

**Musali Pradeshiya Sabha  
Mannar District**

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**1. Financial Statements**

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**1.1 Presentation of Financial Statements**

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The financial statements for the year 2016 had been submitted to audit on 30 March 2017 and the financial statements for the preceding year had been submitted on 24 March 2016. The report of the Auditor General for the year under review was issued to the Secretary of the Sabha on 18 July 2017.

**1.2 Qualified Opinion**

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In my opinion, except for the effect 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 Musali 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**

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**1.3.1 Accounting Policies**

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The financial statements had not been prepared in compliance with the Public Sector Accounting Standards in terms of circular no. PL/05/PA/SFPSAS dated 27 January 2014 of the Secretary to the Ministry of Local Government and Provincial Councils.

**1.3.2 Accounting Deficiencies**

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The following accounting deficiencies were observed.

- (a) Arrears rent of meat stall for the year 2015 had been shown as Rs. 1,074,883 in the accounts of the year under review. However, it had been shown as Rs. 981,279 in the accounts of the year 2015, thus current assets had been overstated by Rs. 93,604.
- (b) Arrears income of ten telecommunication towers under the purview of the Musali Pradeshiya Sabha was Rs. 125,000. However, that amount of Rs. 125,000 had not been shown in the balance sheet, thus current asset had been understated by Rs. 125,000.

**1.3.2 Non-compliance with Laws, Rules and Regulations**

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The following instances of non-compliance with the laws, rules, regulations and management decisions were observed in audit.

**Reference to Laws, Rules, Regulations  
and Management Decisions**

**Non-compliances**

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- (a) Pradeshiya Sabhas (Financial and Administrative) Rule of the year 1988
- (i) Rule No. 5(xii)
- (ii) Rule No. 59
- (iii) Rule No. 178(3)
- (iv) Rule No. 218
- (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
- (i) Financial Regulation 104

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Security money had not been obtained from the officers who are responsible for cash and store items.

A survey of business entities under the purview of the Sabha had not been carried out by the Revenue Inspector, Revenue Supervisor or any other officer who is authorized by the Chairman at the beginning of every year.

The Sabha had not prepared a schedule of suppliers.

All lands and buildings should be examined by the Chairman or any other officer who is authorized by the Chairman at least once in every year. However, they had not been examined up to the date of reporting.

A cash shortage of Rs. 12,920 was detected at the physical verification carried out at the shroff's office of the Sabha on 16 May 2016 which had subsequently been recovered according to the audit query. However, the action taken against the officer had not been intimated to the audit until 23 May 2017.

The shroff had not banked a total sum of Rs. 8,750 on 05 occasions which had subsequently been banked on 15 July 2016 according to the audit query. However, the action taken against the officer had not been intimated to the audit until 23 May 2017.

A person had occupied a stall of the Silavaththurai shopping complex belonging to the Sabha for 09 months without entering into any agreement. But,

the Sabha had not taken action to recover revenue due from him. According to the audit query, it had subsequently been recovered. However, the action taken against the officer had not been intimated to the audit until 23 May 2017.

(ii) Financial Regulation 371

Advances totalling Rs. 402,249 paid to the officers of the Sabha and external parties for several activities for the period from the year 1998 to the year 2015 had not been settled up to now.

(iii) Financial Regulation 571

Lapsed deposit balances totalling Rs. 2,620,367 had been kept in the deposit accounts for a long period. However, action had not been taken to credit those balances to revenue account.

(c) Treasury circular no. IAI/2002/02 dated 28 November 2002

Registers had not been maintained for computers and accessories

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the operations of the Sabha for the year ended 31 December 2016 had resulted in an excess of recurrent expenditure over income of Rs. 4,738,377 as compared against the excess of income over recurrent expenditure of Rs. 5,035,482 for the preceding year, thus indicating a deterioration in the financial results by Rs. 297,105 for the year under review. Decrease in recurrent grant and revenue of the Sabha as compared with the preceding year had mainly attributed to the above deterioration in the financial results.

