

Karaithivu Pradeshiya Sabha

Ampara District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year 2017 had been submitted to Audit on 29 March 2017 and the Auditor General's Report relating to the year under review was sent to the Chairman on 19 October 2018.

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 Karaithivu Pradeshiya Sabha as at 31 December 2017 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

Following accounting deficiencies had been observed.

- (a) Value of lands where the Sabha office and Library are situated had not been assessed and brought to the accounts.
- (b) The lorry valued at Rs. 5,400,000 own by the Sabha had met with an accident and completely destroyed in the year 2012. Even though the compensation had been fully received to the Sabha, the cost of the vehicle had not been removed from the books.
- (c) The value of 02 Road Rollers received from the UNAFS institution in the year 2009 had not assessed and brought to the accounts.

1.3.2 Receivable and Payable Accounts

Following observations are made.

- (a) With Holding Tax and Nations Building Tax amounting to Rs. 281,463 had been shown in the Deposits Accounts continuously for more than 7 years without being remitted to the Department of Inland Revenue.

- (b) Even though loan balances of Rs. 39,897 receivable from 06 employees transferred out were not recovered for more than 11 years, and shown in the financial statements continuously without action been taken to recover.

1.3.3 Lack of Documentary Evidences

According to the Financial Statements submitted by the Sabha for the year 2017, five balances of items of fixed assets valued at Rs. 9,026,950 brought forward in 2007. But detailed records relating to those had not been furnished to audit.

1.3.4 Non-compliance with the Laws, Rules and Regulations

Following non-compliance with laws, rules and regulations had been observed in the test audit.

Reference to Laws, Rules and Regulations	Value Rs.	Non-compliance
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(a) Section 12(1) and (2) of Pradeshiya Sabha Act No. 15 of 1987	-	Action had not been taken by the Sabha to appoint separate teams for the subjects such as financial and policies planning of the Sabha, housing and social development, technical service, environmental and common facilities for the purpose of simplify the activities and to take correct decisions of the Sabha.
(b) Section 5 (XII) of Chapter I of Pradeshiya Sabha Regulation (Finance and Administration) 1988	-	Even though duties such as cash, inventories and signing cheques had been assigned to three officers, security deposits had not been taken from those officers
(c) Financial Regulation 571 of the Democratic Socialist Republic of Sri Lanka	1,781,197	Even though there were 07 deposits over 2 years, action had not been taken by the Sabha to pay those to the relevant persons or to transfer to the revenue account.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2017 amounted to Rs.1,443,891 when compared to the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 2,458,867. Accordingly, a deterioration of Rs.3,902,758 was indicated in the financial results.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Details of estimated revenue, billed revenue, collected revenue and arrears of revenue relating to the year under review and previous year as per the information submitted are shown below.

Revenue Item	2017				2016			
	Estimated Revenue	Billed Revenue	Collected Revenue	Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	25,000	-	-	-	15,000	20,000	20,000	-
(ii) Rent	2,550,000	2,880,096	2,901,026	652,725	2,050,000	2,882,523	3,022,523	673,655
(iii) License Fee	2,558,000	1,094,903	1,089,334	3,737,696	2,903,000	1,047,556	1,225,849	3,732,127
(iv) Other Income	5,560,000	2,649,033	2,649,033	-	5,288,000	6,566,810	6,411,116	285,694

2.2.2 Revenue Collection Performance

Out of the revenue recoverable of Rs. 11,029,814 up to 31 December 2017, a sum of Rs. 6,639,393 had been collected by the Sabha during the year under review. Accordingly, the revenue collection percentage was indicated as 60 %.

2.2.3 Rates and Taxes

As a result of not taking action according to Section 134 of the Pradeshiya Sabha Act No. 15 of 1987, of assessing and recovering of rates on 350 business places and 5,660 houses within the authority area of Pradeshiya Sabha from the year 2003 nearly an income of Rs.3,000,000 had been lost annually.

2.2.4 Rent Income

Following observations are made.

