

**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 2017 had been presented for audit on 20 March 2018 and the report of the Auditor General on the financial statements had been forwarded to the Chairman of the Sabha on 31 July 2018.

**1.2 Qualified Opinion**

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In my opinion, except for the effects of the matters shown in paragraph 1.3 of this report, the financial statements of the Matara Pradeshiya Sabha give a true and fair view of the financial position as at 31 December 2017 and its financial performance for the year then ended in accordance with 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 in audit.

- (a) The value of a land obtained by the Sabha had been understated by Rs.1,800,000 while capitalizing whereas the value of another land had been overstated by Rs.400,000
- (b) Eleven land of the Sabha valued at Rs.19,111,127 had not been capitalized as assets while the value of 03 land of 03 acres, and 31.8 perches had not been assessed and shown in the financial statements.
- (c) Furniture and equipment valued at Rs.270,767 had been purchased during the year under review. These had not been capitalized.
- (d) Thirty eight 10 per cent retention deposits of Rs.2,527,618 refundable to workers on behalf of the previous year had not been brought account.
- (e) Ten per cent retention deposits payable for work had been understated by Rs.507,312.
- (f) Services obtained on loan basis during the year under review for which Rs.396,293 was payable had not been brought to account as expenditure of the year and creditors.
- (g) The value of 38 materials of stores of Rs.107,477 had been omitted in the accounts.
- (h) Court fines of Rs.10,043,702 and stamp fees of Rs.49,300,228 receivable for the previous year had not been brought to account.

- (i) The expenditure of Rs.685,989 incurred on the Kekanadura week end fair latrine constructed from the funds of the Sabha during the year under review had not been capitalized.
- (j) Provision for debtors and creditors for 05 work as at end of the year under review had been overstated by Rs.84,600
- (k) The sum of Rs.39,614 payable to the pensions fund as at 31 December 2017 had not been brought to account.
- (l) Provision for audit fees payable for the year under review had not been made in the accounts.

### **1.3.2 Contingent Liabilities**

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Disclosures had not been made in the financial statements regarding the cash filed against the Pradeshiya Sabha in the District Court pertaining to the ownership of land valued at Rs.2.704,750 where the head office of the Shaba functions.

### **1.3.3 Unreconciled Accounts**

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Difference between 03 items of accounts in the financial statements and the balances in the relevant subsidiary registers / schedules totalled Rs.1,672,647.

### **1.3.4 Accounts Receivable and Payable**

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#### **(a) Accounts Receivable**

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The following matters were observed.

- (i) Six balances of Rs.77,912,707 over 03 years had been included in the arrears of other revenue balances of Rs.120,825,956 as at end the year under review.
- (ii) A sum of Rs.1,942,225 had been shown as utility services recoverable as at end of the year under review from the Matara Municipal Council. However, such a balance had not been mentioned in the financial statements of the Matara Municipal Council. Therefore, the recovery of this amount was in suspense.

#### **(b) Accounts Payable**

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The following matters were observed.

- (i) Balance of 13 types of loans totally valued at Rs.43,058,756 over 03 years had been included in the capital creditors balances totalling Rs.54,827,045 as at end of the year under review.

- (ii) A balance of Rs.8,173,131 over 03 years had been included in the miscellaneous refundable deposits totally valued at Rs.10,267,338 as at end of the year under review.

### 1.3.5 Lack of Necessary Documentary Evidence for Audit

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Sixteen items of accounts aggregating Rs.133,891,101 could not be satisfactorily vouched in audit due to non- rendition of necessary information.

### 1.3.6 Non-compliance

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#### 1.3.6.1 Non-compliance with Laws, Rules, Regulations and Management Decisions

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Instances of non-compliance with laws, rules, regulations and management decisions appear below.

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non - compliance</b>
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<p>(a) 1988 Pradeshiya Sabha (Finance and Administration) Rules</p> <p>(i) Rule 33</p> <p>(ii) Rule 141</p> <p>(iii) Rule 193</p> <p>(iv) Rules 217 and 218</p>	<p>A list of defaulters of rates and a list of distraining orders had not been prepared.</p> <p>Retention money of 10 per cent on work had not been noted in the register of deposits.</p> <p>A Statement showing the cause of surplus and deficit had not been furnished by reconciling the budgeted and the supplementary votes ledger with the actual expenditure of Objects.</p> <p>A register in from No.P.546 had not been maintained with regard to all land and buildings of the Sabha. Annual board of survey too had not been carried out.</p>

(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

(i) F.R 137(5)

payments for a supply should be made after confirming that the goods had been correctly received. However, a sum of Rs.55,000 had been paid for obtaining 89 T - Shirts without certifying that the goods had been received and handed over.

(ii) F.R 396(c)

Action had not been taken regarding 06 cheques valued at Rs.602,033 remaining unrepresented for payments for over 06 months.

(iii) F.R 565(4)

The breakup of each balance in the General Deposit Account totalling Rs.8,876,677 had not been identified and brought forward.

