

**Pachchilaipalli 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 29 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 Pachchilaipalli 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) Accounting Policies

Audit Observation

Recommendation

**Comment of the
Accounting Officer**

Cash flow statement to be submitted along with the financial statements for the year under review had not been prepared in terms of Public Sector Accounting Standards.

Financial statements should be submitted with annexures in terms of accounting policies.

Cash flow statement for the year 2018 had not been annexed with financial statements erroneously. However, it had been forwarded you subsequently.

(b) Accounting Deficiencies

Audit Observations

Recommendations

**Comments of the
Accounting Officer**

(i) Provision for purchasing of ayurvedic drugs amounting to Rs. 54,000 had been made in the sundry creditors account. However, this

It should be taken to stock only after purchasing.

A sum of Rs. 54,000 had been recorded as expenditure under expenditure head 203(1) and provision therefor had been made to sundry

purchase had not been made in the year under review and it had been disclosed as actual stock under ayurvedic stock in the financial statements as at 31 December 2018.

creditors account. However, It was an error that it had been shown as stock when a portion of the drugs had not been received in the relevant year. However, it was informed that drugs stock valued at Rs. 54,000 had been spent completely in the financial year 2019.

(ii) Non-completed capital work schemes of the preceding years totalling Rs. 4,480,868 had been disclosed as fixed assets in the financial statements, thus fixed assets for the year under review had been overstated by the same amount.

It should be brought to assets only after completing works.

Out of non-completed assets valued at Rs. 4,480,868, assets valued at Rs. 2,000,000 had been completed already in the year 2015. Further, the cemetery work valued at Rs. 475,000 at Soranpattu, Koththikulam is being carried out. As such, it had not been deducted from assets account. Others had been deducted from the assets account.

(iii) Buildings amounting to Rs. 48,062,794 had been taken over and used by the Sabha. However, it had not been included under fixed assets in the financial statements, thus fixed assets for the year under review had been understated by the same amount.

It should be brought to account after transferring ownership.

Buildings valued at Rs. 48,062,794 which not included in the assets had been included in the fixed assets account by journal now.

(iv) Six capital work schemes totalling Rs. 4,477,868 had not been completed in the preceding years and provision therefor had been made on sundry creditors in relevant years and included as

It should be brought to financial statements only after completing work schemes totally.

Six capital work schemes totalling Rs. 4,477,868 which not completed had been allocated to the sundry creditors account and allocations for non-completed works other than a sum of Rs. 475,000 for construction of Soranpattu

	allocations. Further, such amounts had been disclosed as fixed assets in the financial statements even though such work schemes had not been completed.		Koththikulam and a sum of Rs. 2,000,000 for ayurvedic building at Muhamaalai which was completed already had been deducted from assets account.
(v)	Four buildings completed under Pura Neguma Project at a cost of Rs. 48,062,794 in the preceding years had been taken over and used by the Sabha. However, it was observed in audit that it had not been included under fixed assets in the financial statements.	It should be brought to the fixed assets account.	Four buildings constructed under Pura Neguma Project at a cost of Rs. 48,062,794 had been included in the fixed assets account.
(vi)	Provision had been made in sundry creditors account in respect of payment for purchasing drugs through the voucher no. 905 of 31 December 2018 and a sum of Rs. 54,000 had been added with the stock balance as at the end of the year even though drugs had not been received.	Money should be paid only after receiving goods.	At present, these drugs had been received and used totally.
(vii)	Allocations had been transferred to sundry creditors without providing four supplies and services valued at Rs. 520,000 on time.	Actions should be taken to execute the supplies and services on time.	It had been allocated to the sundry creditors account due to failure to obtain in the financial year 2018. All said supplies and services had been obtained and rectified now.
(viii)	Allocations for work schemes totalling Rs. 9,634,565 had been transferred to sundry	Contracts should be awarded in due periods and works should be	Other works had been completed other than cemetery works valued at Rs. 475,000 at Soranpattu,

creditors due to failure to award contracts in due periods in respect of eight work schemes in the year under review. completed. Koththikkulam.

1.4 Non-compliances

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

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 891(1)	Register of Security had not been maintained.	Action should be taken in terms of relevant financial regulation.	Action had been taken to maintain Register of Security now.
(ii) Financial Regulation 881	Employees security money had not been recovered within two months since the appointment date.	Action should be taken in terms of respective financial regulation.	Action will be taken to recover within 2 months in future periods.
(iii) Financial Regulation 571	No action had been taken in respect of five lapsed contractor deposits for over 02 years.	Action should be taken in terms of relevant financial regulation.	Five contractor deposits for over 02 years could not be rectified due to hearing a case against skalad Engineering Institution.
(b) Provincial Financial Rule No. 163.3	Fifteen advances had not been settled even by 31 December 2018.	Actions should be taken to settle in terms of Provincial Financial Rule.	Actions had been taken to settle the advances and advances had been settled up to Rs. 53,363,131 as at 31 April 2019.

