

Kinniya Pradeshiya Sabha

Trincomalee District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2017 had been presented for audit on 26 March 2018 and the report of the Auditor General for the year under review had been forwarded to the Chairman on 03 September 2018.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters shown in paragraph 1.3 of this report, the financial statements of the Kinniya Pradeshiya Sabha give a true and fair view of the financial position 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 Policies

The Sabha had prepared the financial statements on cash and accrual basis. However, the accounting policies for classifications had not been disclosed.

1.3.2 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) The balances of the employees' loans amounting to Rs.1,765,429 as per register of employees' loans had been shown as Rs.1,785,429 in the financial statements resulting in an overstatement of the employees' loans by Rs.20,000.
- (b) Security deposits of Rs.547,364 as per register of security deposits had been shown as Rs.180,000 in the financial statements resulting in an understatement of security deposits by Rs.367,364.
- (c) Retentions of Rs.1,723,507 of the Puraneguma Project had been shown as other revenue instead of being shown in the deposits account. As a result, the revenue of the Sabha had been overstated by a similar amount.

1.3.3 Accounts Payable

Pensionary contributions amounting to Rs.2,159,544 continued to be shown in the financial statements for 09 years without being settled.

1.3.4 Lack of Evidence for Audit

A register of fixed assets had not been maintained for plant and machinery, motor vehicles and furniture amounting to Rs.4,797,899. Meanwhile, an age analysis of advances paid had not been furnished. Therefore, these could not be verified in audit.

1.3.5 Non-compliance with Laws, Rules, Regulations and Management Decisions

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

Reference to Laws, Rules, Regulations and Management Decisions	Non - compliance
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(a) Section 173 of the Pradeshiya Sabha Act No. 15 of 1987	Agreements should be entered into for services supplied by the Sabha. However, agreements had not been entered into with regard to 09 beef stalls and fish stalls given on rent by the Sabha in 2016 and 2017.
(b) Section 203 of the Motor Traffic Act	Revenue licences should be annually obtained for vehicles. However, such licences had not been obtained for 08 vehicles from 2015 to 2017.
(c) Procurement Guidelines 2.7.7 of 2006	The member of the procurement committee of the Sabha should have knowledge of procurement procedures. However, contravening this requirement, a community service officer had been appointed as a member.
(d) Section a (1) of the Procurement hand book No.3.4.2 of 2006	The quantity required should be mentioned while calling for quotations. However, the Sabha had used the term "unit" in its quotations. As a result, the commissions that could have been obtained had been deprived of.

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 2017 amounted to Rs.2,707,431 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.1,015,331 showing an improvement in financial results amounting to Rs.1,692,100.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and the Arrears of Revenue

The information relating to the estimated revenue, revenue billed, revenue collected and the arrears of revenue furnished for the year under review and the previous year appear below.

Item of Revenue	2017				2016			
	Estimated Revenue	Revenue Billed	Revenue Collected	Total arrears as at 31 December	Estimated Revenue	Revenue Billed	Revenue Collected	Total arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rent	4,875	3,087	3,087	1,787	5,100	466	466	4,633
Licence Fees	3,210	1,303	1,303	906	950	2,186	2,186	-

2.2.2 Rates and Taxes

Action had not been taken to identify and assess the values of immovable properties within the area of the Sabha so as to recover rates and taxes accordingly in terms of Section 134(1) of the Pradeshiya Sabha Act No. 15 of 1987.

2.2.3 Lease of Beef Stalls

Action had not been taken to recover arrears of beef stall rent from the deposits of stall holders whenever they default payments. As such, an accumulated arrears of Rs.6,444,365 had been shown in the financial statements. The Sabha had not furnished the age analysis of these arrears for audit. As such, the balances could not be confirmed in audit.

2.2.4 Revenue from Rent

Lease of Kachchakoditivu Public Market

The market complex had been constructed at a cost of Rs.21,510,853 in 2014 under the provision made for the Puraneguma Project. There were 36 stalls in the complex in addition to 32 stalls in the external premises of the market complex. A sum of Rs.1,720,000 was due to the Sabha at the rate of Rs.30,000 per inner stall and Rs.20,000 per outer stall. However, so far the Sabha had recovered Rs.450,000 only.

2.2.5 Stamp Fees

Action had not been taken by the Sabha to compute and recover the stamp fees from September 2016 to end of the year under review.

2.2.6 Recovery of Fees for Telecommunication Towers

The Sabha had not taken action to determine the fees due from 05 telecommunication towers installed within the area of the Sabha and recover the fees accordingly.

3. Operating Review

3.1 Performance

(a) Solid Waste Material Management

A solid waste material management centre had been constructed during the period 2011 to 2017 for Rs.15,865,932 under the solid waste material management programme. However, garbage continues to be disposed of in this area without segregation. The Sabha was not in possession of a compost fertilizer plant.

(b) Environmental Problems

The slaughter houses of the area had not obtained licences from the Central Environmental Authority in terms of the Gazette Notification No.1533/16 of 25 January 2008 published under the National Environmental Act No.47 of 1980 as amended by the Acts No.53 of 2000 and 56 of 1988. The remnants of the slaughtered animals enters the nearby river polluting the environment.

(c) Sustainable Development Target

The Sabha was unaware of the 2030 Agenda of the Sustainable Development Targets decided at the conference of heads of countries of the United Nations in 2015.

3.2 Management Inefficiencies

The following matters were observed.

