

Kuchchaveli 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 26 June 2020 and the summarized Auditor General's Report relating to the year under review was sent to the Chairman on 05 October 2020 and the detailed management report was sent on 15 October 2020.

1.2 Adverse Opinion

In my opinion, the financial statements not give a true and fair view of the financial position of the Kuchchaveli Pradeshiya Sabha as at 31 December 2019 and its financial performance in accordance with Generally Accepted Accounting Principles.

1.3 Basis for Adverse Opinion

(a) Accounting Deficiencies

Following Accounting Deficiencies were observed.

Audit Observation	Recommendation	Comments of the Accounting Officer
(i) Stamp duty, advertising fees and other sales revenue for the year under review were reduced by Rs. 4,922,681.	Steps should be taken to indicate the correct value in the accounts.	Steps are being taken to make adjustments.
(ii) Although the outstanding advance of Rs.163,569 of a community organization has been settled in the year 2018, that value was not deducted from the accounts.	Steps should be taken to indicate the correct value in the accounts.	Action has been taken to correct.
(iii) During the year under review, Rs. 10,016,576 was spent on the construction of bridges and roads, but the expenditure overstated by Rs. 9,317,741 due to the fact that in the accounts, showing that the work has been done for Rs.19,333,741.	Arrangements should be made to present the amount spent in the accounts.	Not answered.
(iv) Street lights amounting to Rs.8,255,431 purchased during the	Since street lights are a commodity, so it is not	Since street lights are used for more than a year, they are

year under review, had been shown as capital expenditure, which increased the value of fixed assets.

necessary to show as fixed assets.

accounted for as capital assets, as the warranty is obtained.

(v) In the Bank reconciliation statement for the month of December 2019 observed a decrease of Rs.1,322,506 in the bank account. But the bank reconciliation statement was prepared by deducting that amount from the balance in the cash book stating that it was additionally deposited in the bank.

A formal disciplinary inquiry should be conducted in this regard and the reasons for the lack of funds in the bank account should be identified and action should be taken to obtain the relevant funds to the bank account and take disciplinary action against the relevant responsible officials.

The bank reconciliation statement stated that additional deposits were made with the Bank from 2013 to 2019.

(b) Accounts Receivables and Payables

(i) Accounts Receivables

Following observation is made.

Audit Observation	Recommendation	Comments of the Accounting Officer
Income of Rs.3,275,058 in 07 types due from various property owners and individuals, which had been submitted in financial statements as arrears for more than 10 years, without any books, documents or corroborative evidence and action had not been taken to recover the outstanding balances.	Action should be taken to recover the outstanding balances.	The arrears had not been written-off as action was taken to recover the arrears.

(ii) Accounts Payables

Following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(i) Based on the age analysis of the 04 types of repayable deposits received, there was a balance of Rs.22,131,840 existing for more	Action should be taken in accordance with financial regulations.	No action had been taken as there was no response from the relevant authorities regarding the long period deposits.

than 02 years and No action was taken to repay them or transfer to the income in accordance with the relevant accounting methods.

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| (ii) | Appropriate action had not been taken on the expenditure credit balance of Rs. 693,571 for the years prior to 2015 in the financial statements submitted by the House. | Appropriate action should be taken with the decision of the Sabha. | No action was taken as the accuracy of the expenditure credit balance could not be verified. |
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(c) Lack of Evidence for Audit

Evidence presented before each of the following subjects mentioned in the financial statements had not been submitted to the audit.

Account Item -----	Recommendation -----	Comments of the Accounting Officer -----
Seven accounts items amounting to Rs. 321,115,645 could not be satisfactorily vouched in the audit due to not submitting evidences.	Evidences should be present to prove the account balances shown in the financial statements.	A fixed assets register is currently maintaining.

1.4 Non-Compliances

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

Instances of Non-Compliance with the Laws, Rules and Regulations were stated below.

Reference to Laws, Rules, Regulations and Management Decisions -----	Non-Compliances -----	Recommendation -----	Comments of the Accounting Officer -----
Paragraph 02 (iv) of the Ministry of Public Administration and Home Affairs Circular No. 09/2009 dated 16 April 2009	Although it was stated that the time should be verified by the fingerprint machine when paying the holiday pay, the Sabha had paid a total of Rs.86,633 for holiday allowances and overtime even the secretary and staff of the Sabha did not complete the arrival and departure hours on holidays.	Action should be taken according to the circular.	Rural Development Plan for Local Government Development Assistance Program, Public Participation for Local Government Boards, Development Plans etc. were implemented on Saturdays and Sundays with the participation of the members of the Division.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the revenue over recurrent expenditure for the year ended 31 December 2019 amounted to Rs. 9,871,627 when compared with the revenue over recurrent expenditure of the preceding year amounted to Rs. 30,807,863.

