

Manmunai South West Pradeshiya Sabha

Batticaloa District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial Statements for the year 2018 had been presented for audit on 02 April 2019 and the summary report of the Auditor General on the financial statements and the detailed management report had been forwarded to the Chairman on 30 May 2019 and 31 May 2019 respectively.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph of basis for qualified opinion, financial statements give a true and fair view of the financial position of the Manmunai South West Pradeshiya Sabha as at 31 December 2018 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Basis for Qualified Opinion

1.3.1 Accounting Policies

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
The Financial Statements did not disclose the accounting policies adopted by the Sabha for the presentation of financial statements	Accounting policies should be disclosed in the financial statements.	No comments.

1.3.2 Accounting Deficiencies

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
(a) Financial statement had been overstated by Rs.1,300,000 of arrears stamp duty receivable to the Sabha on the transfer of property, dowry and donations from the Provincial Treasury Department as at end of the year under review.	Arrears should be accounted for on the basis of books and documents.	Stamp duty arrears specified by the Pradeshiya Sabha amounted to Rs.5,367,150. This was prepared according to information received from the Land Registrar General.

- (b) Discounts amounting to Rs.85,332 given on stamp duty by the Pradeshiya Sabha were not mentioned in the accounts. Must be properly calculated and accounted for. I kindly inform you that in the next financial year will be calculated and adjusted.
- (c) Stamp Duty is an income to the Pradeshiya Sabha. Nevertheless, the Pradeshiya Sabha had not received the additional stamp duty of Rs.110,000 charged by the Income Tax Department of the Eastern Province even at the audit date of 31 March 2019 and this amount was not accounted. Action should be taken to inform the Income Tax Department of the Eastern Province about this charge and collect the stamp duty. I kindly inform you that the stamp duty will be taken into account immediately upon receipt.

1.3.3 Documentary Evidences not made available for Audit

Information had not been furnished

Following 05 Accounts Items amounting to Rs. 199,116,988, could not be satisfactorily vouched in the audit due to lack of evidence.

Accounts Items	Amount	Evidence not Presented	Recommendation	Comments of the Accounting Officer
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	Rs.			
(i) Land and Buildings	182,319,063	Land deeds, register of fixed assets	Documentary evidence for account balances shown in the financial statements should be submitted.	We have a fixed asset register but it has not been updated. Action had been taken to updated.
(ii) Machinery	3,005,923	Register of Assets, Documents to verify ownership.		
(iii) Motor Vehicles and Carts	11,750,000	Register of Assets, Documents to verify ownership.		
(iv) Electrical Equipment inventory	48,216	Inventory register		
(v) Pipeline fittings	1,993,786	Valuation reports, Records and		Action had been taken to obtained valuation reports,

payment vouchers for the completion of the industry

records and payment vouchers for the completion of the industry and an assessment report from the National Water Supply and Drainage Board.

1.4 Non-Compliances

1.4.1 Non-compliances with Laws, Rules, Regulations and Management Decisions

Audit Observation	Non-Compliances	Recommendation	Comments of the Accounting Officer
(a) Section 12 (1) and (2) of the Pradeshiya Sabha Act No.15 of 1987 and subsection 31 (1) of the Gazette Notification No. 488/16 of 13 January 1988 of the Ministry of Local Government Housing and Industry	Although separate committees have been set up for the purpose of easing the functions of the Pradeshiya Sabha, to make a complete decision and for matters such as council funds, policy planning, housing construction, social development, technical services, environmental and public utilities, action had not been taken to conduct committee meetings even end of the year under review.	The Standing Committees shall be constituted in accordance with the relevant provisions and shall be instructed to implement them in a proper manner.	I inform you that these committees established by the Pradeshiya Sabha and are being functioning properly from the year 2019.
(b) Pradeshiya Sabha Regulations of 1988 (Financial and Administration) Chapter I Section 193	Actual Revenue and Expenditure Details for the year under review were not compared to the budget plan and a statement containing explanations for the variation was not submitted to the audit.	Action should be taken to prepare the statements in time and submit to audit.	Action will be taken to prepare the statement in accordance with the financial and administrative rules of the Pradeshiya Sabha.
(c) Treasury Circular No. IAI/2002/02 dated 28 November 2002	A separate fixed assets register for computers and computer accessories and	Should comply with the circular.	Separate documents will be maintained by 2019.

software had not been maintained.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the revenue over recurrent expenditure for the year ended 31 December 2018 amounted to Rs. 4,357,433 when compared with the revenue over recurrent expenditure of the preceding year amounted to Rs. 2,410,502, thus an improvement of Rs. 1,946,931 had been indicated in the financial result.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Arrears Revenue

Information of estimated revenue, billed revenue, collected revenue and arrears of revenue relating to the year under review and previous year are shown below.

