

**Mulatiyana Pradeshiya Sabha**  
**Matara District**

**1. Financial Statements**

**1.1 Presentation of Financial Statements**

Financial Statements for the year under review had been submitted to the Audit on 18 May 2015 while Financial Statements relating to the preceding year had been submitted on 24 June 2014. The Auditor General's Report relating to the year under review was issued to the Secretary to the Sabha on 21 July 2015.

**1.2 Opinion**

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Mulatiyana Pradeshiya Sabha as at 31 December 2014 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

**1.3 Comments on Financial Statements**

**1.3.1 Accounting Policies**

Notes relating to accounting policies and assumptions followed in preparation of accounts for the year under review had not been furnished together with the accounts.

**1.3.2 Accounting Deficiencies**

Following matters are observed.

- (a) The purchase price of the Motor Vehicles and Carts sold in auction for Rs. 2,380,000 by the Sabha during the year under review had not been removed from the accounts.
- (b) While the Acreage Tax in arrears according to financial statements for the year under review was Rs. 157,586, value of that according to Acreage Tax Register and Statement of Arrears of Revenue (P.S.7) had been Rs. 70,342. Accordingly, Acreage Tax in arrears had been overstated in a sum of Rs. 87,244 in the accounts.

- (c) Although the Interest Income Receivable for Fixed Deposit Account No.72036816 as at 31 December of the year under review was Rs. 167,671, a sum of Rs. 94,246 had been credited as Interest Income to the Interest Account through the Journal Entry No.11. Accordingly, Fixed Deposits Interest Income had been understated in a sum of Rs. 73,425 in the accounts.
- (d) Although there were no arrears of License Fees under Revenue Debtors according to financial statements as at 31 December of the year under review, according to the Statement of Arrears of Revenue arrears had been Rs. 10,450.
- (e) Although value of Employees Security Deposits of the Sabha should be equal to the value of Employees Security Investments, according to Financial Statements value Employees Security Deposits amounted to Rs. 55,686 while the value of Employees Security Investments had been Rs. 29,886 indicating a difference of Rs. 25,800.
- (f) For correction of error in crediting Employees Security Deposits amounting to Rs. 25,800 to Sundry Deposits Account during the preceding year, Employees Security Deposits Account had been debited having credited the Sundry Deposits Account again through the Journal Entry No. 21 of the year under review, doubling-up that value.
- (g) Value of 02 Electrical Fans purchased for a sum of Rs. 12,400 on 05 June of the year under review had not been accounted under Fixed Assets.
- (h) Pension Contribution payable amounting to Rs. 1,205,987 as at the end of the year under review had not been provided under Creditors.
- (i) Value of Stock in Hand amounting to Rs. 391,467 according to the financial statements for the year under review had been shown without being classified in the financial statements. Although this matter was pointed out in the previous audit reports, action had not been taken to rectify it.

### **1.3.3 Unreconciled Control Accounts**

While the value of balances relevant to 16 items of accounts according to financial statements was Rs. 10,690,721, according to schedules and information furnished, total value of those accounts had been Rs. 9,364,175 indicating a difference of Rs. 1,326,546.

### **1.3.4 Suspense Account**

The balance of the Suspense Account amounting to Rs. 36,288 shown in the financial statements as at the end of the year under review was being brought forward without being settled.

### **1.3.5 Accounts Receivable and Payable**

(a) Value of Accounts Receivable which had exceeded more than one year as at 31 December 2014 was Rs. 4,936,076.

(b) Value of Accounts Payable which had exceeded more than one year as at 31 December 2014 was Rs. 81,200,714.

### **1.3.6 Non-settled Accounts**

Balances valued at Rs. 18,058 had not been settled even during the year under review.

### **1.3.7 Lack of Evidence for Audit**

Board of Survey Reports, Advance Registers and Age Analysis etc. relating to Assets valued at Rs. 23,037,613 and Liabilities valued at Rs. 77,757,457 had not been submitted to audit.

### **1.3.8 Non-compliance with Laws, Rules, and Regulations**

Following instances of non-compliance with Laws, Rules, and Regulations etc. were observed in audit.

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

**Non-compliance**

(a.) **Pradeshia Sabha (Financial and  
Administrative) Rules of 1988**

(i.) Rule 193

Actual expenditure under Items of Expenditure had not been compared with the Budget and the Supplementary provisions and a statement showing reasons for surpluses and deficits had not been furnished.

