

Koralai Pattu West Pradeshiya Sabha

Batticaloa District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial Statements for the year 2018 had been presented for 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 08 May 2019 and 31 May 2019 respectively.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph of basis for qualified opinion, financial statements give a true and fair view of the financial position of the Koralai Pattu West 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

1.3.1 Accounting Policies

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
Accounting policies had not been disclosed in the financial statements.	When preparing financial statements, it should be disclosed which accounting policy is used in the preparation of the financial statements.	Accepted.

1.3.2 Comments on Financial Statements

1.3.2 Accounting Deficiencies

Following Accounting Deficiencies were observed.

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
(a) As the arrears of taxes were not properly calculated and accounted for in the year under	The arrears of taxes of Pradeshiya Sabha should be properly calculated and	Accepted.

- review, the arrears taxes in the accounts indicated zero value. accounted for.
- (b) The arrears of taxes for the years 2016 and 2017 was not calculated and accounted for. Arrears rates should be accounted. Errors will be Corrected so that such errors do not occur in the future.
- (c) Stamp fees were not properly calculated and disclosed as stamp fees in the financial statements. Stamp duty should be calculated and disclosed in the financial statements. Errors will be Corrected so that such errors do not occur in the future.
- (d) The total value of motor vehicles had been shown as Rs. 62,315,478 for a period of more than 05 years, without calculating or revaluating. The value of motor vehicles and vehicles owned by the Sabha should be revalue and presented in the accounts. Errors will be Corrected so that such errors do not occur in the future.
- (e) The total value of lands and buildings had been shown as Rs. 35,936,292 for a period of more than 10 years, without revaluating. The value of lands and buildings should be revalue and presented in the accounts. Errors will be Corrected so that such errors do not occur in the future.
- (f) The value of the computer sets and photocopiers purchased with the financial provisions of the Ministry of Provincial Councils and Local Government during the year under review were not accounted for. The computer sets and photocopies purchased should be used for that purpose only. Errors will be Corrected so that such errors do not occur in the future.

1.3.4 Contingent Liabilities

----- Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
(a) The expenses incurred by the Pradeshiya Sabha for legal proceedings against outsiders by the Pradeshiya Sabha have not been presented in the accounts as contingent liabilities.	The financial statements must disclose the contingent liability of legal action taken against external parties by the Pradeshiya sabha..	Errors will be Corrected so that such errors do not occur in the future.

(b) **The financial position of the Sabha, which is a threat to its going concern**

When analysing the cash balance, bank balance, deposit account estimate, revenue expenditure for the financial year 2018/2019, it was observed that the Sabha was facing a great financial crisis and was in danger of being interrupted by the failure to continue going concern.

The funds of the Sabha should be utilized in a efficient and effectively.

Errors will be Corrected so that such errors do not occur in the future.

1.3.5 Accounts Receivables and Payables

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) Accounts Receivables		
Arrears Rated and Taxes amounting to Rs. 11,937,904 is being shown in the financial statements for continuously for more than 10 years. However, it is being showing in the financial accounts without any evidences such as documents, registers and other evidences and action had not been taken to recover arrears amount or write-off from the ledger accounts.	Arrears Rates and Taxes should be shown in the accounts and documentary evidences relating to that should be maintained and action should be taken to recover arrears amount.	Accepted.
(b) The amount of Rs. 51,626 to be recovered as the loans from 6 employees who had been transferred, suspended and retired had been in arrears since 1998. Nevertheless, no action had been taken to recover the balance from their guarantors or pension gratuity.	Action should be taken to recover arrears loan amounts.	Accepted.

(c) Accounts Payables

Action had not been taken to identify and settle or written-off the expenditure creditors amounting to Rs. 30,629 shown in the financial statements for more than 5 years. Action should be taken to settle expenditure creditors within the specified time period. Accepted.

1.3.6 Documentary Evidences not made available for Audit

Information had not been furnished

Following 06 Accounts Items amounting to Rs. 195,232,508, could not be satisfactorily vouched in the audit due to lack of evidence.

