by the Sabha. However, values thereof had been included in the financial statements of the year under review, thus the value of the fixed assets had been overstated by Rs. 8,310,725.	The vehicles belonging to the Sabha should only be assessed and included in the financial statements.	A double cap pickup vehicle was on bank lease and as such ownership thereof will be transferred after ended lease period. Application for transferring ownership of two tractors which were issued by the Ministry of Provincial Councils and Local Government and Chief Secretary of the Northern Province had been forwarded to the Department of Motor Traffic.

(c) Lack of Evidences for Audit

Audit Observations -----	Recommendations -----	Comments of the Accounting Officer -----
(i) Out of twenty three lands with different extents shown in the fixed assets register of the Sabha in the year under review and the preceding years, 15 lands valued at Rs. 47,750 had been shown in the financial statements of the year under review. However, it could not be satisfactorily vouched or accepted in audit due to non-submission of deeds, land survey maps and valuation certificates of these lands.	Actions should be taken by the Secretary of the Sabha and Commissioner of the Local Government to define them and obtain land deeds thereof as per concurrence and approval of relevant Divisional Secretaries, District Secretary, Mullaitivu and Commissioner General of Land properly and assess values thereof through certified land survey maps by an approved valuer or a	Out of 15 lands, 09 lands had not been assessed due to lack of land permits as documents were destroyed due to prevailing war situation in the past periods. Even though permits for these lands had been requested from the Divisional Secretary, Manthai East through a letter on 08.10.2018, permits had not been obtained up to now. Action will be taken to assess the value by the Department of Valuation and include in

government valuer and bring to the financial statements without delay.

the financial statements as soon as obtaining permits.

(ii) It was observed that value of market building, Ponnagar belonging to the Sabha had not been assessed and brought to financial statements of the year under review and files in respect of historical cost and construction works thereof had not been made available to audit.

Actions should be taken by the Secretary to submit related document file to audit. Further, property value of the market should be assessed and brought to financial statements.

Value of the market building, Ponnagar had not been included in the financial statements erroneously. Action will be taken to include the financial statements of the ensuing year.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.4 Non-compliances

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

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliances	Recommendations	Comments of the Accounting Officer
(a) Pradeshiya Sabhas (Financial and Administrative) Rule of the year 1988			
(i) Section 33 of Chapter III	No actions had been taken to carry out a survey in respect of assessment tax.	Actions should be taken to carry out a survey in respect of assessment tax and recover assessment tax annually in every quarter properly from the properties under the purview of the Sabha.	There were reasons that deeds of lands had not been available in respect of assessment tax under the purview of the Sabha and area is a non-developed and backward area. However, continuous efforts had been made for carrying out a survey in respect of assessment tax.
(ii) Section 66 of Chapter II	No meaningful actions had been taken to recover arrears of five categories of	Meaningful actions should be taken by the Secretary of the Sabha	No revenue officer had been appointed to the Sabha. However,

	revenue valued at Rs. 9,780,400.	to recover said arrears of revenue annually.	recovery had been made.	
(b)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka Financial Regulation 571	Lapsed deposits such as five retention money and two refundable tender deposits totaling Rs. 235,466 had been retained in the deposit account for a period from 12 to 16 months without being taken meaningful actions in this regard.	Actions should be taken to check and refund these lapsed deposits properly or rectify them or credit to relevant revenue with proper approval.	Continuous action had been taken as per report of the Technical Officer.
(c)	Procurement Manual of the Democratic Socialist Republic of Sri Lanka Section 3.4.3	A schedule including names of suppliers who are able to supply a specific category of goods and services such as stationery items, electrical items, repairs of motor vehicles, seasonal magazines, publications, etc. had not been prepared by the Sabha.	Actions should be taken by the Sabha to prepare a schedule including names of suppliers annually.	Above purchases are being made as per provincial schedule of suppliers. It had been done as per sub section 3 of section VII of Gazette Notification No. 554/5 (17.04.1989) issued by the Sabha in terms of Pradeshiya Sabhas Act of 1987.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue over recurrent expenditure of the Sabha for the year ended 31 December 2018 amounted to Rs. 9,371,183 as compared with the corresponding the revenue over recurrent expenditure of the preceding year amounted to Rs. 5,583,474.

2.2 Revenue Administration

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

Information on the estimated revenue, billed revenue, collected revenue and arrears of revenue presented relating to the year under review and the preceding year is given below.

