

**Karachchi Pradeshiya Sabha
Kilinochchi District**

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2018 had been presented to Audit on 23 March 2019 and the summary report of the Auditor General on the financial statements and the detailed management report had been forwarded to the Chairman on 29 May 2019 and 25 October 2019 respectively.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in the basis for qualified opinion section of this report, the financial statements give a true and fair view of the financial position of the Karachchi Pradeshiya Sabha as at 31 December 2018 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Basis for Qualified Opinion

(a) Presentation of Financial Statements

Audit Observation	Recommendation	Comment of the Accounting Officer
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As per Sub section 16(2) of the National Audit Act No. 19 of 2018, financial statement had been presented to audit only on 23 March 2019 and an annual performance report had not been presented along with the financial statements.	Action should be taken in terms of relevant rules/ instructions of the circular.	As per Sub section 16(2) of the National Audit Act No. 19 of 2018, performance reports will be prepared and annexed with the financial statements in the ensuing year.

(b) Accounting Policies

Audit Observation	Recommendation	Comment of the Accounting Officer
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Accounting policies adopted in preparing the financial statements had not been disclosed by the	Accounting policies should be disclosed in the financial statements.	Accounting concepts adopted in preparing the financial statements had been disclosed by the

Sabha in the financial statements.

Sabha in the financial statements. However, accounting policies had not been disclosed erroneously.

(c) **Accounting Deficiencies**

Audit Observations	Recommendations	Comments of the Accounting Officer
(i) Arrears of solid waste charges totalling Rs. 226,300 had not been disclosed as revenue receivable, thus debtors account balance and revenue had been understated in the year under review.	Action should be taken to disclose arrears of revenue in the accounts.	The Sabha had made entries in respect of solid waste disposal on the basis of cash up to now, thus it had not been disclosed as receivable revenue in the financial statement. Entries will be made on the basis of accrual in future periods.
(ii) Payments of eleven work schemes totalling Rs. 10,153,179 had been kept in the sundry creditors account. However, such work schemes had not been completed and payments had not been made even by 31 March 2019, thus assets and liabilities had been overstated.	Action should be taken to complete work schemes within the intended period of the particular year.	Final payments could not be made for some of work schemes due to non-receiving funds. Payments had been made to some of work schemes in the month of May.

1.4 Non-compliances

1.4.1 Non-compliances with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with Laws, Rules, Regulations and Management Decisions are given below.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliances	Recommendations	Comments of the Accounting Officer
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulation 571	No action had been taken in respect of nine lapsed deposits totalling Rs. 659,623 for over 02 years.	Action should be taken in terms of financial regulation 571.	Action will be taken to pay retention money quickly.
(ii) Financial Regulation 139	Fifteen payments valued at Rs. 1,279,098 had been made without signature of authorizing officer of payment.	Action should be taken in terms financial regulation.	All payments had been made with prior approval. However, authorizing officer had not been placed signature erroneously. It had been rectified by placing signature now.
(b) Section 4 of Chapter XXIV of Establishment Code of the Democratic Socialist Republic of Sri Lanka	No meaningful action had been taken to recover loan installments amounting to Rs. 330,304 from 09 officers who had resigned the post, dismissed and retired from the service for the period from 1 to 8 years.	Action should be taken to recover loan in appropriate period.	Out of loan instalment of Rs. 330,304, a sum of Rs. 134,419 had been recovered from the officers. Action had been taken to recover balance.
(c) Provincial Financial Rule No. 163(3)	Four advances totalling Rs. 3,714,176 had not been settled properly within the due periods.	Actions should be taken to settle advances in due periods.	Advance for repairing Sivanagar Uruththirapuram road amounting to Rs. 2,500,000 had been settled on 22 January 2019. Other three advances had not been settled due to non-receiving money.

1.4.2 Noncompliance with Tax Requirements

Audit Observation	Recommendation	Comment of the Accounting Officer
At the payment of repairing Uthayanagar 30 house plan road, contractor was inactive in the tax registration as per Value Added Tax Act. However, Value Added Tax of Rs. 411,568 had been paid.	Action should be taken in terms of Value Added Tax Act.	Not replied.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue over recurrent expenditure of the Sabha for the year ended 31 December 2018 amounted to Rs. 77,734,689 as compared with the corresponding the revenue over recurrent expenditure of the preceding year amounted to Rs. 85,704,856.

2.2 Financial Control

Audit Observation	Recommendation	Comment of the Accounting Officer
Advance of Rs. 367,260 paid for purchasing furniture through voucher no. 109 of 28 February 2018 and advance of Rs. 76,995 for purchasing furniture through voucher no. 151 of 21 March 2018 had not been settled for 10 months and 11 months respectively.	Action should be taken in terms of Provincial Financial Rule 163.3(ii).	Fund had not been received for furniture advances from the Ministry of Local Government, thus it had been settled by the fund of the Sabha in December.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Billed Revenue, Collected Revenue and Arrears of Revenue

Information on the estimated revenue, billed revenue, collected revenue and arrears of revenue presented relating to the year under review and the preceding year is given below.