1.4.2 Noncompliance with Tax Requirements

Audit Observation	Recommendation	Comment of the Accounting Officer
Stamp duty totalling Rs. 22,575 deducted from the salary of the employees as per stamp duty act had been retained in the deposit account without being remitted to the Department of Inland Revenue.	It should be sent to the Department of Inland Revenue in due period.	Voucher had been prepared for sending stamp duty to the Department of Inland Revenue and payment had been made now.

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. 21,215,468 as compared with the corresponding the revenue over recurrent expenditure of the preceding year amounted to Rs. 16,471,037.

2.2 Financial Control

Audit Observation	Recommendation	Comment of the Accounting Officer
Stamp fees of Rs. 7,985,805 received had been retained in the current account of the bank for over 03 months.	Action should be taken to remit to the Department of Inland Revenue in due period.	A sum of Rs. 805 million including stamp duty had been kept as fixed deposit at Bank of Ceylon branch now and works in respect of said fund had been commenced.

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
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	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	-	-	-	-	-	-	-	-
(ii) Rentals	3,458,724	-	4,395,050	332,510	4,101,356	-	4,193,279	657,445
(iii) License Fees	925,500	-	2,219,769	8,200	760,550	-	1,306,540	3,200
(iv) Other Revenue	8,670,500	-	22,084,652	4,935,862	8,560,300	-	17,137,467	4,751,686
	13,054,724	-	28,699,471	5,276,572	13,422,206	-	22,637,286	5,412,331

2.3.2 Performance in Collection of Revenue

Audit Observations	Recommendations	Comments of the Accounting Officer
(a) 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 recover the revenue.	The Sabha had been declared as developed area in order to recover rates and taxes now.
(b) The budget estimate had not been prepared properly and estimate had not been planned and programmed properly. As a result, variances incurred ranging from Rs. 8,200 to Rs. 4,935,862 between the budgeted revenue and actual revenue.	Actions should be taken to prepare budgets appropriately.	Budget will be planned and prepared properly in future periods.
(c) No action had been taken to recover arrears of ground rent and lease totalling Rs. 190,735 for over the last 04 to 07 years.	Actions should be taken to recover arrears.	Actions had been taken to settle arrears of ground rent and lease.

2.3.3 Rents

Audit Observation	Recommendation	Comment of the Accounting Officer
----- Rent revenue represented 138 per cent of the budget. As such, it was revealed that the budget had not been made use of as an effective instrument.	----- Budget estimates should be prepared properly.	----- Revenue increased due to temporary rent revenue. Budget will be prepared considering it also in future periods.

2.3.4 Other Revenue

Audit Observation	Recommendation	Comment of the Accounting Officer
----- Other revenue represented 314 per cent of the budgeted revenue. As such, it was revealed that the budget had not been made use of as an effective instrument.	----- Budget should be estimated accurately.	----- Revenue increased due to receiving unexpected revenue.

2.3.5 Court Fines and Stamp Fees

Audit Observation	Recommendation	Comment of the Accounting Officer
----- Court fines and stamp fees totalling Rs. 3,200,000 and Rs. 1,712,317 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 in due periods.	----- Court fines and stamp fees will be received in the next financial year in terms of Finance statute of Northern Provincial and budget is being prepared as possible to recover properly from the budget since the financial year 2020.

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) **By-Laws**

Audit Observation

Recommendation

**Comment of the
Accounting Officer**

By-laws were required to be enacted for main functions in terms of section 126 of the Pradeshiya Sabhas Act. But, by-laws had not been enacted for any function even by 31 December 2018.

Relevant by-laws should be enacted as per necessity.

There was not necessity for preparing by-laws to our Pradeshiya Sabha up to now. As such, by-laws had not been prepared.

(b) **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.

Action should be taken to prepare an action plan on time.

It had been prepared for the year 2019.

(c) **Failure to Achieve the Expected Output**

Audit Observation

Recommendation

**Comment of the
Accounting Officer**

A sum of Rs. 650,700 had been allocated for the performance of six activities which included in proposed plan. However, it could not be achieved expected output.

