

Addalaichenai Pradeshiya Sabha

Ampara District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to the Audit on 20 August 2014 while Financial Statements relating to the preceding year had been submitted on 11 April 2013. The Auditor General's Report relating to the year under review was issued to the Chairman of the Sabha on 24 December 2014.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Addalaichenai Pradeshiya Sabha at 31 December 2013 and its financial performance for the year then ended in accordance with Generally accepted accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Non- compliance with Sri Lanka Public Sector Accounting Standards

Financial Statements had not been prepared according to Public Sector Accounting Standards of Sri Lanka as per Circular No.PL/05/PA/SFPSAS dated 27 January 2014 of the Secretary to the Minister of Local Government and Provincial Councils.

1.3.2 Accounting Deficiencies

Following accounting deficiencies were observed.

- (a) Provision for Audit Fees Payable for the year under review amounting to Rs.11,500 had not been made in the accounts.

- (b) Value of 16 Office Equipment received as a donation from the UNOPS Institution during the year under review had not been assessed and taken to accounts.
- (c) Although two part payments amounting to Rs. 15,773,734 and Rs. 8,294,750 had been made during the year under review having entered into agreements for construction of the Pradeshiya Sabha Building and the Public Market Building respectively, it had been shown in the financial statements that payments of Rs. 48,643,462 and Rs. 19,903,523 were made. Due to this, payments to contractors had been overstated in the financial statements to the extent of Rs. 32,869,728 and Rs. 11,608,773 respectively.
- (d) The value of Electrical Equipment amounting to Rs. 96,392 lost during the year 2005 had been shown in the stocks as at the end of the year under review, in the financial statements.
- (e) The balance of Staff Loans had been understated by Rs. 12,500 in the financial statements, due to an accounting error.
- (f) The value of Office Furniture, Equipment and Machinery totalling Rs. 257,735 purchased during the year under review had not been taken to accounts.

1.3.3 Accounts Receivable and Payable

Following observations are made.

- (a) Action had not been taken up to the end of the year under review to recover the sum of Rs. 350,322 being the amount due from the Electricity Board in respect of goods handed over to the Electricity Board during the year 2005 by the Pradeshiya Sabha.
- (b) Action had not been taken up to 28 November 2014 to recover Staff Loan balances totalling Rs. 31,875 due from 10 officers left on transfers, from the relevant institutions.

1.3.4 Lack of Evidence for Audit

Evidence shown in front of following items in the financial statements had not been furnished to audit.

Item	Value	Evidence not Furnished
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	Rs.	
Furniture and Fittings	133,207,743	} Register of Fixed Assets Board of Survey Reports
Equipment and Tools	116,395	
Plant and Machinery	734,100	
Furniture and Fittings	431,365	
Advance Payment	13,153,987	Register of Advances Payable
Electrical Equipment Debts	316,421	Letters of Confirmation of Balances

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

Following instances of non-compliance with Laws, Rules and Regulations were observed in audit.

Reference to laws, rules, regulations etc.

Non-compliance

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| (a.) Sections 12(1) and (2) of the Pradeshiya Sabha Act No. 15 of 1987 and Sub-section 31(1) in the Gazette Notification No. 488/16 dated 13 January 1988 of the Ministry of Local Government, Housing Construction and Construction Industries | - Although Committees on Finance, Policy Planning, Housing Constructions, Social Development, Technical Services Environmental and Common Amenities had been appointed to enable in taking broad decisions, with a view to facilitate functions of the Pradeshiya Sabha, except Finance, other committees had not functioned during the year under review. |
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(b.) Financial Regulation 572(2)

- Action had not been taken by the Sabha up to 28 November 2014, to refund to the relevant parties or to transfer to revenue, with regard to un-identified Deposits amounting to Rs. 689,311 shown in the Deposits account during the period from the year 1998 to the end of the year 2013 and time lapsed Deposits amounting to Rs. 200,000.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2013 amounted to Rs.8,360,916 as against the excess of recurrent expenditure over revenue for the preceding year amounted to Rs.3,518,959 indicating an improvement of Rs. 4,841,957 in the financial results.

2.2 Revenue Administration

2.2.1 Rates and Taxes

Following observations are made.

- (a) Action had not been taken by the Sabha to recover Rates during the period from the year 2003 to the year 2013, from Lands, Houses and Buildings constructed in the area of authority of the Sabha in terms of Section 134, 158 and 159 of the Pradeshiya Sabha Act No.15 of 1987.
- (b) Out of the sum of Rs. 252,000 estimated to be collected as Rates according to the Budget for the year under review, a sum o Rs. 41,669 being 16.5% only had been recovered.

