

**Kuchchaveli 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 03 May 2018 and the report of the Auditor General for the year under review had been forwarded to the Chairman on 28 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 Kuchchaveli 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) Non refundable tender deposits of Rs.52,000 had not been credited to revenue. Instead, it had been credited to the Deposit Account. As such, the value of Deposit Account had been overstated by a similar amount.
- (b) The value of work executed under the Puraneguma Programme from 2012 to 2014 amounted to Rs.153,291,825. This included land, buildings, plant and machinery etc., which had been classified under the heading Puraneguma instead of being shown under the respective heads.

**1.3.3 Accounts Payable**

-----  
Action had not been taken to credit to revenue the unpaid salaries and wages of Rs.442,426 for the period 1996 to 2012.

### 1.3.4 Lack of Evidence for Audit

-----

Detailed list of unpaid salaries and wages, bank interest and capital revenue amounting to Rs.3,210,635 and the register of rates and taxes had not been maintained. As such, these balances could not be confirmed 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 etc.,

-----

#### Non - compliance

-----

(a) 1988 Pradeshiya Sabha (Finance and Administration) Rules Chapter 1  
Section 5(xii)

The actual revenue and expenditure of the year had been compared with the budgeted revenue and expenditure for preparation and submission of explanations for variations to be forwarded to the Auditor General.

(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

-----

(i) No.396

Action had not been taken regarding 30 cheques aggregating Rs.345,146 issued 6 months ago.

(ii) No.571

Action had not been taken regarding deposits of Rs.13,934,716 over 2 years.

## 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.5,718,425 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.19,987,430 showing a deterioration in financial results amounting to Rs.14,269,005.

## 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.
Rates and Taxes	9,202	6,367	6,731	6,284	6,270	6,184	5,768	6,648
Rent	7,386	4,729	4,427	3,621	4,166	3,809	3,899	3,318
Licence Fees	1,290	1,721	1,721	4	1,260	1,372	1,372	4
Other Revenue	11,414	1,777	1,755	493	11,021	14,549	14,545	471

### **2.2.2 Rates and Taxes**

-----  
Rates and taxes aggregating Rs.6,281,718 had not been recovered from land, houses and buildings within the area of the Sabha since 2005 as required by Section 134 of the Pradeshiya Sabha Act No. 15 of 1987.

### **2.2.3 Stamp Fees**

-----  
Action had not been taken to compute and recover stamp fees due from the Registrar General for the period June 2015 to date.

### **2.2.4 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.3,044,077 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.

## **3. Operating Review**

### **3.1 Performance**

#### **(a) Contracts not Executed**

##### **(i) Construction of a Container and Bio-gas Building at Nilaveli**

-----  
A contract had been awarded for Rs.7,054,086 on 03 August 2017 under the funds of the Sabha to construct a container and bio-gas building. A feasibility study had not been carried before commencement of the work. Instead, tenders had been called for and a land had been selected. The public residing around the land had protested that this would affect their health. As a result, the work could not be commenced up to 18 July 2018.

##### **(ii) Construction of a Bio-gas Building at Pulmoddai**

-----  
Although the Sabha had decided to construct the bio-gas building during the year under review at a cost of Rs.2,000,000, the work had not been commenced up to now.

#### **(b) Solid Waste Material Management**

-----  
A solid waste material management centre had been constructed at a cost of Rs.17,943,879 under the Pilisaru Programme of the Central Environmental Authority. Although the building had been handed over to the Sabha on 26 March 2016, the Sabha

had not taken action to commence the work. As a result, the amount spent had become fruitless.

**(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 Weaknesses**  
-----

The following observations were made.

- (a) Action had not been taken to obtain from the relevant persons the total sum of Rs.15,605 due on 05 unrealized cheques for the period 2006 to 2011.
- (b) Action had not been taken to obtain advances of Rs.700,000 granted to community centres In 2013 for the water supply scheme.
- (c) The pick-up used by the Sabha had been completely damaged during the accident in 2015. Action had not been taken in terms of Financial Regulation 104 to appoint a board of investigation to determine the loss and to identify those who were responsible for the accident.
- (d) Advances aggregating Rs.3,529,137 which should have been settled within 10 days in terms of the Provincial Financial Rule 163.3 had not been settled up to now.
- (e) A public well had been constructed at a cost of Rs.316,460 in a private land under the Provincial Specific Grant at Kattukulam. The Sabha had not taken action to acquire ownership of the land.
- (f) The Sabha should recover 1 per cent of the annual income of tourist resorts in terms of Section 149 of the Pradeshiya Sabha Act No. 15 of 1987. However, the Sabha had not taken action to levy 1 per cent tax from the tourist resorts operating within its area. As a result, the Sabha had been deprived of an approximate revenue amounting to Rs.1,500,000.
- (g) The Secretary of the Sabha had appointed 140 casual employees in 2015 without the prior approval of the Department of Management Services in terms of Paragraph 7 of the circular No.25/2014 of 12 November 2014 of the Ministry of Public Administration and Home Affairs. However, it was observed that there was no necessity to make such appointments. The ex-Secretary had obtained an advance of Rs.1,493,294 to pay salaries to these employees. This advance had not been settled up to end of the year under review.