(c) State Accounts Circular No.2014/03(i) of 30 December 2014

Telephone allowances of Rs.13,750 had been paid to a Community Development Officer, contravening circular instructions.

(d) Public Administration circular No. 30/2016 of 29 December 2016

Consumption of fuel by 18 vehicles of the Sabha had not been tested.

## 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 2017 amounted to Rs.36,726,325 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.34,464,557.

### 2.2 Financial Control

(a) According to the bank reconciliation statement of the bank current account which had become dormant from 01 January 2013, action had not been taken even by end of the year under review to settle a cheque valued at Rs.601,508 issued, but not presented to the bank for payment.

- (b)
  - (i) The sum of Rs.5,598 issued from the General Fund Bank Account of the Sabha, but not debited in the bank account for 03 to 05 years and the sum of Rs.7,088 of the Water Account remained unsettled for 05 years.
  - (ii) Action had not been taken to settle the sum of Rs.80,819 of the General Account received as excessive deposit in the bank account.
  - (iii) Action had not been taken to invest in fixed deposits and earn revenue on interest, the balances remaining after retaining money for usage of necessities from the sum of Rs.83,550,811 in the General Cash Account and the sum of Rs.5,616,053 in the Work Cash Account.

## 2.3 Revenue Administration

### 2.3.1 Estimated Revenue, Revenue Billed, Revenue Collected and the Arrears of Revenue

The information relating to the estimated revenue, revenue billed, revenue collected and the arrears of revenue furnished for the year under review and the previous year appear below.

Source of Revenue	2017				2016			
	Estimated Revenue Rs.	Revenue Billed Rs.	Revenue Collected Rs.	Total arrears as at 31 December Rs.	Estimated Revenue Rs.	Revenue Billed Rs.	Revenue Collected Rs.	Total arrears as at 31 December Rs.
Rates and Taxes	5,409,360	6,660,213	4,957,468	5,731,941	3,948,310	4,978,655	3,407,157	4,029,196
Rent	2,143,100	1,670,214	1,701,914	687,985	2,798,100	2,055,658	2,113,635	719,685
Licence Fees	1,423,920	2,496,939	2,360,686	241,613	1,500,000	2,490,459	2,402,999	105,360
Other Revenue	27,320,750	42,769,981	33,769,981	41,615,076	32,827,500	35,373,346	212,419,746	32,615,076
<b>Total</b>	<b>36,297,130</b>	<b>53,597,347</b>	<b>42,790,049</b>	<b>48,276,615</b>	<b>41,073,910</b>	<b>44,898,118</b>	<b>220,343,537</b>	<b>37,469,317</b>

### **2.3.2 Performance in Collection of Revenue**

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The total estimated revenue of the year under review amounted to Rs.36,297,130 and the amount billed was Rs.53,597,347. The total amount recoverable amounted to Rs.91,066,664 together with the opening arrears of Rs.37,469,317. The total revenue collected during the year amounted to Rs.42,790,049. As such, the total arrears as at end of the year amounted to Rs.48,276,615.

### **2.3.3 Rates and Taxes**

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(a) The opening balance of Rs.4,017,281 together with the year's billings of Rs.4,990,889 resulted in recoverables amounting to Rs.9,008,170. The arrears of balances had increased to Rs.5,790,573 as the total recoveries amounted to Rs.3,217,597.

(b) **Acreage tax**

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The opening balance of acreage tax amounted to Rs.11,915 and the billings of the year (with fees and fines) amounted to Rs.2,906. Total recoveries of Rs.240 during the year had resulted in an arrears Rs.14,581 as at end of the year.

### **2.3.4 Rent**

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The opening arrears of rent of Rs.390,635 added to Rs.1,408,526 of billings of the year resulted in recoverables of Rs.1,799,161. Total recoveries amounted to Rs.1,440,226 resulting in an arrears of Rs.358,935 as at end of the year.

### **2.3.5 Court Fines and Stamp Fees**

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Court fines of Rs.7,500,000 and stamp fees of Rs.29,000,000 were due from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2017

## **3. Operating Review**

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### **3.1 Performance**

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(a) **Non achievement of the expected output level**

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The following matters were observed.

(i) The Sabha had received Rs.553,900 from the Ministry of Environment, Southern Province on 27 November 2017 to establish an environmental zone and a sum of Rs.75,000 had been received as donation from a private institution on 30 August 2017 to provide uniforms to officers. These had been retained in the General Deposit Account without being used for the relevant purposes.

- (ii) The sum of Rs.40,200 continued to be brought forward for many years had been retained in the General Deposits Account without being remitted to the Buildings Developments Fund.
- (iii) Eighteen work had been proposed to be executed for Rs.12,250,000 from the funds of the Sabha according to the budget of the year under review. But, 04 work valued at Rs.1,569,212 only had been executed. However, 05 work totalling Rs.3,315,849 not included in the budget had been executed from the funds of the Sabha.

**(b) Solid Waste Material Management**

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 The following matters were observed.