- (c) Action had not been taken up to 28 November 2014 to recover Beef Stalls Lease Rent balance amounting to Rs. 273,300 relevant to the period from the year 2005 to the year 2012.

2.2.2 License Fees

Following observations are made.

- (a) According to the Budget for the year under review a sum of Rs. 1,100,500 was estimated to be recovered as License Fees. Out of that a sum of Rs. 477,360 being 43.72% had been recovered.
- (b) Charges amounting to Rs. 74,350 to be recovered for 15 Publicity Advisement Boards placed by private institutions for advertising their trading goods in the area of authority of the Sabha had not been recovered due to non-enforcement of by-laws by the Sabha, in terms of Section 126 of the Pradeshiya Sabha Act No. 15 of 1987.

2.2.3 Recovery of Charges for Telecommunication Towers

Action had not been taken up to 28 November 2014 to recover License Fees amounting to Rs. 425,000 in connection with 12 Telecommunication Towers erected in the area of authority of the Sabha during the period from the year 2009 to the year 2013.

2.2.4 Stamp Fees

Action had not been taken up to 28 November 2014 to recover Stamp Fees amounting to Rs.1,164,264 to be recovered for the years 2012 and 2013 from the Registrar General.

3. Operating Review

3.1 Management Inefficiencies

Following matters were observed.

- (a) Although 80 Electric Bulbs of Sodium Type and Fittings had been purchased for a sum of Rs. 1,100,000 during the year under review by the Sabha, 21 Electric Bulbs fixed had been defunct. Other 59 Electric Bulbs had been kept idle for a period of more than 08 months.

- (b) Although 45 Fruit Plants of 06 categories for a sum of Rs. 18,360 and 20 cages for a sum of Rs. 38,000 had been purchased to protect those for the Palamune and Addalaichenai Play Grounds, only 12 Protection Cages were seen at the physical inspection carried out on 26 November 2014 in the relevant play grounds. Accordingly, the sum of Rs. 56,360 spent for this had been a fruitless expenditure.

- (c) While an advance of Rs. 474,911 had been paid to a Community Society out of the Sabha Fund for construction of rest room and a latrine in the Addalaichenai Public Play Ground on 25 May 2012, that advance had not been settled up to 26 November 2014, although construction works had been completed.

- (d) Although a shortage of 198 assets of 24 categories had been pointed out according to the board of survey Reports conducted by the Sabha for the years 2012 and 2013, Management had not taken suitable action in that connection up to 26 November 2014.

3.2 Contracts Administration

3.2.1 Construction of Public Fair Building

While a contract had been awarded for Rs. 16,345,000 to construct the Public Fair Building by the Pradeshiya Sabha, Work should have been finalized by 31 August 2014 according to the agreement. Although the Work had been completed after a delay of 86 days, fine of Rs. 764,153 for the delay as provided in the agreement had not been recovered from the contractor.

3.2.2 Construction of Office Building

The contract had been awarded for Rs. 43,431,938 to construct the Office Building by the Pradeshiya Sabha. Following matters were observed in this connection.

- (a) An Advance Bond for a sum of Rs. 8,686,787 had been furnished through a private bank by the contractor as provided in the agreement. According to information received to audit from the Bank, it was confirmed that, the Advance Bond furnished by the contractor indicating that the validity period was extended had been a false one and had not been issued by the Bank.
- (b) The contractor had furnished 02 Performance Bonds for a sum of Rs.2,171,700 through a private bank covering the agreement period up to the date of completion of Work as provided in the agreement. According to information received to audit from the Bank, it was confirmed that, those Performance Bonds furnished by the contractor indicating that the validity period was extended had been false and had not been issued by the Bank.
- (c) Although the contractor had furnished false Advance and Performance Bonds in this manner, any course of action had not been taken against the contractor by the Sabha.

4. Accountability and Good Governance

4.1 Internal Audit

Although it had been stated that, each Local Authority should establish an Internal Audit Section according to their capacity, vide clause 8 in Local Government Restructure Circular No. 3 dated 08 November 2005 of the Ministry of Provincial Councils and Local Government, an Internal Audit Section had not been established.

5. Systems and Controls

Special attention is needed in respect of the following areas of systems and control.

- (a) Accounting
- (b) Revenue Administration
- (c) Fixed Assets Control
- (d) Contracts Control