

MUTHUR PRADESHIYA SABAH
TRINCOMALEE DISTRICT

1. Financial Statements

1.1 Presentation of Financial Statements

The Financial Statements for the year under review had been presented to audit on 25 March 2015 and the Financial Statements for the previous year had been furnished to audit on 13 May 2014. The Report of the Auditor General for the year under review had been furnished to the Secretary of the Sabah on 20 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 Muthur 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 Compliance with Sri Lanka Public Sector Accounting Standards

The Cash Flow Statement according to Sri Lanka Public Sector Accounting Standard No.02 had not been furnished with the Financial Statements.

1.3.2. Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) Rent receivable for the year under review in respect of 38 stalls in the new bus stand and 53 stalls in the public market amounting to Rs.228,000 and Rs. 316,195 had not been brought to accounts.
- (b) Library books purchased at a cost of Rs. 400,007 during the previous year had not been brought to the Library Books Account.
- (c) Provision had not been made in the accounts for the Audit fees amounting to Rs. 17,615 for the year under review

1.3.3 Accounts Receivable and Payable

The following were observed.

- (a) Revenue aggregating Rs. 11,479,985 outstanding from the year 1984 to 2014 had been continuously shown in the Financial Statements without action being taken to recover.
- (b) The Staff Loan outstanding aggregating Rs. 244,644 granted to 32 employees had been shown in the Financial Statements continuously from the year 2007 without action being taken for recovery.

1.3.4 Lack of Evidence for Audit

Evidence indicated against the following each item of accounts had not been furnished to audit.

Item of Accounts	Value Rs.	Evidence not furnished
Lands and Buildings	37,868,086	Title Deed
Plant and Machineries	963,531	
Furniture	28,916,570	
Shopping Complex	4,967,426	Register of Fixed Assets and Board of Survey Reports
Motor Vehicles	1,029,520	
Payments in Advance	10,725,435	Advance Register
Rates in Arrears	4,576,098	
Tender Deposits	1,625,000	Register of Rates
		Tender deposit Register

1.3.5 Non-compliance with Laws, Rules, Regulations etc;

Instances of non-compliance observed in audit are analysed and given below.

	<u>Reference to Laws, Rules etc;</u>	<u>Non-Compliance</u>
(a)	Section 134 (1) of the Pradeshiya Sabah Act No. 15 of 1987	Action had not been taken to recover Rates by identifying and estimating the value of the immovable properties within the authority limit of the Pradeshiya Sabah.
(b)	Pradeshiya Sabah (Financial and Administrative) Rules of 1988	
	(i) Section 5(XII) of Chapter I	Although cash, Stores and signing of cheques had been administratively entrusted to three Officers, Security had not been obtained from them.
	(ii) Section 81 of Chapter III	Request to Registrar General for refund of stamp duties regarding the change of ownership of lands, request to Director of General Treasury for refund of duties regarding other transactions and request to Registrar of Courts for refund of fines had not been made at the end of each quarter.
	(iii) Section 193 of Chapter X	A Statement comparing the actual revenue and expenditure with budget and explaining the cause for variances had not been prepared and furnished to audit.

(c) Eastern Provincial Financial Rules

P.F.R. 237

Action had not been taken on eleven cheques which had been issued by the Sabah before two years but not presented to bank for payment to the value of Rs.20,667.

2 Financial Review

2.1 Financial Results

According to the Financial Statements presented, the excess of revenue over recurrent expenditure for the year ended 31 December 2014 had amounted to Rs.22,182,927. as compared with the revenue over recurrent expenditure amounting to Rs. 14,000,313 for the previous year thus showing an improvement by Rs. 8,182,614 in the financial results.

2.2 Revenue Management

2.2.1 Revenue Collection Performance

According to the information furnished by the Sabah, considerable differences had been observed between the estimated revenue and actual revenue during the year under review.

Revenue Item	Estimated Revenue	Actual Revenue	Outstanding Balance as at 31 December 2014
	Rs.	Rs.	Rs.
Rates	791,500	781,500	4,649,819
Rental	7,315,215	7,399,730	6,381,988
Fees for Services	9,566,000	7,903,305	10,054
Revenue Grants	<u>34,025,193</u>	<u>26,538,436</u>	<u>331,940</u>
	<u>51,697,908</u>	<u>42,622,971</u>	<u>11,373,801</u>

3 Operating Review

3.1 Management Inefficiency

Following observations were made.

