

**Matara Pradeshiya Sabha**  
**Matara District**

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**1. Financial Statements**

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**1.1 Presentation of Financial Statements**

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The Financial Statements for the year under review had been presented to the Audit on 24 March 2017 and the financial statements for the preceding year had been presented to the Audit on 15 March 2016. The Report of the Auditor General for the year under review was sent to the Secretary of the Sabha on 26 July 2017.

**1.2 Qualified Opinion**

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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 Matara Pradeshiya Sabha as at 31 December 2016 and its financial performance for the year then ended in accordance with the Generally Accepted Accounting Principles.

**1.3 Comments on Financial Statements**

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**1.3.1. Accounting Deficiencies**

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

- (a) The value of the land of 28 perches received at Rs. 200,000 in the year under review had not been capitalized as Fixed Assets.
- (b) Expenditure payable of Rs. 325,520 for service taken on credit basis in the year under review had not been accounted.
- (c) Plant and equipment valued at Rs. 922,248 taken to Sabha on credit basis in the year under review had not been accounted.
- (d) Value of vehicles had been understated in the financial statements by Rs. 4,339,998.

**1.3.2 Accounts Receivables and Payables**

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The following observations were made.

- (a) The balances aggregating Rs. 58,660,164 which was remaining for over 03 years had been included in the outstanding sundry income balance of Rs. 123,334,042 as at the end of the year under review.

- (b) Capital creditor balance of Rs. 65,392,763 as at the end of the year under review had included a credit balance aggregating Rs. 22,676,144 which was carrying forward since the year 2007.
- (c) Refundable sundry deposit balance of Rs. 8,876,667 as at the end of the year under review had included a balance of Rs. 8,173,131 which was remaining for over 03 years.
- (d) Balance aggregating Rs. 1,942,225 shown under utility service which could be recovered as at the end of the year under review had not been recovered from Matara Municipal Council.

### **1.3.3 Lack of Documentary Evidence Required for Audit**

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In view of the failure to produce documents such as Fixed Assets aggregating Rs. 35,840,382, schedules with relating to recoverable utility services of Rs. 1,942,225 and prior year adjustments of Rs. 14,390,859, the Register of Grants and the detailed schedules in respect of the arrears outstanding Capital Grants of Rs. 23,592,538 and Revenue Grants of Rs. 7,931,031, detailed schedules with relating to outstanding water bills aggregating Rs. 5,115,076, schedules, files and the confirmation of balances with relating to contract debtors of Rs. 21,981,649 and creditor balances of Rs. 22,452,139 those transactions could not be examined satisfactory in audit.

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

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According to the Financial Regulation of the Republic of Sri Lanka 396, actions had not been taken with relating to 05 cheques aggregating Rs. 601,508 which was issued but not presented for payments over 06 months period.

## **2. Financial Review**

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### **2.1 Financial Results**

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According to the financial statements presented, the excess of revenue over the recurrent expenditure of the Sabha for the year under review amounted to Rs. 34,464,557 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year was Rs. 24,096,340. Accordingly, the financial result for the year under review is indicated an improvement of Rs. 10,368,217.

## **2.2 Analytical Financial Review**

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The following observations were made.

- (a) It was observed that total recurrent expenditure was almost 59 per cent from the total recurrent revenue of the year under review.
- (b) It was observed that the recurrent expenditure had been increased more than the Self-generated Revenue by significant amounts in the year under review as well as the previous two years.

## **2.3 Working Capital Management**

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Even though the current and quick ratios of the year under review indicated as 1:2.1, it was observed that a liquidity position according to the current ratio does not exist due to the existence of unrecovered balances older than 03 years amounting to Rs. 58,660,164 in the debtors balance.

## **2.4 Revenue Administration**

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The following observations were made.

### **2.4.1 Rates and Taxes**

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Total arrears as at the end of the year under review had been a higher amount of Rs. 4,017,281 due to non-taking actions to recover arrears instalment in terms of Section 158 (1) (a) of the Pradeshiya Sabha Act.

### **2.4.2 Lease Rent**

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While there was an arrears balance amounting to Rs. 419,712 at the beginning of the year, and a sum of Rs. 2,137,446 had to be recovered including the billings of Rs. 1,717,734 of the year. The arrears balance as at the end of the year was Rs. 400,635 due to the total recoveries during the year was Rs. 1,746,811.

### **2.4.3 Courts Fines and Stamp Duty**

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Courts fines amounting to Rs. 5,000,000 and the Stamp Duty amounting to Rs. 22,500,000 had been remained as receivable from the Chief Secretary to the Provincial Council and other Authorities as at 31 December 2016.

### **3. Operating Review**

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#### **3.1 Management Inefficiencies**

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The following observations were made.

- (a) Public welfare and health activities, road maintenance activities had been disturbed due to spending of Rs. 4,023,336 from Sabha fund for the payment of salaries and allowances without taking relevant duties of 10 employees recruited from the year 2014 to the year under review.
- (b) Stamp duty of Rs. 44,017, Vat of Rs. 235,651 and Nation Building tax of Rs. 45,338 which was carrying forward from previous years had not been settled even in the year under review.
- (c) Actions had not been taken to fill 07 secondary and primary vacancies as well as to streamline excess recruitments made in 08 secondary and primary posts.

#### **3.2 Idle and Underutilized Assets**

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Four machines at a cost of Rs. 19,349,568 and, Roller and Double Cab which was not valued and belonging to Sabha had not been used for effective purpose during the year under review.

#### **3.3 Contract Administration**

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According to the budget estimate for the year under review, though 38 work proposals at an estimated cost of Rs. 68,520,100 had been planned to implement, only 11 contracts of Rs. 7,892,390 had been implemented during the year.

#### **3.4 Solid Waste Management**

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The following observations were made.

- (a) Out of 08 tons of solid waste gathered daily in the area of the authority of the Sabha, though the volume of 3.5 tons were used for compost manufacturing, a proper disposal procedure had not been implemented for the remain volume of 4.5 tons. Therefore issuing of environment license had been refused by Central Environment Authority after the year 2013.
- (b) Manufacturing of organic fertilizer had been suspended since 13 June 2016 due to the protest of neighboring public against organic fertilizer center on improper waste disposals, and the organic fertilizer center constructed by spending a sum of Rs. 1,114,493 had been idle since then.

#### **4. Accountability and Good Governance**

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##### **4.1 Budgetary Control**

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It was observed that the budget estimate had not been made use of as an effective instrument of management control due to the reasons such as making expenditure by transferring provisions of Rs. 1,095,000 from other expenditure votes as because of insufficiency in provisions made for 06 expenditure votes included in the budget estimate for the year under review, and savings aggregating Rs. 20,573,878 remained in 07 expenditure votes.

##### **4.2 Internal Audit**

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Actions had not been taken even in the year under review to establish and to implement an Internal Audit Unit in terms of paragraph 8 of the Circular No. 03 on the Local Government Reforms dated 08 November 2005 of the Secretary to the Ministry of Provincial Councils and Local Government

#### **5. Systems and Controls**

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

- (a) Assets Management
- (b) Accounting
- (c) Revenue Collection
- (d) Budgetary Control