

Koralepattu - West Pradeshiya Sabha

Batticaloa District

1. Financial Statements

1.1. Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 30 May 2014 and the financial statements for the preceding year had been presented on 29 May 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 04 December 2014.

1.2. Opinion

Except for the effects on the financial statements of the matters referred to in Paragraph 1.3 of this report, I am of opinion that the financial statements have been prepared in accordance with the Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Koralepattu - West 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. Compliance with Sri Lanka Public Sector Accounting Standards

The financial statements had not been prepared in accordance with the Public Sector Accounting Standards, as stipulated in the Circular No. PL/05/PA/SFPSAS dated 27 January 2014 issued by the Secretary to the Ministry of Local Government and Provincial Councils.

1.3.2. Accounting Deficiencies

The following accounting deficiencies are observed.

- (a) Provisions had not been made in the accounts for the audit fees of Rs.16,000 payable in respect of the year under review.
- (b) The value of the tractor which had been misplaced in the year 1990 amounted to Rs.681,000, and action had not been taken to write-off this amount from the books

1.3.3. Accounts Payable and Receivable

The following observations are made.

- (a) The rates and taxes receivable from Walachchenai Paper Mill, amounting to Rs. 10,076,114 had been in arrears over a period of 10 years, but this had not been recovered up to the date of this report.
- (b) Out the loans given to 04 employees, who had vacated post and retired from the service, the amount which should be recovered had been Rs.96,026, and action had not been taken, to recover this from the retirement gratuity or from the sureties.

1.3.4. Lack of Evidence for Audit

The evidence indicated against the following subjects in the financial statements, had not been submitted to the audit.

Subject	Value – Rs.	Evidence not submitted
Lands and Buildings	35,936,292	Title Deeds
Plant and Machinery	387,376	Registers of Fixed Assets, Detailed Schedules of Assets, and Reports of Board of Survey
Motor Vehicles	3,009,982	
Furniture and Fittings	713,484	
Library Books	1,202,649	

1.3.5. Non-compliance with Laws, Rules and Regulations

The following instances of non-compliance were observed during the Audit.

Reference of Laws, Rules and Regulations

- (a) Pradeshiya Sabha (Finance and Administration) Rules - 1988

- (i) Section 5 (XII) of Chapter I

Non-compliance

Though functions such as finance, stores materials, and signing of cheques, had been entrusted systematically to four officers, security deposits had not been obtained from them.

- (ii) Section 81 of Chapter III Action had not been taken at the end of each quarter to submit; applications to the Registrar General, for the reimbursement of stamp taxes with respect to the vesting of ownership of lands; applications to Director of the Treasury, for the reimbursement of taxes with respect to other transactions; applications to the Registrars of Courts, for the reimbursement of fines.
- (iii) Section 191 of Chapter X Though 12 general meetings had been held during the year under review, the certified copies of minutes of those meetings had not been submitted to the audit.
- (iv) Section 193 of Chapter X Action had not been taken to compare the details relevant to the Actual Revenue and the Expenditure, relevant to the year with the budget, and prepare a report containing the clarifications for the variances, and submit it to the audit.

2. Financial Review

2.1. Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2013 amounted to Rs.4,949,089, as against the excess of recurrent expenditure over revenue amounting to Rs.2,010,863 in the preceding year. Therefore financial result of the year under review shown an improvement of Rs.6,959,952 in comparison to the preceding year.

2.2. Revenue Management

2.2.1. Performance on Revenue Collection

Significant variances were observed between the Estimated Revenue and the Actual Revenue, submitted by the Sabha for the year under review.

Source of Revenue	Estimated Revenue	Actual	Variance	Percentage
-----	-----	-----	-----	-----
	Rs.	Rs.	Rs.	%
(i.) Rates and Taxes	1,100,000	203,670	896,330	81
(ii.) Stall Rent	3,055,000	2,506,533	548,467	18
(iii.) License Fees	1,575,000	1,428,636	143,364	09

2.2.2. **Rates and Taxes**

Action had not been taken by the Sabha as stipulated in Section 134, 158 and 159 of Pradeshiya Sabha Act No. 15 of 1987, to compute the rates and taxes and collect the revenue from the year 1989 till the end of the year 2013, in respect of, the lands, houses and buildings situated within the area under the authority of the Sabha.

3. **Operating Review**

3.1. **Contract Administration**

Agreement had been signed to repair the slaughter-house owned by the Sabha at a cost of Rs.1,788,189.

The following observations are made on this.

- (a) According to the BOQ (Item 14) the contractors should have used roofing sheets type "Zinc aluminium and colour coated roofing sheets". However during the physical inspections carried out on 30 June 2014, it was observed that thin roofing sheets had been used and the roofing sheets had been corroded. Due to this fact, the roofing sheets fixed in an area of 250 square feet were observed to be in verge of collapsing. Therefore it was disclosed that the expenditure of Rs.545,668 incurred on this had become a wasteful expenditure.
- (b) Though the toilet had been constructed incurring an expenditure of Rs.103,498, the relevant toilet pit had not been constructed. Therefore at the time of the audit inspection, the toilet had been in unusable state.
- (c) Though the Rs.45,367 had been included in the Bill of Quantity for the electricity connection of the slaughter-house, this had not been completed. Therefore it had not been possible to use the slaughter-house during the night.

(d) Though the Rs.51,127 had been included in the Bill of Quantity for the plumbing work related to the water connection of the slaughter-house, this had not been completed. Therefore the polluted water in the lake close-by had been utilised in the slaughter-house.

(e) Though the Rs.33,640 had been estimated for four doors, only one door had been fixed in the slaughter-house.

3.2. Idle Assets

It was observed that two tractors used for solid-waste disposal work, had been idling over a period of two years without repairing them.

4. Accountability and Good Governance

4.1. Internal Audit

Though the Section 8 of the Local Government Restructure Circular No. 03 dated 08 November 2005 stipulates that each Local Authority should establish an internal audit section depending on their capacity, an internal audit section had not been established in the Sabha.

4.2. Budgetary Control

The variances in the range of 45% to 92% were observed between the estimated expenditure and the actual expenditure. Therefore it was observed that the budget had not been made use of as an effective tool of management control.

5. Systems and Controls

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

- a) Accounting
- b) Revenue Management
- c) Fixed Assets Control
- d) Budgetary Control