Source of Revenue	2018				2017			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rentals	779,000	823,045	449,118	305,442	599,000	710,975	362,966	348,009
(ii) License Fees	141,000	434,634	434,634	—	324,000	142,845	142,845	—
(iii) Other Revenue	8,712,500	14,717,862	5,311,389	9,474,958	7,377,000	9,975,365	7,388,007	2,587,358
Total	9,632,500	15,975,541	6,195,141	9,780,400	8,300,000	10,829,185	7,893,818	2,935,367

2.2.2 Performance in Collection of Revenue

Audit Observation

Recommendation

Comment of the Accounting Officer

It was observed that recovery of stall rent, lease charges, service charges and surcharges was at poor level. Out of those revenue of Rs. 9.2 million for the year under review, revenue totalling Rs. 2.42 million collected in the year under review was at 26 per cent and it was at 20 per cent out of recoverable revenue of Rs. 12.12 million in the preceding years. However, age analysis of arrears of revenue as at the end of the year under review had not been made available to audit

Actions should be taken by the Sabha to compute arrears of revenue properly and recover them annually. Actions should be taken to prepare and submit age analysis of arrears of revenue annually.

Arrears of revenue increased due to non-receiving court fines and lack of revenue officer.

2.2.3 Rates and Taxes

Audit Observation

Recommendation

Comment of the Accounting Officer

A register of assessment tax on property had not been maintained in terms of Section 32 of Chapter III of Pradeshiya Sabhas (Financial and Administrative) Rule of the year 1988.

Actions should be taken to maintain a register of assessment tax on property.

A register of assessment tax on property had not been maintained for the year under review due to lack of revenue inspector and shortages of officers. Actions are being taken in this regard now.

2.2.4 License Fees

Audit Observation	Recommendation	Comment of the Accounting Officer
----- It was observed that four categories of charges such as issuing development licenses, initial plan approval, issuing conformity certificates and covering approval in respect of 03 telecommunication towers constructed under the purview area of the Sabha had not been recovered totally in terms of the extra ordinary gazette notification no.1597/8 dated 17 April 2009. A total sum of such fees had not been computed and brought to financial statements.	----- Actions should be taken to compute these four categories of charges in respect of all telecommunication towers annually and recovered them properly and brought to revenue account of the Sabha in terms of said extra ordinary gazette notification.	----- It was a barrier to take a continuous action as per section 17.2 of Pradeshiya Sabhas Act No. 15 of 1987. However, respective institutions had not paid even though we requested from them to pay such fees.

2.2.5 Court Fines and Stamp Fees

Audit Observation	Recommendation	Comment of the Accounting Officer
----- Court fines totalling Rs. 8,550,183 had to be received from the Chief Secretary of the Provincial Council and all authorities as at 31 December 2018.	----- Meaningful actions should be taken to obtain court fines belonging to the Sabha by requesting from Chief Secretary within one year since they were owned.	----- Court fines totalling Rs. 8,550,183 receivable from the Chief Secretary of the Northern Provincial Council and all authorities as at 31 December 2018 had been requested from relevant persons.

3. Operating Review

3.1 Performance

The matters observed in respect of execution of activities that should be executed under Section 3 of the Pradeshiya Sabhas Act such as regularize and control over the matters of public health, public utility services and public thoroughfares and the comfort, convenience and welfare of the people are given below.

(a) **Action Plan**

Audit Observation

An annual action plan had not been prepared properly in respect of all categories of activities to be implemented by the Sabha.

Recommendation

Actions should be taken to prepare an annual action plan in the end of the preceding year and implement it by getting approval properly.

Comment of the Accounting Officer

An action plan for the year 2019 was prepared.

(b) **Solid Waste Management**

Audit Observation

The activities of burning and burying had only been made by the Sabha in respect of disposing garbage under the purview of the Sabha. Nevertheless, meaningful actions in respect of implementing solid waste management including compost and recycling projects were at poor level continuously.

Recommendation

An effective mechanism should be followed and implemented by the Sabha in respect of disposing solid wastes.

Comment of the Accounting Officer

Meaningful actions had been taken to carry out this plan in future periods.

(c) **Sustainable Development Goals**

Audit Observation

In order to achieve Sustainable Development Goals by 2030, targets to be achieved and gaps in achieving those goals and relevant indicators required for measuring the progress as well had not been recognized by the Sabha as per Sustainable Development Act No. 19 of 2017.

Recommendation

Sustainable development goals should be recognized and actions should be taken in terms of the circulars.

Comment of the Accounting Officer

Actions are being taken to recognize relevant indicators required for achieving Sustainable Development Goals by 2030.

