

Kantale Pradeshiya Sabha

Trincomalee District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year 2015 had been submitted to the Auditor General on 30 June 2016 while Financial Statements relating to the preceding year had been submitted on 21 September 2015. The Auditor General's Report relating to the year 2015 was issued to the Secretary of the Sabha on 30 September 2016.

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 Kantale Pradeshiya Sabha as at 31 December 2015 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 Accounting Deficiencies

Following accounting deficiencies are observed.

- (a) Retention amount being Rs.3,176,858 payable to contractors as at 31 December 2015 had not been brought to account.
- (b) Value of the public market complex consisting of 66 shop rooms and the building at the bus stand consisting of 24 stall rooms handed over to Pradeshiya Sabha by the Urban Development Authority in 2013 had not been assessed and brought to account.
- (c) Due to loan instalment of Rs.811,267 paid during the year having been debited to Local Credit and Development Fund Account and the difference of that Account having been adjusted to accumulated fund, balance of the Accumulated Fund Account had been understated by a sum of Rs.101,385 while the balance of Local Credit and Development Fund Account had been over stated by a sum of Rs.101,385 in the Financial Statements.
- (d) Due to adjustment of loan interest of Rs.284,182 to the Accumulated Fund, the expenditure of the year under review had been under stated by a similar amount.
- (e) Although the amount payable as contribution to Local Government Pension Fund as at 31 December 2015 was Rs.236,989 it had been included in the Financial Statements as Rs.204,960.

### 1.3.2 Non-compliance with Laws, Rules, Regulations

Instances of non-compliance with laws, rules and regulations observed in audit are shown below.

Reference to Laws, Rules, Regulations etc.

Non – Compliance

- (a) 3 paragraph of the circular No. 1980/22 of the Commissioner of Local Government. Age analysis on revenue in arrears had not been prepared.
- (b) Provincial Financial Regulation 267(5) Fixed Assets Register had not been maintained.
- (c) Financial Regulation of the of Sri Lanka (F R) 751 Gas Cylinder and Furniture Government purchased at Rs.130,715 during 2015 had not been included in the Inventory.

## 2. Financial Review

### 2.1 Financial Results

The excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2015 amounted to Rs.90,206 as compared with the corresponding excess of recurrent expenditure over revenue for the preceding year amounted to Rs.4,405,689.

### 2.2 Revenue Administration

#### 2.2.1 Performance in Revenue Collection

Information relating to estimated revenue, actual revenue, arrears of revenue submitted for the year under review are given below;

<u>Item of Revenue</u>	<u>Estimated Revenue</u>	<u>Actual Revenue</u>	<u>Accumulated shortage as at 31 .</u>
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	Rs. 000	Rs. 000	Rs. 000
Rate and Taxes	1,700	2,664	9,850
Lease Rent	6,710	3,028	1,824
Licence fee	2,043	1,265	82
Other Revenue	36,416	35,227	3,488

### 2.2.2 Stamp fees

Action had not been taken to identify and obtain the amount receivable as stamp fees as at 31 December 2015 from the Chief Secretary of the Provincial Council, Eastern Province even by the date of audit – i.e. 02 August 2016

## 3. Operating Review

### 3.1 Management Inefficiencies

The following observations are made.

- (a) Urban Development Authority has completed the construction of 66 shop rooms in the new public market complex and 24 boutique rooms in the bus stand by demolishing and removing 32 old shop/boutique rooms in 2011 and handed over the same to Pradeshiya Sabha on 27 March 2013. However these 90 shop/boutique rooms remained idle from the date of taking over.
- (b) In terms of Section 4, Chapter xxiv of Establishments Code, action had not been taken to recover staff loan amounting to Rs.1,253,400 recoverable from three employees dismissed from service and having vacated the post.
- (c) In terms of the Planning Circular No.15 dated 18 November 1993 issued by the Urban Development Authority, the Pradeshiya Sabha is required to deposit service charges for unauthorized constructions and deposit the same by opening an account either in Bank of Ceylon or Peoples' Bank. However those money had been deposited in the General Account.
- (d) In terms of Section 23 'a' of the National Environmental Act as amended by Act No.56 of 1988 and No.53 of 2000, action had not been taken by the Sabha to identify (through formal investigation) carpentry workshops, paddy mills and cement based production enterprises in the area of authority which is required to obtain environmental licence. Instead of obtaining environmental protection licence by the Sabha those businesses/enterprises have been issued with Trade Permits.

### 3.2 Irregular Transactions

In instances where total value per year of financial or material assistance for public entertainment and recreational activities is exceed Rupees Ten Thousand (Rs.10,000), it is required to obtain prior approval of the Minister in charge of the subject in terms of Sections 132(a) and (o) of the Pradeshiya Sabha Act No.15 of 1987. However such assistance to the value of Rs.134,664 had been made available in 05 instances without such approval.

