

Morawewa Pradeshiya Sabha
Trincomalee District

1. Financial Statements

1.1 Presentation of Financial Statements

The Financial Statements for the year 2017 had been submitted for the audit on 29 March 2018 and the report of the Auditor General had been sent to the Chairman on 17 August 2018.

1.2 Qualified Opinion

In my opinion except for the effect on the matters described in paragraph 1.3 of this report, Financial Statements give a true and fair view of the financial position of the Morawewa 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

The following accounting deficiencies were observed.

- a. Although Fixed Deposit Interest income was amounted to Rs.736,031, it had been accounted as Rs.1,329,275 and as such the income of the current year had been overstated by an amount of Rs.593,244.
- b. Although the balance of the Advance account amounted to Rs.2,000,000, it had been shown as Rs.1,891,984 in the Balance Sheet.
- c. Office equipment valued at Rs.185,600, machinery valued at Rs.55,450 and library books valued at Rs.4,203 purchased by the Council in the year under review had not been capitalized.
- d. An amount of Rs.496,690 given by the Department of Local Government for the development of the Mahadiulwewa water supply under the National Program of Strengthening Pradeshiya Sabha had been accounted under rental income.
- e. Retention money amounting to Rs.391,150 received from the Department of Local Government for the constructed projects under Puranaguma project had been accounted under Service Charge income instead of being accounted under deposits.

1.3.2 Unreconciled Accounts

- a. Although as according to the Loan register, Worker loans as at 31 December 2017 amounted to Rs.1,393,590, yet as according to Ledger accounts it amounted to Rs.1,117,863 as such there was a difference of Rs.275,727.
- b. Although as according to the Deposit ledger, Refundable Deposits as at 31 December 2017 amounted to Rs.2,517,442, yet as according to Financial Statements it amounted to Rs.2,787,183 as such there was a difference of Rs.269,741.

1.3.3 Suspense Account

Action had not been taken to reconciled the balance of the Suspense account amounting to Rs.7,864,759 due from 2011 and it had been shown under Liabilities of the Balance sheet.

1.3.4 Lack of Documentary evidence for Audit

Due to the lack of documentary evidence a total of receivable balance amounting to Rs.950,536 and payable balance amounting to Rs.214,316 could not be satisfactorily vouched in audit.

1.3.5 Non-compliance with Laws, Rules and Regulations

The following instances of Non-compliance with the provisions of laws, rules and regulations observed in audit are shown below. were observed in audit.

References to Laws, Rules and Regulations	Non compliance
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(a) Series of Rule of the Pradeshiya Sabha (Finance and Administration) of 1988 Published in the Gazette Extraordinary No. 554/5 of 17 April 1989	
(i) Rule 13	A certified copy of the Budget had not been presented to audit before the beginning of the year
(ii) Rule 17	A counterfoils register had not been maintained according to the prescribed format for receipts.
(iii) Rule 76	A rent ledger had not been maintained for shops rented out by the Council.
(iv) Rule 143	Separate deposit accounts had not been started for of tender deposits, retention deposits, library deposits and miscellaneous deposits.
(v) Rule 217	A Fixed Assets Register was not maintained.
(b). Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 571	Action had not been taken to reconciled or to taking to income 09 refundable deposits amounting to Rs.59,956 due for more than 2 years.

(ii) Financial Regulation 1646

The original copies of the Monthly Summaries of Daily Running Charts had not been presented to audit

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, Revenue over the Recurrent Expenditure of the Council for the year ended 31 December 2017 amounted to Rs.2,657,153 as compared with the corresponding Revenue over Recurrent Expenditure for the preceding year amounted to Rs.4,801,448.

2.2 Income Administration

2.2.1 Estimated income Billed Income, Actual Income and the Arrears of Income

The details of the Estimated Income, Billed Income, Collected Income and Arrears of income for the year under review and the preceding year are shown below.

Source of income	2017				2016			
	Estimated income	Billed income	Collected income	Arrears as at 31 December	Estimated income	Billed income	Collected income	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rate and taxes	62	-	-	-	47	53	53	-
Rent	4,705	2,687	2,615	72	2,785	4,596	4,596	-
License fees	251	219	219	-	303	208	208	-
Miscellaneous income	3,005	1,494	1,494	-	3,010	1,469	1,469	-

2.2.2 Stamp Fees

Action had not been taken to identify and collect stamp fees receivable from the Chief Secretary of the Eastern Provincial Council even up to 31 December 2017.