Source of Revenue	2018				2017			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	1,000,000	-	-	-	200,000	-	-	-
(ii) Rentals	31,960,000	-	38,669,757	5,932,692	32,180,000	-	39,038,907	5,731,702
(iii) License Fees	5,362,000	-	7,230,545	-	5,406,000	-	6,646,677	-
(iv) Other Revenue	28,482,600	-	58,770,789	42,193,973	24,032,870	-	63,050,128	33,445,040
	66,804,600	-	104,671,091	48,126,665	61,818,870	-	108,735,712	39,176,742

2.3.2 Performance in Collection of Revenue

The following matters were observed.

Audit Observations	Recommendations	Comments of the Accounting Officer
(a) A procedure had been followed that contract of leases had been awarded for the year under review by calling tender again without being passed decision of tender board and entering lease agreement. Notices of calling tender had been made again without any decision of tender board.	It should be act according to procurement procedure.	Decisions of tender board will be maintained in writing in future periods. Contracts of lease had not been submitted to audit erroneously.
(b) At the first and second tender for meat stall, Kilinochchi, a contract of lease had not been awarded for bid which submitted by a person by written. However, at the third public auction, a contract of lease had been awarded to the same person at a sum of Rs. 2,145,000. As such, a financial loss of Rs. 555,500 had been incurred to the Sabha.	It should be act according to procurement procedure.	Deposit money had not been paid by that person. As such, a contract of lease had not been awarded
(c) No meaningful action had been taken to recover arrears of revenue totalling Rs. 1,070,625	Action should be taken to recover arrears.	A portion of recoveries had been recovered. Action is being taken to

made by using motor grader and roller for over the last 1 to 2 years.		recover the balance amount.
(d) Solid waste charges totalling Rs. 226,300 had not been recovered from 22 trade centers in the year under review.	Action should be taken to recover arrears.	A portion of recoveries had been recovered. Action is being taken to recover the balance amount.
(e) No meaningful actions had been taken to recover rents and leases totalling Rs. 5,932,692 as at the end of the year 2018 for the period of 1 to 7 years.	Action should be taken to recover arrears.	Recoverable arrears are being recovered. Balance amount is being subjected to legal action.
(f) No meaningful actions had been taken by the Sabha to bill and collect its revenue for the last 10 years.	Actions should be taken to bill and collect the revenue.	Recovery of revenue was being published in a gazette and recovered.

2.3.3 Rates and Taxes

Audit Observation	Recommendation	Comment of the Accounting Officer
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A sum of Rs. 1,000,000 had been estimated as revenue of rates and taxes in the year under review in terms of Section 32 of Chapter III of Pradeshiya Sabhas (Financial and Administrative) Rule of the year 1989. However, action had not been taken to recover rates and taxes as per estimate.	Action should be taken to recover in terms of instructions of relevant rules.	Action is being taken.

2.3.4 Rents

Audit Observation	Recommendation	Comment of the Accounting Officer
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It was mentioned in the contract that in the instance that failure to pay rent continuously for two months in respect of trade license, such trade center had been taken	Action should be taken to recover arrears of rent.	Action is being taken to recover arrears. Trade centers will be taken over by the Sabha in future periods.

over by the Sabha. However, contrary to that rent charges totalling Rs. 1,739,264 had not been recovered from 78 trade centers.

2.3.5 License Fees

Audit Observation	Recommendation	Comment of the Accounting Officer
Environmental license had not been obtained and renewed in terms of Section 23(a) of National Environmental Act No. 47 of 1980 and Gazette Notification No. 1533/16 of 25 January 2008, thus license fees totalling Rs. 42,000 had not been received from 06 grinding mills.	Action should be taken in terms of instructions of relevant circular.	Action will be taken to rectify it in this year.

2.3.6 Court Fines and Stamp Fees

Audit Observation	Recommendation	Comment of the Accounting Officer
Court fines and stamp fees totalling Rs. 30,811,527 and Rs. 10,154,071 respectively had to be received from the Chief Secretary of the Provincial Council and all authorities as at 31 December 2018.	Action should be taken to recover arrears.	Out of receivable court fines, a sum of Rs. 27,113,894 had been received in January and March 2019 and stamp fees of Rs. 8,049,591 had been received in May 2019.

3. Operating Review

3.1 Performance

The matters observed in respect of execution of activities that should be executed under Section 3 of the Pradeshiya Sabhas Act such as regularize and control over the matters of public health, public utility services and public thoroughfares and the comfort, convenience and welfare of the people are given below.

(a) **Action Plan**

Audit Observation	Recommendation	Comment of the Accounting Officer
----- An annual action plan had not been prepared in respect of the activities to be implemented by the Sabha in terms of adopted rules.	----- An action plan should be prepared.	----- It was decided that training will be provided to officers in respect of preparation of action plan. It will be possible to prepare after training.