### 3.3 Utilization of Vehicles

Following observations are made.

- (a) Revenue Licence had not been obtained by the Sabha for 08 vehicles during the current year.
- (b) Details of vehicles, fuel consumption, annual licence, tool kits, spare parts and monthly summary on running/travellings had not been included in the relevant Log Book.
- (c) With regard to obtaining insurance covers for motor vehicle in terms of Public Finance Circular No.04/2015 dated 14 July 2015, it is required to obtain them directly from state owned institutions. However insurance covers had been obtained by the Sabha for 06 motor vehicles through an Insurance Agent.

### 3.4 Asset Management

#### 3.4.1. Under Utilized Assets

Following matters are observed:

- (a) Although van bought in 1997, tractor bought in 1987 and Cab bought in 2008 had been parked in the vehicle park since November 2013, April 2012 and June 2015 respectively breakdown, no suitable action had been taken in this regard.
- (b) Two BOC Current Accounts with Rs.362,360 being maintained in the name of the Pradeshiya Sabha remained inactive without any transaction from 2013 to 29 April 2016 and no attention had been paid by the Sabha to invest this money and earn income.
- (c) "Nanasala" Computer Centre maintained since 2014 with the patronage of Information Communication Technology Agency of Sri Lanka had been closed since 2015 due to the absence of Lady Officer in charge of the centre. As a result computers, furniture and other equipment of the centre had been remained inactive whereby making it impossible for rural children to obtain knowledge in information technology.

#### 3.4.2 Board of Survey

Following observations are made in this regard.

- (a) According to Board of Survey report 2015, 3721 books belonging to 05 libraries had been lost. However action had not been taken regarding this even by 02 August 2016.
- (b) According to Board of Survey Report 2014, it is required to rearrange all goods remaining with 11 locations of the Pradeshiya Sabha and reprepared the inventories accordingly. However no action had been taken in this regard even by 02 August 2016.

### 3.5 Contract Administration

#### 3.5.1 Construction of multipurpose building

The Sabha had signed agreements on 18 March 2014 with the contractor to construct a multi-purpose building to the contract value of Rs.51,093,960. Following observations are made in this regard.

- (a) Although a sum of Rs.469,750 had been paid by the Sabha to construct a site office during the period of construction, such office or equipment had not been there even by 02 August 2016.
- (b) Whereas the constructions had to be completed within 06 month from the contract date as per the agreement, contract period had to be extended on five occasions upto 30 May 2016 due to the performance of the contractor having been unsatisfactory. Further although the validity period of Performance Bond amounting to Rs.2,554,698 expired, action had not been taken to extend the same.
- (c) Action in terms of Part III of the Finance Act No.03 of 2005 (Subject to amendments made through Financial Amendment Act No.13 of 2007 and No.18 of 2009) had not been taken to retain the Construction Industry Guarantee Fund Levy (CIGFL) amounting to Rs.51,617 relating to sum of Rs.20,646,905 paid to the Contractor and remit the same to the Commissioner General, Inland Revenue.

#### 3.5.2 Construction of Solid Waste Management Centre

A contract to the value of Rs.324, 530 for construction of a building at the Solid Waste Management Centre was signed by the Pradeshiya Sabha with a Praja Mandada Society on 25 July 2011. Following observations are made in this regard.

- (a) As per Section 3.9.1 of the Government Procurement Guideline contract awarded should not be sub contracted. However according to a letter submitted to Pradeshiya Sabha by a Sub Contractor with regard to this contract regarding a delay of payment to him it was confirmed that this Constructing Society had sub contracted the award.
- (b) As per Bill of Laden the building had been constructed using 06 fabricated concrete poles with floor concreting while the roof was made with Angle Iron Pipes. At the physical inspection carried out on 02 August 2016 it was revealed the iron pipes of the roof had been rusted due to non fixing of roofing sheets.

### 3.6 Human Resources Management

#### Approved and Actual Cadre

Recruitments had been made in excess of the approved cadre of the Sabha, information of which are as follows;

Post	Approved Cadre	Actual Cadre	Excess Amount
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Driver	06	08	02
K.K.S	03	04	01
Watcher	03	06	03
Labourer (Health)	12	13	01
Librarian Assistant	<u>02</u>	<u>03</u>	<u>01</u>
Total	26	34	08
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### 4. Systems and Controls

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

<u>System</u>	<u>field special attention is needed</u>
(a) Accounting	i. Maintaining Accounts ii. Maintaining utilization Ledgers
(b) Revenue Administration	Collection of revenue in arrears
(c) Fixed Assets Control	i. Maintaining an Assets Register ii. Take action to use idle assets in productive purposes
(d) Contract Administration	i. Make contract lease payments ii. Adhering to contract agreements
(e) Human Resources Management	Recruitment of excess employees.