

Morawewa Pradeshiya Sabha

Trincomalee District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Auditor General after a delay of 07 months on 24 September 2014 while Financial Statements relating to the preceding year had been submitted after a delay of 13 months on 22 April 2014. The Auditor General's Report relating to the year under review was issued to the Chairman of the Sabha on 25 March 2015.

1.2 Opinion

In my opinion except for the effects on the Financial Statements of the matters referred to in paragraph 1.3 of this report the Financial Statements have been prepared in accordance with Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Morawewa Pradeshiya Sabha as at 31 December 2013 and the financial result of its operations for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

Following accounting deficiencies were observed.

- (a.) Staff Loans balance of Rs.1,053,056 as at 31 December 2013 according to the staff Loans Register had been shown as Rs.742,617 in the financial statements understating the staff loans in a sum of Rs.310,439.

- (b.) A sum of Rs.221,981 being unsettled balance out of advances given by the Sabah during previous years had been shown as a negative balance under current Assets in the Balance Sheet.
- (c.) Without maintaining a Cash Book relating to a current account, the balance of Rs.537,548 shown in the bank statement of that current account as at 31 December 2013, had been shown as the Bank Balance in the Financial Statements.

1.3.2 Suspense Account

A sum of Rs.7,864,759 shown as a Suspense Account balance had been shown under Liabilities without action being taken to settle that.

1.3.3 Lack of Evidence for Audit

Following items of accounts could not be satisfactorily vouched in audit, due to lack of evidence indicated against those items.

Item of Account -----	Value -----	Evidence not furnished -----
	Rs.	
Fixed Assets	44,423,507	Detailed schedules, Fixed Assets Register
Accounts Receivable	950,536	} Confirmation letters, Age Analysis and Detailed schedules
Accounts Payable	214,315	

1.3.4 Non-compliance with Laws, Rules, Regulations etc.

Following instances of non-compliance with Laws, Rules, Regulations and Management Decisions were observed in audit.

<u>Reference to Laws, Rules, Regulations etc.</u>	<u>Non-compliance</u>
(a.) Rule 59 of the Pradeshiya Sabha Rules Published in the Extra Ordinary Gazette Notification No. 554/5 dated 17 April 1989	- Survey of Business Entities in the area of authority had not been carried out up to 19 December 2014
(b.) Circular No. 41/90 dated 10 October 1990 of the Secretary to the Ministry of Local Government Provincial Councils, and Home Affairs	- Although it is required to test the fuel consumption of vehicles once in every months such action had not been taken with regard to 05 vehicles belong to the Sabha
(c.) Paragraph 3 of the Circular No.1980/22 of the Commissioner of Local Government	- An age analysis had not been prepared relating to arrears of revenue

2. Financial and Operating Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabah for the year ended 31 December 2013 amounted to Rs.2,652,482, as against the excess of recurrent expenditure over revenue for the preceding year amounted to Rs.512,284.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Information furnished by the Chairman relating to Estimated Revenue, Actual Revenue and arrears of Revenue are shown below.

	Source of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
	-----	-----	-----	-----
		Rs.'000	Rs.' 000	Rs. '000
(i)	Rates and Taxes	213	-	-
(ii)	Lease Rent	1,050	1,704	22
(iii)	Licence Fees	233	69	-
(iv)	Other Revenue	6,780	2,803	-

2.2.2 Court Fines

Action had not been taken to identify and obtain the money receivable on account of Court fines from the Chief Secretary of the Eastern Provincial Council up to 19 December 2014, date of audit.

3. Operational Review

3.1 Management Inefficiencies

Following observations are made.

- (a.) Necessary action had not been taken to repair 13 categories of goods, to remove 09 categories of goods and to destroy 10 categories of goods as recommended in the Report of the Board of Survey conducted on 20 January 2014.

- (b.) Income received from the JCB Machine on the basis of a hire charge of Rs.3,500 per hour had not been reported due to non-maintenance of a Register of Daily Collections.

- (c.) Action had not been taken up to 19 December 2014 to pay a sum of Rs.1,580,807 being 08 monthly installments for the loan obtained from the Local Loans and Development Fund, payable in 60 monthly installments to purchase the JCB Machine.

- (d.) A highly damaged Cab Vehicle belongs to the Office of the Chief Secretary to the Eastern Province set aside due to an accident, had been repaired and used by the Sabah having spent a large sum of money amounting to Rs. 1.8 million. Action had not been taken to get it transferred to the Sabha up to 19 December 2014, date of audit.