3.2 Management Inefficiencies

Audit Observations	Recommendations	Comments of the Accounting Officer
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(a) It was observed that a total sum of Rs. 23.2 million had been invested by the Sabha in fixed deposits of a bank for the last 04 years without being implemented development work to be implemented as per budget.	Actions should be taken by the Sabha to plan and implement activities to be carried out annually in respect of schemes which could be implemented by using fixed deposits or from revenue thereof properly after getting proper approval.	The Sabha generates low revenue. In this situation, the Sabha needs funds to implement its activities, thus a huge amount of interest had been received from fixed deposits of the bank. Hence, an annual interest of Rs. 2,326,603 had been saved as revenue for the year 2018.
(b) Values of one hundred and thirty four furniture, machinery and office equipment which were received by the Sabha as donation had not been assessed and brought to financial statements, thus values of fixed assets had been understated in the financial statements of the year under review. However, received dates and useful life time of such equipment had not been made available to audit.	Values of all furniture and office equipment which were received as a donation and being utilized by the Sabha should be brought to financial statements of the Sabha.	It is certified that values thereof will be assessed and included very soon.
(c) Seven capital work schemes totalling Rs. 101.2 million had been abandoned completely without being implemented in the year under review. However, reasons therefor had not been made available to audit.	Meaningful actions should be taken by the Sabha to implement the activities which included in the annual budget at an optimum level.	These projects had not been implemented in relevant year due to failure to obtain expected revenue.

3.3 Human Resources Management

Vacancies of Cadre

Audit Observation	Recommendation	Comment of the Accounting Officer
Out of the approved cadre of the Sabha, there were 50 per cent vacancies in the posts such as technical officer and revenue inspector. As a result, it was observed that development work projects and recoveries of revenue respectively could not be done properly.	Meaningful actions should be taken by the Commissioner of Local Government and the Chief Secretary to recruit approved cadre for the daily activities and work implementations of the Sabha.	Comments had not been provided.

3.4 Assets Management

3.4.1 Failure to recording Assets

Audit Observation	Recommendation	Comment of the Accounting Officer
No actions had been taken to record properties, plant and machineries, furniture equipment, computer and accessories in the fixed assets register and computer accessories register respectively in terms of Assets Management Circular No. 01/2017 of 28 June 2017 of the Ministry of Finance and Mass media up to now.	Actions should be taken to maintain and update fixed assets register and computer accessories register in terms of the circular.	Registers are being maintained now in terms of Assets Management Circular No. 01/2017 of 28 June 2017 of the Ministry of Finance and Mass media. Quarter reports are being forwarded continuously.

3.4.2 Annual Board of Survey/ Stock Verification

Audit Observation	Recommendation	Comment of the Accounting Officer
Follow up actions to be taken in respect of reports on annual board	Follow up actions should be taken and completed	After survey, continuous actions

of survey for the year under review and the preceding year as per Financial Regulation 757 of the Democratic Socialist Republic of Sri Lanka had been at weak level up to now.

before preparing and submitting the financial statements for relevant year.

are being taken now.

3.5 Procurement

3.5.1 Procurement Plan

Audit Observation

A procurement plan and a procurement time schedule of the Sabha had not been prepared in the year under review and the preceding years.

Recommendation

The Sabha should prepare a procurement plan and a procurement time schedule for the next year and obtain approval therefor and act accordingly.

Comment of the Accounting Officer

A procurement plan had been prepared for the year 2019.

3.5.2 Supplies and Services

Audit Observation

When Supplies and services are obtained by the Sabha, the procedures such as register of bid documents, mentioning time duration for submitting them, informing suppliers in respect opening quotations and obtaining report of technical evaluation committee should be followed in terms of Sections 6.1.4, 6.2.1, 6.3.3 and 7.11.1 of Procurement Guideline respectively. However, ten supplies and services valued at Rs. 1,057,570 had been obtained without being followed such procedures

Recommendation

Actions should be taken in terms of Sections 6.1.4, 6.2.1, 6.3.3 and 7.11.1 of Procurement Guideline.

Comment of the Accounting Officer

Procedures are being followed now.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Recommendation	Comment of the Accounting Officer
<p>Budget of the Sabha for the year under review had not been planned and prepared through the proper mechanism, thus, variances ranging from 5 per cent to 18 per cent between 06 categories of the budgeted expenditure and actual expenditure and adverse and favourable variances ranging from 13 per cent to 349 per cent respectively between 05 categories of the budgeted revenue and actual revenue were incurred.</p>	<p>Meaningful actions should be taken by the Sabha to plan, evaluate and implement the items included in the annual budget through the proper mechanism,</p>	<p>As our Sabha becomes under a backward area, there were too less income sources. Hence, there was difficult in revenue collection. Our expenses also had been made from collected revenue. As such, it could not be achieved expected targets in the budget.</p>

4.2 Internal Audit

Audit Observation	Recommendation	Comment of the Accounting Officer
<p>An internal audit unit had been established in the year under review in order to carry out the activities of the Sabha efficiently through audit of its activities. However, internal audit programme and reports on the internal account examinations had not been made available to audit.</p>	<p>Actions should be taken in terms of Financial Regulation 134(2).</p>	<p>An internal auditor had been appointed by the Secretary. However, it could not be functioned alone as vacancies of cadre remained continuously.</p>