

Koralepattu Pradeshiya Sabha

Batticaloa District

1. Financial Statements

1.1. Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 09 May 2014 and the financial statements for the preceding year had been presented on 07 February 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 04 December 2014.

1.2. Opinion

Except for the effects on the financial statements of the matters referred to in Paragraph 1.3 of this report, I am of opinion that the financial statements have been prepared in accordance with the Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Koralepattu Pradeshiya Sabha as at 31 December 2013 and the financial result of its operations for the year then ended.

1.3. Comments on Financial Statements

1.3.1. Compliance with Sri Lanka Public Sector Accounting Standards

The financial statements had not been prepared in accordance with the Public Sector Accounting Standards, as stipulated in the Circular No. PL/05/PA/SFPSAS dated 27 January 2014 issued by the Secretary to the Ministry of Local Government and Provincial Councils.

1.3.2. Accounting Deficiencies

Provisions had not been made in the accounts for the audit fees of Rs.16,000 payable in respect of the year under review.

1.3.3. Accounts Payable and Receivable

(a) The lease rent in arrears in respect of the meat stall for the period from the year 2004 to 2010 amounted to Rs.504,135, and action had not been taken till the end of the year under review to recover the amount or to make provisions for it.

- (b) The lease rent amounting to Rs.3,436,360 due from fifty three leaseholders had been in arrears for a period of over 3 years, but necessary action had not been taken to recover this amount.
- (c) Necessary action had not been taken over a period of two years to recover the lease rent amounting to Rs.999,000 due from two leaseholders.
- (d) The loan balance receivable from 10 persons who had vacated post and retired from the service, amounted to Rs.131,679 and action had not been taken till 31 July 2014 which was the date of the audit, to recover this from the death gratuity or from the sureties.

1.3.4. Lack of Evidence for Audit

The evidence indicated against the following subjects in the financial statements, had not been submitted to the audit.

Subject	Value – Rs.	Evidence not submitted
Lands and Buildings	119,544,690	Title Deeds
Plant and Machinery	1,362,766	Registers of Fixed Assets, Detailed Schedules of Assets and Reports of Survey Boards
Motor Vehicles	3,228,788	
Furniture	4,572,951	
Computers	884,815	
Library Books	4,145,182	

1.3.5. Non-compliance with Laws, Rules and Regulations

The following instances of non-compliance were observed during the Audit.

Reference of Laws, Rules and Regulations

- (a) Section 134 (1) of Pradeshiya Sabha Act No. 15 of 1987

Non-compliance

Action had not been taken to identify the non-moveable assets within the authority of the Sabha, and collect the rates and taxes after computing the annual assessment of those assets.

(b) Pradeshia Sabha (Finance and Administration) Rules - 1988

(i) Section 5 (XII) of Chapter I

Though functions such as finance, stores materials, and signing of cheques, had been entrusted systematically to four officers, security deposits had not been obtained from them.

(ii) Section 81 of Chapter III

Action had not been taken at the end of each quarter to submit; applications to the Registrar General, for the reimbursement of stamp taxes with respect to the vesting of ownership of lands; applications to Director of the Treasury, for the reimbursement of taxes with respect to other transactions; applications to the Registrars of Courts, for the reimbursement of fines.

(iii) Section 191 of Chapter X

Though 03 general meetings had been held during the year under review, the certified copies of minutes of those meetings had not been submitted to the audit

(iv) Section 193 of Chapter X

Action had not been taken to compare the details relevant to the Actual Revenue and the Expenditure, relevant to the year with the budget, and prepare a report containing the clarifications for the variances, and submit it to the audit.

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 2013 amounted to Rs.4,843,123, as against the excess of recurrent expenditure over revenue amounting to Rs.1,277,989 in the preceding year. Therefore financial result of the year under review had shown an improvement of Rs.6,121,112 in comparison to the preceding year.

2.2. Revenue Management

2.2.1. Performance on Revenue Collection

Significant variances were observed between the Estimated Revenue and the Actual Revenue, submitted by the Sabha for the year under review.

Source of Revenue	Estimated Revenue	Actual	Variance	Percentage
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	Rs.	Rs.	Rs.	%
(i.) Taxes	3,975,000	453,670	3,521,330	88.59
(ii.) Warrant Charges and Fines	7,005,000	6,058,067	946,933	13.52

2.2.2. Rates and Taxes

Action had not been taken as stipulated in Section 134, 158 and 159 of Pradeshiya Sabha Act No. 15 of 1987, to compute the rates and taxes and collect the revenue from the year 1989 to end of the year 2013, in respect of, the lands, houses and buildings situated within the area under the authority of the Sabha.

2.2.3. Lease

The following observations are made.

- Though the Sabha had leased out to six leaseholders, the lease rent of Rs.1,904,600 had not been collected till 31 July 2014.
- Only one quotation had been received for the leasing of Santhiveli Ferry Service for the year under review, and it had been given on an annual lease of Rs.240,100. However, according to the conditions, the 50% of the lease amounting to Rs.110,100 had not been paid by the leaseholder at the time of entering into the lease agreement and had paid it after a lapse of 12 months.
- The Ferry Service of Naseevan Island for the year under review had been leased out for Rs.105,000. Though half of the lease amount had not been made at that time, the lease agreement had been signed by the Sabha.

2.2.4. Other Revenue

Market (Pola) in Open Stand – Stall Rent

Action had not been taken as stipulated in Section 136 of Pradeshiya Sabha Act No. 15 of 1987, during the period from 2012 till the end of the year under review, to obtain the assessed value from the Department of Valuation and collect the stall rent, in respect of 25 stalls in the Market (Pola) situated in the Open Stand.

2.2.5. Stamp Fees

Action had not been taken till the date of the audit on 31 July 2014, to compute the stamp fees receivable in respect of the year 2013 and recover from the Registrar General.

3. Operating Review

3.1. Management Inefficiencies

The Sabha had not taken action to pay the monthly contributions for the pension scheme since the year 1995. Therefore the contributions payable as at the end of the year under review had been Rs.2,037,203.

4. Accountability and Good Governance

4.1. Internal Audit

Though the Section 8 of the Local Government Restructure Circular No. 03 dated 08 November 2005 stipulates that each Local Authority should establish an internal audit section depending on their capacity, an internal audit section had not been established in the Sabha.

5. Systems and Controls

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

- a) Accounting
- b) Revenue Management
- c) Fixed Assets Control
- d) Budgetary Control