- (h) The allowances payable to the Chairman and members of an annual board of survey in terms of Section 2 of the circular issued by the Chief Secretary was Rs.5,000 and Rs.4,000 respectively. As such, the amount payable for the board of survey 2015 aggregated to Rs.13,000 respectively. However, the Sabha had paid Rs.25,000 which had resulted in an overpayment of Rs.12,000. Action had not been taken up to 18 July 2018 to recover the sum of Rs.12,000 overpaid
- (i) Contributions to the Public Service Provident Fund should be made for casual and temporary employees of local authorities 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 instead of the Public Service Provident Fund. Contributions to the Employees' Provident Fund for the period January 2010 to November 2014 had not been made. As such, the Fund had requested to pay a surcharge of Rs.1,915,306. Action had not been taken to pay this amount up to 18 July 2018.
- (j) The Pradeshiya Sabha had constructed a market with 35 stalls costing Rs.24,444,588 at Pulmoddai. The Central Environmental Authority and the Department of Coast Conservation had rejected to approve this construction as the sand required for the construction had been removed from the Pulmoddai tank. These stalls had been constructed without feasibility study to determine whether the area is suitable for business activities. As such, the stalls remained closed from the date of construction.
- (k) Repairs to water bowser No.LB-8657 had been entrusted to a garage by the Sabha In June 2015. However, action had not been taken to repair it even by 18 July 2018.
- (l) Revenue licence and insurance coverage had not been obtained for the ploughing machine donated to the Sabha by the Department of Coast Conservation on 06 June 2017. This had met with an accident at Periyakulam on 17 August 2017. Action had not been taken up to 18 July 2018 to investigate this matter and to identify those who were responsible for the accident in terms of Financial Regulation 104.

### **3.3 Human Resources Management**

-----

Arrears of loans amounting to Rs.212,805 was due from employees of the Sabha. Action had not been taken to recover the arrears from them or from their sureties.

### **3.4 Transactions of Contentious Nature**

-----

The Chairman of the Sabha had officially visited the sub offices under the Sabha and office of the Assistant Commissioner of Local Government on 05 February 2015 and 23, 24 and 25 of March 2015 and his visits had been confirmed by the entries in the daily running charts of the office vehicle. However, he had obtained Rs.43,100 as travelling and subsistence allowances stating that

he had made official visits to Colombo on those days. Action had not been taken to recover this amount up to 18 July 2018.

### **3.5 Assets Management**

-----

#### **3.5.1 Registration of Assets**

-----

Although the Sabha uses 08 vehicles donated to it by other institutions for over 06 years, action had not been taken to acquire ownership of those vehicles.

#### **3.4.2 Idle Assets**

-----

The following observations were made.

- (a) Action had not been taken for the past 1 to 4 years to repair and use 02 ploughing machines, a pickup, a motor cycle, a tipper and a galie bowser.
- (b) The library building constructed at a cost of Rs.1,359,987 under the Strengthening of Pradeshiya Sabhas Programme remained idle up to 18 July 2018.

### **3.6 Contract Administration**

-----

#### **3.6.1 Construction of a Waste Material Management Building**

-----

The contract to construct the Solid Waste Material Collection Centre under the Pilisaru Programme of the Central Environmental Authority had been awarded to the Silmiya contractor on 19 October 2015 at a cost of Rs.4,946,825. The following observations were made in this connection.

- (i) Estimates for supply of electricity, water supply and construction of a fence around the building had not been included in the estimates prepared for the construction of the building. As such, the building may not be able to be used even after completion of the work.
- (ii) This work should have been completed and handed over to the Sabha on 19 December 2015. But, the work had not been completed even on 18 July 2015 and the work had been abandoned after completing 60 per cent of the work amounting to Rs.2,947,682. The expenditure incurred had become fruitless and the Sabha could not proceed with its solid waste material collection programme.
- (iii) The garbage collected within the area of the Sabha had been disposed of in a private land at Pulmoddai. This may cause environmental problems in the area concerned.

