

Kinniya Pradeshiya Sabha
Trincomalee District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year 2019 had been submitted to audit on 28 April 2020 and the summarized Auditor General's Report relating to that was sent to the Chairman on 12 August 2020 detailed management report was sent on 19 August 2020.

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 Kinniya Pradeshiya Sabha as at 31 December 2019 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Basis for Qualified Opinion

(a) Accounting Deficiencies

	Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
(i)	Employee loan arrears for the year prior to the year under review had overstated by Rs.92,951 between the employee credit register and financial statements	Action must be taken to correct.	Adjustments will be made in the 2020 Financial statements.
(ii)	The stamp duty for the month of May 2018 was Rs.7,821,540 and the arrears of stamp duty due up to the end of the year under review had not been calculated and disclosed in the financial statements.	Arrears of stamp duty should be disclosed in the financial statements.	Action will be taken in this regard in the future.
(iii)	In bringing forward last year's creditors balances in the year under review had overstated by Rs. 50,925 during the year under review.	Bringing forward the correct values, must be confirmed.	Action will be taken in this regard in the future.
(iv)	The total value of lands and buildings valued at Rs.35,511,602 presented in the financial statements for the year under review had not been estimated and accounted for.	Estimate the correct value of land and buildings and present them in financial statements.	Action will be taken in this regard in the future.

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| (v) | 60 items of recommended for sale at auction by the Sabha Board of Survey in 2018, had been sold and 295 items of recommended for destruction were destroyed, but its values and purchased value was not calculated and removed from the assets. | Action should be taken to correct the value of reduced and destroyed items. | Action will be taken in this regard in the future. |
| (vi) | The value of Rs. 18,799,710 of the 19 cars and carts owned by the Sabha, as well as the value of the plant and machinery, and furniture and fittings amounted to Rs.3,275,705 and Rs.4,683,015 respectively presented in the financial statements for the year under review had not been revalued and brought into account. | Assets should be recalculated and the value should be disclosed in the financial statements. | Action will be taken in this regard in the future. |

(b) Accounts Receivables and Payables

(i) Accounts Receivables

Following observation is made.

Audit Observation	Recommendation	Comments of the Accounting Officer
Rs.5,914,886 of arrears market rent in financial statements have been continuously presented in the accounts for more than 5 years, but no action has been taken to recover the arrears or deduct them from the ledger accounts.	Action should be taken to take appropriate action.	Information was available only for certain years. Relevant action could not be taken as information was not available in the past.

(ii) Accounts Payables

Following observation is made.

Audit Observation	Recommendation	Comments of the Accounting Officer
<ul style="list-style-type: none"> • No action had been taken to settle the repayable deposit of Rs. 5,872,553 and there was not enough information for that. 	Adequate information should be obtained and necessary action should be taken.	No comments.

- Employees Provident Fund contributions of Rs.1,210,976 had been remained in the accounts for more than 5 years without being paid to the Employees Provident Fund. Employees Provident Fund contributions should be paid regularly. Appropriate action will be taken in this regard with the permission of the Sabha on the instructions of the Assistant Commissioner of Local Government.
- Although the creditors balance has been shown as Rs.2,291,089 for more than two years, action had not been taken to identify those and to repay to the persons concerned, settle, or transfer to the income. Arrangements should be made to identify the balance and settle the payment. I will adjust as soon as I receive the information.
- Pensions contribution of Rs.2,227,497 collected from Sabha employees have been presented in financial statements for more than 10 years without being settled. Appropriate action should be taken. Not answered.

1.4 Non-Compliances

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

The following are instances of non-compliance with Laws, rules, regulations and management decisions.

Reference to Laws, Rules, Regulations and Management Decisions	Non-Compliances	Recommendation	Comments of the Accounting Officer
(a) The Pradeshiya Sabha Act No. 15 of 1987 Sections 12 (1) and (2)	Although separate committees should be set up and consulted on matters such as the finances, policy planning, housing, social development, technical services, environment and public facilities of the Sabha, only 25 percent of advisory committees were conducted.	Establish separate committees and take action accordingly.	In order to facilitate the proceedings of the Sabha, it was submitted to the Sabha for approval regarding the appointment of relevant committees and obtaining advice
(b) Financial Regulations 571 of the Democratic Socialist Republic of Sri Lanka	No action had been taken to calculate the bids, contract guarantees and unrealized cheque deposits for a period of more than 03 to 06 years and to settle or transfer to the income in accordance with the financial regulations.	Must act expeditiously in accordance with financial regulations.	Steps will be taken to prevent such shortcomings in the future.

