

**Verugal 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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The Financial Statements for the year under review had been presented to audit on 28 May 2014 and the Financial Statements for the preceding year had been presented on 21 June 2013 and amended financial statements for the year under review had been presented to audit on 30 November 2015. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 30 March 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 Verugal Pradeshiya Sabha as at 31 December 2013 and the financial result of its operations and cash flow for the year then ended.

**1.3 Comments on Financial Statements**

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**1.3.1 Non-compliance with Generally Accepted Accounting Standards**  
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The Financial Statements had not been prepared from year 2013 in accordance with Generally Accepted Accounting Standards in terms of Secretary of Ministry of Local Government Circular dated on 27 January 2014.

### **1.3.2 Accounting Deficiencies**

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Following accounting deficiencies are observed.

- (a.) Though the actual amount to pay amounted to Rs.198,475 for the produce of Compost fertilizer for the current year. The amount shown in the Financial statements is Rs.498,475. Therefore, the amount had been overstated by Rs.300,000.
- (b.) Revenue from Road Roller Rent of Rs.80,000 for the year under review had not been accounted in the Financial Statements.

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

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- (a.) Advances aggregating Rs.585,783 paid to the Chairman of the Sabha, employees and institutions during the years 2008-2013 had not been recovered.
- (b.) Action had not been taken to recover arrears aggregating Rs.1,046,670 for more than four years.
- (c.) Action had not been taken to settle the 04 creditors balances aggregating Rs.47,954 for more than five years.

### 1.3.4 Lack of Evidence for Audit

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

<b>Item of Account</b>	<b>Value</b>	<b>Evidence not furnished</b>
	Rs.	
Land and Buildings	33,084,089	Register of Land and Buildings
Motor Vehicles	7,085,137	Register of Motor Vehicles
General Stores	75,118	Board of Survey Reports
Revenue Debtors	2,066,660	Confirmation Letters
Creditors	1,074,441	Creditors Ledger

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

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.) <u>Financial Regulations of the Eastern Provincial Council</u>	
i. F.R. No.237	- Proper action had not been taken in respect of 07 cheques valued Rs.18,152 issued but not presented for payment for more than two years.
ii. F.R. No.432(1)	- A sum of Rs.67,045 had been spent for vehicle repairs for the year 2013. But these expenditure had not been entered in the vehicle log book.

## 2. Financial Review

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### 2.1 Financial Results

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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.2,518,975 while the corresponding excess of revenue over recurrent expenditure for the preceding year had been Rs.166,307. The improvement of Financial result in the year under review over the preceding year, amounted to Rs.2,352,668.

### 2.2 Revenue Administration

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#### 2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

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The information with regard to the estimated revenue, actual revenue and arrears of revenue for the year under review as presented by the Sabha is given below.

	<b>Source of Revenue</b>	<b>Estimated</b>	<b>Actual</b>	<b>Cumulative Arrears as at 31 December</b>
		Rs.'000	Rs.' 000	Rs. '000
(i)	Rates and Taxes	301	382	81
(ii)	Rent	678	647	(31)
(iii)	Service Charges	953	2,640	1,607
(iv)	Other Revenue	366	358	(08)

### **3. Operating Review**

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#### **3.1 Management Inefficiencies**

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- (a.) An audit inspection was carried out on 07 September 2014 regarding the purchase of 157 barrels for Rs.498,475 under the criteria based programme of producing compost fertilizer and distribution. It was observed that out of the 10 selected beneficiaries, 03 beneficiaries had not obtained the containers and 07 beneficiaries who received, containers had not used them for the purpose until 07 September 2014.
- (b.) A sum of Rs.198,500 had been spent to repair the cab belongs to the Sabha. The following were observed in this regard.
- (i.) Repairs had been done without following the procurement procedure.
  - (ii.) Assessment evaluation and final report had not been obtained from the Mechanical Engineer till 09 September 2014.
  - (iii.) Payments have been made without certification of the certifying officer in terms of the Pradeshiya Sabha Financial Regulations.
  - (iv.) The particular cheque, had been issued without entering in the cheques issue register.
- (c.) An examination of the purchase of a computer water filter and water supply accessories for Rs.178,145 revealed the following matters.
- (i.) Procurement procedure had not been followed.
  - (ii.) Payments have been made without certification of the certifying officer as per Regulation 99 of the Pradeshiya Sabha Rules (Financial and Administration)
  - (iii.) The particular cheque had been issued without entering in the cheques issue register.
  - (iv.) Items purchased had not been entered in the inventory register as per Regulation 115 of the Financial Regulation of the Pradeshiya Sabha.