(ii.) Rules 217 and 218

Although Land and Buildings belong to the Sabha should be surveyed annually, such action had not been taken for the year under review.

**2. Financial Review**

**2.1 Financial Results**

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2014 had been Rs.8,851,738 as compared with the corresponding excess of revenue over recurrent expenditure amounted to Rs.7,225,252 in the preceding year.

**2.2 Revenue Administration**

**2.2.1 Performance in Revenue Collection**

Information furnished by the Chairman relating to Estimated Revenue, Actual Revenue and Arrears of Revenue for the year under review is shown below.

Item of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
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	Rs.'000	Rs.'000	Rs.'000
(i.) Rates and Taxes	556	34	141
(ii.) Rent	3,721	3,322	796
(iii.) Other Revenue	35,143	30,719	2,569

### **2.2.2 Acreage Tax**

While the Acreage Tax Revenue billed for the year under review was Rs. 21,560, receipts out of billings during the year had been 12,533. Accordingly, the percentage of recovery was 58 per cent. While Acreage Tax Revenue in arrears for the past years amounted to Rs. 65,761, receipts out of arrears during the year had been Rs. 5,121. Accordingly, progress of recovery out of Acreage Tax Revenue in arrears during the year had taken a petty value such as 8 per cent.

### **2.2.3 Lease Rent**

While Lease Rent billed for the year under review was Rs. 2,587,400, receipts out of billings during the year had been 1,663,218. Accordingly, the percentage of recovery was 64 per cent. While arrears for the past years amounted to Rs. 527,137, receipts out of arrears had been Rs.191,508. Accordingly, the percentage of recovery out of arrears had been 36 per cent.

### **2.2.4 Court Fines and Stamp Fees**

The amounts outstanding to be recovered from the Chief Secretary to the Provincial Council and other authorities as at 31 December 2014 are shown below.

	Rs.
i. Court Fines	870,881
ii. Stamp Fees	1,698,185

### **3. Operating Review**

#### **3.1 Management Inefficiencies**

The following matters are observed.

##### **3.1.1 Staff Loans**

While Staff Loans due from three offices of the Sabha remained unrecovered during a number years amounted to Rs. 15,307, action had not been taken to recover those amounts even up to 31 December 2014.

##### **3.1.2 Time Lapsed Deposits**

While there was a sum of Rs. 1,618,567 as Deposits in the Sabha, those Deposits had been kept in the Deposits Account for more than two years without action being taken to revenue. While a sum of Rs. 112,295 out of those Deposits had been Value Added Tax, that amount had been kept in the Deposits Account without being settled.

##### **3.1.3 Festival Expenditure**

While a sum of Rs. 53,347 had been spent as Festival Expenses in 10 instances out of the Sabha Fund by the Sabha, relevant prior approval in terms of Section 132(a) of the Pradeshiya Sabha Act No. 15 of 1987 had not been obtained from the Minister.

##### **3.1.4 Improper Transactions**

A sum of Rs. 171,930 had been paid by the Sabha as hire charges for vans for travelling connected with the Sabha. Quotations for payment for vans had been called for by the Sabha during October 2014. However, hire charges had been paid from January 2014 onward.

### 3.3 Human Resources Management

Information relating to the approved and actual Cadre of the Sabha as at 31 December 2014 is shown below.

Category of Employees	Approved	Actual	Vacant	Excess
Executive	02	02	-	-
Secondary	25	27	-	02
Primary	28	29	-	01
Casual/Temporary/ Contract basis	-	02	-	02
	55	55	-	05

Although it had been informed vide Management Services Circular No. 14 dated 03 January 2002 of the Secretary to the Treasury and Circular No. 28 dated 10 April 2006 of the Secretary to the Ministry of Finance and Planning that recruitments in Local Authorities on the basis of temporary, casual substitute or other basis should be stopped immediately, it was observed that the Pradeshiya Sabha had paid salaries amounting to Rs. 1,386,643 to 02 employees recruited without approval during the year 2014.

## 4. Accountability and Good Governance

### 4.1 Audit and Management Committees

Audit and Management Committees had not been established by the Sabha.

### 4.2 Budgetary Control

It was observed that the Budget had not been made use of as an effective tool of financial management as material variations were observed between estimated revenue and expenditure according to the budget presented for the year under review and the actual revenue and expenditure.

**5. Systems and Controls**

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

- (a.) Accounting
- (b.) Financial Control
- (c.) Revenue Administration
- (d.) Assets Management