Revenue Item	2017				2016			
	Estimated Revenue	Billed Revenue	Recovered Revenue	Arrears as at 31 December	Estimated Revenue	Billed Revenue	Recovered Revenue	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	660,350	784,780	709,375	75,405	660,350	650,350	515,920	134,430
(ii) Rental	924,450	1,060,498	1,060,498	-	954,600	804,600	804,600	-
(iii) Licence Fee	1,145,450	691,655	691,655	-	1,145,600	1,156,585	1,156,585	--
(iv) Other Revenue	45,924,500	57,679,812	46,815,262	10,864,550	43,562,200	50,954,310	39,109,079	11,845,231

2.2.2 Performance of Revenue Collection

Audit Observation	Recommendation	Comments of the Accounting Officer
In terms of sections 134 and 140 (1) of the Pradeshiya Sabha Act No.15 of 1987, Rates and Taxes should also be collected from the divisions of the Sabha area. However, the council only charges temporary Rates and Taxes and necessary measures have not been taken to	Action should be taken in accordance with the Pradeshiya Sabha Act.	Rates and Taxes is being charged on a temporary basis. Action is being taken to assess and stabilize Rates and Taxes on property values. After that, it is expected that the income of the Sabha will increase.

assess the valuation of property and permanent the assessment tax.

2.2.3 Other Income

Operation of the JCB machine

The relevant machine had been purchased in February 2017 by the Local Loan and Development Fund (LLDF) in order to purchase a JCB machine, in agreement with the above fund. The following observations are made regarding the operation of this machine.

	Audit Observation	Recommendation	Comments of the Accounting Officer
(a)	The Pradeshiya Sabha has decided to buy the JCB machine with a loan from the Local Loan and Development Fund, as it does not have sufficient financing to purchase the machine. Accordingly, the machine was purchased with the aim of increasing the income of the Sabha for a sum of Rs.11,500,000 with a sum of Rs 2,300,000 from the Sabha fund and 9,200,000 from the loan. However, the council had only incurred losses as a result of using this machine.	It is advisable to purchase such machines after a study of the future revenue and development of the Sabha.	Proceeds will be raised to increase revenue.
(b)	During the year under review, this machine is used for personal purposes, Sabha work and functions imposed by higher authorities. Often, the approval of the chairman or secretary grants. Other times, the machine is used for various purposes without any approval. A proper plan, internal controls and preparation of records for the operation of this machine were not properly implemented.	Relevant approvals must be obtained for use.	Lack of internal control is one of the biggest shortcomings of the Sabha. I kindly inform you that action will be taken to rectify this shortcoming.

2.2.4 Stamp Duty and Courts Fines

Courts fines amounting to Rs. 847,800 and Stamp Duty amounting to Rs. 4,135,196 were due as at 31 December 2018, from the Chief Secretary of the Provincial Council and all authorities.

(a) Courts Fines

Audit Observation	Recommendation	Comments of the Accounting Officer
Courts fines received amount of Rs. 847,800 related to arrears for the period of June to December 2017. Nevertheless, action had not been taken by the Sabha even by 08 May 2019 to obtain total courts fine up to end of the year 2018.	Take action to obtain court fines.	Action has been taken to obtain courts fines for the year under review.

(b) Stamp Duty

Upon transfer of immovable property in the Pradeshiya Sabha area for the years 2017 and 2018, stamp duty will be collected by the District Land Registration Department in Batticaloa and remitted to the Provincial Treasury Income Tax Department. The following observations are made regarding the receiving of stamp duty by local authorities.

Audit Observation	Recommendation	Comments of the Accounting Officer
(i) In terms of Section 03 of the Stamp Duty Amendment Act No. 06 of 2010, Stamp duty should be charged annually. Nevertheless, the Urban council had not calculated the stamp duty for the period from January to 31 December 2018 and collect it from the Registrar General in due course.	Action should be taken to calculate the stamp duty by the Pradeshiya Sabha and collect it from time to time from the Registrar General of land.	Necessary steps have been taken to recover stamp duty and currently the documents relating to stamp duty have been submitted to the Provincial Income Tax Department.
(ii) In terms of Section 37 of the Finance and Law Act No. 01 of 2008 relating to Imposing and Collecting Taxes and Fees from	In terms of Section 37 of the Finance and Law Act No. 01 of 2008 action should be taken	Arrangements have been made to collect additional stamp duty.

the Inland Revenue Department of the Eastern Province, had not been taken to calculate and recover the stamp duty paid by the property owners to the Eastern Provincial Inland Revenue Department in respect of additional stamp duty charged by direct and mobile services, when transferring real estate in the Urban Council area for the period 2016, 2017 and 2018. Action has not been taken to calculate and recover the stamp duty paid on property of Rs. 110,000 by the property owners to the Eastern Provincial Income Tax Department in the year 2018.

to impose and Collect taxes, calculate the stamp duty by the pradeshiya sabha and collect it from time to time from the Registrar General of land.