	Accounts Items -----	Amount -----	Evidence not Presented -----	Recommendation -----	Comments of the Accounting Officer -----
		Rs.			
(i)	Land and Buildings	35,936,292	Deeds, Register of Fixed Assets.	Documents, stock inventory registers, assets registers	Accepted.
(ii)	Machinery	4,242,857	Register of Assets, Documents to verify ownership.	should be maintained to verify the mentioned balances.	
(iii)	Motor Vehicles and Carts	62,315,978	Register of Assets, Documents to verify ownership.		
(iv)	Inventory items of Electrical Equipment	1,099,519	Inventory registers		
(v)	Inventory items	19,690	Inventory registers		
(vi)	Liabilities	30,629	Payable Schedules		

1.4 Non-Compliances

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

Instances of non-compliances with Laws, Rules, Regulations and Management Decisions are shown below.

Reference to Laws, Rules, Regulations and Management Decisions	Non-Compliance	Recommendation	Comments of the Accounting Officer
(a) Section 12 (1) and (2) of the Pradeshiya Sabha Act No.15 of 1987 and subsection 31 (1) of the Gazette Notification No. 488/16 of 13 January 1988 of the Ministry of Local Government Housing and Industry	Although separate committees have been set up for the purpose of easing the functions of the Pradeshiya Sabha, to make a complete decision and for matters such as council funds, policy planning, housing construction, social development, technical services, environmental and public utilities, action had not been taken to conduct committee meetings even by the audit date of 10 May 2019.	Separate committees should be appointed for all matters of the Sabha.	Accepted.
(b) Financial and Administrative Rules of Pradeshiya Sabha 1988 Chapter X Section 193	Actual Revenue and Expenditure Details for the year under review were not compared to the budget plan and a statement containing explanations for the variation was not submitted to the audit.	The collected revenue and expenses incurred for the year under review should be compared with the budget estimates.	Accepted.

- (c) Treasury Circular No. IAI/2002/02 dated 28 November 2002
- A separate fixed assets register for computers and computer accessories and software had not been maintained.
- A separate register should be maintained for computers and accessories.
- Accepted.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the expenditure over recurrent revenue for the year ended 31 December 2018 amounted to Rs. 1,601,133 when compared with the revenue over recurrent expenditure of the preceding year amounted to Rs. 6,811,723, thus a deterioration of Rs. 8,412,856 had been indicated in the financial result.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Arrears Revenue

Information of estimated revenue, billed revenue, collected revenue and arrears of revenue relating to the year under review and previous year are shown below.

Revenue Item	2017				2016			
	Estimated Revenue	Billed Revenue	Recovered Revenue	Arrears as at 31 December	Estimated Revenue	Billed Revenue	Recovered Revenue	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	4,150,000	13,550,280	1,612,376	11,937,904	3,675,000	13,076,123	1,138,219	11,937,904
(ii) Rental	13,588,600	6,043,392	4,724,363	1,329,028	17,570,000	7,171,629	6,636,542	532,086
(iii) Licence Fee	2,835,000	3,121,463	3,121,463	-	2,120,000	2,339,146	2,335,414	3,734
(iv) Other Revenue	19,408,000	14,234,567	12,161,501	2,082,066	26,572,000	19,851,081	17,373,514	2,477,566

2.2.2 Performance of Revenue Collection

	Audit Observation	Recommendation	Comments of the Accounting Officer
(a)	Action should be taken to recover arrears shop rental amounting to Rs. 469,920 existing for a long time.	Action should be taken to recover arrears rental.	Errors will be Corrected so that such errors do not occur in the future.
(b)	Stamp Duty for the year under review had been charged for the	Stamp duty receivable should be shown in the	Errors will be Corrected so that such errors do not occur

year 2016. Nevertheless, the income financial statements and in the future.
receivable of the Sabha for the action should be taken to
years 2017 and 2018 was not stated recover them.
in the accounts and action had not
been taken to recover them.

(i) **Rates and Taxes**

Following observations are made.

Action to collect Rates and Taxes for 09
villages in 11 Divisional Secretariat
areas is being slowed by the Sabha.

Taking actions to assess Errors will be Corrected so
and collect Rates and that such errors do not occur
Taxes from all the in the future.
divisions of the council.

(ii) **Operation of the JCB machine**

The following observations are made
during the audit on the operation of the
machine donated by the Secretary to the
Ministry of Public Administration and
Local Government to the Pradeshiya
Sabha.

