

Porativupattu 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 27 March 2014 and the financial statements for the preceding year had been presented on 10 April 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 Porativupattu 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

The following accounting deficiencies are observed.

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

(b) Though 141 books in the Mandoor Public Library had been completely destroyed due to the floods which took place in the year 2011, action had not been taken to write-off them from the books. Therefore value of assets in the financial statements had been overstated.

- (c) Though furniture valued at Rs.2,525,601 had been destroyed due the war situation prevailed in the year 1990, action had not been taken to write-off these items. Therefore the value of assets in the accounting statements had been overstated by a similar amount.
- (d) Though the employees loans balance as at 31 December 2013 had been shown as Rs.2,391,852 in the ledger, and it had been shown as Rs.2,489,157 in the accounting statement. Therefore the loans balance as at the indicated date had been overstated by Rs.97,305.
- (e) The Motor Cab valued at Rs.1,319,050 received from the Ministry of Local Government and Provincial Councils in the year 2008 had not been brought to account.

1.3.3. Accounts Payable and Receivable

The following observations are made.

- (a) There had been tax revenue in arrears amounting to Rs.37,950 due from a period of 02 to 10 years, as at the end of the year 2013, and action had not been taken either to recover the arrears or take necessary steps.
- (b) Advances amounting to Rs.70,304 had been given to 12 employees for various requirements during the period from 1991 – 2010, but this had continued to be shown in accounting statements, without taking action to recover or write-off the arrears from the books.
- (c) The advance payable amounted to Rs.34,666 had not been paid and continued to be shown in accounts since the year 2009.

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	152,550,242	Title Deeds
Plant and Machinery	1,691,880	Registers of Fixed Assets, Reports of Survey Boards
Furniture and Fittings	912,499	
Motor Vehicles	3,539,960	
Library Books	1,634,005	

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

Non-compliance

(a) Pradeshiya 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 12 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.

(b) Eastern Province Treasury Circular No. PT/09/2010 It stipulates that Regional Procurement Committees and Provincial Procurement Committees should include one person from an external office as the third member, but tender committee decisions had been obtained during the year under review, without the participation of members from external offices.

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.3,274,374, as compared with the excess of revenue over recurrent expenditure amounting to Rs.1,940,011 in the preceding year. Therefore financial result of the year under review had shown an improvement of Rs.5,214,385 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
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	Rs.	Rs.	Rs.
(i.) Rates	438,400	697,500	259,100
(ii.) Lease Rent	920,000	1,689,571	769,571
(iii.) Charges for Services	3,965,000	2,912,224	(1,052,776)
(iv.) Revenue from Government Taxes	10,913,990	11,737,483	823,493

2.2.2. Rates and Taxes

Action had not been taken as stipulated in Section 134 of Pradeshiya Sabha Act No. 15 of 1987, to obtain the assessed annual value from the Department of Valuation, for the purpose of collection of rates and taxes, in respect of the lands, houses and buildings situated within the area under the authority of the Sabha. Therefore the Sabha had been deprived of an annual revenue of approximately Rs.800,000.

3. Operating Review

3.1. Management Inefficiencies

The following observations are made.

- (a) The loan balance receivable from seven employees who had vacated post / retired from the service during the period from 1990 - 2002, amounted to Rs.486,097 and this had continued to be shown in books as an amount receivable, without taking action to recover this from the retirement gratuity or from the sureties.
- (b) A sum of Rs.633,930 had been paid to the contractor for constructing two wells and related access roads in the locations Vivethanandapuram and Nellikadu, under the Provincial Specific Development Grant and completed the work. But during the inspections carried out on 05 May 2014, it was observed that two access roads mentioned had not been constructed and the relevant payment had been made to the contractor. Therefore an over payment of Rs.136,000 had been made to the contractor for the part of the work which had not been not constructed.

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.

4.2. Budgetary Control

The variances in the range of 11% to 40% were observed between the estimated expenditure and the actual expenditure. Therefore it was observed that the budget had not been made use of as an effective tool of management control.

5. Systems and Controls

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

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