

Morawewa 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 09 May 2016 while Financial Statements relating to the preceding year had been submitted on 19 May 2015. The Auditor General's Report relating to the year 2015 was issued to the Secretary of the Sabha on 30<sup>th</sup> 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 Morawewa 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

The following accounting deficiencies are observed.

- (a) Amounts receivable on matured Fixed Deposits in 2013 had not been credited to Fixed Deposit Account and interest not adjusted to the income. As a result the balance of the Fixed Deposit had been understated by a sum of Rs.195,838.
- (b) As per staff loan register the balance of the staff loan as at 31 December 2015 had been Rs1,178,932 and the same had been stated in Financial Statements as Rs.973,336 Accordingly staff loan had been understated in a sum of Rs.205,596.
- (c) According to Deposit Ledger, Deposit balance refundable as at 31 December 2015 was Rs.1,350,734 and the same had been stated in financial statements as Rs.1,272,837 Accordingly refundable deposits had been understated by a sum of Rs.77,897.
- (d) The interest of Rs.551,917 payable for loan of the Local Credit and Development Fund applicable to the year under review had not been brought to account.
- (e) The loan interest of Rs.773,575 applicable to 2014 which was paid during 2015 had not been adjusted to Accumulated Fund but debited to loan account. Accordingly Accumulated Fund has been overstated by a similar amount.

(f) Although the loan balance payable as at 31 December 2015 was Rs.8,772,379, it had been indicated in Financial Statement as Rs.8,105,199. Accordingly loan balance has been understated by a sum of Rs.667,180.

### 1.3.2 Suspense Account

Without taking action to settle the balance of the Suspense Account amounting to Rs.7,864,759 being brought forward since 2011 had been put under liability of the Balance Sheet.

### 1.3.3 Lack of evidence for audit

Evidence indicated in front of each Item of Account had not been submitted for auditing.

<u>Item of Account</u>	<u>Value (Rs.)</u>	<u>Evidence not Submitted</u>
Accounts receivable	950,536	Balance Confirmation Letters, Age Analysis Reports Revenue Collection Schedules
Accounts payable	214,316	
Income from Vehicles	123,950	

### 1.3.4 Non-compliance with laws, rules, regulations

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

<u>Reference to Laws, Rules, Regulations etc.</u>	<u>Non – Compliance</u>
(a) Circular No.41/90 dated 10 October 1990 of the Secretary to the Ministry of Local Government, Provincial Councils & Home Affairs	Although it is required to test the fuel consumption of vehicles once in 06 months, such action hadnot been taken with regard to 10 vehicles owned by the Pradeshiya Sabha
(b) Paragraph 3 of the Circular No.1980/22 of the Commissioner of Local Government	Age analysis had not been prepared on revenue in arrears.

## 2. Financial Review

### 2.1 Financial Result

According to Financial Statements submitted, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2015 amounted to Rs.3,612,963 as against the excess of recurrent expenditure over revenue for the preceding year amounted to Rs.12,255,867. Accordingly an adverse variation of Rs.15,868,830 of the financial result was observed.

### 2.2 Revenue Administration

#### 2.2.1 Performance in Revenue Collection

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

Item of Revenue	Estimated Revenue	Actual Revenue	Accumulated arrears as at 31 December
	Rs. 000	Rs. 000	Rs. 000
Lease Rent	148	43	-
License fees	1,870	27	334
Other Revenue	248	257	45

#### 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.

#### 2.2.3 Court Fines

Action had not been taken to identify and obtain amounts receivable as Court fines as at 31 December 2015.

## 3. Operating Review

### 3.1 Management Inefficiencies

The following observations are made.

- (a) Recommendations on goods to be destroyed, to be repaired and to be sold as per the report of the Board of Survey for the year ended 31 December 2015 had not been implemented even by 14 June 2016.

- (b) Action had not been taken even by 03 August 2016 to transfer ownership of 07 vehicles made available to the Pradeshiya Sabha by the Ministry of Local Government under the programme for improving transport facilities in Local Government Institutions and the programme for providing primary machinery & equipment required for their Maintenance Units.
- (c) A loan of Rs.9,520,000 had been obtained in May 2013 from the Local Credit and Development Fund to purchase to a JCB. Whereas the loan has to be settled with 60monthly instalments, action had not been taken to repay the loan and interest amounting to Rs.3,952,391 that was due to be paid by 30 July 2015.
- (d) Revenue Licence for the current year in respect of 06 vehicles of the Sabha had not been obtained.
- (e) The amount of fuel accounted for the current year in respect of JCB had been 7721 litre, whereas fuel consumption as per daily running charts was 7012 litre leading to a variation of 709 litre valued at Rs.67,355/-.
- (f) Environmental protection licence had not been issued for 22 paddy mills, carpentry workshops and garages operating within the areas of authority of the Pradeshiya Sabha in terms of the Section 23 'a' of the National Environmental Act No.47 of 1980 as amended by Acts No.56 of 1980 and No.53 of 2000.

### 3.2 Contract Administration

#### 3.2.1 Construction of the Athabandiwewa main road

Contracts to the value of Rs.12,946,956 and Rs.18,046,600 had been awarded on 21 February 2012 and 31 May 2012 stone bitumen surfacing of 2 km distance of this road. In this regard following observations are made.

- (a) As per contract agreement, action had been taken to complete the undertaking in two stages. Performance in the construction having not been upto unsatisfactory level, both contracts had been terminated and agreements signed with another contractor. In view of the inability to select a suitable contractor through proper evaluation at the procurement process, it had not been possible to complete constructions apart from incurring additional payment of Rs.12,317,552.
- (b) Although the first contractor had abandoned the contract ,no action had been taken by the Pradeshiya Sabha to blacklist that contractor.

(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.108,278 relating to sum of Rs.43,311,108 paid to the Contractor and remit the same to the Commissioner General, Inland Revenue.

### 3.2.2 Repairing of Rotawewa Library Building

A sum of Rs.303,572 had been paid on 23 December 2015 towards repairing of Rotawewa Library building under Pradeshiya Sabha Augmentation Programme. Although it had been handed over to the Pradeshiya Sabha on 05 August 2015 following the completion of repairs, action had not been taken even by 05 July 2016 to commence library work and to obtain electricity for same.

### 3.3 Human Resources Management

#### Approved and actual cadre

Information relating to approved and actual cadre of the sabha as at 31 December 2015 are given below;

<u>Category of Employees</u>	<u>Approved Cadre</u>	<u>Actual Cadre</u>	<u>Number of Vacancies</u>
Executive Level	01	-	01
Secondary Level	14	06	08
Tertiary Level	<u>16</u>	<u>14</u>	<u>02</u>
Total	31	20	11
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Following observations are made in this connection

- A Secretary had been appointed on acting basis from April 2014 and he is still serving.
- As only 04 employees are involved in maintaining documents in the office, documents had not been maintained properly which is not in favour of auditing.

#### 4. Systems and Controls

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

<u>System</u>	<u>Field attention is needed</u>
(a) Accounting	i. Account keeping ii. Maintenance of Ledgers in a useful way
(b) Revenue Administration	i. Recovery of revenue in arrears ii. Obtain Court fines & Stamp fees
(c) Contract Administration	i. Taking action to complete contract undertaking within agreed periods. ii. Payment of Construction Industry Guarantee Fund Levy ( C I G F L )
(D) Human Resources Management	i. Taking action to fill vacant posts in the cadre ii. Assign of duties in a formal way.