

**Manthai East Pradeshiya Sabha
Mullaitivu District**

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2019 had been presented to Audit on 28 February 2020 and the summary report of the Auditor General on the financial statements and the detailed management report had been forwarded to the Chairman of the Sabha on 13 July 2020 and 05 October 2020 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 2019 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**

Accounting policies to be adopted in preparing the financial statements of the Sabha and in submitting them to the audit had not been disclosed in the financial statements for the year under review.

Relevant actions should be taken by the Sabha to disclose accounting policies adopted in preparing the financial statements, in the financial statements.

It is informed that it will be disclosed in ensuing periods.

(b) Significant Accounting Deficiencies

Audit Observations

Recommendations

**Comments of the
Accounting Officer**

(i) The value of Ponnagar market shopping complex had not been assessed and brought to financial statements, thus the value of the land and building had been understated in the financial statements.

Actions should be taken to assess the historical cost/ value and brought to financial statements.

Action will be taken to include in the accounting reports. in ensuing year.

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| (ii) | The value of five office equipment totalling Rs. 369,029 had been shown as furniture and fittings in the financial statements for the year under review, thus the value of the furniture and fittings had been overstated by Rs. 369,029 whereas the value of the office equipment had been understated. | Relevant actions should be taken by the Sabha to rectify and show in the financial statements. | It is informed that this error will not be taken place in ensuing periods. |
| (iii) | The value of nine machinery equipment totalling Rs. 239,000 had been shown as furniture and fittings in the financial statements for the year under review, thus the value of the furniture and fittings had been overstated by Rs. 239,000 in the financial statements whereas the value of the plant and machinery equipment had been understated. | Actions should be taken by the Sabha to rectify and show in the financial statements properly. | It is informed that this error will not be taken place in ensuing periods. |
| (iv) | The value of eleven plant and machinery equipment totalling Rs. 931,000 had been shown as office equipment in the financial statements for the year under review, thus the value of the office equipment had been overstated by Rs. 931,000 in the financial statements whereas the value of the plant and machinery equipment had been understated. | Actions should be taken by the Sabha to rectify and show in the financial statements properly. | It is informed that this error will not be taken place in ensuing periods. |
| (v) | The value of thirty seven computers and accessories totalling Rs. 959,750 had been shown as office equipment in the financial statements for the year under review, thus the value of the office equipment had been overstated by Rs. 959,750 in the financial statements whereas the value of the computers and accessories had been understated. | Actions should be taken by the Sabha to rectify and show in the financial statements properly. | It is informed that this error will not be taken place in ensuing periods. |

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| (vi) | The value of six furniture and fittings totalling Rs. 236,470 had been shown as office equipment in the financial statements for the year under review, thus the value of the office equipment had been overstated by Rs. 236,470 in the financial statements whereas the value of the furniture and fittings had been understated. | Actions should be taken by the Sabha to rectify and show in the financial statements properly. | It is informed that this error will not be taken place in ensuing periods. |
| (vii) | Excess provision of Rs. 393,192 made to the sundry debtors account in the preceding year had been shown as debit balance in other liabilities account during the year under review without being debited in the sundry debtors account. As such, sundry debtors account had been overstated by Rs. 393,192 in the financial statements. | Adjustment should be made properly. | It is informed that this error will not be taken place in ensuing periods. |
| (viii) | Excess provision totalling Rs. 21,641 made to the sundry debtors account in the preceding year had been shown by deducting arrears of other revenue in the financial statements during the year under review without being transferred to the accumulated fund. As such, arrears of revenue had been understated by Rs. 21,641. | Actions should be taken by the Sabha to rectify by crediting to the accumulated fund account of the Sabha. | It had been rectified by journal entry. |
| (ix) | Pickup and tractor valued at Rs. 7,290,725 issued to the Sabha by the Secretary to the Ministry of Provincial Council and Local Government and tractor valued at Rs. 1,020,000 issued by the Chief Secretary, Northern Province had not been owned by the Sabha. However, values thereof had been included in the financial statements of the Pradeshiya Sabha for the year under review, | Actions should be taken by the Sabha to transfer ownership to the Sabha or remove the values thereof from the financial statements of the Sabha. | The ownership of double cap pickup bearing No. WPPF 7726 will be transferred after finishing lease, thus the value of such vehicle had been included in the final account.
Application for transferring ownership had been forwarded to the Department of Motor |

thus the value of the fixed assets had been overstated by Rs. 8,310,725.

Traffic, thus it had been included as our asset.