### 2.2 Revenue Management

#### 2.2.1 Performance of Revenue Collection

Significant differences were observed between the estimated revenue and the actual revenue for the year under review as presented by the Sabha

Item of Revenue	Budgeted	Actual	Arrears	Percentage
	Rs.	Rs.	Rs.	
Rents	3,130,000	3,242,928	112,928	4
License Fees	360,000	404,921	44,921	12

Charges for Services	3,075,000	2,080,075	(994,925)	(32)
Warrant Expenses, court fines and surcharges	600,000	2,169,850	1,569,850	262
Other Revenue	112,500	466,089	353,589	314
Government Grant	26,535,715	22,437,106	(4,098,609)	(15)
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<b>Total</b>	<b>33,813,215</b>	<b>30,800,969</b>	<b>(3,012,246)</b>	
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### 2.2.2 Rents

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- (a) Action had not been taken by the Sabha either to recover arrears of vehicle hire charges of Rs. 78,000 from the person concerned or to take legal action in terms of the section 12 of the agreement until 20 May 2017.
- (b) Action had not been taken by the Sabha either to recover arrears of vehicle hire charges of Rs. 76,000 from another person concerned or to take legal action in terms of the section 12 of the agreement until 20 May 2017.
- (c) Action had not been taken by the Sabha either to recover the lease rent payable by the lessees of the meat stalls for the year 2015 or to take legal action against them until 20 May 2017

### 2.2.3 Other Income

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- (a) There were several telecommunication towers of 10 owners under the purview of the Pradeshiya Sabha. However, out of that, 02 owners of 05 telecommunication towers had not paid annual rent charge of Rs. 125,000 for the period from the year 2010 to the year 2016.
- (b) It was observed that the charges totalling Rs. 103,500 for supplying drinking water to the public of 96 and 56 housing schemes by the Musali Pradeshiya Sabha had not been recovered up to the date of audit.
- (c) A loss of Rs. 128,400 had been incurred by the Sabha due to the carelessness of the officer responsible for recovering water service charges. However, action had not been taken to recover it up to the date of audit.

### 2.2.4 Stamp Duty Fees

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No action had been taken to recover arrears of stamp duty fees totalling Rs. 4,430,455 receivable from the Ministry of Local Government for the period from the year 2010 to the year 2014.

### 2.3 Contract Administration

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According to the estimates of the Sabha, the road to be constructed was with a length of 130m. However, the road had been constructed with a length of 124m only. As a result, the

real benefit could not be obtained by the expenditure of Rs. 249,645 incurred in this connection.

### **3. Operating Review**

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#### **3.1 Assets Management**

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- (a) Four categories of assets had remained idle for a period ranging from 03 years to 06 years. However, action had not been taken either to repair and utilize or to auction them.
- (b) Two trade complexes constructed at a cost of Rs. 15.1 million in 2013 under Puraneguma Project remained closed up to now without being utilized.
- (c) According to the section 37 of the chapter 203 of the circular issued annually by the Chief Secretary of the Northern Province with regard to motor vehicles, when motor vehicles remained in unusable position, tax exemption could be obtained by annexing a money order to the Form No. C.M. 107 obtained from the Divisional Secretariat within 6 months. In contrary to that, tax amounting to Rs. 12,850 and penalties amounting to Rs. 16,325 had been paid by the Pradeshiya Sabha, Musali without obtaining tax exemption even though 18 motor vehicles remained in unusable position for many years.
- (d) According to the information furnished to the audit, fines totalling Rs. 8,650 had been paid for revenue license of vehicles which were in running condition for the year 2017 due to the carelessness of in charge officer of vehicle subject and driver.

### **4. Good Governance and Accountability**

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#### **4.1 Presentation of Financial Statements**

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- (a) The cash flow statement had not been presented with the final accounts.
- (a) The word "Rupee" had not been mentioned in the trial balance and the revenue and expenditure account.

#### **4.2 Budgetary Control**

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- (a) Allocation of expenditures totalling Rs. 6,632,600 made by the budget for 26 heads during the year under review had not been utilized ranging from 40 per cent to 100 per cent.
- (b) Allocation of expenditures totalling Rs. 2,195,255 made by the budget for 09 heads during the year under review had not been utilized 100 per cent.

**5. Systems and Controls**

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

- (a) Collection of Revenue
- (b) Budgetary Control
- (c) Accounts Receivable
- (d) Fixed Deposits
- (e) Accounting