(c) **Non-Compliances with Tax Requirements**

Audit Observation	Recommendation	Comments of the Accounting Officer
A sum of Rs.756,010 had been paid as value added tax to a contractor during the year under review. The Inland Revenue Department and the Auditor General had not been informed about this	Payment must be confirmed upon receipt of the VAT Invoice.	Arrangements will be made to obtain VAT Invoice and Receipt before paying VAT for projects in the future to the relevant contractor.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the recurrent expenditure over revenue for the year ended 31 December 2019 amounted to Rs. 2,184,946 against with the revenue over recurrent expenditure of the preceding year amounted to Rs. 1,366,600.

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	<u>2019</u>				<u>2018</u>			
	Estimated Revenue	Billed Revenue	Recovered Revenue	Arrears as at 31 December	Estimated Revenue	Billed Revenue	Recovered Revenue	Arrears as at 31 December
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Rates and Taxes	8,850	10,845	458	10,297	4,585	6,910	4,15	1,995
rent	2,045	3,990	10	3,980	1,470	2,861	916	1,945
Total	<u>10,895</u>	<u>14,835</u>	<u>468</u>	<u>14,277</u>	<u>6,055</u>	<u>9,771</u>	<u>1,331</u>	<u>3,940</u>

2.2.2 Revenue Collection Performance

Following observation is made.

Audit Observation	Recommendation	Comments of the Accounting Officer
Licensing fee revenue was estimated at Rs. 2,045,000, but only a sum of Rs. 10,000 was recovered	Estimates should be made in a proper manner.	Only that amount could have been recovered.

2.2.3 Rates and Taxes

Audit Observation	Recommendation	Comments of the Accounting Officer
In terms of Section 134 (1) of the Pradeshiya Sabha Act No. 15 of 1987, no action had been taken to identify the immovable property under the jurisdiction of the Pradeshiya Sabha, assess its annual value and levy assessment tax. As a result, approximately Rs.2 million in revenue was lost.	Rates and taxes should be levied as prescribed.	Action will be taken to implement the decision of the Sabha and levy Rates and taxes in future.

2.2.4 Shop Rent Income

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) When lessees lease a shop, the amount of lease initially paid is treated as a rent advance and Once that advance period is over, the shop will cease to operate. As a result, the Sabha loses the expected revenue. The Sabha had not identified a formal procedure to prevent such acts and had not taken action to implement it.	Action must be taken to reach agreements in the right way.	This matter will be addressed in the future.
(b) Out of the arrears of Rs.7,284,748 submitted during the year under review, Rs.7,273,841 was outstanding for more than 09 years.	Appropriate steps should be taken to recover the arrears.	This matter will be addressed in the future.
(c) The Pradeshiya Sabha had to charge a refundable deposit of Rs.1,720,000 from 36 stalls and 32 open stalls in the public market building complex, but so far only Rs.593,000 has been charged. by the council.	Action should be taken to ensure appropriate action is taken.	From covered shops, fully recovered. Currently charging from open shops.

2.2.5 Taxes on Sale of Land

Audit Observation	Recommendation	Comments of the Accounting Officer
The Sabha had not taken action to calculate and recover Rs.3,948,206 as 1% sales tax on land sales for the period 2016 to 2018 and land sales tax for the year 2019.	Steps should be taken to collect the money due.	In the future, action will be taken to charge in full within the stipulated period.

2.2.6 Courts Fines

Audit Observation	Recommendation	Comments of the Accounting Officer
The council had not yet taken action by the audit date of 20 May 2020, to fully recover the court fines until the end of the year under review.	Action must be taken to obtain it on time.	In the future, action will be taken to charge in full within the stipulated period.

2.2.7 Stamp Duty

Following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
Although stamp duty was to be charged annually, no action had been taken to calculate the stamp duty for the period 2019 and collect it from the Registrar General within the stipulated time. These arrears were not presented in the accounts.	Action must be taken to obtain it on time.	In the future, action will be taken to charge in full within the stipulated period.

3. Operational Review

3.1 Performance

(a) By-Laws

Audit Observation	Recommendation	Comments of the Accounting Officer
In terms of Section 126 of the Pradeshiya Sabha Act No. 15 of 1987, by-laws had to be prepared and implemented on key matters for the revenue and regularization of the Pradeshiya Sabha. However, the Pradeshiya Sabha had drafted 05 by-laws in 2018 and sent proposals on by-laws to the Ministry of Local Government, Eastern Province for approval.	Action should be taken to establish by-laws.	It has been decided to prepare and approve the by-laws.

(b) Solid Waste Management

Following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(i) Garbage segregation was not carried out properly.	Action should be taken to separate Garbage.	Work is underway to obtain machinery. This matter will be addressed in the future.
(ii) Garbage collected in the Sabha area is disposed of at the solid waste disposal center, but no action has been taken to separate the decomposing and non-decomposing waste and produce organic manure through the recycling process.	Action should be taken to collect Garbage separately.	This issue will be addressed in the future.
(iii) Environmental Issues		
Animal slaughterhouses are operated without obtaining a license from the Central Environmental Authority. Also, the	Action should be taken to maintain the animal slaughterhouses after obtaining the approval of	A private company had signed an agreement with the Sabha to start a slaughterhouse. This issue

blood of the animals slaughtered here mixes with the river near the solid waste, allowing the environment to be polluted. Measures to address such environmental issues had not been identified and expedited.

the Central Environmental Authority. will be resolved in the near future once this project is implemented.

