

Karachchi Pradeshiya Sabha

Kilinochchi District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial statements for the year under review had been presented for audit on 15 July 2011 and the financial statements of the previous year had been presented for audit on 19 November 2010.

1.2 Opinion

So far as appears from my examination and to the best of information and according to the explanation given to me, I am of opinion that the Karachchi Pradeshiya Sabha had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in Paragraph 1.3 of this report, the financial statements have been prepared in accordance with Generally Accepted Accounting Principles give true and fair view of the state of affairs of the Karachchi Pradeshiya Sabha as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Accounting Policies

Accounting Policies adopted for the preparation of financial statements had not been disclosed with the financial statements.

1.3.2 Accounting Deficiencies

The accounting deficiencies observed in the accounts in terms of liabilities and assets are given under instances and values in the following table.

	<u>Liabilities</u>		<u>Assets</u>	
	<u>Number of instances</u>	<u>Value</u>	<u>Number of Instances</u>	<u>Value</u>
		<u>Rs</u>		<u>Rs</u>
Overstatements in the accounts	-	-	1	1,999,999
Understatements in the accounts	1	3,410	-	-

1.3.3 Unexplained Differences

A difference of Rs. 75,450 between the total net revenue collected for the year under review according to the income and expenditure account and the revenue shown in the revenue register was observed.

1.3.4 Bank Reconciliations

Follow up action had not been taken on an unrealized cheque valued at Rs.904 over a period of six month.

1.3.5 Suspense Accounts

The credit balance of the accounts of suspense nature as at 31 December 2010 amounted to Rs.190,629.

1.3.6 Lack of Evidence for Audit

(a) Unanswered Audit Quarries

Replies to 2 audit queries had not been furnished as at 29 July 2011 and the value of quantifiable transactions relating to those audit quarries amounted to Rs 2,325,198.

(b) Non- Submission of Information for Audit

Transactions valued at Rs 66,405 could not be satisfactorily vouched in audit due to unavailability of required information for audit.

1.3.7 Non-compliances

Non-compliance with the provisions in the following Laws, Rules, Regulation and Management Decisions were observed during the course of audit.

<u>Reference to Laws, Rules, Regulation and Management Decision etc.</u>	<u>Non-compliance</u>
(a) <u>Acts.</u>	
(i) Section 132 (a) of the Pradeshiya Sabha Act No. 15 of 1987	Whenever expenditure on religious and common activities incurred in excess of Rs 1,000 per year should covered with the prior approval of the Minister in charge of the subject. A sum of Rs.83,767 had been paid for these activities without such approval.
(ii) Section 2(1) and 9(1)(C) of Motor Traffic Act	Revenue licenses and insurance certificates had not been taken for 08 vehicles by the Sabha.
(b) <u>Financial Regulation of Republic of Sri Lanka</u>	
104	Action in terms of financial regulation had not been taken in respect of an accident of a vehicle of the Sabha.
(c) Section 5.4.4 of the National Procurement Guidelines 2006	Advance payment of Rs 700,000 had been paid to a contractor without obtaining the performance bond and proper authority.
(d) Public Administration Circular No 41/90 of 10 October 1990	Fuel consumption of motor vehicles had not been tested once in every 06 months.

2. Financial and Operating Review

2.1 Financial Result

According to the financial statements presented the excess of over the recurrent expenditure of the Sabha for the year ended 31 December 2010 amounted to Rs. 10,857,184 as compared with the excess of revenue over the recurrent expenditure amounting to Rs. 17,907,412 for the preceding year.

2.2 Revenue Administration

2.2.1 Estimate Revenue, Actual Revenue and Arrears of Revenue

The information on the estimated revenue, the actual revenue and the arrears of revenue for the year under review and the preceding year as presented by the Chairman is given below. The Sabha had not prepared the budget for the year 2009 as the Sabha had not properly functioned due to the war situation.

<u>Items of Revenue</u>	<u>Estimated</u>	<u>2010</u>	<u>Accumulated Arrears as at 31 December</u>	<u>Estimated</u>	<u>2009</u>	<u>Accumulated Arrears as at 31 December</u>
		<u>Actual</u>			<u>Actual</u>	
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
	<u>' 000</u>	<u>' 000</u>	<u>' 000</u>	<u>' 000</u>	<u>' 000</u>	<u>' 000</u>
Rate and Taxes	100	-	582	-	-	582
Lease Rent	2,300	3,897	-	-	-	-
Licence Fees	2,100	3,070	-	-	-	-
Other Revenue	30,835	30,753	-	-	18,707	-

2.2.2 Courts Fines

Necessary action had not been taken by the Sabha for computed and collected the court fines imposed by the relevant Magistrates' Court under various Ordinances up to 31 December 2010.

