

**Kantale Pradeshiya Sabha**

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**Trincomalee District**  
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**1. Financial Statements**

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**1.1 Presentation of Financial Statements**

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Financial Statements for the year under review had been submitted to Auditor General on 04 April 2014 while Financial Statements relating to the preceding year had been submitted on 19 April 2013. The Auditor General's Report relating to the year under review was issued to the Chairman of the Sabha on 23 February 2015.

**1.2 Opinion**

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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 Kantale 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**

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**1.3.1 Non-compliance with Sri Lanka Public Sector Accounting Standards**

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Financial Statements had not been prepared in accordance with Public Sector Accounting Standards as stipulated in the Local Government and Provincial Councils Ministry Circular No. PL/05/BA/SLPS dated 27 January 2014.

### 1.3.2 Accounting Deficiencies

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Following accounting deficiencies are observed.

- (a.) Out of the rent receivable from 27 Market Stalls Rent Debtors amounting to Rs. 1,930,805, rent over paid during the period from the year 2008 to year 2010 amounting to Rs.74,410 had been set off against the rent receivable, instead of accounting under pre-payments. Due to that, Market Stalls Rent Receivable had been understated in a sum of Rs.74,410 in the accounts.
- (b.) Staff Loans balance of Rs. 4,450,814 as at 31 December 2013 according to the Staff Loans Register had been accounted as Rs. 4,215,326 and due to that, Staff Loans had been understated in a sum of Rs. 235,488.
- (c.) The cost of the Pradeshiya Sabha building amounting to Rs.11,881,502 constructed during the year 2011 had not been accounted under fixed assets.
- (d.) Expenditure incurred amounting to Rs. 3,694,087 for the work completed up to 31 December 2013 for construction of the crematorium had not been accounted as Work in Progress.
- (e.) Value of Public Market Building consist of 66 stalls and Bus Stand Building consist of 24 stalls, constructed by the Urban Development Authority and handed over to the Sabah during the year 2013 had not been assessed and accounted.
- (f.) Amount payable valued at Rs. 6,994,018 relating to 14 roads completed by laying concrete cement blocks during the year under review through Pradeshiya Sabha members' provisions under "Maga Neguma" Rural Program had not been accounted.
- (g.) A sum of Rs. 2,664,669 receivable out of the mobilization advances paid to State Engineering Corporation as at 31 December 2013 had not been taken to financial statements.

### 1.3.3 Lack of Evidence for Audit

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

<b>Item of Account</b>	<b>Value</b>	<b>Evidence not furnished</b>
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	Rs.	
Land and Buildings	24,331,745	Detailed schedules, Fixed Assets Register and title deeds
Accounts Receivable	16,158,350	} Confirmation of balances, age analysis and detailed schedules
Accounts Payable	1,114,116	

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

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

<b><u>Reference to Laws, Rules, Regulations etc.</u></b>	<b><u>Non-compliance</u></b>
(a.) Rule 59 of the Pradeshiya Sabah Rules (Financial and Administration) of 1988 published in the Extra Ordinary Gazette Notification No. 554/5 dated 17 April 1989	- Survey of Business Entities in the area of authority of the Sabah had not been carried out
(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 06 months, such action had not been taken with regard to 16 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
- (d.) Provincial Financial Rules No. 236 - Action had not been taken with regard to 03 cheques valued at Rs.30,305 issued, but not presented for payment for more than 06 months.

## **2. Financial and Operating Review**

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### **2.1 Financial Results**

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According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2013 amounted to Rs.4,846,449, as against the excess of revenue over recurrent expenditure for the preceding year amounted to Rs.1,533,325. The decline of the financial results in a sum of Rs. 6,379,774 was mainly due to the decrease in revenue grants amounting to Rs. 2,426,110 and increase in the expenditure on repairs and maintenance of capital assets in a sum of Rs,3,258,526, when compared with those for the preceding year.

### **2.2 Revenue Administration**

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#### **2.2.1 Performance in Revenue Collection**

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

	<b>Source of Revenue</b>	<b>Estimated</b>	<b>Actual</b>	<b>Cumulative Arrears as at 31 December</b>
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		Rs.'000	Rs.' 000	Rs. '000
(i)	Rates and Taxes	5,320	4,666	9,610
(ii)	Lease Rent	7,125	3,314	5,667
(iii)	Licence Fees	555	731	-
(iv)	Other Revenue	9,554	17,282	2,000

### **2.2.2 Stamp Fees**

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Action had not been taken to identify and obtain the amount receivable as stamp fees as at 31 December 2013, from the Chief Secretary of the Eastern Provincial Council up to 02 October 2014, date of audit.

## **3. Operational Review**

### **3.1 Management Weaknesses**

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Following observations are made.

