

**Mathugama Pradeshiya Sabha**

**Kalutara District**

**1. Financial Statements**

**1.1 Presentation of Financial Statements**

The financial statements for the year under review had been presented to audit on 13 May 2013 and the financial statements for the preceding year had been presented on 02 August 2012. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 13 January 2014.

**1.2 Opinion**

In view of the comments and observations appearing in my report, I do not express an opinion on the financial statements of the Mathugama Pradeshiya Sabha for the year ended 31 December 2012 presented to audit.

**1.3 Comments on Financial Statements**

**1.3.1 Accounting Deficiencies**

The following observations are made.

- (a) According to the ledger account, repairs and maintenance expenditure of capital assets of Programme 01 amounted to Rs.1,331,393 and it had been as Rs.133,139 for the purpose of balancing the account. Therefore, the expenditure for the year under review had been understated by Rs.1,198,254.
- (b) The ledger accounts on library books, rates and taxes in arrears and salary reimbursements had not been correctly balanced and therefore, the total of the debit side of the trial balance had been understated by Rs.1,997,649.
- (c) The balance of the fixed assets accounts as at end of the year under review amounted to Rs.212,096,456 and the balance of the revenue contribution to the capital outlay account amounted to Rs.207,857,436.
- (d) The cost of the JCB Machine sold at Rs.900,000 in October of the year under review had not been identified and written-off from the accounts.

- (e) Three creditor balances amounting to Rs.1,244,543 shown in the creditors schedule as at 31 December 2012 had been accounted twice.
- (f) The contra entries relating to the sum of Rs.1,633,686 received in respect of 03 works during the year 2012 could not be identified and the said amount receivable had been included in the works debtors balance as at 31 December 2012.
- (g) The debit entry had not been made in respect of the sum of Rs.3,700,000 and the sum of Rs.9,000,000 respectively paid for the purchase of the JCB Machine and 2 Tippers
- (h) The opening balance of the ledger account amounting to Rs.5,262,022 for the works creditors only had been brought to account and a sum of Rs.1,953,964 had been shown in the trial balance without accounting the receipts, payments or the closing balance. Similarly, only the opening balance of Rs.9,284,256 and the closing balance of Rs.27,456,517 of the works debtors account had been accounted and none of the receipts and payments had been brought to account.

### **1.3.2 Lack of Evidence for Audit**

Four balances of fixed assets totaling Rs.209,131,760, balance of the Ayurvedic Stocks amounting to Rs.102,574 and employees security deposits amounting to Rs.77,345 respectively could not be satisfactorily vouched in audit due to the non-availability of Board of Survey Reports and updated registers of fixed assets and the relevant schedules.

### **1.3.3 Suspense Accounts**

There was a credit balance of Rs.1,744,331 in the suspense account as at 31 December 2012.

## **2. Financial and Operating Review**

### **2.1 Financial Results**

According to the financial statements presented, the excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2012 amounted to Rs.8,980,607 as compared with the excess of recurrent expenditure over revenue amounting to Rs.2,870,388 for the preceding year.

## **2.2 Revenue Administration**

### **2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue**

Information on the estimated revenue, actual revenue and the arrears of revenue relating to the year under review as presented by the Chairman 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	6,832	5,034	8,565
(ii) Lease Rent	4,814	4,281	2,526
(iii) Licence Fees	302	301	24

### **2.2.2 Revenue from Hoardings**

A sum of Rs.50,150 receivable for the year 2012 for 04 hoardings erected in the Horawala area had not been recovered even by 20 January 2013; the date of audit examination.

### **2.2.3 House Rent in Arrears**

House rent of Rs.12,239 had been due since August and September 2007 from 02 occupiers within the area of authority of the Horawala Sub-office.

### **2.2.4 Licence Fees**

According to the provisions of Section 149 of the Pradeshiya Sabha Act No.15 of 1987; licence fees not exceeding 1% of the income should be recovered as licence fees from the hotels, eating houses and lodgings approved by the Sri Lanka Tourism Promotion Authority. Nevertheless, 1% of the income had not been recovered for any year from the Mathugama Rest House approved by the Tourist Board.