3. Operational Review

3.1 Performance

Findings revealed after the analyzing the activities that should be executed by the Pradeshiya Sabha in accordance with Section 3 of Pradeshiya Sabha Act such as regulations and control of Health of the General Public, Common Utility services and Public Road Facilities and Maintenance of People's Prosperity, Welfare and Development are given below.

a. By-laws

Although By laws should be enacted for 28 activities as stated in Section 126 of the Pradeshiya Sabha Act, by laws were not enacted even up to 31 December 2017.

b. Action Plan

An action plan had not been prepared by the council for the year 2017

c. Expected performance levels were not achieved

Details are as follows

(i) Action had not been taken to obtain electricity to a building valued at Rs.3,852,984 completed on 01 January 2017 to conduct a maternity clinic which was a need of the people of Mahadiulwewa under the Puranaguma Project and as such the council had failed to provide the people with the intended service even up to 11 April 2018.

(ii) Two shops had been construction completed on 08 November 2017 spending Rs.1,521,904 under Puranaguma Project in Mahadiulwewa Also two bathrooms had been constructed spending another Rs.250,000 and due to the lack of water supply it was unable to use even up to 11 April 2018.

d. Abandoned Works

The construction of the fair which was a need of the people of Mahadiulwewa was given to a community based organization for a value of Rs.1,000,000 under the National Project of strengthening Pradeshiya Sabha - 2017 of the provisions of Ministry of Provincial Councils and Local Government. The community-based organization had informed the Council that due to high cost of raw materials; the project could not be carried out, the organization had not provided suitable evidence to prove their claims. Also, action had not been taken to give the contract to another organization or a contractor by the Council. As such the fair which was a need of the people of the area had not been build even up to 11 April 2018.

e. Environmental Problems

Issuing of Environmental License

Although environmental protection license should be obtained when starting enterprises that would harm the environment such as rice Mills, carpentries, garages and industries relating to cement production as according to section No.23 "A" of 1980 Environmental act amended by acts No.53 of 1988 and No.56 of 2000, 16 such industries operating within the authority area of the Council had not obtained licenses. Action had not been taken by the Council to solve the related environmental problems that would arise.

f. Sustainable Development Goals

Although the Council had given the attention on protecting the environment as a sustainable development goal and had not identifies the program and the criteria to be met the goals.

3.2 Management Inefficiencies

The following observations are made.

- a. Revenue license had not been obtained for two vehicles in running condition owned by the Council for the current year
- b. Action had not been taken to pay the loan installments amounting to Rs.4,481,789 and interest amounting to Rs.656,318 from November 2015 to December 2017 for the loan amounting to Rs.9,520,000 obtained from the Local Loan and Development Fund to buy a JCB machine on May 2013 and to pay in 60 installment even up to 11 April 2018.
- c. An amount of Rs.1,500,000 had been invested in a fixed deposit by the Council an interest rate of 8.75 per cent on 09 December 2015 to be matured in 5 years and an income amount of Rs.656,250 would be received at the date of maturity. But if the same amount was invested in short term matured, an interest amount of nearly Rs.825,000 could have been taken at the end of 5 years. as the short-term investment interest is at an average of 11 per cent.

3.3 Human Resource Management

Details are as follows

- a. Actions had not been taken to recovered the staff loans amounting to Rs.100,145 obtained by 04 employees who had left service according to Section 4 of Paragraph XXIV of the Establishment Code even up to 11 April 2018.
- b. The following were observed regarding the payment of contributions to the Public Service's Provident Fund.
 - (i) Contribution collected from two employees who were recruited on a substitution basis by the Council in term of the Circular No.02/2011 of the Department of Pension dated 24 February 2011 were remitted to Employee's Providence Fund instead of being remitted to the Public Service's Provident Fund
 - (ii) Even though the contribution was 20 per cent of the total monthly earnings of the employees as per Section 07 of the Department of Pension Circular No. 07/2015 dated 23rd July 2015 the contribution for the year 2017 was calculated from the basic salary of two employees who were recruited on a

substitute basis. As a result, the employee's and employer's contributions had been calculated less by Rs. 40,617

3.4 Assets Management

3.4.1 Assets not Taken Over

Action had not been taken to take over the ownership of a lorry and a Motor cycle given to the Council by the Ministry of Local Government under the program of providing basic machinery for maintenance units of Local Government Institution and the program of providing Transport facilities to Local Government Institution.

3.4.2 Annual Board of Survey

Recommendations made by the Board of Survey carry out on 29 March 2018 relating the items to be repaired, destroyed or sold out were not carry out even up to 11 April 2018

3.4.3 Identified Losses

A fine amounting to Rs.7,700 had been paid due to the failure to obtain the income license of vehicles by the Council on time.