In the year under review this machine
was used for 191.2 hours by the
Pradeshiya Sabha. Accordingly, a total
of Rs.747,927 had been spent on fuel,
machine repair, driver's salary and
machine loan repayments. This machine
had been used for 714.1 hours for
purposes other than for the purpose of
the Sabha and only a sum of Rs.120,625
had been earned. When this process is
surveyed, the council can lose
approximately Rs 627,302 annually.

The JCB machine must
be properly managed in
such a way that the
Sabha can generate
revenue.

Errors will be Corrected so
that such errors do not occur
in the future.

(iii) **Purchasing of Excavator**

An Excavator machine valued at about Rs. 11 million was purchased by the Council Fund and
LLDF Loan Plan for a sum of Rs. 8.7 million at 9 per cent interest rate on the condition of
repayment a sum of Rs. 181,843 monthly for a period of five years. The following observations
are made in 2018 In this regard.

- (a) From April 2017 to April 2019, a total The Excavator which Accepted.
of Rs 4,729,918 was paid together with was purchased on a loan

interest and instalments. Even though a sum of Rs.1,430,000 had to be paid as interest, only Rs.340,000 had been earned as income. Similarly, until March 2022, a sum of Rs.6,364,505 interest and premiums must be paid in total. This has to be paid in equal instalments of Rs.181,843.

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| (b) | The proposed planning report states that an income of Rs. 566,000 could be earned monthly, according to the income so far, only Rs. 15,000 has been earned monthly. | Ensure that the revenue of the machine is as proposed. | Accepted. |
| (c) | Since this machine is not available for purchase purpose, it is currently used only for solid waste management purposes. | Should be utilized. | Accepted. |
| (d) | As a result of this acquisition without proper planning, the Sabha had incurred losses and they had to face financial difficulties that could not be borne monthly.. | A proper plan should be prepared for purchasing of related machines. | Accepted. |
| (e) | If the Sabha fails to take prompt and appropriate remedies immediately, the amount spent and to be spent for this purchase approximately Rs. 11 million will be fruitless expenses. | Other appropriate remedies should be applied promptly to prevent Sabha funds being wasted. | Accepted. |

2.2.3 Courts Fines and Stamp Duty

Courts fines amounting to Rs.1,639,841 was due as at 31 December 2018, from the Chief Secretary of the Provincial Council and all authorities and stamp fees receivable were not calculated and presented in the accounts. The following observations are made in this regard.

(a) Stamp Duty

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>Upon transfer of immovable property in the Pradeshiya Sabha area for the years 2017 and 2018, stamp duty will be collected by the District Land Registration Department in Batticaloa and Kalmunai and remitted to the Provincial Treasury Income Tax Department. The following observations are made regarding the receiving of stamp duty by local authorities.</p>		
<p>(i) In terms of Section 03 of the Stamp Duty Amendment Act No. 06 of 2010, Stamp duty should be charged annually. Nevertheless, the Urban council had not calculated the stamp duty for the period from January to 31 December 2018 and collect it from the Registrar General in due course.</p>	<p>Action should be taken to calculate the stamp duty by the pradeshiya sabha and collect it from time to time from the Registrar General of land.</p>	<p>Errors will be Corrected so that such errors do not occur in the future.</p>
<p>(ii) In terms of Section 37 of the Finance and Law Ac No. 01 of 2008 relating to Imposing and Collecting Taxes and Fees from the Inland Revenue Department of the Eastern Province, action had not been taken to calculate and recover the stamp duty paid by the property owners to the Eastern Provincial Inland Revenue Department in respect of additional stamp duty charged by direct and mobile services, when transferring real estate in the Urban Council area for the period 2016, 2017 and up to December 2018. .</p>	<p>The additional stamp duties paid by the property owners to the Provincial Revenue Department of the Eastern Province should be calculated and taken back.</p>	<p>Errors will be Corrected so that such errors do not occur in the future.</p>
<p>(iii) Stamp Duty is an income to the Pradeshiya Sabha. Nevertheless, the Pradeshiya Sabha had not received the additional stamp duty of Rs.363,000</p>	<p>Ensure receipt of land sale fees, annually.</p>	<p>Errors will be Corrected so that such errors do not occur in the future.</p>

charged by the Income Tax Department of the Eastern Province even at the audit date of 10 May 2019. As a result, revenue, such as additional stamp duty and land sale fees, was losing yearly.