- (i) The amount spent on salaries and allowances, vehicles and fuel for collection of garbage during the year under review amounted to Rs.7,830,177. There was no proper procedure for disposal of daily collection of garbage within the area of the Sabha. As such, the Central Environmental Authority had refused to issue environmental licence after 2013.
- (ii) As a result of the irregular disposal of garbage, the residents around the carbonic fertilizer centre had made protests and the manufacture of carbonic fertilizer had been stopped from 13 June 2016. The carbonic fertilizer centre constructed by spending Rs.1,114,493 remained idle.
- (iii) Garbage tax had not been recovered from any institution during the year under review.

**(c) Sustainable Development Target**

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 The Sabha had not prepared the long term plan for sustainable development target and the objectives in order to uplift the living standards of the public within the area of the Sabha through the global indicators relating to sustainable development objectives and targets as per 2030 agenda of sustainable development.

**3.2 Management Inefficiencies**

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 The following matters were observed.

- (a) Although advances amounting to Rs.277,500 had been granted during the year under review, those advances had not been properly entered in the register of advances.
- (b) The Sabha had spent Rs.593,795 on maintenance of 2069 street lamps in 2017. The Sabha had installed 1688 street lamps in excess of the number approved by the Electricity Board. A proper register had not been maintained for electric bulbs and accessories used.

### **3.3 Human Resources Management**

#### **Vacancies and Excesses of Employees**

The following matters were observed.

- (i) Action had not been taken even by end of the year under review to fill 02 vacancies in the approved cadre and to regularize 08 excesses in the cadre.
- (ii) Appropriate duties had not been performed by 16 employees who had been employed for primary posts since 2014. But, a sum of Rs.6,279,194 had been paid from the funds of the Sabha as salaries and allowances during the year under review itself.

### **3.4 Operating Inefficiencies**

The following matters were observed.

- (a) (i) The Sabha had received 03 roods and 05 perches of land less than the 10 per cent land due to it while dividing a land of over 01 hectare as referred to in No.06 of the Development Regulations No.5/02/1/10(ii) of 30September 1992 of the Urban Development Authority.
- (ii) According to Section 154(1) of the Pradeshiya Sabha Act, 01 per cent of the sales value of the land should be paid as tax. However, the sum of Rs.1,475,023 receivable from 166 blocks of 11 land that had been sold had not been recovered.
- (c) An expenditure of Rs.2,989,068 had been incurred on constructing the Navimana South Miriswaththa Playground. However, action had not been taken by the Sabha to acquire the land up to 15 May 2018.
- (d) The value of 103 blocks of land had been shown as Rs.78,605,147 under land and buildings as at end of the year under review. These had not been assessed after being acquired by the Sabha.

### **3.5 Assets Management**

#### **3.5.1 Idle / Under utilized Assets**

##### **(a) Motor vehicles and carts**

Four vehicles of the Sabha valued at Rs.9,984,453 had not been utilized for any purpose during the year under review.

**(b) Machines and Machinery**  
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A tipper worth Rs.6,009,602 had performed 783km during the year while a becko loader worth Rs.5,000,000 had performed 473 km only during the year under review. A road roller valued at Rs.400,000 without a registered number remained idle during the year under review.

**3.6 Uneconomic Transactions**  
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Although a sum of Rs.1,000,000 had been used from the funds of the Sabha for the main bus stand constructed close to Kekanadura junction by the Urban Development Authority incurring an expenditure of Rs.7,198,400, it had not been used for any meaningful purpose.

**3.7 Identifies Losses**  
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Action had not been taken during the past 05 years to recover the sum of Rs.264,332 due as hire charges of becko loader and the higher charges of road roller, before it became inoperative.

**4. Accountability and Good Governance**  
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**4.1 Budgetary Control**  
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Significant variances were observed between the budgeted and actual revenue and expenditure of the year under review as shown below. It was thus observed that the budget had not been utilized as an efficient instrument of management control.

- (i) Savings in 08 items of expenditure totalling Rs.20,267,317 ranged from 14 to 100 per cent.
- (ii) Adverse variances of 03 items of revenue totalling Rs.11,155,863 ranged from 11 per cent to 23 per cent.
- (iii) Favourable variances of 03 items of revenue totalling Rs.18,287,607 ranged from 23 per cent to 126 per cent.

**4.2 Internal Audit**  
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Adequate internal audit had not been carried out in terms of Financial Regulations 133 and 134 of the Republic of Sri Lanka and the circular No.දපසා/යභ/01/න.ව.ලේ of 24 February 2014 of the Southern Commissioner of Local Government. The internal audit programme had not been prepared in consultation with the Auditor General. Meanwhile, action had not been taken to furnish copies of internal audit reports.

#### **4.3 Audit and Management Committees**

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Although Audit and Management Committees had been established in terms of provisions in the Management Audit Circular No. DMA/2009(i) of 09 June 2009, two meetings only been held up to end of the year under review.

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

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Deficiencies observed during the course of audit were brought to the notice of the Sabha from time to time. Special attention is needed in respect of the following areas of control.

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