

Morawewa Pradeshiya Sabha

Trincomalee District

1. Financial Statements

1:1 Presentation of Financial Statements

- (a) The financial statements for the year under review had been presented for audit on 22 April 2014 and the financial statements for the preceding year had been presented on 05 September 2012. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 05 September 2014.
- (b) The main components of financial statements such as cash flow statement, changes in equity statement and notes to the financial statements had not been furnished with the financial statements.

1:2 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Morawewa Pradeshiya Sabha had maintained proper accounting records for the year ended 31 December 2012. and except for the effects on the financial statements of the matters referred to in my 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 2012 and the financial results of its operation for the year then ended.

1:3 Comments on Financial Statements

1:3:1 Accounting Policies

The accounting policies adopted in the preparation of financial statements had not been disclosed in the financial statements.

1:3:2 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) The bank balance as at end of the year under review with regard the NELSIP project implemented by the Sabha amounting to Rs.9,879,611 and the work in progress of Rs.2,421,104 had not been brought to account.
- (b) The bank balance of the cash book as at end of the year under review amounting to Rs.2,939,078 had been accounted for, as Rs.2,347,014 thus understating the bank balance in the financial statements by Rs.592,064.
- (c) The balance of employees' loans as at end of the year under review amounting to Rs.1,397,082 had been accounted for, as Rs.1,203,392 thus understating the balance of employees' loans by Rs.193,687.

1:3:3 Lack of Evidence for Audit

Transactions of 5 items of accounts amounting to Rs.27,799,475 could not be satisfactorily vouched in audit due to non-rendition of necessary information for audit.

2 Financial and Operating Review

2:1 Financial Results

According to the financial statements presented, the revenue exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2012 was Rs.512,284 as against the recurrent expenditure exceeding the revenue of the preceding year amounting to Rs.2,828,062.

2:2 Revenue Administration

2:2:1 Estimated Revenue, Actual Revenue and Arrears of Revenue

The information relating to the estimated revenue, actual revenue and the arrears of revenue for the year under review, as presented by the Chairman, appear below.

Item of Revenue	Estimated	Actual	Accumulated Arrears as at 31 December
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	Rs.'000	Rs.'000	Rs.'000
Rates and Taxes	89	42	112
Lease Rent	42	747	513
Licence Fees	136	40	178
Other Revenue	2,673	2,924	--

2:2:2 Court Fines

Action had not been taken even as at 07 May 2014, the date of audit, to identify and recover court fines receivable as at 31 December 2012 from the Chief Secretary of the Eastern Provincial Council.

2:3 Management Inefficiencies

- (a) The Sabha had not taken action with regard to 14 items of goods to be repaired, 10 items of goods to be auctioned and 9 items of goods to be disposed of, as per recommendations of the board of survey dated 10 January 2013.
- (b) A survey of business enterprises within the area of the Sabha had not been conducted till end of the year under review as required by 1988 Pradeshiya Sabha (Finance and Administration) Rule 59.

2:4 Control Over Vehicles

- (a) A cab allocated to the Chief Secretary of the Eastern Province had been severely damaged due to an accident and an extensive sum of Rs.1.8 million had been spent by the Sabha to repair it on 24 May 2012. However, action had not been taken by the Sabha to acquire it.

As the above vehicle had been repaired by utilizing funds from 17 other expenditure heads amounting to Rs.1,068,000, the work such as repairs to buildings, water, health preservation, local government conferences, exhibitions and capital expenditure could not be fulfilled.

- (b) The cab belonging to the Sabha remained parked at the vehicle pool for over 8 months as a result of not attending to minor repairs, even as at 07 May 2014, the date of audit.

2:5 Contract Administration

2:5:1 Construction of a Library

A contract agreement had been signed on 22 January 2013 on the basis of constructing a library building through the Deyata Kirula Project at a cost of Rs.7,048,316 (Excluding Value Added Tax). The following observations are made in this connection.

- (a) Payments for bills furnished by the contractor for Rs.2,421,104 on 12 February 2013 had been made after a delay of 14 months. As a result, the contractor had suspended the construction for about one year.
- (b) The performance bond for Rs.352,420 had expired on 23 April 2013. But, necessary action had not been taken to extend it.

2:5:2 Construction of the Athabendiwewa main Road

- (a) The contract agreement for Rs.12,946,957 for the first stage of constructing the 2 km road by spreading stones and tarring it within 3 months had been signed on 30 January 2012. The following observations are made in this connection.
- (i) The performance relating to the construction of this road was not satisfactory. As a result, the contract had been suspended on 09 November 2012 and a fresh contract had been entered into with another contractor for Rs.18,826,970 (Excluding Value Added Tax) on 30 March 2014. An additional payment of Rs.5,880,013 had been made and the construction had not been completed within the period specified as a result of not selecting the most suitable contractor by evaluating the contractors during the process of procurement.
 - (ii) According to the general contract conditions 60.1 with regard to calling for national competitive quotations, action had not been taken to prepare the engineer's certificate showing the amount receivable from or payable to the contractor after suspension of the contract.
 - (iii) The Sabha decided to blacklist the contractor. But, action had not been taken to notify it to the Institute of Construction Training and Development.
- (b) On 31 May 2012, a contract agreement had been signed on the basis of completing the construction work of 2 km of this road by laying stones and tarring it at a cost of Rs.18,046,600 (Excluding value added tax). The following observations are made in this connection.
- (i) The performance of construction of this road was unsatisfactory. As such, the contract had been suspended on 08 October 2012 and an agreement had been signed with another contractor for Rs.19,557,095 (excluding value added tax) on 13 March 2014. During the procurement process, the contractor had not been evaluated so as to select the most suitable contractor. As such, an additional payment of Rs.1,510,495 had to be made and the construction had not been completed within the specified period.

- (ii) A sum of Rs.2,954,923 had been paid to the contractor at the time of suspension of the contract. Meanwhile, action had not been taken to prepare the engineers certificate showing the amount receivable by/ payable to the contractor in terms of the general conditions 60.1 with regard to calling for national competitive quotations.
- (iii) Action had not been taken to encash the performance bond valued at Rs.902,330 before the expiry period and as such the Sabha had been deprived of that amount.
- (iv) The Sabha had decided to blacklist the contractor. But, action had not been taken to inform it to the Institute of Construction Training and Development.

2:6 Human Resources Management

 Approved and Actual Cadre

The information relating to the approved and actual cadre of the Sabha as at 31 December 2012 appear below.

Category of Staff	Approved	Actual	No. of Vacancies
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Executive Level	01	01	--
Secondary Level	09	04	05
Tertiary Level	08	08	--
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Total	18	12	05
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Two posts of Management Assistant and three posts of Development Officers remained vacant.

3. Systems and Controls

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

- (a) Accounting
- (b) Revenue Administration
- (c) Assets Management
- (d) Contract Administration
- (e) Human Resources Management