

Town and Gravets 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 12 April 2017 and the financial statements for the preceding year had been presented on 02 May 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 Town and Gravets 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 Deficiencies

The following accounting deficiencies were observed.

- (a) The balances of two bank accounts of the Sabha as at 31 December 2016, as per cash book, amounted to Rs.292,474 and Rs.428,690 respectively. However, the respective balances as at that date had been shown as Rs.608,630 and Rs.400,183 respectively in the financial statements. As a result, the bank balance had been overstated by Rs.287,649.
- (b) The balances of employees' loans amounted to Rs.11,151,630 as per register of employees' loans. However, it amounted to Rs.13,028,854 as per financial statements resulting in an overstatement of employees' loans by Rs.1,877,224.
- (c) The advances aggregating Rs.2,131,856 granted to 42 institutions during 1999 to 2014 had been recovered. However, it continued to be shown as advances receivable in the financial statements.
- (d) The assessment tax recovered amounted to Rs.26,391,169 as per register of assessment tax maintained by the Sabha. However, it had been shown as Rs.25,811,127 in the revenue statement resulting in an understatement by Rs.580,042.

(e) A sum of Rs.2,346,000 had been brought to account as cost of generator purchased during the year under review. However, the generator had not been purchased.

1.3.2 **Lack of Evidence for Audit**

Age analysis of rates and taxes of Rs.15,182,911 receivable had not been furnished for audit.

1.3.3 **Non-compliance with Laws, Rules, Regulations**

Instances of non-compliance with laws, rules and regulations appear below.

<u>Reference to Laws, Rules Regulations</u>	<u>Non-compliance</u>
(a) Financial Regulation 571 of the Democratic Socialist Republic of Sri Lanka	Action had not been taken regarding the lapsed deposits of Rs.335,750 received from the public for water supply 2 years ago.
(b) 1988 Pradeshiya Sabha (Finance and Administration) Rules Chapter X, Section 193	The actual revenue and expenditure of the year should be compared with the budgeted estimates and the statement of variations should be furnished to audit. However, this had not been done.

2. **Financial Review**

2.1 **Financial Results**

According to the financial statements presented, the activities of the Sabha for the year ended 31 December 2016 had resulted in an excess of revenue over recurrent expenditure amounting to Rs.60,326,840 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.36,061,611.

2.2 **Revenue Administration**

2.2.1 **Performance in collection of Revenue**

(a) The estimated revenue, actual revenue and the arrears of revenue for the year under review as per information furnished by the Sabha appear below.

Item of Revenue	Estimated Revenue	Actual Revenue	Accumulated Arrears as at 31.12.2016
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	Rs.'000	Rs.'000	Rs.'000
Rates and Taxes	24,918	25,811	15,182
Lease Rent	2,188	4,067	752
Licence Fees	2,072	5,410	94
Other Revenue	5,803	4,692	1,523

(b) According to Section 149 of the Pradeshiya Sabha Act No.15 of 1987, 1% of the annual revenue of the tourist guest houses operating within the area of the Sabha should be recovered as fees. However, such fees had not been recovered from 02 out of 06 tourist guest houses operating within the area of the Sabha.

(c) The Sabha had not taken action recover the total sum of Rs. 237,169 due on behalf of rent of guest houses, buildings and the stalls of Uppuweli market.

2.2.2 Rates and Taxes

Rates and taxes recoverable from land, buildings and constructions amounting to Rs.15,182,917 for the period 2008 to 2016 had not been recovered in terms of the Pradeshiya Sabha Act No.15 of 1987.

3. Operating Review

3.1 Management Inefficiencies

The following matters were observed.

- (a) Eight vehicles obtained as donations from other institutions continues to be used by the Sabha for over 11 years without transferring the ownership.
- (b) The library had issued 2,563 books to readers prior to the year 2005. These books had not been returned yet.
- (c) The Sabha had not taken action to recover the arrears of loans amounting to Rs. 34,500 granted to 03 employees of the Sabha from them or from their sureties.

3.2 Uneconomic Transactions

Contribution to the Employees' Provident Fund should be remitted to the Fund before end of the month in terms of the Employees' Provident Fund Act No.46 of 1980. However, the contributions of 2 employees of the Sabha for the period May to September 2014 had not been

remitted on the due dates by the officer responsible. As a result, a sum of Rs.17,079 had been paid as surcharge.

4. **Contract Administration**

The Sabha had awarded a contract to renovate the Vadali Pillaiyar Kovil Road at a cost of Rs.799,860 in December 2016 under the provision for developing the backward areas of local authorities. The following matters were observed in this connection.

- (a) The tar barrels required for this work could have been purchased from the Ceylon Petroleum Corporation at the rate of Rs.9,900 per barrel together with transport charges of Rs.1,000 incurring a total cost of Rs.10,900. However, 28 barrels had been purchased at the rate of Rs.13,000 per barrel from a private institution resulting in an extra expenditure of Rs.58,800. The quality of tar supplied by the private institution had not been confirmed.
- (b) The number of litres of tar required for this work as per work estimates amounted to 4,356 litres. However, 5,040 litres of tar (28 barrels) had been purchased. A physical verification carried out on 21 June 2017 revealed that 684 litres of tar purchased in excess of the requirement was lying at the stores. The loss caused to the Sabha in this connection amounted to Rs.49,390.

5. **Accountability and Good Governance**

Idle Assets

Eight out of 16 stalls constructed in 2014 under the Puraneguma Project remained idle since 2014.

6. **Systems and Controls**

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

	<u>Systems and Controls</u>	<u>Attention needed</u>
(a)	Accounting	Proper updated maintenance of ledgers
(b)	Fixed Assets Control	Maintenance of a register of fixed assets
(c)	Revenue Administration	Action to be taken for recovery of arrears of revenue.