

**KUCHCHAVELY 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 15 September 2015 and the Financial Statements for the previous year had been furnished to audit on 13 May 2014. The Report of the Auditor General for the year under review had been furnished to the Secretary of the Sabah on 18 December 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 Kuchchavelly 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**

- (a) Although roads and bridges had been constructed by the Sabah at a cost of Rs.23,987,664 and handed over for public use during the year 2014, this amount had been disclosed in the Financial Statements as assets of the Sabah.
- (b) A sum of Rs.5,640,715 had been disclosed in the Financial Statements as Fixed Deposit balance although all money deposited in the fixed deposit had been withdrawn and there were no balances as at the end of the year under review.

**1.3.4 Accounts Receivable and Payable**

The following were observed.

- (a) Action had not been taken to refund or write off from the books the security deposit aggregating Rs. 8,500 which was obtained from 05 employees who had left the service before 32 years.
- (b) Action had not been taken for 03 to 06 years to recover the Staff Loan outstanding amounting to Rs.183,360 from 08 employees who had left the service or gone on transfer to other institutions.

- (c) Although a sum of Rs.7,591 had been disclosed in the Financial Statements from the year 2005 as Advance Received, action had not been taken to identify and settle the liability.
- (d) Action had not been taken until the end of the year under review to settle or write off from the books the unpaid salaries and wages amounting to Rs.457,193 from the year 2001 to the year 2012.
- (e) Action had not been taken until todate to settle Rs.6,030,026 payable to the contractors in respect of building constructions from the years 2000 to 2011.

**1.3.5 Suspense Account**

Action had not been taken during the year under review to identify and remove the debit balance amounting to Rs.27,035,150 being shown in the Suspense Account during the year under review.

**1.3.6 Lack of Evidence for Audit**

Evidence indicated against the following each item in the Financial Statements had not been furnished to audit.

<b>Item of Accounts</b>	<b>Value Rs.</b>	<b>Evidence not furnished</b>
Lands and Buildings	88,435,189	Title Deed
Plant and Machineries	4,153,599	
Furniture	4,299,759	
Motor Vehicles	785,993	Register of Fixed Assets and Board of Survey Reports
Staff Loan, Revenue Debtors	23,661,868	
Receipts in Advance	5,369,158	Age Analysis and detail shedule
Debtors	1,763,247	
Deposits not refunded	22,420,504	

**1.3.7 Non -compliance with Laws, Rules, Regulations etc;**

Instances of non-compliance with Laws, Rules, Regulations etc are given below.

<b>Reference to Laws, Rules etc;</b>	<b>Non-compliance</b>
<ul style="list-style-type: none"> <li>(a) Pradeshiya Sabah (Financial and Administrative) Rules of 1988               <ul style="list-style-type: none"> <li>(i) Section 5(XII) of Chapter I</li> </ul> </li> </ul>	<p>Although cash, Stores and signing of cheques had been administratively entrusted to three Officers, Security had not been obtained from them.</p>

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| <ul style="list-style-type: none"> <li>(ii) Section 81 of Chapter III</li> </ul>   | <p>Request to Registrar General for refund of stamp duties regarding the change of ownership of lands, request to Director of General Treasury for refund of duties regarding other transactions and request to Registrar of Courts for refund of fines had not been made at the end of each quarter.</p>  |
| <ul style="list-style-type: none"> <li>(iii) Section 193 of Chapter X</li> </ul>   | <p>A Statement comparing the actual revenue and expenditure with budget and explaining the cause for variances had not been prepared and furnished to audit.</p>   |
| <p>( b ) Financial Regulations of the Democratic Socialist Republic of SriLanka</p> <ul style="list-style-type: none"> <li>(i) F.R. 571 (2), (3)</li> </ul>        | <p>Although the Revenue Deposits amounting to Rs. 156,650 had been shown in the Financial Statements continuously for 17 years from the year 1996, action had not been taken to identify and settle them.</p>  |
| <p>( c ) Provincial Financial Rules (PFR)</p> <ul style="list-style-type: none"> <li>(i) P.F.R. 230</li> <li>(ii) P.F.R. 237</li> <li>(iii) P.F.R 365.1</li> </ul> | <p>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 02 years when there was credit balance as per the cash book and there was a credit balance amounting to Rs. 1,556,565 in the bank as per the cash book as at 31 December 2014.</p> <p>Although 12 cheques to the value aggregating Rs. 142,024 which were given by the Sabah before 06 months had not been presented to bank for payment, action had not been taken in this regard.</p> <p>Annual Board of Survey for the year under review had not been carried out until the date of audit, that is 02 October 2015.</p> |