- (a.) Non-allotment of constructed stalls in the Public Market and the Bus-Stand to merchants

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Construction of 66 stalls in the new public market having demolished the old stalls during the year 2011 and another 24 stalls in the bus stand had been completed by the Urban Development Authority during the year 2011 and had handed over the stalls to the Pradeshiya Sabah on 27 March 2013. Following observations are made in this connection.

- (i.) 90 Stalls referred to above taken over from the Urban Development Authority had remained unoccupied for more than 18 months from the date of taking over.
- (ii.) The Sabha had failed to implement a suitable procedure to give priority in allotment of stalls to occupants of 32 demolished stalls in constructing the new market complex and to local merchants even up to 02 October 2014, date of audit.

(b.) Implementation of Recommendations of the Board of Survey Report

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Following observations are made.

- (i.) According to report of the Board of Survey conducted on 02 July 2014, it had been recommended to repair 23 categories of goods, and to remove 138 categories of goods and 363 books. However, necessary action had not been taken
  - (ii.) Progress relating to the new process of preparing the inventory of all items of goods belong to the Pradeshiya Sabha in 11 locations according to the new computerized register, by re-numbering those in alphabetical order as recommended by the Board of Survey was not in a satisfactory situation even up to 02 October 2014, date of audit.
- (c.) While 235 books valued at Rs. 42,949 had been misplaced, proper course of action had not been taken with regard to that.
- (d.) Goods totalling to Rs. 933,687 had been purchased during the year under review without following proper procedure in calling for quotations, opening them and selecting the suppliers through a technical evaluation committee.
- (e.) Trade Licence Fees relevant to the year under review had not been correctly identified. In that, all fees received during the year had been treated as income of the year without taking course of action to prepare estimates for Trade Licenses.

### **3.2 Under-utilized Assets**

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Although the van purchased during the year 1997 had been out of order in November 2013 and parked in the yard, a suitable course of action had not been taken with regard to that.

### **3.3 Identified Losses**

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Fixed Deposits valued at Rs.04 million opened on 08 September 2005 had been encashed on 05 January 2010 by the former Secretary of the Sabah to be utilized for development works. Following observations are made in this connection.

- (a.) Out of the Rs.04 million referred to above, Rs. 01 million had been credited to a current account of the Sabha while the balance Rs.03 million had not been given to the Sabah by him up to 02 October 2014, date of audit. According to the letter dated 11 December 2014 of the Secretary to the Sabha, a court case is in progress with regard to this matter.
- (b.) Although the above sum belongs to the Sabah had not been given to the Sabah during a period of more than 04 years, a disciplinary inquiry had not been conducted by the Sabah in terms of Chapter XLVIII, Part II of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.

### **3.4 Contract Administration**

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Pradeshiya Sabha had signed an agreement for a contract to the value of Rs. 15,848,605 on 08 November 2012, with the State Engineering Corporation for construction of an electrical crematorium at Kantale. Following observations are made in this connection.

- (a.) Although the construction works had to be completed by 08 March 2013 according to the contract agreement, construction works had not been completed even as at 02 October 2014, date of audit. Necessary action had not been taken to extend the contract period.

- (b.) Action in terms Part III of the Finance Act No. 03 of 2005 (subject to Finance Acts Amendments No. 13 of 2007 and No. 18 of 2009) had not been taken to retain and remit the Construction Industry Guarantee Fund Levy (CIGFL) amounting to Rs. 12,895 relating to the sum of Rs. 5,194,037 paid to the contractor.

### **3.5 Solid Waste Management**

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Pradeshia Sabah had signed an agreement for a contract to the value of Rs. 324,530 on 25 July 2011, with a Community Development Society for construction of a building in the premises of the Solid Waste Management Centre. Following observations are made in this connection.

- (a.) Although the construction works had to be completed by 25 January 2012 according to the contract agreement, construction works had not been completed even as at 02 October 2014, date of audit.
- (b.) Necessary action had not been taken to certify and pay for the bill submitted on 31 October 2011 for the work done through the Society to the value of Rs.388,368.
- (c.) Although the work assigned should not be given on the basis of sub contract in terms of Clause 3.9.1 of the Procurement Guidelines, according to letters submitted by the sub-contractor relating to the delay in making payment to him, assignment had been made by this Construction Society to a sub-contractor.
- (d.) This building had been constructed having made 06 concrete posts and concreting the floor. While the roof had been made using the Angle Iron Pipes, but had not been covered. Due to that, iron pipes of the roof had been corroded.



### 3.6 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	03	01	02
Secondary Level	19	16	03
Tertiary Level	28	24	04
Total	50	41	09

Following observations are made.

- (a.) While action had not been taken to appoint a suitable person to the post of Secretary to the Sabah that had been vacant since April 2014, a Secretary had been appointed on acting basis.
- (b.) Action had not been taken to fill the vacancies in the posts of Ayurvedic Medical Officer, Development Officer, Revenue Inspector, Driver, Machine Operator, Sanitary Labourer, and Inspector of Works.

### 4. Systems and Controls

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