- Action had not been taken up to end of the year under review to recover arrears meat stall lease rental of Rs. 459,964 which was outstanding from the year of 1992 to 2012.
- Action had been not taken to recover the charges of Rs. 3,732,127 for more than 03 years from the related parties according to the common agreement relating to the dumping of garbage brought by the Sammanthurei Pradeshiya Sabha, Ninthavur Pradeshiya Sabha and the Kalmunai Municipal Council in the vicinity of the Karaiteivu Pradeshiya Sabha and transport it to another location.

2.2.5 Recovery of License Fees

Following observations are made.

- (a) Due to delay in empowering By-laws regarding revenue recovery, annual advertising charges from 85 advertising boards could not be charged and nearly an income of Rs. 95,000 had been lost annually by the Sabha.
- (b) Action had not been taken to recover licence charges of Rs. 255,000 relating to 02 telecommunication towers.

3. Operational Review

3.1 Performance

3.1.1 Sustainable Development Goals (SDG)

Every organization must comply with the United Nations Sustainable Development Program for the year 2030 of the Sri Lanka Sustainable Development Act No. 19 of 2017. Nevertheless, action had not been taken by the Sabha to identify goals and achieved those targets.

3.2 Management Weaknesses

Following Observations are made.

- (a) Action had not been taken to transfer the ownership of the lands to the Sabha where Public Market Building of the Karaitivu Pradeshiya Sabha and solid waste transport centre situated
- (b) Even though the Insurance Company had agreed to pay Rs. 1,400,00 as insurance claim for the Lorry which had met with an accident and completely damaged in the year 2012, only a sum of Rs. 1,000,000 had been paid to the Sabah in the year 2014. However, action had not been taken by the Sabha to get the balance claim of Rs.400,00 by handing over the vehicle to the insurance company or to auction the Lorry.
- (c) Details of “Value Added Tax” valuing to Rs. 3,400,500 which had been paid to 2 contractors for contract agreements from the year 2010 to 2016 had not been informed to the Department of Inland Revenue

3.3 Human Resource Management

Even though, 08 workers who had completed 180 days of satisfactory service and obtained permanent appointment letters had completed their Efficiency Bar Examination on 9 September 2017, the Sabha had not confirmed their service and give their third salary increments even by 10 May 2018.

3.4 Operational Inefficiencies

Following observations are made.

- (a) Even though it was observed 20 shops in common market which were constructed under the North East Coastal Community Development Project (NECCDEP) at a cost of Rs. 14,347,200 and handed over in the year 2009, out of that 19 shops were remaining idled for more than 09 years without being used for any purpose.
- (b) Even though the Ministry of Local Government and Provincial Councils had allocated Rs. 300,000 for the establishment of the front office of the Sabha in the year under review, the front office was not established until 10 September 2018 and furniture and office equipment valued at Rs. 190,000 purchased on 26 November 2017 remained idled without being used.
- (c) Although the Pradeshiya Sabha has established the Library Development Committees to increase the library activities and enhance the knowledge of the readers. the activities of the committee and the committee meetings were held only once in the year under review. Further, out of the provision of Rs.300,000 made for the purchase of books for public libraries, only books valued at Rs. 13,486 had been purchased.

3.5 Purchasing Plastic Chairs for the Cultural Hall

Six hundred plastic chairs had been purchased for a sum of Rs. 703,800 during the year under review directly from the State Trading Corporation, without the reasons such as necessity of urgency, lack of time and unavoidable circumstances. According to information received from a private institution, the price of a plastic chair was Rs. 1,100 but it had been purchased for Rs. 1,173 and due to that a sum of Rs. 43,800 had been over paid from the Council Fund.

4. System and Control

Special attention should be made for the following arears of systems and matters mentioned before that.

Control Area	Matters to be made Special Attention
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(a) Fixed Assets Control	(i) Maintaining the fixed assets register. (ii) Taking action to use idle assets.
(b) Revenue Recovery management	Taking action to recover arrears of income
(c) Solid Waste Management	Collecting of solid wastes separately.
(d) Procurement Process	Price of goods should be fair and comparable.