3. Operational Review

3.1 Performance

Following matters were revealed relating to the functions which should be performed by the Sabha to regulate and administrate public health, public utility services and public roads and luxury, convenience and welfare of the people under section 3 of the Pradeshiya Sabha Act.

(a) By-Laws

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
<p>In terms of Section 126 of the Pradeshiya Sabha Act No.15 of 1987, by-laws should be imposed and implemented in respect of the revenue and regulation of the Pradeshiya Sabha on key issues. Nevertheless, the Pradeshiya Sabha had sent proposals on by-laws on August 4, 2012 to the Ministry of Local Government in the Eastern Province for approval but, As action had not been taken to obtain approval and implement even as at 31 December 2018.</p>	<p>The approval of the Ministry of Local Government of the Eastern Province should be obtained by the Sabha.</p>	<p>Errors will be Corrected so that such errors do not occur in the future.</p>

(b) Annual Action Plan

<p>The annual action plan had not been prepared for the activities to be carried out by the Sabha in terms of the by-laws.</p>	<p>The annual action plan should be prepared for the activities to be carried out by the Sabha in terms of the by-laws.</p>	<p>Errors will be Corrected so that such errors do not occur in the future.</p>
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(c) Provisions not made Available

Provision had not been made for 03 projects identified as required by the public.	Identify the projects that the public need and make provisions for it.	Errors will be Corrected so that such errors do not occur in the future.
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(d) Solid Waste Management

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| (i) Solid waste management development plans had to be implemented.. | Solid waste management development plans should be implemented. | Errors will be Corrected so that such errors do not occur in the future. |
| (ii) Income generating ways through Solid waste management should be proposed. | The Sabha should propose projects that can generate revenue. | Errors will be Corrected so that such errors do not occur in the future. |
| (iii) Income can be earned by purchasing and using the garbage dispenser grinders, banana tree separate machines and garbage separators. | Action should be taken to Implement garbage disposal projects to increase revenue. | Errors will be Corrected so that such errors do not occur in the future. |

(e) Sustainable Development Goals

The decision of the Sustainable Development Conference of 2015, led by the Heads of States of the United Nations member states, the Council had not establish the indicators for the Sustainable Development Programs Agenda to be achieved by 2030.	Complying with the decisions of the Sustainable Development Conference 2015.	Errors will be Corrected so that such errors do not occur in the future.
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3.2 Operational Inefficiencies

Following observations are made.

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
(a) Although there are lands and houses and buildings in the area of the Pradeshiya Sabha, for that Solid waste practices must be followed.	Action should be taken to Implement solid waste management to increase revenue.	Accepted.

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| (b) | Guarantees had not been obtained from the person who has obtained the property on lease. | Guarantees should be obtained from the person who has obtained the property on lease. | Accepted. |
| (c) | In terms of Section 154 of the Pradeshiya Sabha Act No 15 of 1987, 1% sales tax should be levied on certain selected land sales; no action has been taken in respect of the lands sold in 2017 and 2018. | Action should be taken in respect of the lands sold in 2017 and 2018 in terms of Section 154 of the Pradeshiya Sabha Act No 15 of 1987. | Accepted. |

3.5 Assets Management

3.5.1 Assets not Documented

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
Action had not been taken by the Sabha to record movable and immovable property in fixed assets register.	Related registers should be maintained.	Errors will be Corrected so that such errors do not occur in the future.

3.5.2 No maintenance and repairs

Following observations are made.

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
(a) Action had not been taken to repair or sell in the auction the idled assets without being used by the Pradeshiya Sabha.	It has been in a state of disrepair or repair for more than three years. Action should be taken to repair or sell in the auction.	Accepted.
(b) In the Pradeshiya Sabha storeroom there were different types of assets and inventory items, both suitable and	Action should be taken to ensure proper packing and safe keeping of Unusable, repairable items.	Accepted.

unsuitable for use. However, action had not been taken to marked and repaired or removed from the books. Also, the appropriate items for use were not properly packed and kept safe.

3.5.3 Annual Board of Survey

The Annual Board of Survey for the year under review was conducted by the three member committee appointed by the Pradeshiya Sabha on 30, 31 January and 1 February 2019 and a sum of Rs.6,000 had been paid for this. Following observations are made relating to this survey.

