

**Kuchchaweli Pradeshiya Sabha**

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**Trincomalee District**  
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**1. Financial Statements**

**1.1 Presentation of Financial Statements**

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The financial statements for the year 2016 had been presented to audit on 19 April 2017 and the financial statements for the preceding year had been presented on 13 May 2016. The report of the Auditor General for the year 2016 had been forwarded to the Secretary of the Sabha on 29 September 2017.

**1.2 Qualified Opinion**

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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 Kuchchaweli 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**

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

**1.3.2 Accounts Receivable and Payable**

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The following matters were observed.

- (a) The arrears of lease rent due from beef stalls for 12 years amounted to Rs.2,966,529. This had not been recovered up to end of the year under review.
- (b) The arrears due on lease rent of market stalls, vehicle hire, interest from banks and investments since 2010 aggregated Rs.1,042,614. Action had not been taken to recover these arrears up to end of the year under review.
- (c) Action had not been taken to refund or to write off from the books of accounts the security deposits of 5 employees aggregating Rs.8,500 who had retired 32 years ago.
- (d) A sum of Rs.7,591 continues to be shown as advances obtained in the financial statements since 2005. Action had not been taken to identify those advances and settle the accounts.

- (e) Action had not been taken up to end of the year under review to pay or to write off from the books of accounts the unpaid salaries and wages of Rs.442,426 for the period 1996 to 2012.

### 1.3.3 Lack of Evidence for Audit

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Evidence indicated against each item of accounts shown below had not been furnished for audit.

<u>Item</u>	<u>Value</u> Rs.	<u>Evidence not Furnished</u>
Unpaid salaries and wages	299,018	Detailed list.
Revenue deposits	156,649	Register of deposits

### 1.3.4 Non-compliance with Laws, Rules and Regulations

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The following instances of non-compliance were observed.

<u>Reference to Laws, Rules, Regulations</u>	<u>Non-compliance</u>
(a) 1988 Pradeshiya Sabha (Finance and Administration) Rules	Security deposits had not been obtained from 03 officers who had been administratively assigned with the duties pertaining to cash, stores and signing of cheques.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) No.396	Appropriate action had not been taken with regard to 27 cheques valued at Rs.339,531 which had not been presented to the bank for payments for over 06 months.
(ii) No.571	Appropriate action had not been taken with regard to deposits amounting to Rs.12,423,015

## 2. Financial Review

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### 2.1 Financial Results

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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.19,987,430 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.34,820,840 showing a deterioration in financial results amounting to Rs.14,833,410.

## 2.2 Revenue Administration

### 2.2.1 Performance in collection of Revenue

According to the information furnished by the Sabha, the estimated revenue, actual revenue and the arrears of revenue for the year under reviews are shown below.

Item of Revenue	Estimated Revenue	Actual Revenue	Accumulated Revenue
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			Arrears as at 31.12.2016
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	Rs.'000	Rs.'000	Rs.'000
Rates and Taxes	6,270	6,185	6,649
Lease Rent	4,166	3,810	3,319
Licence Fees	1,260	1,372	4
Service Charges	140	150	4
Other Revenue	10,881	14,399	8,199

### 2.2.2 Rates and Taxes

The rates and taxes aggregating Rs.6,646,115 recoverable from land, buildings and the houses constructed within the authoritative area of the Sabha for the period 2005 to end of the year under review had not been recovered in terms of Section 134 of the Pradeshiya Sabha Act No.15 of 1987.

## 3. Operating Review

### 3.1 Management Weaknesses

The following matters were observed.

- Action had not been taken to acquire ownership of 08 vehicles received as donations from other institutions although the vehicles continues to be used by the Sabha for over 6 years.
- The Sabha had not installed a machine to mark the arrivals and departures of employees as required by the Public Administration Circular No.03/2017 dated 19 April 2017.
- The Sabha had incurred an expenditure of Rs.2,354,448 on behalf of the Ministry of Resettlement for the welfare of those who were at the Pulmottai Relief Camp during 2009. This amount had not been reimbursed by the Ministry up to now.
- Action had not been taken to recover the amount due on 05 unrealised cheques valued at Rs.15,605 pertaining to the period 2006 to 2011.

- (e) Advances amounting to Rs.700,000 had been granted to community centres in 2013 in connection with water supply scheme. Action had not been taken to recover this amount.
- (f) Action had not been taken to recover from the employees or from their sureties the outstanding loan balances of Rs.273,545 recoverable from 10 employees who had been transferred or vacated posts.
- (g) The pickup vehicle used by the Sabha had been completely damaged during the accident in 2015. However, action had not been taken by the Sabha in terms of Financial Regulation 104 to determine the loss and to identify the persons responsible.
- (h) Action had not been taken to recover the advances aggregating Rs.3,744,138 granted to employees of the Sabha and other institutions during the period 2002 to 2015.
- (i) The Secretary of the Sabha had appointed 140 employees in 2015 on casual basis without prior approval of the Department of Management Services in terms of Paragraph 7 of the Ministry of Public Administration and Home Affairs No.25/2014 of 12 November 2014. However, there was no necessity to make such appointments. The ex-Secretary of the Sabha had obtained an advance of Rs.1,493,294 in 2015 to make payments for these employees which remained unsettled till end of the year under review.
- (j) One per cent of the total income of circuit bungalows operating within the authoritative area of the Sabha pertaining to a year should be levied as tax by the Sabha in terms of Section 149 of the Predeshiya Sabah Act No. 15 of 1987 However, action had not been taken accordingly up to now.
- (k) An Intercom System had been installed in 2015 by incurring an expenditure of Rs.301,901. This had become inoperative within one month of installation. But, action had not been taken to repair and make use of it. In this connection, a sum of Rs.10,170 had been paid as monthly rent up to now.
- (l) Temporary measures such as gravelling of roads should be avoided and carpeting, tarring and concreting work should be carried out so as to use the roads for a long period, according to Paragraph 1.2 of the circular of the Finance Commission No.2016/01 of 30 December 2015. However, the Sabha had gravelled the Alhaza Road at a cost of Rs.1,622,974, contravening the circular instructions.
- (m) Annual Revenue Licences should be obtained for vehicles in terms of Section 203 of the Motor Traffic Act. However, the Sabha had not obtained revenue licences for 05 vehicles used by it.
- (n) The allowances payable to the Chairman and members of the annual board of survey are Rs.5,000 and Rs.4,000 respectively as per Section 2 of the Circular No.10/2009 of the Chief Secretary. Accordingly, a total sum of Rs.13,000 should have been paid