- (d.) No action had been taken to recall 87 library books issued to the Members from June to December 2013. Besides, two nonmembers were issued books while the applications submitted by 42 members are incomplete. It was not possible to obtain correct details of the readers who are defaulters.

### **3.2 Contract Administration**

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(a.) Construction of Children's Park

An agreement had been signed by the Verugal Pradeshiya Sabha on 16 January 2013 to construct a children park. Following observations are made in this regard.

- (i.) Though the date of completion of the constructions according to the agreement is 01 March 2013 the works under contract had not been completed until 05 September 2013.
- (ii.) The performance security bond valued at Rs.3,526,216 had been expired on 28 March 2013. However action had not been taken to renew the performance security bond.
- (iii.) Though a sum of Rs.1,930,800 had been paid to the contractor to prepare and install equipment in the children's park, the equipment had not been installed until the date of audit inspection.
- (iv.) Though the main gate had not been constructed by the contractor a sum of Rs.20,538 had been paid to the contractor certifying that the gate was fixed.

(b.) Reconstruction of Road from Ilankai Thurai to Pulmudai

The contract for the above reconstruction had been given on 10 January 2012 for a value of Rs.11,538,793. The following observations are made in this regard.

- i. According to the contract agreement the date of completion of the reconstruction work was 10 April 2012. However, after obtaining Rs.1,204,560 for the works completed the contractor had abandoned the contract.
- ii. The contractor had abandoned the contract after obtaining Rs.2,307,000 the Pradeshiya Sabha had failed to cash the advance bond before the date of expiry. Therefore, the Sabha had to incur a loss of Rs.2,307,000.

(c.) Paving Concrete Blocks for reconstruction of Punnidai Irrankathurai Road

The contract for the above construction work valued Rs.17,686,256 had been given on 03 April 2012 to be completed within 03 months. The following observations are made in this regard.

- i. According to the contract agreement construction work should be completed before 04 August 2012. But the contractors having obtained a sum of Rs.1,655,251 for the works completed had stopped the construction work.
- ii. Even after the contractor had abandoned the construction work the Pradeshiya Sabha had not been encashed the performance bond Rs.884,313.

### 3.3 Underutilized Assets

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Particulars of underutilized assets are given below.

<u>Item of Asset</u>	<u>Value</u>	<u>Period Underutilized</u>
	Rs.	
Four Wheel Tractor	300,000	04 Years
Two wheel Tractor	Not valued	04 Years
Market Complex	2,272,800	02 Years

### 3.4 Human Resources Management

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Particular of the approved and actual cadre of the Sabha as at 31 December 2013 are given below.

<u>Category of Employees</u>	<u>Approved</u>	<u>Actual Cadre</u>	<u>Vacancies</u>	<u>Excesses</u>
	<u>Cadre</u>			
Executive	01	-	01	-
Subordinate	15	12	03	-
Minor Employees	30	13	17	-
Others	-	33	-	33

Action had not been taken to fill the vacancies in the post of the Executive Grade and 03 posts of Management Assistant that had been vacant for more than 05 years.



#### **4. Systems and Controls**

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

- (a.) Accounting
- (b.) Fixed Assets Control
- (c.) Recovery of Advances
- (d.) Revenue Collection
- (e.) Procurement Procedure
- (f.) Contract Administration