

**Verugal Pradeshiya Sabha  
Trincomale District**

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**1. Financial Statements**

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**1.1 Presentation of Financial Statements**

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The financial statements for the year 2017 had been presented for audit on 19 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 Verugal 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**

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**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 court fines for the year under review had been brought to account on cash and accrual basis by the Sabha. Therefore, the balances could not be confirmed in audit.

**1.3.3 Accounts Payable**

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Four sundry creditors' balances aggregating Rs.47,954 continued to be brought forward in the financial statements for the last 10 years without being settled.

**1.3.4 Lack of Necessary Documentary Evidence for Audit**

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Detailed lists of advances amounting to Rs.560,600 and other investments had not been maintained. As such, the balances could not be confirmed in audit.

### 1.3.5 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.

<b>Reference to Laws, Rules, Regulations, Management Decision etc.,</b>	<b>Non - compliance</b>
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(a) 1988 Pradeshiya Sabha (Financial and Administration) Rules  ----- Chapter X Section 193	A statement explaining the variances observed between the budgeted and actual income and expenditure had not been prepared and furnished for audit
(b) Financial Regulation 571 of the Democratic Socialist Republic of Sri Lanka	Action had not been taken to settle or to credit to revenue the tender deposits, miscellaneous deposits and retentions over 2 years which amounted to Rs.215,418
(c) Procurement Guidelines 2016 5.4.4 - Section 1	A maximum performance bond of 20 per cent of the amount determined for the contract should be obtained while paying advances to contractors. However, the Sabha had granted an advance of Rs.600,000 to the contractor dealing with the contract of Rs.4,549,788 to construct the Sri Lanka Ports Entrance Sellapakkiya Road without obtaining a performance bond.

## 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. 4,024,709 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.1,242,843 showing an improvement in financial results amounting to Rs.2,781,866

## 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.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'
Rates and Taxes	650	17	51	-	1	222	222	283
Rent	609	1,130	1,157	632	361	392	392	256
Licence Fees	491	-	413	-	182	-	326	-
Others	3,513	160	2,899	1,279	3,169	140	2,448	-

### 2.2.2 Stamp Fees

Proper action had not been taken to compute and recover the stamp fees for 2016 and 2017 from the Registrar General.

## 3. Operating Review

### 3.1 Performance

#### Sustainable Development Target

The Sabha was unaware of the sustainable development target for 2030 as decided at the sustainable development meeting held in 2015 under the heads of the United Nations Organization.

### 3.2 Management Inefficiencies

The following observations are made.

- All advances should be settled within 10 days as per Provincial Financial Rule No.163.3. However, action had not been taken regarding advances of Rs.616,216 existing for 03 to 10 years.
- The computations for contributions to the Employees' Provident Fund of substitute employees should be based on their gross salaries. But, the employees' provident fund contributions of 03 substitute employees employed during 2016 had been based on their basic salaries. As a result, a sum of Rs.62,719 had been remitted less. This had not been remitted to the said fund up to now

- (c) A sum of Rs.4.000 per year should be paid to drivers and K.KSS with effect from 01 January 2013 for uniform materials and tailoring charges in terms of paragraph2(a) of the circular No. EST-8/UNIFO/06/0302/6 of 22 April 2013 of the Ministry of Public Administration and Home Affairs and in terms of Chapter XXI of the Establishments Code and the connected circular released on this behalf. But, the Sabha had not made payments for uniforms up to now

### **3.3 Assets Management**

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

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The Sabha had not taken action to acquire ownership of 06 donated vehicles used by it for over 06 years.

#### **3.3.2 Idle Assets**

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The following observations were made.

- (a) A row of stalls containing 07 rooms valued at Rs.2,272,800 belonging to the Sabha remained idle from 2011 to end of the year under review.
- (b) A ploughing machine, a two wheeled ploughing machine a road roller and a three wheeler remained idle for 04 years. Action had not been taken to repair them or to sell them by auction.