### **3.6.2 Concreting the Senthur Rural Road**

-----

The contract for concreting the Senthur Rural Road had been awarded under the provision made for Improvement of rural roads under the Ministry of Provincial Councils and Local Government.

The following matters were observed in this connection.

- (a) At least 21 days should be granted for National Competitive Bids (NCB) in terms of 6.2.2 of the Procurement Guidelines. However, the number of days granted was 14.
- (b) The Sabha had fixed the period for receipt of bids as 30 June 2017 to 13 July 2017. But, the newspaper advertisements had been published on 01 and 04 July 2017 during which there were 04 public holidays. As such, there were only 09 days during which the bids could have been forwarded. The objective of 1.2.1 (c) of the Procurement Guidelines had not been achieved in this regard.
- (c) Six contractors had forwarded their bids for the work and the contract for Rs.4,262,496 had been awarded without an evaluation made by the technical evaluation committee. However, the contractor had refused to commence work after accepting the contract and the work could not be entrusted to the contractor who was next in line. As such, fresh tenders were required for commencing the work.
- (d) The contractor selected for the work had refused to commence the work after accepting the contract without furnishing explanations and as such the Bid Bond for Rs.51,200 had not been cashed in terms of Procurement Guidelines 5.3.13(d). Further, the Sabha had not taken action against the contractor in terms of Procurement Guidelines 8.11.4.
- (e) The Sabha had again called for Limited National Competitive Bids (LNCB) for this work for which 07 days had been granted for furnishing tenders instead of 14 days in terms Procurement Guidelines 6.2.2 Two contractors who had forwarded their bids at the first instance had again applied for the work and one of them had been awarded the contract for Rs.5,000,000 without informing his selection in writing.
- (f) The Sabha had not followed proper procurement procedure and selected the suitable contractor at the first instance itself. As such, the difference between the amounts quoted in the first instance and the second instance amounted to Rs.737,504. Meanwhile, a sum of Rs.173,672 had been spent on advertisement charges. Therefore, the total loss incurred By the Sabha amounted to Rs.911,176,

### **3.6.3 Construction of a buiding for Cultural Centre**

-----

The contract for building a cultural centre for Rs.5,656,434 had been awarded to a contractor on 18 April 2016 under the Puraneguma Programme. The following matters were observed in this connection.



- (a) The proposal made by the Sabha was to construct a cultural centre for cultural activities. Later, it was decided to convert the structures in order to offer it to the People's Bank. During the course of the re-structure, a wall of 7.78 m<sup>3</sup> costing Rs.83,246 had been demolished.
- (b) A sum of Rs.97,559 had been paid stating that a door of 11.01 m<sup>2</sup> had been fixed. An audit inspection revealed that a door of 7.77 m<sup>2</sup> had been fixed. The overpayment amounted to Rs.28,621.

#### **4. Accountability and Good Governance**

-----

##### **4.1 Presentation of Financial Statements**

-----

The financial statements should be presented for audit before 31 March in terms of Section 168(1) of Chapter VII of the Provincial Financial Rules of Pradeshiya Sabha of 1988. However, the financial statements for the year under review had been furnished for audit on 03 May 2018 after a delay of one month.

##### **4.2 Budgetary Control**

-----

Variances ranging from 12 to 97per cent were observed between the estimated and actual expenditure showing that the budget had not been utilized as an effective instrument of management control.

##### **4.3 Unreplied Audit Queries**

-----

Replies for 03 audit queries issued in March 2016 expecting replies to be furnished within 14 days from the dates of issue had not been furnished up to now.

#### **5. Systems and Controls**

-----

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

**System and Control**

**Matters requiring attention.**

- |                             |   |
|-----------------------------|---|
| (a) Accounting              | (i) Updated maintenance of ledgers.                                   |
|                             | (ii) Classification of assets according to expenditure.               |
| (b) Fixed Assets Control    | (i) Maintenance of a register of fixed assets                         |
|                             | (ii) Proper maintenance of stores ledger                              |
|                             | (iii) Action to be taken to use the idle assets.                      |
| (c) Revenue Administration  | Action to be taken to collect arrears of revenue.                     |
| (d) Contract Administration | (i) To properly follow procurement guidelines for awarding contracts. |
|                             | (ii) Contracts to be executed on due dates.                           |