

Kinniya Pradeshiya Sabha

Trincomalee District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2016 had been presented to audit on 28 March 2017 and the financial statements for the preceding year had been presented on 04 April 2016. The report of the Auditor General for the year 2016 had been forwarded to the Secretary of the Sabha on 16 August 2017.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Kinniya Pradeshiya Sabha as at 31 December 2016 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 Accounting Policies

The accounting policies adopted in preparation of financial statements had not been disclosed in the financial statements.

1.3.2 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) A cab donated to the Sabha by the Ministry of Provincial Councils and Local Government valued at Rs.2,940,000 had been shown as Rs.2,950,000 in the financial statements resulting in an overstatement of the value of the vehicle by Rs.10,000.
- (b) The creditors of the year under review amounting to Rs.43,916 had not been included in the current liabilities. As a result, the current liabilities had been undersated by a similar amount.
- (c) The bank balance of the Sabha as at 31 December 2016 as per cash book amounted to Rs.16,632. However, the amount shown in the financial statements as at that date amounted to Rs.31,632 resulting in an overstatement of the bank balance by Rs.15,000.
- (d) The plastic chairs purchased by the Sabha for Rs.23,000 had been shown as revenue expenditure in the financial statements

1.3.3 Accounts Receivable and Payable

The following observations were made.

- (a) The arrears of lease rent of Rs.3,630,498 due from beef stalls continued to be shown in the financial statements for 08 years.
- (b) Pensionary contributions amounting to Rs.2,100,675 continued to be shown in the financial statements for 10 years without being settled.

1.3.4 Lack of Evidence for Audit

The following evidence indicated against each item of account had not been furnished for audit.

<u>Item of Account</u>	<u>Value</u> Rs.	<u>Evidence not Furnished</u>
Plant and Machinery	910,925	Register of fixed assets
Furniture	673,720	
Motor Vehicles	3,029,710	Age analysis
Advance Paid	173,544	
Arrears due from beef stalls	3,630,498	Letters of confirmations of balances

1.3.5 Non-compliance with Laws, Rules and Regulations

Instances of non-compliance observed during the course of audit are analyzed below.

<u>Reference to Laws, Rules, Regulations</u>	<u>Non-compliance</u>
(a) Section 134(1) of the Pradeshiya Sabha Act No. 15 of 1987	Action had not been taken to identify the immovable properties within the authoritative area of the Sabha so as to recover rates and taxes by assessing their values.
(b) Provincial Financial Rules	
(i) Rule 187.2	Sixty eight paid vouchers aggregating Rs.2,106,258 had been misplaced in 2013 and 44 paid vouchers aggregating Rs.3,253,657 had been misplaced in 2014. However, the accounting officer had not reported to the provincial treasury with copies to the Auditor General. Further, no action had been taken in this regard.

(ii) Rule 237

Thirty two cheques valued at Rs.231,214 issued by the Sabha in 2012 and 2014 had not been submitted to bank for payment upto now and actions in this regard had not been taken.

(c) Section 203 of the Motor Traffic Act

Revenue licences should be obtained for vehicles annually. However, revenue licences had not been obtained for 10 vehicles used by the Sabha during the years 2015 and 2016.

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 2016 amounted to Rs.1,015,331 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.2,090,719 showing a deterioration in financial results by Rs.1,075,388.

2.2 Revenue Administration

2.2.1 Performance in collection of Revenue

The estimated revenue, actual revenue and the arrears of revenue, as per information furnished by the Sabha, appear below.

Item of Revenue	Estimated Revenue	Actual Revenue	Arrears as at 31 December
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	Rs.'000	Rs.'000	Rs.'000
Rent	5,100	467	4,633
Other Revenue	28,140	23,892	4,248

2.2.2 Revenue from Rent

Lease of Public Market Building at Kachchakoddy Theevu

The public market building complex had been constructed in 2014 for Rs.21,510,853 under the Puraneguma Project. There were 36 stalls apart from the 32 stalls outside the building complex. The Kinniya Pradeshiya Sabha should have obtained refundable deposits amounting to Rs.1,720,000 at the rate of Rs.30,000 per stall within the building and Rs.20,000 per stall lying outside the building during weekend fairs. However, a sum of Rs.450,000 only had been recovered up to now.

2.3 Fees for Telecommunication Towers

The Sabha had not taken action to recover fees from 05 telecommunication towers installed by external institutions within the area of the Sabha.

3. Operating Review

3.1 Management Inefficiencies

The following observations were made.