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	2019				2018			
	Estimated Revenue	Billed Revenue	Recovered Revenue	Arrears as at 31 December	Estimated Revenue	Billed Revenue	Recovered Revenue	Arrears as at 31 December
Rates and Taxes	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Rates and Taxes	17,287	19,509	9,719	9,790	10,603	18,867	11,669	7,198
Rental	20,057	11,833	2,995	8,838	6,358	8,596	4,480	4,116
Other Revenue	30,145	31,061	30,145	916	5,163	5,622	5,164	458
Total	<u>67,486</u>	<u>62,403</u>	<u>42,859</u>	<u>19,544</u>	<u>22,124</u>	<u>33,085</u>	<u>21,313</u>	<u>11,772</u>

2.2.2 Rates and Taxes

Following observations are made.

	Audit Observation	Recommendation	Comments of the Accounting Officer
(a)	The immovable property under the Kuchchaveli sub office had not been valued and rates and taxes had not been collected.	Action should be taken to levy assessment tax.	The Sabha has decided and taken action to recover it.
(b)	The rates and taxes of the Nilaveli sub office was assessed by the Valuation Department 30 years ago. However, the maximum rates and taxes could not be recovered as the rates and taxes was reassessed at least every 5 years and the tax rates for the property were not changed from the annual value.	A re-assessment should be done and action should be taken to recover the tax.	Intends to inform the Valuation department to reassess them.

2.2.3 Shop Rent

Audit Observation	Recommendation	Comments of the Accounting Officer
A sum of Rs.1,397,365 in arrears for 08 butcher shops had not been recovered.	Action should be taken to recover the arrears.	Action had been taken to collect the arrears, the current arrears amount to Rs.871,399.

2.2.4 Other Revenue

2.2.4.1 Taxes on Income from Tourist Resorts

Audit Observation	Recommendation	Comments of the Accounting Officer
According to Section 149 of the Pradeshiya Sabha Act No. 15 of 1987, a tax not exceeding 1% of the income of tourist resorts should be levied, it was observed during the audit test checks, Hotels in the Pradeshiya Sabha area were not taxed during the last period of 2018 and 2019.	Action should be taken to levy taxes on resort establishments in the Sabha area.	With regard to resorts, in the year 2019, some resorts are being charged revenue.

2.2.4.2 License Fee

Audit Observation	Recommendation	Comments of the Accounting Officer
Although more than 15 communication towers have been set up in the Sabha area, as per Gazette Notification No. 1597/8 dated 17 April 2009, the Pradeshiya Sabha had not issued development permits for establishment of communication towers, approvals for pre-plans, issuance of implementation certificates and supervisory approvals for the installation of these towers.	Action should be taken to recover revenue from communication towers.	Action has been taken to collect this information through Revenue Inspectors.

2.2.4.3 Bank Interest

Audit Observation	Recommendation	Comments of the Accounting Officer
In the financial statements issued since 2014, the bank interest due was Rs. 458,318 but no action had been taken to recover it.	Action should be taken to recover interest.	With regard to bank interest, the Bank will be contacted and dealt with.

2.2.5 Stamp Duty

Following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
Necessary arrangements had not been made to collect Rs.35,482,126 stamp duty due from the Registrar General for the period 2014 to 2019.	Action should be taken to charge stamp duty.	Stamp duty is charged by the Eastern Provincial Council and sent to us.

2.2.6 Courts Fines

Following observation is made.

Audit Observation	Recommendation	Comments of the Accounting Officer
No action had been taken to recover court fines amounting to Rs. 3,838,647 pertaining to the period from June 2019 to December 2019.	Action should be taken to recover the arrears.	Letters of court fines, will be sent.

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) Action Plan

Audit Observation

In terms of Public Finance Circular No. 01/2014 dated 14th February 2014 and Section 126 of the Pradeshiya Sabha Act No. 15 of 1987, The Sabha was to formulate by-laws and implement activities based on them. However, no annual action plan had been prepared for those activities.

Recommendation

An annual action plan should be prepared

Comments of the Accounting Officer

An annual action plan has been prepared based on the budget.

(b) Solid Waste Management

Audit Observation

Under solid waste management, no action has been taken to separate the collected waste into perishable and non-perishable waste, recycling non-perishable waste and using the decomposing waste for the preparation of organic manure.

Recommendation

Need to take action to produce fertilizer.

Comments of the Accounting Officer

Solid waste management was not considered a single program. Will be taken as a separate program in the future. Currently included in the Public Health Services Program.

3.2 Management Inefficiencies

Following observation is made.

Audit Observation

16 agreements have been entered into with the Community Centers for road rehabilitation, advances has been paid ranging from Rs. 200,000 to Rs. 700,000 and only 08 related works have been completed.