- (a) Action had not been taken since eleven years to estimate and take into accounts the value of 13 motor vehicles donated by other Ministries and Departments to the Sabah
- (b) Although 40 market stalls had been constructed at a cost of Rs.22,820,738 under Puraneguma project and handed over during the year 2012, 13 stalls had been given without recovering any rent and the other 27 stalls had been idle until 18 December 2014 without being utilized.
- (c) A sum of Rs. 16,965 had been received as interest during the year under review for a savings account of Rs.400,642 opened during the year 1988. Had this balance been transferred to one year fixed deposit, income amounting to Rs. 36,057 at 9% interest could have been earned.

Therefore, a loss of interest income amounting to Rs. 19,092 had been sustained during the year under review.

- (d) Action had not been taken upto the end of the year under review to settle Rs.48,000 as charges for the years 2010 and 2011 to the Office of the Assistant Commissioner of Local Government.
- (e) A sum of Rs. 355,405 being the contribution to the Employees Provident Fund recovered from the year 1986 from the employees and the Widows and Orphans Fund had been kept in the Deposit Account and later transferred to Revenue without being remitted to the relevant Funds.
- (f) Although 53 stalls of the shopping complex of the Sabah had been run continuously for 15 years by the parties who obtained these stalls for rental, any agreement had not been entered into with them according to Section 173 of the Pradeshiya Sabah Act. Therefore, the lower rent ranging from Rs. 1,800 upto Rs.3,000 fixed before 15 years is being recovered annually without having considered the current rates of rental. Thus , the Sabah had lost the revenue amounting to Rs. 1,621,800 approximately.

Further, it was confirmed in audit by the written statements obtained from the present stall runners that these stalls had been sublet for the amounts ranging from Rs.3,000 to Rs.5,000 to them by the persons who obtained the stalls for rent from the Sabah.

4. Contract Administration

- (a) Construction of shopping complex of the New Bus Stand.

An agreement had been signed by the Muthur Pradeshiya Sabah on 21 January 2012 for Rs.22,820,738 for the construction of a shopping complex containing 40 stalls under Puraneguma Project. The following matters were observed in this regard.

- (i) Although the construction work had been completed and the building had been handed over by the contractor on 30 October 2012, at an audit examination carried out on 18 December 2014 it was observed that cracks for 12 feet length in the four walls of 04 stalls and small cracks in the walls of other stalls had appeared. In addition, water stagnates and seepage appears in rainy days as the front side of the stalls had not been concreted.

The estimated amount of this construction had been paid to the contractor and the retention money also had been reimbursed without having taken all these deficiencies into consideration.

- (ii) Although this matter had been indicated in my report for the year 2013, action had not been taken till todate. Further, this building constructed by spending large amount of money had not been used for the intended purpose till todate.

- (b) Market building of the Muthur New Bus Stand.
An agreement had been signed by the Muthur Pradeshiya Sabah on 27 August 2013 for Rs. 23,366,108 for the construction of a market building under Puraneguma Project. The following matters were observed in this regard.
- (i) Although the construction work had to be completed before 26 December 2013, the work had been completed only on 25 February 2014.
 - (ii) A parapet wall had been constructed in the building to the length of 350 meter and Rs. 269,850 had been paid for the work. However, the wall had been completely damaged as per the audit examination carried out on 24 June 2015 and not repaired till today.
 - (iii) Although this building which was constructed for retail business had been completed and handed over to the Sabah on 25 February 2014, the building had not been utilized for the intended purpose. Without giving the building for retail business, approval had been given by the Pradeshiya Sabah to run retail business in road sides and the lease rental amounting to Rs. 219,510 had been fixed for the year 2015. By this, the building remains idle and the road traffic is also interrupted.

5. Human Resource Management

Details regarding the approved cadre and actual cadre as at 31 December 2014 are given below.

Category of Staff	Approved Cadre	Actual Cadre	Vacancies
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Executives	01	-	01
Subordinates	29	26	03
Minor Employees	76	66	10

The post of Secretary remains vacant from the year 2011 and a staff had been appointed on acting basis without action being taken to appoint a person permanently.

6. Systems and Controls

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

- (a) Accounting
- (b) Revenue management
- (c) Control of Fixed Assets
- (d) Budgetary Control