

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 2017 and the financial statements for the preceding year had been presented to the Audit on 31 March 2016 and 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

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 2016 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 Tractor and Trailer amounting to Rs. 1,500,000 procured under Provincial Specific Grant had been accounted as capital grant receivable.
- (b) Surcharge amounting to Rs. 86,220 which had to be paid to Employee Provident Fund in respect of temporary labor engaged in Sabha service had not been shown in the financial statements.
- (c) A sum of Rs. 817,521 paid with relating to the project for construction of surrounding wall to Malimbada library in the previous year had not been capitalized.
- (d) The value of the land amounting to Rs. 34,500 which was received to Sabha as grants in the month of August 2011 with the extent of 18.93 perches had been omitted in the financial statements.
- (e) Receivable stamp fees for the year 2015 had been overstated by Rs. 232,999 in financial statements.

1.3.2 Accounts Receivables and Payables

The following observations were made.

- (a) Twenty-seven balances over 03 years period of Rs. 3,898,736 had been included in debtor balance aggregating Rs. 32,608,105 as at the end of the year under review.
- (b) Twenty-six balances over 03 years period of Rs. 1,559,886 had been included in accounts payable balances aggregating Rs. 9,267,664 as at the end of the year under review.

1.3.3 Lack of Evidence for Audit

In view of the failure to produce evidence such as title deeds in respect of lands and buildings totaling Rs. 105,595,281, confirmation of balances and age analysis for sundry debtor balance of Rs. 3,112,855 and sundry creditor balance of Rs. 9,033,803, the detailed schedules in respect of 06 types of deposits for Rs. 2,831,387 could not be satisfactorily examined in audit.

1.3.4 Non-compliance with Laws, Rules and Regulations

According to the Financial Regulation of the Republic of Sri Lanka 571, actions had not been taken with relating to lapsed sundry deposit of Rs. 853,525.

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 2016 amounted to Rs. 15,200,750, as compared with the excess of recurrent expenditure over revenue amounting to Rs. 4,527,409 for the preceding year. Accordingly, the financial results for the year under review indicated an improvement of Rs. 10,673,341.

2.2 Analytical Financial Review

The following observations were made.

- (a) It was observed that total recurrent expenditure was almost 62 per cent from the total recurrent revenue of the year under review.
- (b) The recurrent expenditure had been increased more than the self-generated revenue by significant amounts in the previous three years and it was shown situation where recurrent expenditure could not be recovered at any mean from self-generated revenue.

2.3 Working Capital Management

Even though the current and quick ratios indicated as 1:4.3, it was observed that a liquidity position does not exist due to the existence of capital grants receivable of Rs. 4,652,878, stamp fees receivable of 65 per cent of them included in the debtor balance.

2.3.1 Revenue Administration

2.3.2 Rates

While there was opening arrears rates balance amounting to Rs. 91,579 and had to be recovered including the billings of Rs. 237,474 of the year. The arrears balance as at 31 December 2016 was Rs. 75,338 due to the total recoveries was Rs. 162,136.

2.3.3 Lease Rent

While there was opening stall rent arrears balance amounting to Rs. 121,520 and a sum of Rs. 1,509,538 had to be recovered including the billings of Rs. 1,388,018 of the year. The arrears balance as at the end of the year was Rs. 93,220 due to the total recoveries was Rs. 1,416,318.

2.3.4 Business Tax

While there was opening arrears business tax balance amounting to Rs. 13,800, and a sum of Rs. 640,790 had to be recovered including the billings of Rs. 626,990 of the year. The arrears amount as at the end of the year was Rs. 16,800 due to the total recoveries was Rs. 623,990.

2.3.5 Courts Fines and Stamp Duty

Courts fines amounting to Rs. 1,153,302 and the Stamp Duty amounting to Rs. 26,972,487 had been remained as receivable from the Chief Secretary to the Provincial Council and other Authorities as at the end of the year under review.

3. Operating Review

3.1 Performance Evaluation

According to the budget estimate of the year under review, though plans had been approved to implement 61 development work proposals under Sabha fund, only one development work proposal had been implemented during the year. However, the average monthly cash balance was Rs. 4,044,934 and therefore it was indicated the availability of financial strength with the Sabha to implement the contracts.

3.2 Management Inefficiencies

Actions had not been taken to fill 02 secondary and primary vacancies as well as to streamline excess staff in 04 posts. Despite of these 06 more employees had been deployed on substitute basis and a sum of Rs. 1,255,476 had been paid as salaries and allowances.

3.3 Transactions of Contentious Nature

The following observations were made.

- (a) Though the Roller belonging to Sabha had been rented out to private businessman, security deposit amounting to Rs. 22,900 and a sum of Rs. 105,000 receivable as at the end of the year under review for 70 machine hours had not been received to Sabha.
- (b)
 - (i) A sum of Rs. 100,000 had been paid to a contract company out of a sum of Rs. 1,000,000 received from Ministry of Local Government 08 January 2008 to construct crematorium at Malimbada Alawatta Hena cemetery premises. Though 17 years had been lapsed since the payment of that amount, the work of that contract had not been completed.
 - (ii) Though a sum of Rs. 3,921,386 had been earned by investing the balance amount of Rs. 900,000 in Treasury bills by the name of Sabha, estimated amount of construction had been increased up to Rs. 13,430,000.
 - (iii) Though a land had also been given on 26 April 1999 to construct a crematorium, a crematorium had not been constructed even in that land.

3.4 Idle and Underutilized Assets

The following observations were made.

- (a) Steps had not been taken to protect by making land marks in 38 land lots with the extent of 09 acres 01 roods 36 perches belonging to the Sabha.
- (b) Cement blocks machine at a cost of Rs. 175,644 were remained idle from the year 2012 purchased by the Sabha.

3.5 Solid Waste Management

A sum of Rs. 2,786,399 had been spent by the Sabha for solid waste management from the year 2012 to the end of the year 2016 and a compost yard had been constructed by spending a sum of Rs. 6,114,025 from the provisions received from Central Environment Authority since the year 2011. However organic fertilizer kilograms of 19,235 and 28,140 had only been produce by the Sabha during the previous year and the year under review respectively.

4. Accountability and Good Governance

4.1 Budgetary Control

It was observed that the budget had not been made use of as an effective instrument of financial management control due to the savings aggregating Rs. 15,692,031 in 08 expenditure votes, adverse variation of Rs. 5,441,013 in two expenditure votes included in the budget for the year under review.

4.2 Internal Audit

Even though an adequate internal audit had not been carried out as specified in the Financial Regulations 133 and 134 of the Financial Regulations of the Republic of Sri Lanka and the Circular No.SPLA/G/01/MCC dated 24 February 2014 of the Commissioner of Local Government of the Southern Province, a sum of Rs. 492,445 had been paid to the Internal Audit Officer deployed by the Sabha as salaries and allowances in the year under review.

4.3 Audit and Management Committee

Audit and Management Committees had not been established in terms of the Letter No. මාර/වාස/වි/ක issued by the Assistant Commissioner of Local Government on 22 December 2004 by referring to the Public Finance Circular No. PN/PE/P.7 dated on 15 March 2000.

5. Systems and Controls

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

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