Transferring ownership of a tractor bearing No. EPRB 9385 had been submitted, thus the value of such vehicle had been included in the financial statement as our asset.

(c) Lack of written Evidences for Audit

Audit Observations -----	Recommendations -----	Comments of the Accounting Officer -----
Balances of land and buildings, wells, revenue debtors and sundry creditors account totalling Rs. 69.29 million could not be satisfactorily vouched or accepted in audit due to non-submission of land deeds, land survey maps, valuation certificates, historical cost sheets, work files and balance confirmations to the audit.	Meaningful actions should be taken by the Sabha to obtain and file above mentioned written documents properly.	Valuation could not be carried out due to non-available of land permits. Action will be taken to assess the values by the Department of Valuation and include them in the accounting reports once land permits are received. Action had been taken to maintain historical cost sheet. We have work files. Values had been included in the financial statements based on them. It is informed that it will be maintained properly once documents are obtained from the Divisional Secretariat.

1.4 Non-compliances

1.4.1 Non-compliances with Rules, Regulations and Management Decisions

Reference to 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 66 of Chapter II	No meaningful actions had been taken by the Sabha to recover six types of arrears of revenue totalling Rs. 22,662,784.	Relevant actions should be taken by the Secretary of the Sabha to recover arrears of revenue.	Action will be taken to increase recovery in ensuing periods.
(ii)	Section 33 of Chapter III	Relevant actions had not been taken by the Sabha to carry out a survey in respect of assessment tax.	Relevant actions should be taken by the Sabha to carry out a survey in respect of assessment tax.	Continuous actions are being taken to carry out a survey in respect of assessment tax.
(iii)	Section 140 of Chapter V	It was observed 12 instances in audit that advances totalling Rs. 5,181,804 paid to six contactors in the last quarter of the year under review had not been settled.	It should be avoided to pay an advance to the contractors when contract works are not completed.	It had been settled now.
(b)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i)	No. 110	A register on losses had not been maintained.	Actions should be taken by the Sabha to update up to date.	The register on losses is maintained. Action had been taken to update it.
(ii)	No. 214	A register on liabilities had not been maintained.	Actions should be taken by the Sabha to update up to date.	The register on liabilities is maintained. Action had been taken to update it.
(iii)	No. 395	The Sabha had failed to take action in respect of unidentified direct deposits of Rs. 198,487 in the month of December of the year under review in the bank up to 28 February 2020.	Meaningful actions should be taken by the Sabha to identify and enter the direct deposits properly monthly	It had been identified and transferred as revenue now.

(iv)	No. 454(2)	A register on Electricity Equipment had not been maintained.	Actions should be taken by the Sabha to maintain the register.	Action had been taken.
(v)	No. 571	Retention money deposits made by eight contractors for eleven contract works and three refundable tender deposits totalling Rs. 594,294 had been retained in the general deposit account for a period from 01 to 02 years without being taken relevant actions in this regard.	Relevant actions should be taken in respect refundable deposits in due periods.	It was informed to withdraw retention money deposits. Action had been taken to release it. It was informed to withdraw tender deposits. However, requests had not been received from them, thus action had been taken to transfer it as revenue.
(vi)	No. 845(1)	A register of official telephones had not been maintained.	Relevant actions should be taken to maintain the register of official telephones properly.	Action had been taken to maintain.
(vii)	No. 891(1)	A security register had not been maintained.	Actions should be taken by the Sabha to maintain the security register properly.	It is maintained now.
(c)	Government Procurement Guideline			
(i)	Section 2.11.2 of Government Procurement Guideline	Attendance Register of the Procurement Committee and the Technical Evaluation Committee had not been maintained.	Relevant actions should be taken by the Sabha to maintain the register continuously.	Action had been taken.
(ii)	Section 5.2.1 of Government Procurement Guideline	A register on calling for bids had not been maintained	Relevant actions should be taken by the Sabha to maintain the register continuously.	It is being maintained now.

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 2019 amounted to Rs. 16,588,769 as compared with the corresponding the revenue over recurrent expenditure of the preceding year amounted to Rs. 9,371,183.

