

**Town and Gravets Pradeshiya Sabha**

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**Trincomalee District**  
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**1. Financial Statements**

**1.1 Presentation of Financial Statements**

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The financial statements for the year 2017 had been presented for audit on 21 June 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**

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In my opinion, except for the effects of the matters shown in paragraph 1.3 of this report, the financial statements of the Town and Gravets 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**

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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**

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The following accounting deficiencies were observed.

- (a) The balances of two bank accounts as per cash book as at 31 December 2017 amounting to Rs.8,171,992 and Rs.1,267,346 respectively had been shown as Rs.8,511,261 and Rs.1,238,839 respectively in the financial statements resulting in an overstatement of bank balances by Rs.310,762. The Sabha had not taken action to identify this and make necessary adjustments.
- (b) The employees' loans amounting to Rs.14,750,053 as per register of loans had been shown as Rs.16,663,777 in the financial statements resulting in an overstatement of employees' loans by Rs.1,913,724.

### 1.3.3 Lack of Evidence for Audit

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Age analysis for arrears of rates and taxes amounting to Rs.12,454,562 had not been furnished for audit. As such, the balances could not be confirmed in audit.

### 1.3.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

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

Reference to Laws, Rules, Regulations etc.,	Non - compliance
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1988 Pradeshiya Sabha(Finance  
and Administration) Rules  
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(a) Chapter X  
Section 193

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The actual revenue and expenditure of the year had not been compared with the budgeted revenue and expenditure for preparation and submission of explanations for variations to be forwarded to the Auditor General.

(b) Finance Regulation 571 of the  
Democratic Socialist Republic of  
Sri Lanka

Action had not been taken to settle or to credit to revenue miscellaneous deposits, tender deposits and contract deposits amounting to Rs.12,572,920 pertaining to 03 to 05 years.

## 2. Financial Review

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### 2.1 Financial Results

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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.22,272,975 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.36,592,654 showing a deterioration in financial results amounting to Rs.14,319,589.

## 2.2 Revenue Administration

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

- (a) 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	26,404	22,479	26,058	12,454	24,918	25,811	25,955	15,182
Rent	2,684	3,519	3,056	1,310	21,880	2,127	2,119	94
Licence Fees	4,028	6,351	2,271	99	2,072	2,075	1,951	752
Others	25,538	11,779	7,312	4,466	15,786	19,096	7,312	11,783

- (b) The Sabha had not taken action to recover Rs.1,604,569 on behalf of rent of quarters, rent of buildings and lease rent of Upuveli Market.

### **3. Operating Review**

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#### **3.1 Performance**

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##### **3.1.1 Delay in execution of Contract**

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The contract for concreting the Nithiyapuri Main Road had been awarded to a contractor for Rs.5,726,892 on 18 September 2017 under the Programme for developing rural roads carried out by the Ministry of Provincial Councils and Local Government. The work required to be completed on 07 November 2017 had not been completed even on 10 August 2018, the date of audit.

##### **3.1.2 Sustainable Development Target**

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The Sabha was unaware of the 2030 Agenda of the Sustainable Development Target decided at the heads of governments of member countries of the United Nations Organization in 2015.

#### **3.2 Management Inefficiencies**

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The following matters were observed.

- (a) Action had not taken regarding 1486 library books misplaced at the Sambaltivu library pointed out by the board of survey in 2017.
- (b) Advances should be settled within 10 days in terms of the Provincial Financial Rule 163.3. However, such action had not been taken regarding advances of Rs.2,356,250 remaining unsettled for 01 to 18 years.

#### **3.3 Assets Management**

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##### **3.3.1 Registration of Assets**

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Action had not been taken to acquire ownership of 08 vehicles obtained as donations from other institutions. These vehicles continues to be used by the Sabha for 11 years.

##### **3.3.2 Idle Assets**

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The following observations were made.

- (a) Eight out of 16 stalls constructed in 2014 under the Puraneguma Programme remained idle since 2014.

- (b) The Sabha had spent Rs.900,305 from its funds to repair the Sambaltivu Cultural Centre on 31 August 2015. However the building remained idle up to 10 August 2018 as there was no electricity and water.

### **3.4 Procurement Procedures**

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#### **3.4.1 Procurement Plan**

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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.

### **3.5 Contract Administration**

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#### **3.5.1 Construction of the Multi Purpose Building**

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The Sabha had provided Rs.5,464,591 for constructing the multipurpose building and the work had been entrusted to a contractor on 14 June 2017. The following matters were observed in this connection.

- (a) The estimate prepared by the Sabha for the construction amounted to Rs.6,647,822 whereas the contract had been awarded for Rs.5,464,591 resulting in a difference of 17.79 per cent. The technical evaluation committee had recommended to recover 10 per cent of the value of the contract amounting to Rs.546,459 as performance bond. However, the Sabha had recovered a sum of Rs.273,230 only.
- (b) According to the agreement entered into, the work should have been completed and handed over on 28 March 2017. However, 55 per cent of the work valued at Rs.3,018,276 such as laying of floor tiles, bathroom fittings, water supply etc, had not been completed even by 10 August 2018. However, the Sabha had not taken action in this regard.

#### **3.5.2 Construction of an Indoor Stadium**

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A contract for constructing an indoor stadium had been awarded on 06 November 2017 for Rs.3,862,000 under the Provincial Specific Development Grant. The following matters were observed in this connection.

- (a) The contractor's amount was less than 20 per cent of the estimated amount. However, the technical evaluation committee had recommended to award the contract instead of acting in accordance with Procurement Guidelines 7.9.11.

- (b) The technical evaluation committee had recommended to award the contract although the prices quoted by the contractor for certain items of work was 30 per cent more than the estimated amount.
- (c) Alterations to building had been made without performing the work required to be done as per estimates. As a result, extra work for Rs.517,482 had been performed. The building had not been satisfactorily constructed as alterations had been made.
- (d) Certain work valued at Rs.427,775 had not been completed up to 10 August 2018.

### **3.5.3 Renovation to the Vadali Pillaiyar Kovil Road**

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The Sabha had awarded a contract for renovation to the Vadali Pillaiyar Kovil Road in December 2016 for Rs.799,860 under the Programme for development of local authorities in backward areas.

The following matters were observed in this connection.

- (a) The tar barrels for this work could have been obtained from the Petroleum Corporation for Rs.10,900 made up of Rs.9,900 for a barrel of tar and Rs.1,000 as transport charges. But, 28 barrels had been purchased at the rate of Rs.13,000 per barrel from an outsider causing an overpayment of Rs.58,800.
- (b) The number of litres of tar required for this work, as per estimates, was 4356 litres. However, 5040 litres (28 barrels) of tar had been purchased. 684 litres of tar purchased in excess of the requirement was not made available for audit verifications carried out on 21 June 2017. As such, the loss had been estimated at Rs.49,390. The Sabha had not taken action in this regard up to now.

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

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

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The financial statements should be furnished for audit before 31 March in terms of Section 168(1) of Chapter VII of the 1988 (Finance and Administration) Rules. However, the financial statements had been furnished for audit on 18 June 2018, after a delay of 02 months.

### **4.2 Budgetary Control**

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Variances ranging from 9 to 71 per cent were observed between the estimated and actual expenditure showing that the budget had not been utilized as an effective instrument of management control.

## 5. **Systems and Controls**

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

<b>System and Control</b>	<b>Matters Requiring Attention</b>
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(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 ledgers.
(c) Revenue Administration	Recovery of arrears of revenue.
(d) Contract Administration	Procurement procedures to be followed while awarding contracts.  Action to be taken for completion of contracts on the due dates.  Efficient preparation of estimates.