(b) **Delays in Performance of Activities**

Audit Observation	Recommendation	Comment of the Accounting Officer
----- Demurrages of Rs. 193,751 had not been recovered in terms of schedule 6.4 of contract agreement due to non-completion of repair works of Uthayanagar 30 house plan road within the due period.	----- Action should be taken to recover demurrages.	----- At the instance that reasons for non-recovery of demurrages in respect of work scheme of repairing Uthayanagar 30 house plan road will be identified clearly and directed by you, action will be taken to recover from retention money

(c) **Sustainable Development Targets**

Audit Observation	Recommendation	Comment of the Accounting Officer
----- No meaningful actions had been taken by the Sabha to achieve sustainable development targets in terms of the Circular No. A.S.general/2018/61 of 23 April 2018.	----- Action should be taken according to the instructions of the circular.	----- It was identified development targets in terms of the circular. It was decided to take action in ensuing years through providing awareness training in this regard.

3.2 Human Resources Management

Audit Observation	Recommendation	Comment of the Accounting Officer
Vacancies and Excesses of Cadre		
Approved cadre and actual cadre of the Sabha as at 31 December 2018 were 119 and 97 respectively and 25 staff vacancies had not been filled. Further, three excess staffs had been employed without being obtained approval.	Action should be taken to fill vacancies.	Two staffs had been released due to transfer. Four cadre had been filled. Five cadres are personal cadre. Action had been taken to fill rest of cadre.

3.3 Transactions of Contentious Nature

Audit Observation	Recommendation	Comment of the Accounting Officer
(i) Construction work of a cremation shed at Ariviyalnagar had not been carried out in the year 2017. However, bill of quantities therefor had been prepared on 22 December 2017 and payment of Rs. 495,138 had been made in this regard. However, works had been carried out in January 2019.		Not replied.
(ii) At preparing bill of quantities actually in respect of works completed in the year 2019, it revealed that less works had been completed. As such, a sum of Rs. 162,681 had been overpaid.	Payment should be made as per bill of quantities.	Not replied.

3.4 Assets Management

3.4.1 Failure to recording Assets

Audit Observation	Recommendation	Comment of the Accounting Officer
The value of the fixed assets as at 31 December 2018 amounted to Rs. 243,685,587. However, a	Action should be taken to maintain a fixed assets register.	Actions will be taken to identify and classify the fixed assets and record

fixed assets register had not been maintained by the Sabha.

them from this year.

3.4.2 Failure to confirm the Security of the Assets

Audit Observations	Recommendations	Comments of the Accounting Officer
Actions had not been taken to obtain revenue license and insurance cover for a firefighting vehicle.	Action should be taken to obtain revenue license and insurance cover annually.	Firefighting vehicle had been donated by the District Secretary to the Pradeshiya Sabha. Insurance cover and revenue license could not be obtained. Therefore, Action had been taken to obtain by allocating fund in the budget for the year 2020.

3.4.3 Failure in carrying out Maintenance and Repairing

Audit Observations	Recommendations	Comments of the Accounting Officer
Eleven vehicles of the Sabha had remained in unusable condition. No actions had been taken to repair as possible to utilize them.	Actions should be taken to repair unusable vehicles and utilize them.	As there were excess vehicles, a decision had been taken to repair and handover these vehicles after dividing as Karachchi Urban Council, Karachchi Pradeshiya Sabha and Kandavalai Pradeshiya Sabha in ensuing years.

3.4.4 Assets not acquired

Audit Observations	Recommendations	Comments of the Accounting Officer
Vehicles donated to the Sabha for the use of the Sabha had not been owned by the Sabha up to now.	Actions should be taken to transfer the ownership of the vehicle.	Some of vehicles had been acquired. Action had been taken to transfer the ownership of other vehicles.

3.5 Procurement

3.5.1 Contract Administration

Audit Observation	Recommendation	Comment of the Accounting Officer
(i) A water tank had been constructed at a cost of Rs. 700,000 for Ayurvedic Hospital, Vaddakkachchi in the year 2018. However, it had not been pumped water in to the tank, thus It had remained idle without being utilized.	Action should be taken to utilize idle assets.	Tube wells had been constructed for pumping water in two instances. However, that water is not good for public utilization due to health issues, thus It was decided to fill water from Agrarian Service Centre.
(ii) A parapet wall had been constructed at a cost of Rs. 1,760,000 for a land which located at Ampaalkulam area in the year 2017. However, that land had remained idle with covered by bushes.	Action should be taken to utilize idle assets.	Parapet wall had been constructed for the security of the land.

3.6 Identified Losses

Audit Observations	Recommendations	Comments of the Accounting Officer
(i) At repairing work of sub office of the Sabha, a sum of Rs. 493,328 had been spent for laying floor tiles. However, a sum of Rs. 52,172 had been overpaid by completing this work.	Action should be taken to recover overpayment.	Rain water overflowed in to the office due to disaster of flood incurred in the year 2017 and there were water leakages on the floor. As such, stickiness of cement reduced and some floor tiles were damaged. After that, rest of floor tiles had been removed due to disturbance.

- (ii) At a work scheme of constructing a building for Ayurvedic Hospital, Vaddakkachchi, a sum of Rs. 718,395 had been overpaid to the contractor as there was a difference between actual measures and measures as per bill of quantities.
- Action should be taken to recover overpayments.
- Not replied.