Action should be taken to achieve expected output.

a sum allocated for controlling of dengue had been used to fuel for controlling dengue through fund transfer of vote. Others had been allocated for urgent needs. However, such needs had not been incurred, thus expenses had not been made.

(d) Failure to Achieve the Expected Outcome

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer -----
Even though an action plan had not been prepared, upper floor cultural hall which situated at Palai shopping complex and Iyakkachchi market complex had been constructed by spending a sum of Rs. 16,693,945 under NELSIP project in the preceding years. However, expected outcome had not been achieved by the Sabha adequately.	Constructions should be used and development outcomes should be achieved.	Action had been taken to modify the hall which situated at Palai shopping complex for increasing revenue and it was being used for the needs of the Sabha. A decision had been passed as possible to rent out the stalls which not rented out at Iyakkachchi market and actions had been taken to publish in newspaper on 27.09.2019.

(e) Environmental Issues

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer -----
Drug wastages had been dumped at solid waste ground of the Sabha without being provided to Cement Corporation, Puttlam, thus there were opportunities to arise environmental hazards.	Solid waste activities should be carried out in order to not affect the environment.	At present, dumping had been stopped through communicating with our Divisional Hospital.

3.2 Management Inefficiencies

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer -----
Any gazette notifications had not been published by the Sabha in the year under review in order to get approval of law in respect of	Action should be taken to get approval of Law.	Action had been taken to publish a gazette in respect of charges and fees in the financial year

fees recovered and surcharges levied, solid waste charges, rent charges and tax recoveries for the services provided to the public

2020.

3.3 Human Resources Management

Audit Observation	Recommendation	Comment of the Accounting Officer
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No actions had been taken to fill 13 staff vacancies.	Action should be taken to fill essential vacancies.	Interview for health labourer will be held in order to fill staff vacancies. A letter had been sent to get proper approval for filling other vacancies.

3.4 Operating Inefficiencies

Audit Observation	Recommendation	Comment of the Accounting Officer
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The Sabha receives lease revenue by leasing out stalls belonging to the Sabha for long term. However, it was mentioned that rent will be reviewed and fixed from time to time as per signed contract. However, no any review had been made in the year under review and the preceding year.	Rent should be reviewed in due periods.	Tax estimate had been done for the stalls belonging to the Sabha in the year 2015, thus reassessment will be made in the year 2020.

3.5 Assets Management

3.5.1 Failure to recording Assets

Audit Observation	Recommendation	Comment of the Accounting Officer
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A fixed assets register had not been maintained properly.	Action should be taken to maintain such register properly.	Action is being taken to update the fixed assets register properly.

3.5.2 Vehicle Utilization

Audit Observations	Recommendations	Comments of the Accounting Officer
(a) Six vehicles which were being utilized by the Sabha had not been changed in to usable condition.	Vehicles should be utilized in optimum level.	Two vehicles had been repaired. Actions are being taken to repair 04 vehicles.
(b) Five vehicles donated to the Sabha for the utilization of the Sabha in the previous periods had not been owned by the Sabha up to now.	Action should be taken to transfer the ownership.	Continuous action is being taken.
(c) Even though three water bowsers and trailer were being used by the Sabha registration of vehicle had not been made up to now.	Action should be taken to made registration of vehicle.	Registration could not be made due to lack of documents.

3.6 Procurement

3.6.1 Procurement Plan

Audit Observation	Recommendation	Comment of the Accounting Officer
Procurement process had been carried out for the expense of products amounting to Rs. 19,908,532 in the year under review. However, a procurement plan had not been prepared by the Sabha.	Action should be taken to prepare a procurement plan.	A procurement plan had been prepared for the financial year 2019.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observations	Recommendations	Comments of the Accounting Officer
(a) Budgeted revenue on License and environmental license for the year under review was Rs. 434,500. However, actual revenue was Rs. 835,464. Hence, actual revenue was exceeding the budgeted by 92 per cent as temporary trade institutions under the purview of the Sabha which could be obtained trade license had not been subjected to budget.	Budget should be prepared appropriately and action should be taken to implement it through the efficient control.	Action had been taken to prepare budget for the financial year 2020 with updated revenue details.
(b) Budgeted revenue on ground rent and commercial stalls and centers was Rs. 843,224. However, actual revenue was Rs. 1,287,624, thus actual revenue was exceeding the budgeted by 50 per cent. It had not been made use of as a budget instrument.	Budget should be prepared appropriately and action should be taken to implement it through the efficient control.	Budget will be prepared by computing revenue accurately in future periods.