

KINNIYA PRADESHIYA SABAH
TRINCOMALEE DISTRICT

1. Financial Statements

1.1 Presentation of Financial Statements

The Financial Statements for the year under review had been presented to audit on 07 July 2015 and the Financial Statements for the previous year had been furnished to audit on 20 February 2015. The Report of the Auditor General for the year under review had been furnished to the Secretary of the Sabah on 01 September 2015.

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 Kinniya Pradeshiya Sabha as at 31 December 2014 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 Compliance with Sri Lanka Public Sector Accounting Standards

Although the Cash Flow Statement and the Statement on Changes in Equity had to be furnished to audit together with the Financial Statements according to Sri Lanka Public Sector Accounting Standard No.02, these Statements had not been furnished.

1.3.2. Accounting Policies

The accounting policies adopted to prepare the Financial Statements had not been disclosed in the Financial Statements according to Sri Lanka Public Sector Accounting Standard No.03.

1.3.3. Accounting Deficiencies

Although the Staff Loan balance as at the end of the year under review according to the ledger had amounted to Rs.422,884, this balance had been shown in the Financial Statements as Rs.443,884 thus overstating the Staff Loan balance in the Financial Statements by Rs.21,000.

1.3.4 Accounts Receivable and Payable

Action had not been taken to recover the Staff Loan outstanding amounting to Rs.137,749 from 13 employees or their sureties who had left the service or gone on transfer to other institutions before the year 2006.

1.3.5 Lack of Evidence for Audit

Evidence indicated against the following each item of accounts had not been furnished to audit.

Item of Accounts	Value Rs.	Evidence not furnished
Lands and Buildings	6,290,992	Title Deed
Plant and Machineries	1,308,575	Register of Fixed Assets and Board of Survey Reports
Furniture	1,183,135	
Motor Vehicles	4,429,710	
Receipts in Advance	183,544	Advance Register and Age Analysis
Creditors	2,699,687	Confirmation letters of balances

1.3.6 Non -compliance with Laws, Rules, Regulations etc;

Instances of non-compliance observed in audit are analysed and given below.

<u>Reference to Laws, Rules etc;</u>	<u>Non-compliance</u>
(a) Pradeshiya Sabah Act No. 15 of 1987	
(i) Section 134 (1)	Action had not been taken to recover Rates by identifying and estimating the value of the immovable properties within the authority limit of the Pradeshiya Sabah.
(ii) Section 219	Action had not been taken to recover the lease rentals of market stalls and trade licenses amounting to Rs. 5,772,639.
(b) Pradeshiya Sabah (Financial and Administrative) Rules of 1988	
(i) Section 5(XII) of Chapter I	Although cash, Stores and signing of cheques had been administratively entrusted to three Officers, Security had not been obtained from them.
(ii) Section 158 of Chapter VII	Monthly Summary of the accumulated expenditure had not been prepared.
(iii) Section 164 of Chapter VII	Accounting records had not been checked daily and the balances had not been initialed for their accuracy by the Secretary or an Officer authorized by him.
(c) Financial Regulations of the Democratic Socialist Republic of SriLanka	
(i) F.R. 387	Although cheques should be drawn only after confirmed by the Paying Officer that adequate bank balance is available, cheques had been drawn for the

last 03 years when there was credit balance as per the cash book and there was a credit balance amounting to Rs. 2,388,012 in the bank as per the cash book as at 31 December 2014.

(d) Provincial Financial Rules (PFR)

(i) P.F.R. 131.3

Although the counterfoils of the Receipts had to be kept under safe custody by responsible Officers after issuing Receipts for cash receipts, the counterfoils of the Receipts issued for the collection of revenue amounting to Rs. 3,370,974 had been lost during the year under review. However, any action had not been taken by the Sabah in this regard.

(ii) P.F.R. 187.2

Although 44 payment vouchers to the value aggregating Rs. 3,253,657 had been missing during the year under review, this matter had not been reported by the Accounting Officer to the Provincial Treasury with copy to the Auditor General. Similarly, although it was reported in the Audit Report for the year 2013 that 68 payment vouchers to the value aggregating Rs. 2,106,258 had been missing, action had not been taken in this regard too.

(e) Treasury circular No. IAI/2002/ 02 dated 28 November 2002

Separate registers had not been maintained to record the computer accessories and computer software.