### **2.2.5 Court Fines and Stamps Fees**

Money receivable as at 31 December 2012 from the Chief Secretary of the Provincial Council and other authorities are shown below.

	<u>Rs.</u>
(i) Court Fines	6,565,607
(ii) Stamp Fees	3,845,707

### **2.2.6 Environment Licence Fees**

Action had not been taken even by 20 February 2013; the date of audit examination, to renew the licence after getting confirmed the existence in respect of 15 institutions of which the environment licence had been lapsed during 2007 to 2012.

Further, the Sabha had identified 46 institutions during the year 2012 that environment licence should have been obtained. But, action had not been taken even by 20 February 2013; the date of audit examination, to issue licence to the above institutions.

### **2.2.7 Accounts Receivable and Payable**

(a) Expenditure creditors as at end of the year under review amounted to Rs.20,901,353 and of this, balances amounting to Rs.9,608,537 had been identified.

(b) Action had not been taken during the year under review too, to recover revenue receivable from private bus stands amounting to Rs.96,000 and reimbursement for street lamps, receivable amounting to Rs.358,225 brought forward since number of years.

(c) Action had not been taken in terms of Section 4.4 of Chapter xxiv of the Establishments Code to recover a loan balance of Rs.90,539 recoverable from a Management Assistant who had left the service on 16 July 2009.

### **2.2.8 Stall Rent**

(a) Construction of the Welipenna Trade Complex had been completed in April 2011 and opened in May 2011. Out of the 12 stalls of the Trade Complex, only the stall No.02 had been given on lease even by 22 February 2013; the date of audit examination.

- (b) Construction of the Galmaththa Trade Complex had been completed during 2012 and out of the 12 stalls of the Complex; 04 stalls had not been taken on lease by any one and had remained unutilized.

### **2.3 Idle and Underutilized Physical Resources**

The following observations are made.

- (a) A machine had been purchased at Rs.130,862 on 05 March 2010 from New Merine Teck – Homagama for production of concrete blocks needed to lay on the roads of the area of the Sabha. However, a field inspection revealed that the production had not been commenced even by 22 February 2013 and that the machine was lying in the work-yard.
- (b) Ten stone armed benches had been purchased at Rs.15,000 on 23 August 2007 for the development of nature parks. An audit examination carried out on 22 February 2013 revealed that 05 benches had been kept in the office premises and information was not made available to audit about the balance of 05 benches.

### **2.4 Operating Inefficiencies**

The following observations are made.

- (a) A complete survey on all the properties of the Sabha had not been carried out in terms of Rule No.203 and 217 of the Pradeshiya Sabha (Financial and Administrative) Rules – 1988.
- (b) A register of fixed assets had not been maintained for computer accessories and software in terms of the Treasury Circular No.IAI/2002/02 dated 28 November 2002.
- (c) A register had not been maintained to record the complaints received in respect of unauthorized constructions and the unauthorized constructions identified by the officers. Therefore, it could not be ascertain the details of unauthorized constructions identified and reported and the steps taken on the above matters.
- (d) Necessary action had not been taken in respect of 87 books valued at Rs.19,830 borrowed from the Mathugama Public Library from the year 2011 and had not been returned.
- (e) Although activities expected to be carried out during the year had been mentioned in the annual budget estimates, the financial value and the time frame of each activity had not been included. An annual procurement plan had not been prepared.
- (f) The revenue of the Welipenna sub-office and the Horawala Sub-office respectively are deposited daily to the savings account maintained at the Sabaragamuwa Development Bank and to the current account maintained at the Peoples Bank. But, it was observed that the said banks transfer the above money to the current account of

the Head Office once in 01 to 03 months. Accordingly, an examination of the said bank accounts revealed that a significant amount of money is remained unutilized due to non-instructing the banks to transfer the money keeping a minimum balance in the account.