3. Operational Review

3.1 Performance

Following matters were revealed relating to the functions which should be performed by the Sabha to regulate and administrate public health, public utility services and public roads and luxury, convenience and welfare of the people under section 3 of the Pradeshiya Sabha Act.

(a) By-Laws

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>In terms of Section 126 of the Pradeshiya Sabha Act No.15 of 1987, by-laws should be imposed and implemented in respect of the revenue and regulation of the Pradeshiya Sabha on 05 key issues. Nevertheless, the Pradeshiya Sabha had sent proposals on by-laws in 2012 to the Ministry of Local Government in the Eastern Province for approval but, As action had not been taken to obtained approval and implement even as at 31 December 2018.</p>	<p>In terms of Section 126 of the Pradeshiya Sabha Act No.15 of 1987, by-laws should be prepared and implemented.</p>	<p>Steps have been taken to obtain approval for by-laws.</p>

(b) Annual Action Plan

Audit Observation	Recommendation	Comments of the Accounting Officer
According to Section 126 of the Pradeshiya Sabha Act No.15 of 1987, to raise the revenue of the Sabha, 13 by-laws had to be drafted and implemented. However, the annual action plan had not been prepared for the 13 activities that the Council had to implement in terms of the by-laws that had to be approved.	In terms of Section 126 of the Pradeshiya Sabha Act No.15 of 1987, by-laws should be prepared and implemented.	Action is being taken to prepare annual action plan.

(c) Sustainable Development Goals

Audit Observation	Recommendation	Comments of the Accounting Officer
The decision of the Sustainable Development Conference of 2015, led by the Heads of States of the United Nations member states, the Sabha had not establish the indicators for the Sustainable Development Programs Agenda to be achieved by 2030.	Complying with the decisions of the Sustainable Development Conference 2015.	Action is being taking to set Sustainable Development Goals.

3.2 Management Inefficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer
The Pradeshiya Sabha paid a total of Rs.5,993,786 as a sum of Rs. 4,000,000 in 2016 and Rs.1,993,786 in the year under review to the National Water Supply and Drainage Board for obtaining water for families residing in Pandariyaweli, Katsenei and Mawadi Munmari. However, as the project was not completed by the audit date of 30 April 2019, no report was submitted to the National Water Supply and Drainage Board.	Prompt action should be taken to fulfil the needs of the general public.	The National Water Supply and Drainage Board has taken steps to obtain reports from the Sabha.

3.3 Human Resource Management

Audit Observation	Recommendation	Comments of the Accounting Officer
(i) According to the list of cadres approved by the Department of Management Services, the council did not take any action to address the vacancies and excess staff.	A systematic plan on human resource management should be implemented.	The council had recruited workers on an acting basis as there was a shortage of employees needed to speed up the solid waste management process.
(ii) Only eight labours and health workers were approved by the Department of Management Services, but the council had recruited 13 others on acting basis.	The council should have a formal human resources plan for labours and health workers.	

3.4 Operational Inefficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) Even though when leasing property belonging to the Sabha, the guarantees in lease agreement should be obtained, no such documents or guarantees have been obtained. Because of this, the Sabha can lose revenue when those who acquire property on a lease basis and fail to pay the lease.	Shall comply with the provisions of the Act.	Action has been taken to obtain the securities when leasing property belonging to the Sabha.
(b) According to section 154 of the Pradeshiya Sabha Act no 15 of 1987, a 1 per cent tax should be levied on certain lands sales. Nevertheless, the council did not take any action to recover Rs.552,483 as taxes from the total value of all the lands sold in 2017 and up to June 2018 amounting to Rs.55,248,300. As a result, the Sabha has to lose approximately Rs 6,000,000 annually.	Action to be charged in terms of Section 154 of the Pradeshiya Sabha Act No 15 of 1987.	A 1 per cent tax on sales has been dealt with.

3.5 Assets Management

3.5.1 Assets not Documented

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>A motor grader machine was given to the Pradeshiya Sabha on 25 February 2015 by the Ministry of Public Administration, Local Government and Provincial Councils. Nevertheless, from 6 December 2016 until the end of the year under review, the engine of the respective engine was malfunctioning and was parked at the Sabha. The machine remained unused, without being repaired and used to generate revenue.</p>	<p>The fixed assets should be record in the asset register and focused on its past period earnings</p>	<p>I kindly informed that the machine was not repaired as the Sabha did not have sufficient funds to repair the motor grader.</p>

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>Internal audits of the Sabha were not carried out during the year under review.</p>	<p>Should have planned and carried out the audit.</p>	<p>Internal Audit activities will be implemented from this year onwards.</p>

4.2 Audit and Management Committee

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>The Audit and Management Committees were not established and no Committee Meetings were held by the Sabha during the year under review.</p>	<p>Should be properly planned and implemented in accordance with the Internal Audit activities.</p>	<p>I kindly inform that the first audit and management committee meeting for this year had been conducted on 02 May 2019.</p>