2 Financial Review

2.1 Financial Results

According to the Financial Statements presented, the excess of revenue over recurrent expenditure for the year ended 31 December 2014 had amounted to Rs.41,103 as against the excess of recurrent expenditure over revenue amounting to Rs. 203,899 for the previous year.

2.2 Revenue Management

2.2.1 Performance of Revenue Collection

According to the information furnished by the Sabah, considerable difference had been observed between the estimated revenue and actual revenue during the year under review.

Item of Revenue	Estimated Revenue	Actual Revenue	Outstanding Balance as at 31 December 2014
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	Rs.	Rs.	Rs.
Rates	35,000	205,829	(170,829)
Rental	1,869,000	1,312,630	556,370
Fees for Services	500,000	-	500,000
Revenue Grants	10,102,402	9,203,878	898,524

2.2.2 Recovery of Charges for Telecommunication Towers

The Sabah had lost the revenue amounting to Rs. 21,000 annually due to non-recovery of charges on 07 telecommunication towers erected by private parties within the authority limit of the Sabah.

3. Management Inefficiency

Following observations were made.

- (a) Action had not been taken since nine years to estimate and take into accounts the value of 13 motor vehicles donated by other Ministries and Departments to the Sabah
- (b) Action had not been taken by the Sabah to recover 1,223 library books which were lent to the library members from the year 1991 to the year 2014.
- (c) Although 138 Stores items and 329 library books had been reported to be short by the Board of Survey for the year 2014, no action had been taken by the Sabah in this regard.
- (d) A sum of Rs. 602,701 being the contribution to the Employees Provident Fund for the recovery made from the employees from the year 2006 and a sum of Rs.60,181 being the contribution for the Employees Trust Fund had been kept in the Deposit Account instead of being remitted to the relevant Funds.
- (e) Contribution for Pension Fund aggregating Rs. 2,372,668 had remained outstanding for over eight years without being settled.
- (f) Although 23 cheques drawn for the payments during the year under review to the value aggregating Rs. 207,048 had been available in the Office without being issued to the relevant persons, they had been disclosed in the bank reconciliation statement as cheques issued but not presented for payment.
- (g) A sum of Rs. 540,772 being fine and a sum of Rs. 50,000 being legal expenses for the case filed by the Fund had to be paid by the Sabah due to non-settlement of the contribution to Employees Provident Fund aggregating Rs. 1,210,977 for the period January 2011 to October 2013.

- (h) Although 251 dust bins were available in the stock as at 12 August 2015 according to the Stock Ledger , the dust bins had not been available at a physical verification made on that date.

4. Solid Waste Management

An agreement had been signed by the Sabah to erect fence with wire net at a cost of Rs.1,345,000 around the solid waste collection centre on 22 November 2011 under Solid Waste Management Project. The following observations were made in this regard.

- (a) Although iron bars should be fitted to the top of the net as per the estimate when the wire nets of 2979 square feet were fixed and the nets should be fitted to that bars, the expected benefit could not be achieved as the work was not carried out as stipulated.
- (b) Although a sum of Rs.1,430,000 had been paid to supply and spread gravel and to compress it by the Compressor to the ground of the Solid Waste Collection Centre, pit holes had appeared in several places of the ground as the gravel had not been compressed by the Compressor.
- (c) Although the fence erected by the contractors to the length of 125 feet had been removed and taken away by unknown persons proper action had not been taken by the Sabah in this regard.
- (d) Action had not been taken by the Sabah to erect concrete posts although 16 concrete posts erected in front of wire net fence had been damaged.

5. Accountability and Good Governance

5.1 Internal Audit

An Internal Audit Unit had not been established in the Sabah according to a suggestion made by the Ministry of Provincial Councils and Local Government by paragraph 8 of the circular No. 03 dated 08 November 2005 which stipulated that every Local Authority should organize an Internal Audit Unit according to its capacity.

6. Human Resource Management

Details regarding the approved cadre and actual cadre as at 31 December 2014 are given below.

Category of Staff	Approved Cadre	Actual Cadre	Vacancies
Executives	01	-	01
Subordinates	16	16	-
Minor Employees	31	30	01
Total	48	46	02

Action had not been taken to fill the vacancies although a post in Supra Grade I in Management Service for the past 08 years and 04 posts in Minor Employees for the past three years had been vacant.

7. **Systems and Controls**

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

- (a) Accounting
- (b) Revenue management
- (c) Control of Fixed Assets
- (d) Budgetary Control
- (e) Contract management