

Manmunai South - Eruwilpattu Pradeshiya Sabha

Batticaloa District

1. Financial Statements

1.1. Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 09 April 2014 and the financial statements for the preceding year had been presented on 06 May 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 04 December 2014.

1.2. Opinion

Except for the effects on the financial statements of the matters referred to in Paragraph 1.3 of this report, I am of opinion that the financial statements have been prepared in accordance with the Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Manmunai South - Eruwilpattu Pradeshiya Sabha as at 31 December 2013 and the financial result of its operations for the year then ended.

1.3. Comments on Financial Statements

1.3.1. Compliance with Sri Lanka Public Sector Accounting Standards

The financial statements had not been prepared in accordance with the Public Sector Accounting Standards, as stipulated in the Circular No. PL/05/PA/SFPSAS dated 27 January 2014 issued by the Secretary to the Ministry of Local Government and Provincial Councils.

1.3.2. Accounting Deficiencies

The following accounting deficiencies are observed.

- (a) Provisions had not been made in the accounts for the audit fees of Rs.16,000 payable in respect of the year under review.
- (b) The building valued at Rs.10 million, built and handed over to the Sabha by NECORD institution, had not been brought to account since the year 2008.

- (c) The general stores items and electrical equipment totalling to a value of Rs.7,797 included in the stock in hand, had been identified as unusable items since 1989. But action had not been taken to write-off these items from the books and continued to be shown as assets.

1.3.3. Accounts Receivable and Payable

The following observations are made.

- (a) Action had not been taken, either to recover or write-off, the lease rent in arrears, amounting to Rs.92,676, due from the leaseholders of 19 trade stalls in the Public Market (*Mahajana Pola*) Shopping Complex of Kalawanchikudi, for the period from 1991 to 2003.
- (b) The lease rent in arrears amounting to Rs.3,110,486, due for the period from 1985 to 2012, in respect of 08 Public Markets (*Mahajana Pola*) within the authority of the Sabha, had continued to be shown in the financial statements, without taking action to recover them.

1.3.4. Lack of Evidence for Audit

The evidence indicated against the following subjects in the financial statements, had not been submitted to the audit.

Subjects	Value – Rs.	Evidence not submitted
Lands and Buildings	38,861,746	Title Deeds
Plant and Machinery	1,299,297	} Register for Fixed Assets and Reports of Survey Boards.
Furniture and Fittings	768,188	
Motor Vehicles	145,425	
Library Books	930,723	

1.3.5. Non-compliance with Laws, Rules and Regulations

The following instances of non-compliance were observed during the Audit.

Reference of Laws, Rules and Regulations

Non-compliance

(a) Pradeshiya Sabha (Finance and Administration) Rules - 1988

(i) Section 5 (XII) of Chapter I

Though functions such as finance, stores materials, and signing of cheques, had been entrusted systematically to four officers, security deposits had not been obtained from them.

(ii) Section 81 of Chapter III

Action had not been taken at the end of each quarter to submit; applications to the Registrar General for the reimbursement of stamp taxes with respect to the vesting of ownership of lands; applications to Director of the Treasury for the reimbursement of taxes with respect to other transactions; applications to the Registrars of Courts for the reimbursement of fines.

(b) Financial Regulations

(i) F.R. 138 and 139(1)

Payments amounting to Rs.106,296 had been made without certifying the expenditure by the Expenditure Certifying Officer.

(ii) F.R. 755 (1)(2)

The Sabha had provided milk powder and nutrition food valued at Rs.299,600, to the Kalawanchikudi Office of the Medical Superintendent of Health, without obtaining the Goods Receipt Note (GRN).

2. Financial Review

2.1. Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2013 amounted to Rs.7,057,493, as compared with the excess of revenue over recurrent expenditure amounting to Rs.2,522,785 in the preceding year. Therefore financial result of the year under review had been improved by Rs.4,534,708 in comparison to the preceding year.

2.2. Revenue Management

2.2.1. Performance on Revenue Collection

Significance variances were observed between the Estimated Revenue and the Actual Revenue, submitted by the Sabha for the year under review.

Source of Revenue	Estimated Revenue	Actual	Variance
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	Rs.	Rs.	Rs.
(i.) Rates and Taxes	420,000	35,700	(384,300)
(ii.) Taxes	10,890,000	8,207,191	(2,682,809)
(iii.) Charges for Services	712,500	356,432	(356,068)
(iv.) Fines	5,552,000	6,700,408	1,148,408
(v.) Other Revenue	3,868,500	5,782,396	1,913,896

2.2.2. Rates and Taxes

Action had not been taken as stipulated in Section 134 of Pradeshiya Sabha Act No. 15 of 1987, to obtain the assessed annual value from the Department of Valuation, for the purpose of collection of rates and taxes, in respect of the lands, houses and buildings situated within the area under the authority of the Sabha,. Therefore the Sabha had been deprived of an annual revenue of approximately Rs.1,000,000.

2.2.3. Stamp Fees

The stamp fees receivable as at 31 December 2013 amounted to Rs.1,584,563, and required action had not been taken to recover this amount from the Registrar General.

3. Operating Review

3.1. Management Inefficiencies

The following observations are made.

- (a) 14 motor vehicles and 04 machines, had been handed over to the Sabha by other ministries and departments, and action had not been taken for a period of six to nine years, to transfer the ownership of them to the Sabha.

- (b) The Motor Grader received on 18 July 2006 as a donation under the United Nations Development Programme, had been parked since the date of obtaining the machine, without attending to the repairs and utilizing it.
- (c) The Sabha had not paid the monthly contributions for the pension scheme. Therefore the contributions payable by the Sabha for the period from 1995 to the end of the year under review, amounted to Rs.1,598,551.
- (d) Before establishing the Pradeshiya Sabha in 1987, the Sabha had functioned as a Town Council, and from this period onwards the Sabha had provided electricity to the general public on behalf of the Electricity Board.
The following were observed in respect of this matter.
 - (i) The electricity charges in arrears in respect of the electricity distributed by the Sabha to the general public amounted to Rs.1,656,328, and action had not been taken since the year 1993, to recover the arrears or to write-off the amount from the books.
 - (ii) The advance payment provided to the Electricity Board amounted to Rs.167,580, and action had not been taken since the year 1991, to recover the advance or to write-off the amount from the books.
 - (iii) The electricity charges in arrears payable to the Electricity Board by the Sabha amounted to Rs.2,069,410, and action had not been taken since the year 1991, to pay the arrears.
- (e) The electricity charges payable to the Electricity Board by the Sabha in respect of street lamps, for the period from May to December in the year under review, amounted to Rs.677,416.

3.2. Identified Losses

The fishing boat and the machine owned by the Sabha had been leased out to a member of the Sabha for, a monthly lease rent of Rs.3,000 in the year 2009 and a monthly lease rent of Rs.2,500 in the year 2010. However, after the termination of the lease agreement, the leaseholder had not returned the fishing boat and the machine to the Sabha. Therefore the Sabha had incurred a loss of Rs.465,000.

4. Accountability and Good Governance

4.1. Budgetary Control

The variances in the range of 24% to 91% were observed between the estimated expenditure and the actual expenditure. Therefore it was observed that the budget had not been made use of as an effective tool of management control.

5. Systems and Controls

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

- a) Accounting
- b) Budgetary Control
- c) Revenue Management
- d) Fixed Assets Control
- e) Employees Loan Recovery