3.5 Procurement

3.5.1 Procurement Plan

Although a Procurement Plan should be prepared according to the Circular No.128 of National Budget dated 24 March 2006, it was not done.

3.5.2 Contract Administration

- a. A contract valued to Rs.1,900,000 had been awarded to a Community Based Organization for the construction of a multipurpose building, building No.1 under the provisions of the National Program of Strengthening Pradeshiya Sabha of the Ministry of Provincial Council and Local Government. But the permission had not been obtained according to the regulations of Plans and Buildings of the Urban Development Authority Act. Further, it was recommended to pay an extra amount of Rs.75,375 for laying concrete, plastering walls and lintel and painting the inner walls of the first floor and the contracted work was not completed even up to 11 April 2018. Also action had not been taken to get the electricity supply to the building.
- b. A contract valued at Rs.1,675,000 had been awarded on 06 October 2017 to a Community Based Organization for the development of the Morawawa multipurpose building premises under the provisions of Program of Strengthening Pradeshiya Sabha - 2017 of the Ministry of Provincial Council and Local Government and laying interlock blocks was the main part of the contract and it should be checked by the council. But action had not been taken to check the quality of the interlock blocks and bills for the payment of Rs.1,145,285 had been issued by the Council relating to laying of interlock blocks.

- c. A contract valued at to Rs.1,450,000 had been awarded on 06 October 2017 for the interior development of the multipurpose building built under the provisions of the National Program of Strengthening Pradeshiya Sabha - 2017 of the Ministry of Provincial Council and Local Government. Items for which specifications could be done or work procurement specifications should be need according to Paragraph 5.6 of the Procurement Guidelines. But a generator had been purchased without the preparations of specifications. An amount of Rs.775,000 had been for the purchase of the generator but the market value of a generator of the same type was amounted to Rs.690,000 and as such the Council had made an over payment of Rs.85,000 due to not checking the bills of purchase. Further, the generator had been left idle since the date of purchase, 10 November 2017.
- d. A contract valued at Rs.3,711,472 had been awarded on 16 November 2016 by the Council for concreting a length of 300m of the D.01 south village road of Morawawa under the 2016 Local Government Fund and if the road was, 2 culverts should have been construct. However, the Council not prepare the estimate properly the road was concreted as two parts without the construction of the culverts and as such water passing across the road in rainy days. Also, it was observed that nearly a kilometer of the road was in an unusable condition except the 300m that was concreted by the Council, and if the road was not properly prepared it was observed that road could not suitable for traveling.
- e. A maximum amount of Rs.200,000 could be paid as advance for Community Base Organizations without a security according to 5.4.4 ii of the Procurement Guidelines of 2006. But there were instances where the Council had paid advances exceeding Rs.200,000 for such organizations. Also, according to the Circular No. FC/3/3/2013 of the Finance Commission dated 26 July 2013 the maximum contract value that could be given to a Community Based Organization is amounted to Rs.2 million. But, the council had awarded contract 2 Community Based Organizations contracts each with a total exceeding Rs.04 million.
- f. A contract agreement valued at Rs.8,401,836 had been signed by the Council for the construction of a multi-purpose building under the Puranaguma Project on 11 April 2016 and the work of the contract should be complete before 12 September 2016. But the work was completed on 30 November 2016 and action had not been taken to recover the demurrages amounting to Rs.327,617.
- g. A contract agreement amounting to Rs.4,000,280 had been signed by the Council on 08 July 2016 for the concreting of the second phase of the main road of Malikuda reservoir under the Puranaguma Program and the work of the contract should be completed before 08 October 2016. But the work was completed on 01 January 2017 and the demurrages amounted to Rs.168,012 should be recovered. But amount recovered was Rs.60,004, the arrears of demurrages recovered was Rs.108,008.

4. Accountability and Good Governance

4.1 Budgetary Control

A difference of 6 per cent to 299 per cent was observed between budgeted income and expenditure of the year under review and the actual income and expenditure as such it indicated that the budget had not been used as an proper instrument of financial control.

5. System and Control

The special attention in needed to the following areas of system and control

System -----	Weakness -----
a. Accounting	i. Accounting of income ii. Maintenance of subsidiary ledgers
b. Income administration	i. Collection of arrears ii. Collection of court fines and stamp fees
c. Contract Administration	Action to be taken to get the contracts completed within the agreed time
d. Human Resource Management	i. Action to fill the employee vacancies ii. Proper segregation of duties.