

## **Malimbada Pradeshiya Sabha**

### **Matara District**

#### 1. Financial Statements

##### 1.1 Presentation of Financial Statements

The Financial Statements for the year under review had been presented to the Audit on 31 March 2016 and the financial statements for the preceding year had been presented to the Audit on 30 March 2015. The Report of the Auditor General for the year under review was sent to the Secretary of the Sabha on 25 November 2016.

##### 1.2 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Malimbada Pradeshiya Sabha as at 31 December 2015 and its financial performance for the year then ended in accordance with the Generally Accepted Accounting Principles.

##### 1.3 Comments on Financial Statements

###### 1.3.1 Accounting Deficiencies

The following accounting deficiencies were observed during the course of audit.

- (a) The sum of Ra.900,000 received from the Office of the Chief Minister in the year 2001 for the construction of a Crematorium in the area of Authority of the Sabha had been shown as a receivable in the financial statements for the year under review.
- (b) The totals of the creditors and debtors balances relating to the construction of the Compost Yard had been understated by a sum of Rs.101,602.

###### 1.3.2 Accounts Receivable and Payable

The following observations are made.

- (a) The balances of the Accounts Receivable as at the end of the year under review totaled Rs.18,561,231 and that included 18 balances totaling Rs.2,346,448 older than 03 years.
- (b) The balances of the Accounts Payable as at the end of the year under review totaled Rs.9,461,265 and that included 23 balances totaling Rs.2,346,448 older than 03 years.

###### 1.3.3 Lack of Evidence for Audit

The title deed in respect of 41 lands and buildings totaling Rs.30,624,362 and the detailed schedules in respect of 06 categories of deposits totalling Rs.2,650,027 had not been produced and as such those could not be satisfactorily examined in audit.

#### 1.3.4 Non-compliance with Laws, Rules and Regulations

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Instances of non-compliance with the provisions in the Laws, Rules and Regulations were observed.

Reference to Laws, Rules and Regulations	Non-compliance
(a) Section 152(1)(a) of the Pradeshiya Sabha Act, No. 15 of 1987	The tax payers who had defaulted the payment of Rates and Taxes and the Lists Warrants on Restraining of Properties had not been prepared.
(b) Pradshiya Sabhas (Financial and Administration) Rules 1998 No. 193	A statement of reasons for the actual expenditure of the items of expenditure, the excesses and shortfalls together with the budgeted and supplementary estimates had not been presented with the financial statements.
(c) Financial Regulation 571 of the Financial Regulation of the Republic of Sri Lanka	Action had not been taken on security and sundry deposits amounting to Rs.88,282 older than 05 years.

## 2. Financial Review

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### 2.1 Financial Results

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According to the financial statements presented to the Audit, the excess of revenue over the recurrent expenditure of the Sabha for the year ended 31 December 2015 amounted to Rs.4,527,409 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounting to Rs.3,450,103. Accordingly, the financial results for the year under review, as compared with the preceding year, indicated an improvement of Rs.1,077,306.

### 2.2 Analytical Financial Review

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The following matters were observed.

- The Recurrent Expenditure of the year under review, as compared with the preceding year, indicated an increase of Rs.3,033,529 whilst the total recurrent expenditure amounted to 86 per cent of the total recurrent revenue. The expenditure, as compared with the revenue of the Sabha, had been at a very high level.
- A Summarized Statement of the total Recurrent Revenue, the Revenue Grants, the Self-generated Revenue and the total Recurrent Expenditure of the Sabha for the year under review and the two preceding year is given below.

Year	Total Recurrent Revenue	Revenue Grants	Self- generated Revenue	Total Recurrent Expenditure	Recurrent Expenditure exceeding the Self- generated Revenue
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	Rs.	Rs.	Rs.	Rs.	Rs.
2015	32,558,032	17,803,072	14,754,960	28,030,623	(13,275,663)
2014	28,447,197	14,545,240	13,901,957	24,997,094	(11,095,137)
2013	19,303,207	7,093,212	12,209,995	19,039,955	(6,829,960)

- (c) There were improvements in the Revenue Grants as well as the self-generated revenue in the year under review.
- (d) Even though the recurrent expenditure of every year had increased continuously in considerable measure, the attention of the Sabha had not been paid for controlling that position.
- (e) If revenue grants are not received, all three preceding years indicate that it will not be possible in any manner whatsoever to cover the recurrent expenditure from the self-generated revenue of the Sabha.
- (f) In view of the position shown at the paragraph numbers(c) to (e) above, it is observed that the attention of the Sabha should be paid for increasing the revenue position of the Sabha, that a formal course of action for that purpose should be prepared and implemented and if such action is not taken, it would create problems relating to the financial position of the Sabha, thereby causing adverse impacts on the going concern of the Sabha.