- (a) The Sabha had received 05 vehicles as donations from other ministries and institutions during the period 2008 to 2016. Although those vehicles had been used by the Sabha, action had not been taken to acquire ownership of those vehicles.
- (b) According to the register of stocks, there should have been 221 dust bins at the stores on 06 July 2017, the date of audit verification. However, those dust bins were not physically available and action had not been taken by the Sabha in this regard.
- (c) According to Section 4.4 of Chapter XXIV of the Establishments Code of the Government of Sri Lanka, any balance due on the loans granted to an officer should be deducted from the pension payable to his heirs, if the officer dies before settling the loan and the Director of Pensions should be informed accordingly. However, the Sabha had not acted in accordance with the requirements and as such a sum of Rs.133,220 due from 06 employees could not be recovered by the Sabha.
- (d) The Sabha had not taken action up to now to remit the pensionary contributions of Rs.548,525 recovered from the salaries of employees from 2008 to 2013 to the Widows' and Orphans' Pension Fund.
- (e) Advances should be settled within 10 days in terms of the Provincial Financial RuleNo.163.3. But, advances amounting to Rs.191,544 had not been settled although a period of 07 years had elapsed.
- (f) Action had not been taken for over 08 years in terms of Financial Regulation 571 with regard to tender deposits, revenue deposits, miscellaneous deposits and library deposits amounting to Rs.5,428,716.
- (g) Action had not been taken regarding the following shortages pointed out by the board of survey in 2015.

<u>Details</u>	<u>Qty</u>
Chairs	98
Tables	11
Electric Fans	03
Projector	01
Camera	01
G.I.Pipes	15

Water Tanks	02
Books of the Kurinchchankerny Library	992

3.2 Uneconomic Transactions

The Employees' Provident Fund contributions of 13 employees of the Sabha for the period January to December 2011 amounting to Rs.462,112 and the Employees' Provident Fund contributions of 16 employees for the period January 2012 to August 2013 amounting to Rs. 748,864 had not been remitted on the due dates. As a result, a sum of Rs.540,770 had been paid as surcharges.

3.3 Contract of Administration

3.3.1 Renovations to the Naduthivu Market Building

The contract for renovating the Naduthivu Market Building had been awarded to the Naduthivu community centre on 14 November 2014 at a cost of Rs.3,000,000. The following matters were observed regarding this work carried out under the Strengthening of Predeshiya Sabhas Programme.

- (a) Although the contractor had not done the work relating to water supply, the technical officer had certified that the work had been satisfactorily done and a sum of Rs.24,122 had been paid.
- (b) The contractor had handed over the building to the Sabha on 20 November 2015. But, it remained unused. As such, the expenditure incurred had become fruitless.

3.3.2 Construction of Public Latrine and a Rest Room

The contract for constructing a public latrine and a rest room at a cost of Rs.1,000,000 had been awarded to the Neduntheevu Community Centre on 06 June 2016 under the Provincial Specific Development Grant. The following matters were observed in this connection.

- (a) The work which should have been completed on 06 September 2016 had not been completed yet.
- (b) The technical officer had recommended payment for the following work amounting to Rs.43,563 although the work had not been completed.

<u>Details</u>	<u>B.O.Q No</u>	<u>Amount</u>
		Rs.
Wash basin	23	9,316
Name board	32	9,500
Towel rail	22	774
Plastic chair	33	11,373
25W energy saver lamp 15		<u>12,600</u>
		<u>43,563</u>

- (c) Although this building had been constructed it is unable to make use of it, as electricity and water connection had not been supplied to the building.

3.3.4 Environmental Problems

Slaughter houses had been maintained without obtaining licences from the Central Environmental Authority in terms of the Gazette Notification No.1533/16 of 25 January 2008 published under the Central Environmental Authority Act No. 47 of 1980 as amended by the Act No.53 of 2000 and the Act No. 56 of 1988. The remnants of the animals slaughtered enters the nearby river causing environmental hazards.

4. Human Resources Management

Action had not been taken to fill the vacancy in the post of Management Service, Supra Grade 1 existing for the past 09 years, and to fill 3 vacancies in the posts of minor employees existing for the past 04 years.

5. Systems and Controls

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

Systems and Controls	Matters requiring Attention
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(a) Accounting	(i) Proper updated maintenance of ledgers
	(ii) Classification of assets
(b) Fixed Assets Control	Maintenance of a register of fixed assets
(c) Revenue Collection	Recovery of arrears of revenue.
(e) Contract Administration	(i) To adopt procurement procedures while awarding contracts.
	(ii) To abide by the instructions in the circular issued by the Finance Commission.