#### **3.3.3 Annual Verification of Stocks**

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The board of survey 2017 had pointed out the shortage of 602 books at the library maintained by the Sabha. Action had not been taken in this regard.

### **3.4 Procurement Procedures**

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#### **3.4.1 Procurement Plan**

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The Sabha had not prepared a procurement plan for the year under review in terms of the circular No.128 of 24 March 2006 of the Department of National Budget.

### **3.4.2 Contract Administration**

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#### **3.4.2.1 Repairs to Solar Lamps**

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Eighty solar lamps valued at Rs.7,743,120 had been installed on 30 June 2014 under the Puraneguma Project. These had become inoperative. A contract had been awarded on 27 October 2017 for repairing 65 of those lamps at Rs.2,731,000 under the provision made for Strengthening of Pradeshiya Sabhas. The following observations were made in audit in this connection.

- (a) The Sabha could make procurement up to Rs.2,000,000 only in terms of the Procurement Procedures (Supplementary) No. 28 of 04 July 2014. But, purchases for this work had been made in contravention of the procedure. As such, the objective of 1.2.1(11) of the Procurement Procedure had not been achieved.
- (b) The agreement for this contract had no clause containing continued maintenance after the repairs. As such, additional payments may have to be incurred whenever a repair occurs.
- (c) Out of the 65 lamps repaired, 19 lamps valued at Rs.847,400 had not completely functioned and 20 lamps valued at Rs.892,000 worked for few hours only. However, the Sabha had not taken action in this regard.

#### **3.4.2.2 Construction of an Auditorium**

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The contract for construction of an Auditorium under the provision made for Strengthening of Pradeshiya Sabhas by the Ministry of Provincial Councils and Local Government had been awarded for Rs.6,749,486 on 17 November 2017. The following observations were made in this regard.

- (a) Limited National Competitive Bids could be called for in terms of paragraph 3.3 of 3 of the Procurement Procedure whenever the number of contractors appears to be few. However, Limited National Competitive Bids had been called for instead of National Competitive Bids although there were many contractors. As such, the objective of 1.2.1(d) of the Procurement Procedure had not been achieved.
- (b) After making necessary corrections for computation errors made by the contractor, the contract amounted to Rs.7,248,750. But, this had not been taken into consideration and the contract had been awarded for Rs.6,749,486.
- (c) The amount quoted by the contractor was less than the estimated amount by Rs.1,793,814. As such, the technical evaluation committee had recommended the award of contract without taking action in terms of 7.9.11 of the Procurement Guidelines.

- (d) The amount quoted by the contractor had exceeded the amount stated in the estimates by Rs.2,406,590. But, the technical evaluation committee had recommended to award the contract.
- (e) Work estimated at Rs.785,000 had been completely unattended up to the date of audit, that is, 23 March 2018. But, the technical officer had certified that the work had been performed in order to get the imprest from the Ministry of Provincial Councils and Local Government.
- (f) This work should have been completed and handed over by the contractor on 12 January 2018. But, 76 per cent of the work had not been completed on 12 July 2018, the date of audit. Further, action had not been taken to recover demurrages amounting to Rs.674,948 from the contractor.

#### **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 Pradeshiya Sabha (Finance and Administration) Rules. However, the financial statements for the year under review had been furnished on 19 June 2018 after a delay of 02 months.

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

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Variances ranging from 8 to 93 per cent were observed between the budgeted and the actual expenditure showing that the budget had not been utilized as an efficient instrument of management control. Further, an estimated assessment tax amounting to Rs.650,000 had been included as revenue in the budget although no assessments had been made within the area of the Sabha,

#### **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 the nature of expenditure.
	(iii) Maintenance of registers of debtors and creditors.

- (b) Fixed Assets Control
  - (i) Maintenance of register of fixed assets.
  - (ii) Proper maintenance of register of stores.
- (c) Revenue Administration
  - Action to be taken to recover arrears of revenue.
- (d) Contract Administration
  - To act in accordance with procurement procedures and circulars of the Finance Commission while awarding contracts.