## 2.3 Revenue Administration

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### 2.3.1 Rates and Taxes

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Even though 38 per cent of the outstanding balance of Rates and Taxes at the beginning of the year under review and the 78 per cent of the billings had been recovered, action in terms of Section 158(1)(a) of the Pradeshiya Sabhas Act, No.15 of 1987 had not been taken for the recovery of the arrears of the Rates and Taxes.

### 2.3.2 Acreage Tax

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Even though 12 per cent of the outstanding amount at the beginning of the year under review and 44 per cent of the billings only had been recovered, action in terms of Section 158(1)(a) of the Pradeshiya Sabhas Act, No.15 of 1987 had not been taken for the recovery of the arrears of the Acreage Tax.

### 2.3.2 Rents

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Even though 38 per cent of the outstanding balance as at the beginning of the year under review had been collected, the attention of the Sabha had not been paid for the recovery of the arrears.

### 3. Operating Review

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#### 3.1 Evaluation of Performance

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Even though approval had been granted for the implementation of 70 Development Work Proposals by utilizing the Sabha funds, only 04 works proposals had been executed during the year. According to the Main Cash Book of the Sabha, the average monthly cash balance amounted to Rs.5,859,564. In view of the failure to execute the propose works despite the availability of financial strength with the Sabha, the general public of the region had not properly received the services they are entitled to.

#### 3.2 Uneconomic Transactions

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- (a) Instead of utilizing the Backhoe Loader machine belonging to the Sabha for the works executed by the Sabha, a sum of Rs.270,440 had been paid for the use of the Backhoe Loader belonging to a private institution.
- (b) An overpayment of Rs.76,136 had to be paid as the insurance cover exceeding the cost of the Light Dump Truck amounting to Rs.2,490,400 had been obtained.

#### 3.3 Contract Administration

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The following observations are made.

- (a) Out of the sum of Rs.900,000 received for the construction of the Crematorium in the area of Authority of the Sabha, a sum of Rs.800,000 had been invested in Treasury Bills whilst the balance sum of Rs.100,000 had been used for recurrent expenditure. As such the total amount had been used for activities extraneous to the objective.
- (b) Even though the Horagoda Muslingoda Road Development Work had been completed after a delay of 55 weeks, the penalty due for the period of delay amounting to Rs.32,969 had not been recovered.

#### 3.4 Solid Waste Management

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The following matters were observed in connection with the Solid Waste Management.

- (a) The Sabha had used a land belonging to the Divisional Secretary for the disposal of garbage. The Environmental Certificate for that land had not been issued even by June 2016.
- (b) A monthly rental of Rs.1,250 had been recovered from a factory disposing of 5,250 kilogrammes of garbage annually. A systematic course of action had not been implemented for the disposal of garbage by 17 Sales stalls of animal productions situated in the area of Authority of the Sabha.
- (c) Even though the work of the first stage of the Solid Waste Management Project had been completed after a delay of 9 weeks, liquidated damages amounting to Rs.26,560 had not been recovered.

#### 4. Good Governance and Accountability

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##### 4.1 Budgetary Control

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The excesses on limits of 08 items of expenditure included in the budget for the year under review amounting to Rs.147,166,203, the non-achievement of the targetted revenue of 07 items of revenue amounting to Rs.144,373,508 and excess of revenue over the targeted revenue of another item of revenue existed. As such the budget had not been made use of as an effective instrument of financial control.

##### 4.2 Internal Audit

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Even though an adequate internal audit had not been carried out as specified in the provision in the Financial Regulations 133 and 134 of the Financial Regulation of the Republic of Sri Lanka and the Circular No.දපසා/යහ/01/නව෧෪ dated 24 February 2014 of the Commissioner of Local Government of the Southern Province, a sum of Rs.460,224 had been paid in the year under review as salaries and allowances to the Internal Audit Officer.

##### 4.3 Audit and Management Committee

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Action in terms of the provisions in the Audit and Management Circular No.DMA/2009(i) dated 09 June 2009 had not been taken even by the end of the year under review for the establishment of the Audit and Management Committee.

##### 4.3 Assets Management

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The Light Dump Truck valued at Rs.6,009,600 received as a donation from the Ministry of Public Administration and Provincial Councils as a donation in December 2014 had run only a minimal distance of 368 kilometres in the year 2015

##### 4.5 Unsettled Liabilities

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Action had not been taken either for the payment or account for the liabilities on the contribution and surcharge thereon amounting Rs.155,196 payable to Employees Provident Fund.

#### 6. Systems and Controls

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Special attention of the Sabha is drawn to the following areas of systems and controls.

- (a) Assets Management
- (b) Revenue Administration
- (c) Budgetary Control.
- (d) Accounting
- (e) Contract Administration