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
(a) The officers who were appointed to carry out the annual board of survey were not marked, verified and signed on the inventory register as a disclosure that they were computed with the inventory to verify the actual existence of the goods.	It should be marked, verified and signed on the inventory register as a disclosure that they were computed with the inventory to verify the actual existence of the goods.	Accepted.
(b) The annual board of survey for the year under review should be conducted based on 31 December 2018. Further, the final inventory should be calculated by adjusting for inflows and releases after this date, but the survey was carried out without paying attention to these calculations	Although the closing stocks / inventories should be valued, The survey of the goods had been carried out without focusing on valuations on these operations.	Accepted.
(c) The items marked with an "S" in the general format "K" by the Annual Board of Survey, on the date of audit of 30 April 2019, it was found in the inspection that the number of marked items was statistically different.	When the survey was conducted on 9 May 2019, there was a shortage of marked items.	Accepted.
(d) Items in the form of "Treasury and Audit - 66" shown by the Annual Board of Survey should be disclosed.	The items to be displayed on Form 47, were not separated and surveyed. Eg:	Accepted.

Nevertheless, the Board has not conducted separate survey for the purpose of disclosing the above specimen items and the disclosure items in the General form 47. For example, 02 digital cameras that had been corrupted for a long period of time and could not be repaired had been disclosed as using.

Items that cannot be repaired for a long time should be disclosed in the survey.

3.6 Transactions without frugal

3.6.1 Purchasing and Issuing of Street Lights

The Pradeshiya Sabha had purchased electrical equipment for the installation of street lamps at a cost of Rs. 457,900 during the year under review. The following observations are made regarding this process.

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
(a) Although there have been minimal complaints and requests from the public for the purpose of installing street lamps, approval had been received for the purchase of street lamps of the Sabha. These purchases should be done according to the requests made by the public.	These purchases should be done according to the requests made by the public.	Errors will be Corrected so that such errors do not occur in the future..
(b) Each of the 100 LED and 100 Street Light bulbs installed on the road was purchased at a price of Rs. 1,450. Nevertheless, compared to the Batticaloa Municipal Council and other Pradeshiya Sabhas, the energy and prices of the bulbs purchased by the Pradeshiya Sabha were high.	Nevertheless, compared to the Batticaloa Municipal Council and other Pradeshiya Sabhas, the energy and prices of the bulbs purchased by the Pradeshiya Sabha were high.	Errors will be Corrected so that such errors do not occur in the future.
(c) The Sabha utilizes the budgetary provision provided each year to buy electrical bulbs for roads. These purchases were made based on the personal wishes of the Chairman and	These purchases were made based on the personal wishes of the Chairman and the members of the Sabha during the year under	Errors will be Corrected so that such errors do not occur in the future.

the members of the Sabha during the review.
year under review.

3.7 Procurement

3.7.1 Procurement Plan

Audit Observation	Recommendation	Comments of the Accounting Officer
The procurement plan for the year under review shall be prepared by the Sabha for supply and service. Nevertheless, the Sabha had prepared a procurement plan for the supplies. The basic document, the proposals, proposed services in the 4 year development programs of the Local Authorities have not been followed to prepare the procurement plan prepared by the Sabha for services.	Proposed services in the 4 year development programs of the Local Authorities should be followed to prepare the procurement plan for services by the Sabha.	Errors will be Corrected so that such errors do not occur in the future.

3.7.2 Supply and Services

Audit Observation	Recommendation	Comments of the Accounting Officer
Under the Second Level Health Program, the funds were provided for the distribution of garbage bins, collection bins and reusable garbage bags to government agencies and the public. Nevertheless, the council had only purchased 200 plastic containers at a cost of Rs. 143,928 for garbage collection and had given it only to government agencies.	It is should be purchased nos of 200 plastic herbage bins and distribute to the Government organization only.	Errors will be Corrected so that such errors do not occur in the future.

4. Accountability and Good Governance

4.1 Internal audit

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
Internal audit of the Sabha for the year under review had not taken place.	Internal Audit Functions of the Sabha should be implemented in the year under review.	Errors will be Corrected so that such errors do not occur in the future.

4.2 Audit and Management Committee

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
The Audit and Management Committees were not established and no Committee Meetings were held by the Sabha during the year under review.	Should be properly planned and implemented in accordance with the Internal Audit activities.	I kindly inform that the first audit and management committee meeting for this year had been conducted on 02 May 2019.