(iv) **Sustainable Development Goals**

 As per the decision of the Conference on Sustainable Development in 2015, led by the Heads of State of the United Nations Member States, the Council had not taken steps to establish indicators for measuring the Sustainable Development Programs Agenda to be achieved by 2030.

Necessary action should be taken by the Sabha.

Work is currently in progress.

3.2 Management Inefficiencies

 Following observations are made.

(a) Non-performing Bank Accounts

	Audit Observation	Recommendation	Comments of the Accounting Officer
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(i)	There was an inactive bank balance of Rs. 85,607 in the bank account activated for development programs from 2009.	Action must be taken to update or close the bank account.	At present all banking activities are done through the general bank account.
(ii)	According to the recommendations given by the Board of Survey for the year 2018, the auction prices of 06 items of 06 types to be sold at the auction have been estimated, but the assets were not sold due to overstating the estimated value of the assets and the Sabha had not re-assessed and sold them.	Action should be taken in accordance with financial regulations.	A second reassessment also was made, but action is being taken to reassess again as it could not be sold.

(b) Unsettled Advances

Audit Observation	Recommendation	Comments of the Accounting Officer
(i) Ove 10 years unsettled advance amounting to Rs.173,544 was not settled even by the audit date of 20 May 2020.	Must act in accordance with financial regulations.	This value was found in the financial statements made by our Sabha each year. Details of this were not found here. Advance payments are currently made in accordance with the financial regulations.

3.3 Human Resource Management

Accounting Deficiencies	Recommendation	Comments of the Accounting Officer
There were vacancies in 09 posts.	Vacancies should be filled.	Action will be taken to fill vacancies.

3.4 Assets Management

3.4.1 Board of Survey

Following observation is made.

Audit Observation	Recommendation	Comments of the Accounting Officer
Librarians had not submitted 1,211 books in the survey of goods on 05 libraries operated by the Sabha. However, the Sabha did not conduct a formal inquiry into the matter.	Appropriate investigation should be done and relevant values should be recovered from the responsible officers.	The Board of Survey has been informed about the relevant matters. Action has been taken on the issues you mentioned.

3.4.2 Use of Vehicles

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) The Board of Survey had recommended the sale of 06 vehicles at auction and the repair of 02 vehicles, but no action had been taken against them for more than 02 years.	Appropriate action should be taken.	Action has been initiated.

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| (b) | Although 03 vehicles of the Sabha were in a condition to be repaired, it was observed that they were idled for more than 02 years. | Appropriate action should be taken. | Action has been initiated. |
| (c) | No action had been taken to obtain the ownership of 11 vehicles until the audit date of 20 May 2020. | Action should be taken to ensure ownership. | Action has been initiated. |
| (d) | The car, 02 three-wheelers and 02 pickups in the sabha had been idle for 03 to 06 years and action had not been taken to repaired, used or sold at auction. | Relevant action should be taken and the audit should be informed. | Arrangements are being made to sell at auction. |

3.4.3 Idled Assets

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
A public toilet was constructed at a cost of Rs.1,000,000 for the welfare of tourists in the Upparu area under the Provincial Specific Development Grants and handed over by the Contractor on 31 December 2016 but has remained idle till date. The building was built on the border of a religious site in the area. The Sabha had not obtained formal documents regarding the ownership of the building thus constructed.	Action must be taken to achieve the purpose of the plan.	At present this is being handed over for public use and a letter requesting for documents regarding the land has been sent to the Kinniya Divisional Secretary.

3.4.4 Obtaining Ownership of Lands and Buildings

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
Ownership of the lands in which the 17 buildings are located, which are registered in the Land and Buildings Register of the Sabha and being used, and have been made available for public use, belonged to the Government. No action had been taken to transfer the ownership of these lands to the name of the Pradeshiya Sabha.	The Sabha should expedite the relevant work and take appropriate action.	A request has been made to the Divisional Secretary to transfer to the Pradeshiya Sabha.

4. Procurement

4.1 Procurement Plan

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
the Sabha had not prepared a procurement plan for supplies and services	Action should be taken to prepare a procurement plan.	In the future, a procurement plan will be prepared and implemented from the year 2020.

5. Accountability and Good Governance

5.1 Internal Audit

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
An officer had been appointed for the internal audit work of the Sabha during the year under review but the audit work had not been carried out even by the audit date of 20 May 2020.	Internal audit works should be carried out.	This matter will be addressed in the future.