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	2019				2018			
	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	887,000	728,798	640,348	225,612	779,000	823,045	449,118	305,442
(ii) License Fees	272,000	479,765	479,765	-	141,000	434,634	434,634	-
(iii) Other Revenue	8,796,500	22,092,399	8,041,286	22,437,261	8,712,500	14,717,862	5,311,389	9,474,958
Total	9,955,500	23,300,962	9,161,399	22,662,873	9,632,500	15,975,541	6,195,141	9,780,400

Audit Observation

Arrears of revenue totalling Rs. 22,662,873 shown in the financial statements as at 31 December 2019 had been examined by comparing with the arrears of revenue totalling Rs. 9,780,400 as at 01 January 2019, total billed revenue for the year under review amounting to 23,300,962 and total revenue collected in the year under review and closing arrears of revenue had not been obtained when their reliability and correctness was rectified by comparing with opining arrears of revenue, billed revenue, collected revenue shown in the statements of accounts in the year under review and the preceding years, thus it could not be satisfactorily vouched or accepted in audit.

Recommendation

Statements of accounts should be prepared by showing correct amount of arrears of revenue unrecovered in the end of the year under review and relevant actions should also be taken by the Sabha to bring them to the financial statements properly.

Comment of the Accounting Officer

Not replied,

2.2.2 Performance in Collection of Revenue

The budget estimate had not been prepared properly and estimate had not been planned and programmed properly. As a result, variance between the budgeted revenue and actual revenue was incurred.

Audit Observation	Recommendation	Comment of the Accounting Officer
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It was observed that there were weaknesses in recovering stall rent, fines, lease charges, heavy vehicle service charges and surcharges, etc. by the Sabha. Total revenue collected in the year under review totalling Rs. 1.40 million was 10 per cent of such arrears of revenue of Rs.14.29 million for the year under review and 06 per cent of recoverable arrears of revenue in the preceding years totaling Rs. 24.07 million. However, age analysis of arrears of revenue in the end of the year under review had not been presented to audit.	Meaningful actions should be taken by the Secretary of the Sabha to recover revenue to be received to the Sabha in due periods and avoid arrears of revenue.	Action had been taken to recover arrears. Age analysis had been prepared.

2.2.3 Rates and Taxes

Audit Observation	Recommendation	Comment of the Accounting Officer
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A register of assessment tax on property had not been maintained by the Sabha in terms of Section 32 of Chapter III of Pradeshiya Sabhas (Financial and Administrative) Rule of the year 1988 for the last 10 years.	Actions should be taken by the Sabha to maintain the register of assessment tax on property.	Register had not been maintained. Action in this regard is being taken now.

2.2.4 License Fees

Audit Observation	Recommendation	Comment of the Accounting Officer
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It was observed that four categories of charges such as issuing development licenses, initial plan approval, issuing conformity certificates and covering	Meaningful actions should be taken by the Sabha to compute and	Above mentioned 03 telecommunication towers had been constructed in the army camps. Approval is necessary

approval in respect of 03 telecommunication towers of Private Institution constructed under the purview area of the Sabha had not been recovered 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 for the last five years.

recover arrears of revenue belonging to the Sabha and recover such charges from relevant parties annually and bring them to the financial statements of the Sabha.

for these issues from 03 owners of the land. However, these lands had been owned by the army now. As such, it is barrier to continue our actions as per section 17.2 of Pradeshiya Sabhas Act No. 15 of 1987. Nevertheless, request had been made to pay relevant fees to relevant institutions. But they had not paid.

2.2.5 Court Fines and Stamp Fees

Audit Observation

Court fines and stamp fees totalling Rs. 21,339,235 had to be received from the Chief Secretary of the Provincial Council and all authorities as at 31 December 2019.

Recommendation

Relevant actions should be taken by the Sabha to obtain receivable amount from the Chief Secretary, Northern Province within the due periods.

Comment of the Accounting Officer

Even though requests had been made, it had not been received yet.

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 in respect of all kind of activities to be implemented by the Sabha.

Recommendation

Meaningful actions should be taken by the Sabha to prepare an action plan and implement the activities accordingly.

Comment of the Accounting Officer

Action had been taken to prepare the action plan in ensuing periods.

(b) Solid Waste Management

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer -----
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 a weak level continuously.	Meaningful actions should be taken by the Sabha to implement solid waste management including compost and recycling projects.	Meaningful actions had been taken to carry out this project in future.

(c) Sustainable Development Goals

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer -----
In order to achieve Sustainable Development Goals by 2030, no meaningful actions had been taken by the Sabha to establish targets to be achieved and gaps in achieving those goals and relevant indicators required for measuring the progress as well in terms of Sustainable Development Act No. 19 of 2017 for the last two years.	Meaningful actions should be taken by the Sabha quickly to establish the sustainable development goals and make relevant indicators required for measuring their annual progress.	Actions are being taken.