for the year 2015 whereas a sum of Rs.25,000 had been paid resulting in an overpayment of Rs.12,000.

- (o) Contributions to the Public Service Provident Fund should be made for employees of local authorities appointed on casual and temporary basis In terms of Section 4.1 of the Circular No. 02/2011 of 24 February 2011 of the Department of Pensions. However, contributions had been made to the Employees' Provident Fund for such employees of the Sabha contravening the provisions in the circular. Meanwhile, the Employees' Provident Fund had requested to pay surcharges amounting to Rs.1,915,306 for non payment of contributions for the period January 2010 to November2014 on the due dates.
- (p) A trade complex consisting of 35 stalls had been constructed by the Pradeshiya Sabha at a cost of Rs.24,444,588 by filling the Pulmottair lake with soil for which permission had not been granted by the Central Environmental Authority and the Department of Coast Conservation. The Sabha is at a risk of facing legal action in this connection.

### **3.2 Transactions of Contentious Nature**

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The Chairman of the Sabha had officially visited the sub offices within the authoritative areas of the Sabha and the office of the Assistant Commission of Local Government on 05 February 2015 and on 23, 24, 25 of March 2015 and his visits had been confirmed by entries made in the running charts of the official vehicles. However, he had obtained Rs.43,100 as travelling and subsistence stating that he had officially travelled to Colombo on those dates.

### **3.3 Contract Administration**

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The following observations are made.

- (a) Seven solar lamps had been installed at the Kokillai sea beach at a cost of `Rs.1,004,500 in December 2016 under the Tourism Development Plan of the Provincial Specific Grant. Of these lamps, 03 lamps valued at Rs.430,500 had become inoperative for 05 months. The Sabha had not taken action to repair them.
- (b) A contract to construct a public well at Kattukulam had been awarded to a community centre at a cost of Rs.316,460 under the Provincial Specific Grant. The following observations are made in this connection.
  - (i) The Sabha had constructed this public well in a private land as the Sabha was not in possession of a land.
  - (ii) The contractor had completed the work and handed it over to the Sabha on 23 December 2016. A physical verification carried out at the site in audit revealed that the owner of the land had used the well by constructing a fence around the well. The objective of constructing the well had not been achieved.

(c) Construction of a Solid Waste Material Centre  
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A contract for constructing a solid waste material centre had been awarded to the Silmiya contractor on 19 October 2015 at a cost of Rs.4,946,825. The following matters were observed regarding this construction under the Pilisar Project of the Central Environmental Authority.

- (i) Supply of electricity, supply of water and erection of a fence around the centre etc., had not been included in the estimate prepared for this construction. Therefore, the centre could not be used even after the construction.
- (ii) The work was scheduled to be completed and handed over to the Sabha on 19 December 2015. However, the contractor had abandoned the work on 16 May 2017 after incurring a fruitless expenditure of Rs.2,947,682. The Sabha could not go ahead with its solid waste material collection programme.
- (iii) The garbage collected within the authoritative area of the Sabha had been disposed of, in a private land at Pulmottai causing environmental problems.

**3.4 Idle Assets**  
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The following observations are made.

- (a) Two ploughing machines, a pick up, a motor cycle, a tipper and a J C B machine that could be used, if repaired, remained idle for 01 to 04 years as action had not been taken by the Sabha to get them repaired.
- (b) A solid waste material collection centre had been constructed at a cost of Rs.17,943,879 at Nilaveli under the Pilisar Project of the Central Environmental Authority. This centre constructed and handed over to the Sabha on 26 March 2016 remained idle as action had not been taken by the Sabha in this regard. The amount spent had become fruitless.

**4. Accountability and Good Governance**  
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**Unreplied Audit Querues**  
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Three audit queries had been issued in March 2016 requesting to furnish replies within 14 days. Replies had not been received yet.

**5. Systems and Controls**  
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Special attention is needed in respect of the following areas of systems and controls.

<b>Systems and Controls</b> -----	<b>Matters requiring Attention</b> -----
(a) Accounting	(i) Proper updated maintenance of ledgers (ii) Classification of Assets
(b) Fixed Assets Control	(i) Maintenance of a register of fixed assets. (ii) Proper maintenance of stores ledger.
(c) Revenue Collection	Recovery of arrears of revenue.