

Manmunai South Eruvil Pattu Pradeshiya Sabha

Batticaloa District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to the Audit on 07 April 2015 while Financial Statements relating to the preceding year had been submitted on 04 April 2014. The Auditor General's Report relating to the year under review was sent to the Secretary of the Sabha on 07 August 2015.

1.2 Qualified 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 Manmunai South Eruvil Pattu Pradeshiya Sabha as at 31 December 2014 and its financial performance and cash flow for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Non-compliance with Public Sector Accounting Standards of Sri Lanka

Cash Flow Statements had not been properly prepared and submitted in accordance with the Public Sector Accounting Standards 2.

1.3.2 Accounting Policies

Accounting Policies followed in preparation of financial statements had not been disclosed in the financial statements.

1.3.3 Accounting Deficiencies

Following accounting deficiencies were observed.

- (a) Provision for Audit Fees payable for the year under review amounting to Rs.16,000 had not been made in the accounts.

- (b) Value of 3 vehicles received as donations during the year under review from the UNOPS Institution had not been assessed and taken to accounts.
- (c) Although General Consumable Goods and Electrical Goods totaling to a value of Rs.47,419 included in the balance of Goods in Hand had been separated as un-serviceable goods since the year 1989, action had not been taken to write-off those from the books resulting in overstatement of Stocks in Hand in the financial statements.
- (d) Interest Income of Rs. 51,584 received for Fixed Deposits had not been brought to accounts.

1.3.4 **Accounts Receivable and Payable**

Following observations are made.

- (a) Action had not been taken either to recover or to write-off the Lease Rent of Rs. 92,676 in arrears for the period from the year 1991 to the year 2013 due from the lessees of 19 stalls in Chenkalady Public Market Building Complex.
- (b) Action had not been taken to recover the Lease Rent of Rs.3,110,486 in arrears relevant to the period from the year 1985 to the year 2012 due for 08 stalls situated in the Daily Fair maintained by the Sabha and had been continuously shown in the financial statements.
- (c) Although a sum of Rs. 167,580 was being continuously shown in the financial statements as an amount receivable from the Ceylon Electricity board since the year 1989, action had not been taken either to recover it or to write-off from accounts up to the date of audit on 30 June 2015.

1.3.5 **Lack of Evidence for Audit**

A Register of Fixed Assets with regard to Land and Buildings, Machinery and Equipment etc., totaling to a value of Rs. 85,211,170 had not been furnished to audit.

1.3.6 **Non-compliance with Laws, Rules, Regulations, Management Decisions etc.**

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

References to Laws, Rules and Regulations etc.

Non-compliance

(a) Pradeshiya Sabha (Financial and Administrative) Rules of 1988

(i) Chapter I Section 5 (XII)

Although functions such as cash and stores materials etc. had been assigned administratively to four officers, security deposits had not been obtained from them.

(ii) Chapter III Section 81

Applications for reimbursement of Stamp Duty connected with transfer of ownership of lands to the Registrar General, applications for reimbursement of taxes connected with other transactions to the Director, General Treasury and applications for reimbursement of fines to the Registrars of Courts had not been submitted at the end of each quarter.

(iii) Chapter X Section 193

A detailed statement showing reasons for variations after comparing revenue and expenditure for the year with the budget had not been prepared and submitted to audit.

(b) Government Financial Regulations (d)

Action in terms of Financial Regulations had not been taken up to the date of audit, with regard to 15 cheques valued at Rs. 169,564 issued, but not presented for payment exceeding 06 months.

(c) Public Finance Circular No. PF 437

Although the insurance cover for vehicles should be obtained from the National Insurance Trust Fund or Sri Lanka Insurance Corporation Limited, contrary to that, insurance cover of 06 vehicles had been obtained from a private Insurance Institution having paid a sum of Rs. 7,450.

2. **Financial Review**

2.1 **Financial Results**

While according to the Financial Statements presented, financial result for the year under review had been an excess of revenue over recurrent expenditure amounting to Rs.6,714,577, as compared with the excess of revenue over recurrent expenditure for preceding year had been Rs.4,371,982 indicating an improvement in a sum of Rs.2,342,595 in the financial results.

2.2 **Revenue Administration**

2.2.1 **Performance in Revenue Administration**

(a) **Recovery of Charges for Communication Towers**

An annual revenue of Rs. 792,000 that could have been recovered as charges for 12 communication towers erected by private communications institutions in the area of authority of the Sabha had been lost due to, failure in framing by-laws for recovery of revenue by the Sabha in terms of Section 126 of the Pradeshiya Sabha Act No. 15 of 1987.

(b) **Rates**

Action in terms of Sections 134, 158 and 159 of the Pradeshiya Sabha Act No. 15 of 1987 had not been taken by the Sabha up to 30 June 2015, date of audit, to assess and recover rates for the year 2014 from lands situated, houses and buildings constructed in the area of authority of the Sabha.

(c) **Stamp Fees**

Necessary action had not been taken to compute the amount and obtain Stamp Fees Receivable as at 31 December 2014 from the Registrar General.

3. **Operating Review**

3.1 **Management Weaknesses**

- (a) Although approval of the Treasury had been received during the year 2012 to appoint an Ayurvedic Doctor and a Dispenser to the Ayurvedic Hospital belongs to the Sabha, action had not been taken to provide service to General Public by appointing a Doctor up to the date of audit, 30 June 2015.
- (b) Action had not been taken in terms of Employees Provident Fund Act No. 15 of 1958 and Employees Trust Fund Act No. 46 of 1980 to recover Employees Provident Fund contributions amounting to Rs. 75,852 and Employees Trust Fund contributions amounting to Rs. 11,375 with regard to fifteen employees recruited on daily pay basis during the year and to remit to the relevant funds.
- (c) Action had not been taken up to 30 June 2015, to remit pension contributions recovered from five employees, including contributions payable by the Sabha on behalf of those employees amounting to Rs. 1,311,298 to the Department of Pensions, in terms of Local Government Pension Rules of 1975 and Extra Ordinary Gazette No. 320/8 dated 07 June 1978.
- (d) Action had not been taken since 3 years, to transfer the ownership of 04 Motor Vehicles provided to the Sabha by other Ministries, Departments and institutions.

4. **Accountability and Good Governance**

4.1 **Internal Audit**

Although it has been stipulated that an Internal Audit Division should be established by each Local Government Institution within its capacity, vide Local Government Reforms Circular No.03 dated 08 November 2005, Internal Audit Division had not been established.

5. **Systems and Controls**

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

- (a) Accounting
- (b) Revenue Administration
- (c) Budgetary Control.