

Manmunai 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 22 March 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 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 Deficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) If the expenses creditor shown as liabilities, the goods or services must be consumed or the service is over. Even though the elaborate work has not been commenced on the building where one of the banks belongs to the council, a sum of Rs.2,200,350 had been shown as expenses creditors in the deposit account.	Expenditure creditors should be shown after only the goods and services consumed.	Comprehensive work had already commenced when the relevant bank was in operation. This will be settled in future.
(b) In the year under review, the Council does not allocate separate accounts to the value mentioned as minor debtors and the amount of Rs.2,528,195 shown through the Deposit Account, the Deposit account was overstated	Minor Debtors should be shown in the Account.	The reason why minor debtors appear in the deposit account without having to be accounted for separately is, because there is insufficient explanation.

from that amount.

At present arrangements are made to maintain separate accounts.

- (c) Although the receivable stamp fee from the Department of Provincial Treasury on transfer of property, dowry and donation for the period from January to August in the year under review was calculated as Rs. 3,389,400, it had not shown in the financial statements. Receivable stamp duty should be shown in the financial statements on accrual basis. Arrears Stamp fees are not specified in the financial statements prepared by the Council up to now. This will be shown in the financial statements for the year 2019.
- (d) From the Stamp Duty for the year under review out of the amount of Rs. 3,826,239 relating to the year 2017, 1% or Rs. 38,262 which was collected from the Eastern Treasury as administrative expenses and a sum of Rs.66,300 paid to the Assistant Land Registrar General of Batticaloa had not been shown in the accounts. Expenses spent from the income received should be shown in the financial statements. Administrative expenses incurred from the Stamp Duty for the year 2017 and paid to the District Assistant Land Registrar General have not been shown in the accounts up to now. The reason is, after deducting the value above, we only get the remainder. Action had been taken to account this year.
- (e) The cost of purchasing streetlights amounted to Rs. 1,380,075 and the purchase of tires for vehicles amounted to Rs. 544,200 for the year under review was recurrent expenditure. (Income / expenditure). Nevertheless, these values were included in the financial statements as capital expenditures. Income and Expenditure should be shown in the financial statements. Due to the lack of provisions in the Income and expenditure account it was stated as capital expenditures. This will be settled in future.

1.3.2 Accounts Payable

Audit Observation	Recommendation	Comments of the Accounting Officer
Expense creditors amounting to Rs. 1,873,377 had been shown in the financial statements without being settling.	In case of expenditure creditors, it should be settled within one year.	Action had been taken to settle expenditure creditors amounting to Rs. 1,873,377.

1.4 Non-compliances

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

Audit Observation	Non-compliance	Recommendation	Comments of the Accounting Officer
(a) Financial Regulation 41(C) of the Democratic Socialist Republic of Sri Lanka	Even though approval of the Secretary to the Ministry should be obtained before purchasing motor vehicles, without such approval it was purchased the vehicle bearing No. DAF 8438.	Approval of the Secretary to the Ministry should be obtained..	Financial provision of Rs.1,000,000 had been made by Mr. Durairathnam, Hon. Provincial Member. This ehicle had been purchased at the period of former Secretary with the approval of the Commissioner of Local Authorities, Assistant Commissioner of Local Authorities. Such activities will be done with following the procedures in future.
(b) Section 5.2 of the National Budget Circular No. 1/2016 dated 17 March 2016 of the Ministry of Finance.	Cab vehicles can be purchased from the State Institutes by following the procurement procedure and according to the financial provisions. Similarly, prior approval should be obtained from the related Treasury Department in terms of	Prior approval should be obtained	Vehicle had been purchased at the period of former Secretary with the approval of the Commissioner of Local Authorities, Assistant Commissioner of Local Authorities. Such activities will be done with following the procedures in future.

paragraph 2.2.

- (c) **Government Procurement Guidelines of 2006**
Guideline 2.14.1 of additional 34 published on 09 July 2018
- Prior approval should be obtained from the Secretary to the Ministry for repair on motor vehicles for more than Rs.200,000. Nevertheless, contrary to this, the Sabha repaired the vehicle bearing number 53-8521.
- Prior approval of the Secretary to the Ministry should be obtained.
- Instead of obtaining approval from the Secretary to the Ministry for repair of motor vehicles for more than Rs.200,000, the Pickup vehicle (53-8521) had been repaired with the approval of the Sabha, approval from the officers such as Commissioner of Local Authorities, Assistant Commissioner of Local Authorities and obtaining the report of the Mechanical Engineer, Such activities will be done with following the procedures in future.
- (d) Section IV of the Public Administration Circular No. 09/2009 dated 16 April 2009
- In case of overtime payment, time should be verified by the fingerprint machine.
- Should be verified by the finger print machine.
- Holiday payments had been made after verifying the in and out times from the attendance register. Action had been taken to pay holiday payments by verifying from the finger print machine.
- (e) Paragraph 7.1 of Provincial Financial Circular No. PT/04(2)/2018 dated 04 June 2018 of Eastern Province.
- Purchasing the vehicle bearing the number DAF 8438 was made without the recommendation of the Procurement Committee and the Technical Evaluation Committee, rather than the taking decision of the Regional Procurement Committee for procuring goods value over Rs.500,000.
- Purchasing should be done with the recommendations of the Procurement Committee and the Technical Evaluation Committee.
- Since it is a registered private company, the former secretary had to select the supplier to purchase the vehicle bearing the number DAF 8438 directly. even with the approval of the Commissioner of Local Government and the Assistant Commissioner of Local Government. In future, action will be taken in the right way by following financial circulars.