Recommendation

Action must be taken to complete the works.

Comments of the Accounting Officer

Works are being finalized.

3.3 Human Resource Management

(a) Vacancies and Excesses in Posts

Audit Observation	Recommendation	Comments of the Accounting Officer
Five drivers, 03 library assistants and 61 work and health workers had been appointed to make payments on casual and work basis and approximately Rs.19 lakhs per month had spent from the council fund. However, information on what kind of work is being done, by whom the day-to-day duties are assigned to them, and by whom the duties performed by them are certified, could not be fully obtained.	Approval should be obtained for the relevant staff.	All day-to-day duties are performed by technical officers and public health inspectors.

(b) Employee Loans

Audit Observation	Recommendation	Comments of the Accounting Officer
The amount of Rs. 264,403 to be recovered as the loans from 11 employees who had been deceased, resigned and termination of service, and no action had been taken to recover the balance from them or their guarantors.	Action should be taken to recover the outstanding loans	Action will be taken to recover the outstanding loans.

3.4 Operational Inefficiencies

(a) Defects in leasing property

Following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(i) During the year under review, 10 shops were leased without entering into an agreement.	Agreements must be signed and leased.	The shop was advertised for lease, but was rented out because no one came forward.
(ii) No action had been taken against the arrears lessees.	Arrears should be collected in a timely manner.	Arrangements have been made to collect arrears from lessees during the financial year.

(b) Land Sales Tax

Audit Observation	Recommendation	Comments of the Accounting Officer
During the audit test checks it was observed, land sales tax was not levied for the years 2018 and 2019.	Steps should be taken to obtain sales tax.	Due to non-implementation of the Land Sales Tax, action will be taken to recover from this financial year.

3.5 Assets Management

3.5.1 Annual Board of Survey

Following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) The Annual Board of Survey for the year 2019 had not been completed by 14 July 2020.	Arrangements should be made to conduct the Annual Board of Survey on the due date.	Annual Board of Survey was delayed due to the Covid – 19 decease.
(b) The recommendations and observations made by the Board of Survey had not been implemented upon for more than five years.	Appropriate action should be taken.	Action had been taken to conduct the Annual Board of Survey.
(c) Action had not been taken relating to 639 items had not been submitted to the Annual Board of Survey and 76 items in excess which were not recorded in the books at the time of the Annual Survey 2018.	Appropriate action should be taken.	Action had been taken to conduct the Annual Board of Survey.

3.6 Non-Frugal Transactions

Following observations are made.

Purchase of computers, printers, audio, video equipment

Audit Observation	Recommendation	Comments of the Accounting Officer
(i) Even though, according to the Eastern Provincial Treasury Circular 2017/PT/	Procurement guidelines should be	Items are purchased step by step according to the

02/02, a Pradeshiya Sabha Procurement Committee (DIPE) can follow a procurement process for less than Rs.500,000, this Pradeshiya Sabha had used a procurement process of Rs. 4.5 million.

followed.

requirement.

(ii) Although it was stated that it had been purchased as an urgent need of the council, except for some of these items, including two computers, the rest of the items and equipment remained unused for more than a year.

Action should be taken to utilize the funds of the Sabha in a proper manner.

In order to enhance the library services at the Pulmudai Public Library, the E-Quality Library has been purchased and installed in a timely manner.

(iii) It was observed that the ICT Officer of the District Secretariat had given his signature and only some kind of official approval on the purchase order of the Sabha for the purchase of technical equipment including computers.

Prior to purchasing a computer-related product, should follow the appropriate technical advice process.

We will follow your advice in the future.

(iv) The Pradeshiya Sabha had incurred a loss of Rs.2,366,772 in procuring 232 goods and services due to the purchase of more than a reasonable price by the employees of the Pradeshiya Sabha with the assistance of STC employees.

Action should be taken for the lost as per the Financial Regulation

Purchasing orders for purchases from STC in accordance with the Act have been issued by our Council to STC only and no purchase orders have been issued to any other distributor. Payments were made only to STC.

4. Procurement

4.1 Procurement Plan

Audit Observation	Recommendation	Comments of the Accounting Officer
The procurement plan for supplies and services had not been prepared.	Steps need to be taken to prepare a procurement plan.	Steps have been taken to obtain information on this and prepare it in the future.

5. Accountability and Good Governance

5.1 Internal Audit

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
During the year under review, the internal audit of the Sabha had not been carried out.	Steps should be taken to establish an internal audit unit.	Staff shortages are the reason for this.

5.2 Audit and Management Committee Meetings

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
Audit and Management Committee meetings were not held during the year under review.	Arrangements should be made to hold committee meetings in accordance with the circular.	Relevant committees have been appointed and steps have been taken to hold committee meetings.