- (a) The Sabha had not taken action to remit the pensionary contributions of the employees of the Sabha for the period 2008 to 2013. A sum of Rs.548,525 had not been remitted to the Widows' and Orphans' Fund.
- (b) Advances should be settled within 10 days in terms of the Provincial Financial Rule 163.3. However, such action had not been taken with regard to advances of Rs.161,544 over 07 years. Further, the advances granted during the year under review amounting to Rs.540,412 had also remained unsettled.
- (c) Eight paid vouchers aggregating Rs.2,106,258 had been misplaced during 2013 whereas 44 paid vouchers aggregating Rs.3,253,657 had been misplaced during 2014. These had not been reported by the Accounting Officer to the Auditor General with copies to the Provincial Treasury immediately in terms of the Financial Rule 187.2. Action had not been taken in this regard.
- (d) Action had not been taken regarding the shortages indicated by the board of survey for 2017.

3.3 Human Resources Management

The Director of Pensions should be requested to deduct from the amount due to the heirs whenever an officer dies before settling his loans as required by Section 4.4 of Chapter XXIV of the Establishments Code of the Government of Sri Lanka. However, such action had not been taken by the Sabha with regard to Rs.133,220 recoverable from 07 employees.

3.4 Assets Management

3.4.1 Registration of Assets

Action had not been taken to acquire ownership of 05 vehicles donated to the Sabha by other ministries and institutions from 2008 to 2016. These vehicles are being used by the Sabha at present.

3.4.2 Idle Assets

A public latrine constructed at a cost of Rs.1,000,000 by a contractor and handed over on 31 December 2016 under the Provincial Specific Development Grant remained unsued.

3.5 Uneconomic Transactions

Contributions of Rs.462,112 to the Employees' Provident Fund of 13 employees during January to December 2011 and the contributions of 16 employees during January 2012 to August 2013 amounting to Rs.748,864 had not been remitted on the due dates and as such the Sabha had paid surcharges amounting to Rs.540,770.

3.6 Procurement Procedures

3.6.1 Procurement Plan

A procurement plan for the year under review had not been prepared in terms of the Circular No.128 of 24 March 2006 of the Department of National Budget.

3.6.2 Contract Administration

3.6.2.1 Re-construction of the Tourist Guest House

The contract for re-construction of the Naduthivu tourist guest house had been awarded to the Naduthivu Community Centre for Rs.1,999,875 on 10 October 2017 under the Strengthening of Pradeshiya Sabhas Programme of the Ministry of Provincial Councils and Local Government.

The following observations were made in this connection.

- (a) Although work for Rs.191,762 had not been completed till the date of audit, that is , 23 March 2018, the officer in charge of the work had certified that the work had been satisfactorily completed.
- (b) This work should have been completed before 15 December 2017 and handed over to the Sabha as per agreement. But, the work had not been completed up to 23 March 2018, the date of the audit. Demurrages amounting to Rs.49,000 had not been

recovered. Forged documents had been furnished stating that the entire work had been completed on 15 December 2017.

3.5.2.2 Construction of a Solid Waste Material Management Centre

The Sabha had entered into an agreement for Rs.11,406,212 on 07 September 2017 under the Solid Waste Material Management Programme to erect a fence around the centre with barbed wire and to install electric lamps. The following observations were made in this connection.

(a) Fence Around the Building

- (i) 750 m² barbed wires measuring 3.2 mm with 10 gauge should have been used to fence the centre. But, barbed wires measuring 3 mm with 10 gauge valued at Rs.397,800 had been used.
- (ii) A sum of Rs.144,000 had been paid for constructing a retention wall measuring 12m³. But, a physical verification revealed that a retention wall measuring 1.12m³ had been constructed resulting in an overpayment of Rs.135,500.

(b) Installation of Electric Lamps

- (i) A sum of Rs.150,000 had been estimated to use concrete poles for installing electric lamps. But, concrete poles had not been used. Instead, GI pipes had been used.
- (ii) A sum of Rs.200,000 had been paid for obtaining electricity connection. But, this had not been obtained up to 6 June 2018.

3.5.2.3 Construction of the Kachchakoditivu Fish Market

The contract for constructing the Kachchakoditivu fish market had been awarded to a community centre for Rs.999,737 on 17 October 2017. The following observations were made in this connection.

- (a) According to test checks carried out in audit, a sum of Rs.243,906 should have been paid for laying of marbles, white washing, painting and other related work. But, the Sabha had confirmed a payment of Rs.371,152 which had been referred to the office of the Commissioner of Local Government. The overpayment amounted to Rs.127,249.
- (b) Water and electricity had not been provided for this building. As such, the building remained idle.

3.5.2.4 Contracts entrusted to Community Centres

Contracts exceeding Rs.2,000,000 cannot be awarded to community based organizations in terms of the Circular No.FO/3/3/2013 of 26 July 2013 of the Finance Commission. However, contravening the circular instructions, 4 contracts for Rs.2,198,862, 3 contracts for Rs.3,199,306 and 3 contracts for Rs.3,099,737 had been awarded to Al Madina, Nadutivu and Albroony community centres respectively.

4. Accountability and Good Governance

Budgetary Control

Variances ranging from 7 to 93 per cent were observed between the estimated and actual expenditure showing that the budget had not been utilized as an efficient instrument of management control.

5. Systems and Controls

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

System and Control	Matters requiring Attention
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(a) Accounting	(i) Updated maintenance of ledgers
	(ii) Classification of assets according to expenditure
(b) Revenue Administration	Action to be taken to collect arrears of revenue.
(c) Fixed Assets Control	Maintenance of a register of fixed assets
(d) Contract Administration	(i) To follow procurement guidelines for awarding contracts.
	(ii) To follow circular instructions of the Finance commission while awarding contracts to community centres.