1.4.2 Non-Compliances with Tax Requirements

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>-----</p> <p>A sum of Rs.740,586 had been paid to the contractors as Value Added Tax for the 05 contract works completed during the last and reviewed year. But VAT Invoice have not received from those suppliers. have not received the. Also, the Department of Inland Revenue and the Auditor General were not informed about the paid value added tax.</p>	<p>-----</p> <p>Tax payments should be made as per Section 20 of the Value Added Tax Act No. 14 of 2002 issued by the Department of Inland Revenue and Guidance 5.4.11 of the Procurement Guidelines.</p>	<p>-----</p> <p>The reason for paying a sum of Rs.740,586 without VAT invoices to contractors for the work done in the last and during the reviewed year is lack of awareness. Steps will be taken to do this correctly in future.</p>

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the recurrent revenue over expenditure for the year ended 31 December 2018 amounted to Rs. 4,190,480 when compared with the revenue over recurrent expenditure of the preceding year amounted to Rs. 5,728,470, thus a deterioration of Rs. 1,537,990 had been indicated in the financial result.

3. Operational Review

3.1 Operational Inefficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>-----</p> <p>(i) The Sabha had signed the agreements when leasing of property without guarantees. Because of this, the Sabha can lose revenue when those who acquire property on a lease basis and fail to pay the lease</p>	<p>-----</p> <p>Should maintained security register or obtain securities.</p>	<p>-----</p> <p>Agreements will be signed only after the Sabha obtains half lease amount in advance from the General Market and Shop Leasing. Furthermore, half should be divided into six instalments and paid in January to June. 10% penalties will be charged for unpaid monthly instalments. Also, Rs.25,000 obtained as deposit</p>

money for over leasing amount of Rs.250,000. In addition, the Sabha will take on the responsibilities and hand it over to another person when the lessee does not continue to pay for five months. Property mortgages are not obtained because large valued lease were not giving.

- (ii) Even though, one per cent tax should be levied on certain lands sales, the Sabha did not take any action to recover Rs. 722,280 as taxes from the total value of all the lands sold in 2017 amounting to Rs. 72,228,000.
- According to section 154 of the Pradeshiya Sabha Act no 15 of 1987, when selling any land within the area of the Pradeshiya Sabha, either through public auction or otherwise, through the auctioneer or broker, his servant or his agent, the seller or such auctioneer or broker or his agent or his agent shall pay to the Pradeshiya Sabha a tax equal to 1 per cent of the proceeds of the sale of such land. The Chairman's reply cannot be accepted as such. Therefore, land sales tax should be recovered in accordance with these provisions.
- According to section 154 of the Pradeshiya Sabha Act no 15 of 1987, It is said that only 1 per cent of the proceeds from a public auction sale are recoverable.

3.2 Assets Management

Maintenance and Repairs

	Audit Observation	Recommendation	Comments of the Accounting Officer
(a)	In the Pradeshiya Sabha storeroom there were different types of assets and inventory items, both suitable and unsuitable for use. However, action had not been taken to marked and repaired or removed from the books	-	Action is being taken to mark unsuitable items for use in the Sabha following the prescribed procedures.

- (b) One hand tractor, three land vehicles, a motor lorry, a tractor trailer belonging to the Sabha which can be used after repairs but have not been repaired for more than 04 or 05 years. Taking action to repair the usable equipment and to survey and auction the unusable equipment. A large number of vehicles belonging to the Sabha have been damaged. They are currently undergoing minor repairs. Action will be taken to obtain the Mechanical Engineer's Report for Hand Tractor, Land Vehicle, Motor Lorry and Tractor Trailer. Action will be taken to write-off from the books or sell hand tractor and tractor trailer from the Board of Survey of 2019.

3.3 Procurement

----- Procurement Plan -----

Audit Observation

Recommendation

Comments of the Accounting Officer

The procurement plan for the year under review shall be prepared by the Sabha for supply and service. However, the council did not prepare a procurement plan.

A proper procurement plan should be prepared and action should be taken according to that.

A procurement plan for the year under review had not been prepared Action will be taken to prepare a procurement plan in future.