## **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. 16,197,286 as compared the excess of revenue over recurrent expenditure amounting to Rs. 15,328,480 for the previous year thus indicating an improvement of Rs. 868,806 in the financial results.

### **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.

<b>Item of Revenue</b>	<b>Estimated Revenue</b>	<b>Actual Revenue</b>	<b>Outstanding Balance as at 31 December 2014</b>
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	<b>Rs.'000</b>	<b>Rs.'000</b>	<b>Rs. '000</b>
Rates	60,003	10,997	5,905
Rental	6,210	2,438	2,931
Fees for Services	4,822	188	-
Revenue Grants	17,112	25,104	2,431
Other Revenue	22,524	9,244	458

#### **2.2.2 Rates and Taxes**

Action had not been taken to assess the Annual Value by the Valuation Department to recover Rates according to Section 134 of the Pradeshiya Sabah Act No. 15 of 1987 on the houses and buildings constructed within the authority limit of the Pradeshiya Sabah.

#### **2.2.3 Recovery of Charges for Telecommunication Towers**

The Sabah had lost the revenue amounting to Rs. 36,000 annually due to non-recovery of charges on 12 telecommunication towers erected within the authority limit of the Sabah.

## **3. Operating Review.**

### **3.1 Management Inefficiencies**

Following observations were made.

- (a) Although a market complex containing 35 stalls had been constructed by the Sabah at a cost of Rs.18,687,391 and handed over on 18 June 2014, these market stalls remain unutilized till todate as water supply and electricity had not been given to them and front doors had not been fitted. Further, this market building had been constructed by filling the Pulmoddai Lagoon without obtaining prior approval from Central Environmental Authority and the Coast Conservation Department.

- (b) Action had not been taken to transfer the ownership of 19 motor vehicles to the Sabah which were donated by other Departments although they are being used by the Sabah for over eight years.
- (c) Although 574 Stores items and 1,574 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) Although the Time Recording Machine to record the arrival and departure of the employees should be fixed according to circulars No. 15/2001 dated 07 August 2001 and No. 9/2009 dated 16 April 2009 of the Ministry of Public Administration, the machine had not been fixed.
- (e) A sum of Rs. 2,354,448 being expenditure incurred on welfare services carried out on behalf of the Ministry of Resettlement to the persons stayed in Pulmoddai refugee camp had not been recovered till todate.
- (f) Action had not been taken to recover a sum aggregating Rs. 15,605 being the value of 05 cheques which were deposited in 2006 with the bank but not realized.
- (g) Action had not been taken to recover the advance amounting to Rs. 600,000 granted to Welfare Societies in respect of Water supply scheme. during the year 2013.
- (h) Travelling advance of Rs. 10,000 granted to the Chairman of the Sabah during the year 2013 had not been recovered till todate.

### **3.2 Human Resource Management**

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

<b>Category of Staff</b>	<b>Approved Cadre</b>	<b>Actual Cadre</b>	<b>Vacancies</b>	<b>Excesses</b>
Executives	01	-	01	-
Subordinates	27	19	08	-
Minor Employees	36	59	-	23
Others	08	14	-	06

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 04 years had been vacant.

## **4. Accountability and Good Governance**

### **4.1 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 Local Government Reforms Circular No. 03 dated 08 November 2005 which stipulated that every Local Authority should organize an Internal Audit Unit according to its capacity.

**5. 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