

Eravurpattu Pradeshiya Sabha

Batticaloa District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to the Audit on 09 April 2015 while Financial Statements relating to the preceding year had been submitted on 02 April 2014. The Auditor General's Report relating to the year under review was sent to the Secretary of the Sabha on 07 August 2015.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Eravurpattu Pradeshiya Sabha as at 31 December 2014 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

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

Financial Statements had not been prepared in conformity with the Public Sector Accounting Standards in terms of the Circular No. PL/5/PA/SFPSAS dated 27 January of the Secretary to the Ministry of Local Government and Provincial Councils.

1.3.2 Accounting Deficiencies

Following accounting deficiencies were observed.

- (a) Provision for Audit Fees payable for the year under review amounting to Rs.22,000 had not been made in the accounts.
- (b) Court Fines amounting to Rs. 2,235,083 received since the year 2011 had been kept in the Deposits Account without being accounted in the revenue Account.

- (c) A sum of Rs.1,559,033 had been allocated for construction of the reading room of the Chenkaladi Public Library under the programs to be performed out of Sabha Funds. Although any work had not been performed utilizing those funds, that amount had been shown as Assets and Creditors in the Financial Statement.
- (d) Value of 15 vehicles belong to the Pradeshiya Sabha and 17 categories of office equipment received as donations from Project institutions had not been assessed and brought to account.

1.3.3 **Accounts Receivable and Payable**

Following observations are made.

- (a) The sum of Rs. 962,312 being the balance in arrears out of Staff Loans granted to 15 employees left the Sabha on transfers or vacated service had remained unrecovered since a period from 2 to 13 years. The necessary action had not been taken by the Sabha in this connection.
- (b) Action had not been taken to recover the sum of Rs. 2,555,066 being Lease Rent in arrears relevant to leasing out stalls situated in the Fair Ground belongs to the Sabha for the period from the year 2009 to the year 2013 from the relevant persons or to take legal action against them up to the end of the year under review.
- (c) Action had not been taken to pay and settle a sum of Rs. 1,882,337 payable to various parties during the period from 1995 to 2009 and those had been shown as Creditors continuously in the financial statements

1.3.3 **Non-compliance with Laws, Rules, Regulations etc.**

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

References to Laws, Rules and Regulations etc.

Non-compliance

(a) Pradeshiya Sabha Act No. 15 of 1987
Section 134 (1)

- Action had not been taken to recover Rates after identifying and assessment of annual value with regard to Non-current Assets in the area of authority of the Sabha.

(b) Pradeshiya Sabha (Financial and Administrative) Rules

(i) Chapter I Section 5 (XII)

- Although functions such as cash, stores materials, signing cheques etc. had been assigned administratively to four officers, security deposits had not been obtained from them.

(ii) Chapter III Section 81

- Applications for reimbursement of Stamp of Duty connected with transfer of ownership of lands to the Registrar General, applications for reimbursement of taxes connected with other transactions to the Director General Treasury and applications for reimbursement of fines to the Registrars of Courts had not been submitted at the end of each quarter.

(iii) Chapter X Section 193

- A detailed statement showing reasons for variations after comparing revenue and expenditure for the year with the budget had not been prepared and submitted to audit.

2. **Financial Review**

2.1 **Financial Results**

While according to the Financial Statements presented, financial result for the year under review had been an excess of revenue over recurrent expenditure amounting to Rs.16,949,222, as compared with the excess of revenue over recurrent expenditure for preceding year had been Rs.14,212,706 indicating an improvement in a sum of Rs.2,736,516 in the financial results.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

- (a) According to Information furnished by the Sabha, information relating to estimated revenue, actual revenue and arrears of revenue is given below.

Item of Revenue	Estimated Revenue	Actual Revenue	Accumulated Arrears
	Rs. 000	Rs 000.	Rs.000
Lease Rent	4,085	5,625	4,634
License Fees	1,096	1,254	104

- (b) Action had not been taken to recover a sum of Rs. 359,381 due as Entertainment Tax from a cinema hall situated in the area of authority of the Sabha for the period from February 2014 to 31 December 2014 .
- (c) Any tax had not been recovered for 12 private telecommunication towers and advertisement boards established in the area of authority of the Sabha by notification details relating to charges in the Gazette in terms of Section 156 of the Pradeshiya Sabha Act No. 15 of 1987. An income amounting to Rs. 50,000 had been lost annually due to this.

2.2.2 Rates and Taxes

It had not been possible to recover estimated revenue of Rs. 1,000,000 for the year under review by the Sabha, due to failure in taking action to get assessed annual value by the Valuation Department in order to recover Rates for lands, houses and buildings etc. situated in the area of authority of the Sabha in terms of Section 134, 158 and 159 of the Pradeshiya Sabha Act No. 15 of 1987.

2.2.3 Stamp Fees

Necessary action had not been taken to obtain Stamp Fees amounting to Rs.20,947,922 receivable for the year 2013 and 2014 from the Chief Secretary to the Provincial Council.

3. **Operating Review**

3.1 **Operational Inefficiencies**

Following observations are made.

- (a) While CD Disks had been purchased for a totaled sum of Rs. 230,000 as Rs. 200,000 Capital Based Grants for conducting Multi Media Educational Program and Rs. Rs. 30,000 from Sabha Fund, this Program had been commenced during the year 2012. However, this Program had been abandoned during the year 2013 and due to that CD Disk purchased had been futile.

- (b) Although a sum of Rs.41,802 had been spent for obtaining advice from a private lawyer without obtaining instructions from the Legal Division of the Eastern Provincial Council, to file cases against 12 individuals, in order to recover the overall arrears of tax totalling Rs.1,814,521, arrears money had not been recovered up to now.

3.2 **Management Weaknesses**

A sum of Rs. 300,000 had been paid on 28 December 2012 as an advance for hire of a JCB Machine to be used for work relating steady flow of floods. However, any evidence to support that the work was completed and that the advance was settled were not furnished.

4. **Accountability and Good Governance**

4.1 **Internal Audit**

Although it has been stipulated that an Internal Audit Division should be established by each Local Government Institution within its capacity, vide Local Government Reforms Circular No.03 dated 08 November 2005, Internal Audit Division had not been established.

4.2 **Budgetary Control**

It was observed that the Budget had not been made use of as an effective tool of management as variations in a range from 28% to 100% were observed between budget and actual expenditure and revenue.

4.3 **Audit Queries not resolved and not replied**

Replies had not been sent to two audit queries sent during the year under review up to May 2015.

5. **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) Budgetary Control.