2.2.3 Stamp Fees

Action had not been taken to recover stamp fees receivable from the Register General as at 31 December 2010.

2.2.4 Fees on Advertising Hoardings

The following observations are made

- i. Without publishing Gazette notification, Sabha had recovered fees amounting to Rs.525,025 from permanent advertising hoardings displayed in the area of the authority of the Pradeshiya Sabha.
- ii. A field inspection carried out on 13 November 2010 revealed that action had not taken to recover fees amounting to Rs.478,200 from 17 advertising hoardings displayed in the area of the authority of the Pradeshiya Sabha.

2.3 Expenditure Structure

The budgeted and actual expenditure of the Sabha for the year under review and the preceding year together with the variances are given below. The Sabha had not prepared the Budget for the year 2009 due to sabha had not been properly functioned due to war activities.

<u>Item of Expenditure</u>	<u>2010</u>			<u>2009</u>		
	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
	Rs	Rs	Rs	Rs	Rs	Rs
	000	000	000	000	000	000
<u>Recurrent Expenditure</u>						
Personal Emoluments	24,000	20,622	3,378	-	800	800
Other	11,200	6,241	4,959	-	-	-
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Sub Total	35,200	26,863	8,337	-	800	800
Capital Expenditure	664,500	12,420	652,080	-	-	-
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Grand Total	699,700	39,283	660,417	-	800	800
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2.4 Human Resources Management

2.4.1 Approved and Actual cadre

Particulars of the approved and actual cadre of the Sabha as at 31 December 2010 are given below.

<u>Category of Posts</u>	<u>Approved</u>	<u>Actual</u>
Staff Grade	05	01
Secondary Grade	34	32
Primary Grade	53	47
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Total	92	80
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2.4.2 Idle and Underutilized Human Resources

Even though a driver had been transferred from Office of the Assistant Commissioner of Local Government of Kilinochchi on 09 September 2010, he had not assigned a vehicle up to 31 December 2010 by the Sabha. However, a sum of Rs. 78,504 had been paid as salary for this period.

2.5 Assets Management

2.5.1 Accounts Receivable

Balances of account receivables as at 31 December 2010 amounted to Rs.23,438,424 and the balances of accounts older than of 01 year amounted to Rs.22,758,635.

2.5.2 Staff Loans Recoverable

Staff Loans balances recoverable as at 31 December 2010 totalled Rs.4,972,616 and the balances of accounts older than of 01 year amounted to Rs.4,725,300.

2.5.3 Assets Not - Surveyed

The value of assets not supported by Board of Survey Reports and computed at the book balance as at 31 December 2010, amounted to Rs.60,003,443.

2.6 Activities Extraneous to Objectives.

It was observed in audit that the expenditure incurred amounting to Rs.378,612 was the extraneous to the objectives.

<u>Activities</u>	<u>Value</u>
	Rs.
(a) Payment made for preschool activities	219,776
(b) Expenditure incurred for Dengue programme	158,836

	378,612
	=====

2.7 Performance

The Sabha had not prepared an Annual Action Plan at the beginning of the year of accounts. Therefore, the expected objectives and the progress thereto could not be ascertained. Details are given below.

<u>Details of Project</u>	<u>Allocates</u> <u>Amount</u> <u>Rs.000</u>	<u>Expenditure incurred</u> <u>Amount</u> <u>Rs.000</u>	<u>Unexpended</u> <u>Amount</u> <u>Rs.000</u>
Up grading the Capital Assets and the Infrastructure Facilities	664.5	12.4	652.1

2.8 Contract Administration

- (a) A sum of Rs.100,000 had been paid as an advance for the Construction of Temporary Market Shed at Dharmapuram without obtained a performance bond by the Sabha. After nine months the contractor had been repaid the above advance to the Sabha without commencing the work.
- (b) Even though the decision had been taken on 16 March 2010 for the construction of temporary market shed at Kilinochchi, the agreement had been signed on 10 February 2010.

- (c) Although procurement procedure should be followed for the lease of stalls the stalls of the Kilinochchi Markets constructed by the Sabha had been given on lease without following the procurement procedure.

2.9 Internal Audit

An adequate internal audit at the Sabha had not been carried out.

3. Systems & Controls

Special attention is drawn to the following areas of systems and controls

- (a) Accounting
- (b) Revenue Administration
- (c) Contract Administration.
- (d) Budgetary Control