- (e.) Wi-Fi Internet system installed having spent a sum of Rs.237,100 during the year under review had been defunct due to lack of signals, as at 19 December 2014, date of audit.

3.2 Contract Administration

3.2.1 Construction of Main Road Ethabendiwewa

Contract Agreements had been signed on 31 May 2012, for tarring after laying rubble to a length of 2 km in the second stage of this road for a sum of Rs. 18,046,600 (without VAT) on the basis of finalizing the construction works within three months. Following observations are made in this connection.

- (a.) Contract had been stopped on 08 October 2012 due to unsatisfactory level of performance after paying a sum of Rs. 2,954,923 and agreements had been signed with another contractor for a sum of Rs. 19,577,095 (without VAT) on the basis of finalizing the construction works within 06 months. An additional sum of Rs. 4,485,418 had to be paid and it had not been possible to complete the construction works within the specified period due to failure in selecting the most suitable contractor in evaluation process of the Procurement Procedure.
- (b.) Action had not been taken to cash the Performance Bond before expiry period of the bond during the time of not carrying out the work satisfactorily by the contractor. Due to that, bond value of Rs. 902,330 had been lost to the Sabha.
- (c.) In certain places between 1+250 and 1+450 the concrete mixture used had not been up to specified standard and thickness of the concreted had been less than 6 inches. Due to that, it had become a problem with regard to long term durability to the extent of 30 cubic meters.
- (d.) Action had not been taken to retain and remit Industrial Certification Tax (CIGFL) amounting to Rs.48,164 relating to the sum of Rs 19,265,499 paid to the contractor, in terms of Part III of the Finance Act No. 03 of 2005 (subject to amendments made by Finance Amendment Acts No.13 of 2007 and No. 18 of 2009) to the Director General of Inland Revenue.

3.2.2 Construction of a Library for the Pradeshiya Sabha

Contract Agreements had been signed on 22 January 2013, for the construction of first floor of the two storied building for the library through the Deyata Kirula Project for a sum of Rs.7,048,316 (without VAT) on the basis of finalizing the construction works within three months. Following observations are made in this connection.

- (a.) Payment for the first bill amounting to Rs.2,421,104 submitted by the contractor for the work done on 12 February 2013 had been made in April 2014 after a period of 12 months and the construction works had been stopped by the contractor due to that. Although the contractor had commenced the work again in September 2014, construction had not been finalized up to 16 December 2014, date of audit.
- (b.) Although the performance Bond valued at Rs.352,420 had lapsed on 23 April 2013, necessary action had not been taken to extend that.
- (c.) Although 04 iron wires of 16 mm and 04 iron wires of 12 mm should be used for each post relating to the 21 posts to be utilized for the construction of the first floor of the two storied building according to the drawings, 21 concrete posts made using only two iron wires of 12mm for each had been used for the construction. Accordingly, 77 kg of iron wires had not been used causing a problem with regard to long term durability of the building. In response to the audit query raised with regard to this matter, the Secretary to the Sabah had informed the Auditor General that suitable action need to be taken regarding this matter by the Technical Officer and the Engineer who served at that time and at present they have left the Pradeshiya Sabah on transfers.

3.3 Budgetary Control

Budgeted and actual expenditure for the year under review indicated a variation between 28 Percent and 58 Percent. Accordingly, it was observed that the Budget had not been utilized as a tool for proper financial management.

3.4 Human Resource Management

Approved and Actual Cadre

Information relating to the approved and actual Cadre of the Sabah as at 31 December 2013 is shown below.

Category of Employees	Approved Cadre	Actual Cadre	Number of Vacancies
-----	-----	-----	-----
Executive Level	01	01	-
Secondary Level	14	05	09
Tertiary Level	16	08	08
Total	----- 31 =====	----- 14 =====	----- 17 =====

Following observations are made.

- (a) While action had not taken up to 19 December 2014, date of audit, to appoint a suitable person to the post of Secretary to the Pradeshiya Sabah that had been vacant since April 2014, a Secretary had been appointed on acting basis.
- (b) Action had not been taken up to the date of audit, to fill the vacancies in the posts of Librarian, Development Officer, Driver, Machine Operator and Work Supervisor.

4. Systems and Controls

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Special attention of the Sabha is needed in the following areas of controls.

- (a.) Accounting
- (b.) Revenue Administration
- (c.) Fixed Assets Control
- (d.) Contract Administration
- (e.) Human Resources Management
- (f.) Budgetary Control