3.2 Management Inefficiencies

Audit Observations -----	Recommendations -----	Comments of the Accounting Officer -----
(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 01 to 06 years without being implemented development work to be implemented as per budget.	Meaningful actions should be taken by the Sabha to invest them in the projects as enable to benefit to the general public and increase the income generations by using such funds in a way as enable to give general benefits.	Fund is necessary to carry out the activities of the Sabha. Therefore, a huge amount is received as interest from the bank for this fixed deposit, thus this amount is our revenue.

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| (b) | The values of 134 furniture, machinery and office equipment received to the Sabha as donation had not been assessed and brought to financial statements, thus the value of the fixed asset had been understated in the financial statements for the year under review. However, received date of such equipment, useful economic life thereof had not been made available to audit for the last one year. | Meaningful actions should be taken by the Sabha to assess the values of donations by a Government Valuer or an approved Valuer and brought to financial statements. | All of these goods had been obtained as donation. they had been given us after use from the Ministry of Local Government and Irrigation Department, thus values thereof had not been included. It is confirmed that the values will be assessed and included soon. |
| (c) | Eleven internal road reconstruction works totalling Rs. 20 million estimated from the fund of the Sabha in the year under review had been abandoned completely without being implemented. | Meaningful actions should be taken by the Sabha to implement and complete the activities included in annual budget of the Sabha. | Not replied. |

3.3 Human Resources Management

(a) Vacancies and Excesses of Cadre

Audit Observations	Recommendations	Comments of the Accounting Officer
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Out of the approved cadre of the Sabha, 50 per cent of the posts of Technical Officer, Revenue Inspector, etc. had remained as vacant. thus, it was observed that development work projects and revenue recovery activities respectively had not been implemented properly.	Meaningful actions should be taken by the Sabha to obtain by transfer of staffs as per approved by the Department of Management Services.	Action had been taken to fill the vacancies.

3.4 Transaction in Contentious Nature

Audit Observation	Recommendation	Comment of the Accounting Officer
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A sum of Rs. 5.18 million had been paid from the fund of the Sabha to four	It should be avoided to make payments from the	It had been settled now.

community centers and two contractors for various reconstruction and rehabilitation works of the Sabha as an advance in the months of November and December of the year under review and it was observed 12 instances in audit that they had not been settled up to date.

fund of the Sabha for the works which had not been made by the fund of the Sabha.

3.5 Assets Management

3.5.1 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 belonging to the Sabha 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.	Meaningful actions should be taken by the Sabha to maintain and update these registers properly	It had been maintained now.

3.5.2 Annual Board of Survey

Audit Observation	Recommendation	Comment of the Accounting Officer
Follow up actions to be taken as per report on annual board of survey for the year under review and the preceding year and Financial Regulation 757 of the Democratic Socialist Republic of Sri Lanka were at a weak level up to now.	Actions should be taken by the Sabha to complete the follow up actions in respect of reports on annual board of survey.	Action is being taken now.

3.6 Procurement

3.6.1 Procurement Plan

Audit Observation	Recommendation	Comment of the Accounting Officer
A procurement plan and a procurement time schedule of the	Actions should be taken to prepare a procurement	It is informed that action had been taken

Sabha had not been prepared in the year under review and the preceding years.

plan and a procurement time schedule.

to prepare the procurement plan in ensuing periods.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation

Budget of the Sabha for the year under review had not been planned and prepared through the proper mechanism, thus, favourable and adverse variances ranging from 07 per cent to 25 per cent respectively between five categories of the budgeted expenditure and actual expenditure and adverse and favourable variances ranging from 17 per cent to 492 per cent respectively between five categories of the budgeted revenue and actual revenue were incurred.

Recommendation

Meaningful actions should be taken by the Sabha to consider appropriate sources and prepare practically possible annual budget and implement it efficiently by submitting it for the approval of the general public.

Comment of the Accounting Officer

Our Sabha becomes under a backward area, thus there were few income sources. Hence, there was a difficult in collecting revenue. Our expenses had also been made from collected revenue. As such, expected targets could not be achieved in the budget.

4.2 Internal Audit

Audit Observation

An internal audit unit had been established 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 examinations of account had not been made available to audit for the last two years.

Recommendation

Actions should be taken to prepare internal audit programme and reports on the internal examinations of account.

Comment of the Accounting Officer

Internal Auditor had been appointed by the Secretary and there were staff shortages continuously, thus it could not be carried out lonely.