

**Kinniya Pradeshiya Sabha**  
**Trincomalee District**

**1. Financial Statements**

**1.1 Presentation of Financial Statements**

The financial statements for the year under review had been presented to audit on 25 September 2013 and the financial statements for the preceding year had been presented on 20 April 2012. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 23 December 2013.

**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 Kinniya 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 forwarded to the Chairman, 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 Kinniya Pradeshiya Sabha as at 31 December 2012 and the financial results of its operations and cash flows for the year then ended.

**1.3 Comments on Financial Statements**

**1.3.1 Accounting Policy**

The Sabha had utilized fixed assets aggregating Rs.6,690,350 for earning revenue and providing services during the year 2012. But, provisions for depreciation of fixed assets had not been made in the accounts. Thus it was observed that the expenditure incurred on earning the revenue had not been reflected in the financial statements.

### **1.3.2 Accounting Deficiencies**

The following accounting deficiencies were observed.

- (a.) The total revenue of the Sabha for the year under review was Rs.14,658,899 as per Register of Revenue. However, this had been shown as Rs.14,418,464 in the accounts understating the revenue of the year under review by Rs.240,435.
- (b.) The revenue of Rs.738,325 recoverable by the Sabha for year under review had not been shown in the financial statements.
- (c.) Provision for audit fees amounting to Rs.17,615 had not been made in the accounts.
- (d.) The recurrent expenditure of the Sabha amounting to Rs.316,768 had been shown as capital expenditure.
- (e.) Advances of Rs.60,000 granted to officers during the year under review had not been recovered and this had not been included in the final accounts too.

### **1.3.3 Accounts Receivable and Payable**

The following observations are made.

- (a.) Pensionery contributions recovered by the Sabha from 2004 to 2006 was Rs.2,315,384. This had not been remitted to the Department of Pensions.
- (b.) Action had not been taken up to now to settle the sum of Rs.1,983,482 payable to the Kinniya Urban Council and to recover the sum of Rs.897,795 due to the Sabha in 2006.
- (c.) Sundry debtors of Rs.27,806 remained unsettled since 2006.
- (d.) Action had not been taken to recover the arrears of revenue amounting to Rs.4,438,197 since 2006.

### **1.3.4 Lack of Evidence for Audit**

The following items of accounts could not be satisfactorily vouched in audit due to lack of evidence indicated against each item.

Item	Value	Evidence
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	Rs.	
Land and Buildings	1,441,310	} Register of fixed assets Board of survey reports
Plant, Machinery	1,308,575	
Motor Vehicles	3,029,710	
Arrears of Revenue	5,335,992	} Age analysis Detailed schedules
Tender Deposits	1,120,220	
Lease Deposits	281,250	
Sundry Deposits	573,306	} Register, age analysis
Prepayments	173,544	

### 1.3.5 Non -Compliance with Laws, Rules and Regulations

Instances of non-compliance with laws, rules and regulations appear below.

Reference to Laws, Rules and Regulations	Non compliance
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(a.) <u>Pradeshiya Sabha Act No.15 of 1987</u>	
(i.) Part II Section 19(1)(1)	Casual employees had been appointed without the prior approval of the Commissioner of Local Government in 2012 and a sum of Rs.387,889 had been paid as salaries from the funds of the Sabha.
(ii.) Part II Section 158	Property tax had not been recovered from all the areas of the Sabha since 2006.

(b.) Financial and Administrative  
Rules of the Pradeshiya Sabha  
1989

- (i.) Chapter VII Section 164      The Secretary or an officer delegated by him had not examined and initialled accounting records daily.
- (ii.) Chapter IX Miscellaneous      Security deposits had not been obtained from  
181-184      officers handling cash and stores.

(c.) Provincial Financial Rules

- (i.) 237      The Sabha had not taken action with regard to 151 cheques amounting to Rs.1,354,044 remaining uncashed for over 06 months.
- (ii.) 433      Expenditure on fuel and repairs relating to the vehicles of the Sabha during the year under review amounting to Rs.821,147 and Rs.693,833 respectively had not been entered in the monthly performance summary of vehicles.

**2. Financial and Operating Review**

**2.1 Financial Results**

According to the financial statements presented, the recurrent expenditure of the Sabha exceeding the revenue for the year ended 31 December 2012 was Rs.399,527 as compared with the recurrent expenditure exceeding the revenue of the preceding year amounting to Rs.10,667,880.

**3. Systems and Controls**

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

- (a.) Accounting
- (b.) Budget
- (c.) Fixed Assets
- (d.) Collection of Revenue