## **2.5 Land Auctions**

- (a) According to Section 154(1) of the Pradeshiya Sabha Act. No.15 of 1987, the Sabha should obtain 1% of the sale price of lands auction within the area of authority of the Sabha. Nevertheless, without acting accordingly a sum of Rs.2,398,500 being 1% of the rough estimate prepared by the Revenue Controller of the Sabha had been obtained in respect of 09 lands. Action had not been taken to adjust the difference between the rough estimate and market sales value and to recover the balance money.
- (b) According to 22(1) of Paragraph (i) of Part I of the Gazette Extra-ordinary of the Democratic Socialist Republic of Sri Lanka dated 10 August 1986; when the land expected to be sub-divided is more than 01 Hectare in extent, 10% of the land after reserving for street lines should be allocated for common facilities and acquired by the Sabha. Nevertheless, evidence not made available to audit to ascertain whether the title deeds of the allocated lands have been obtained in respect of 07 lands auctioned.
- (c) Boundaries of the plots of lands so received for common facilities had not been market and it was observed that these lands had not been developed and utilized even by 20 February 2013; the date of audit examination.

## **2.6 Electrical Goods**

The following observations are made.

- (a) The requisitions of officer in-charge of the stores on the needs of the stores and the recommendations thereon had not been recorded in respect of purchase of electrical goods and equipment.
- (b) An examination of the stock ledger revealed that issues had been made in instances where the stock balance was inadequate.
- (c) Electrical equipment of 25 to 30 items had been issued at a time without issuing the quantity of electrical equipment needed based on the number of the electrical posts for which equipment are fixed on each day. The balance goods had not been returned.

- (d) A physical check of a sample of 11 items of electrical items carried out on 20 February 2013 with the assistance of the stores officer revealed a shortage of 96 units of 04 categories of stocks and an excess of 507 units of 04 categories of stocks and 5.3 meters of wire roles between the balance of the stock register and the physical balance
- (e) Electricals posts installed within the area of the Sabha had not been numbered.

## **2.7 Cemeteries**

56 Cemeteries had been roughly identified within the area of the Sabha. The observations made in this connection are shown below.

- (a) Action had not been up to 22 March 2013; the date of audit examination, to conduct a survey with a view to identify the exact number of cemeteries owned by the Sabha within its area.
- (b) Although the name of the cemetery identified so far had been recorded in a register, the name of the land, details of the places situated and the extent of the lands had not been mentioned.
- (c) Information on safety and maintenance of the cemeteries had not been maintained.

## **2.8 Contract Administration**

An agreement had been signed on 01 June 2012 with the Iddagoda, West East Consolidated Farmers' Organization for a contracted amount of Rs.500,000 for laying concrete blocks for the reconstruction of Polgahawatta – Sendanayake Road Stage I commenced under Maganeguma Project. The concrete blocks layer should be 343 feet in length; 8 feet in width and 6 inches in height.

An examination carried out with the assistance of the Technical Officer of the Sabha on 22 February 2013 revealed the following matters.

- (a) Although it had been confirmed by the test report that the concrete blocks layed on the road possess the compact power, the concrete blocks had been damaged at certain places.
- (b) According to Item of Work No.4 of the estimate, the edges should be make with 1:2:4(3/4) mixture to a height of 6 inches. However, the height of the right side of the edge at the beginning of the road is 3 ½ inches.

## **2.9 Budgetary Control**

- (a) Favourable variances within a range of 12 percent to 86 percent relating to 04 items of expenditure and adverse variances within a range of 26 percent to 93 percent relating to 05 items of revenue had been observed. Therefore, it was observed that the budget had not been made use of as an effective tool of management control.
- (b) According to the budget estimate for the year 2012, a total sum of Rs.16,847,000 had been allocated for 42 items of expenditure. But, none of these allocations had been utilized as at 31 December 2012.

## **2.10 Internal Audit**

An internal audit had not been carried out in terms of Paragraph (d) of the letter No.WP/LPD/10/2008 dated 19 August 2008 of the Commissioner of Local Government and Financial Regulation 133 and 134 of the Republic of Sri Lanka.

## **3. Systems and Controls**

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

- (a) Accounting
- (b) Revenue Administration
- (c) Assets Management
- (d) Stocks Control
- (e) Budgeting