

Morawewa Pradeshiya Sabha
Trincomalee District

1 Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2016 had been presented to Auditor General on 11 July 2017 and the financial statements for the preceding year had been presented on 09 May 2016. The Report of the Auditor General for the year 2016 had been issued to the Secretary of the Sabha on 26 September 2017.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Morawewa Pradeshiya Sabha as at 31 December 2016 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 were observed.

- (a) The fixed deposits interest revenue relating to the year under review amounting to Rs.554,436 had not been brought to account and as such the revenue for the current year had been understated by similar amount.
- (b) Despite that, the advances granted to the officers of the Sabha and to the contractors had been settled, a negative balance of Rs.108,016 had been shown as advances in the balance sheet.
- (c) The payable interest for the Local Loans Development Fund amounting to Rs.933,151 relating to the years 2015 and 2016 had not been brought to account.
- (d) The loan interest relating to the year 2014 paid during the year 2015 amounting to Rs.773,575 had been debited to the loan account without adjusting the accumulated fund. As such the accumulated fund had been overstated by similar amount.
- (e) In accounting of opening balances in the year under review, the balances of the motor vehicles and cart account and revenue contribution to capital outlay account had been under stated by Rs.6,390,000.
- (f) Even though, the buildings valued at Rs.15,197,362 had been constructed by the Sabha in the year under review, it was shown as Rs.11,149,172 in the balance sheet. As such the value of the land and buildings had been understated by Rs.4,048,190 in the final accounts.

1.3.2 Unreconciled Control Accounts

- (a) Even though, the employees loan as per the register as at 31 December 2016 amounted to Rs.1,342,228, that had been Rs.1,051,721 as per the balance sheet. As such there was a difference of Rs.290,507.

- (b) Even though, the refundable deposit balance as per the deposits ledger as at 31 December 2016 amounted to Rs.508,977, it was Rs.783,010 as per the financial statements and as such there was a difference of Rs.274,033.

1.3.3 Suspense Account

Action had not been taken to settle the suspense account credit balance brought forward since the year 2011 amounting to Rs.7,864,759 and it was shown under liabilities in the balance sheet.

1.3.4 Lack of Evidence for Audit

The balance confirmations in respect of receivable accounts amounting to Rs.950,536 and the payable accounts amounting to Rs.214,316 had not been furnished to audit.

1.3.5 Non-compliance with Laws, Rules and Regulations

The non-compliances with the provisions of laws, rules, regulations observed in audit are shown below.

Reference to Laws, Rules and Regulations etc. -----	Non-compliance -----
<p>(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka ----- Financial Regulation 1646</p>	<p>The Daily Running Charts with the Monthly Performance Summaries had not been furnished to audit.</p>
<p>(b) Public Administration Circular No.30/2016 of Ministry of Public Administration and Management dated 29 December 2016</p>	<p>Fuel Consumption of 09 motor vehicles of the Sabha had not been tested.</p>
<p>(c) 1988 Pradeshiya Sabha Rules (Financial and Administration) published in the Extra Ordinary Gazette No.554/5 dated 17 April 1989</p> <p style="padding-left: 40px;">i. Rule 143</p> <p style="padding-left: 40px;">ii. Rule 217</p>	<p>The separate deposit accounts for refundable tender deposits, retention money, library deposits and other deposits had not been maintained.</p> <p>A Register of Fixed Assets had not been maintained.</p>

2. **Financial Review**

2.1 **Financial Results**

According to the financial statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2016 amounted to Rs.4,801,448 as against the excess of recurrent expenditure over revenue for the preceding year amounting to Rs.3,612,963. Accordingly, it was observed a favorable variance of Rs.8,414,411 in the financial results. Increase of lease rent revenue by Rs.4,569,142 and increase of other grants by Rs.3,556,046 had mainly attributed to increase of the financial results by Rs.8,414,411 in the year under review as compared with the preceding year.

2.2 **Revenue Administration**

2.2.1 **Performance in Revenue Collection**

Information with regard to estimated revenue, actual revenue and arrears of revenue furnished for the year under review is given below.

Item of Revenue	Estimated Revenue	Actual Revenue	Year 2016
			Accumulated Arrears as at 31 December
	Rs.000	Rs.000	Rs.000
Rates and Taxes	47	53	-
Lease Rent	2,785	4,596	46
License Fees	303	208	-
Other Revenue	4,605	1,882	1,217

2.2.2 **Stamp Fees**

Action had not been taken to identify and obtain the stamp fees receivable as at 31 December 2016 from the Chief Secretary of the Eastern Provincial Council.

3. **Operating Review**

3.1 **Management Inefficiencies**

The following observations are made.

- Action had not been taken to vesting the ownership of seven motor vehicles given to the Sabha by the Ministry of Local Government under the programme of providing basic machineries required for the maintenance units of the Local Government Institutions and the programme of providing transport facilities to the Local Government Institutions even by 03 August 2017.
- The revenue licences had not been obtained for the current year in respect of 05 motor vehicles belonging to the Sabha which were in running condition.
- Action had not been taken even by 03 August 2017 to recover employees loans amounting to Rs.88,626 recoverable from 3 employees who vacated of posts in terms of Section 4 of the Chapter XXIV of the Establishments Code.

3.2 Contract Administration

3.2.1 Construction of Ethabandiweva Main Road under Puraneguma Project – Rs.12,946,956

The following observations are made in this connection.

- (a) Even though, the constructions of this road should be completed within 03 months according to the agreement, gravel laying only had been completed even after 09 months. As such the contract agreement had been cancelled on 26 November 2012.
- (b) According to a decision taken at the Procurement Committee meeting held on 11 September 2013, the contractor had been informed again to complete the work by 15 October 2013. But the contractor had not commenced the work even by 07 October 2013 and as such the agreement had been cancelled again.
- (c) In the first instance it was decided to lay bitumen for this road without being carrying out a proper feasibility study and subsequently it was decided for laying concrete for 1 ½ Kilometers and to lay bitumen for ½ a Kilometers. Similarly the bid evaluation had not been properly carried out and the contractor had not been selected properly. As such another contract agreement valued at Rs.18,826,970 had been signed on 13 March 2014. Accordingly a sum of Rs.5,880,014 had to be over paid than the first agreed amount and the work had been executed with a delay of more than 02 years.
- (d) Even though according to the Standard Bid Document (SBD) 60.1, the Engineer should certify the work executed by the first contractor after the cancellation of the agreement of the first contractor, such a certification had not been made. Further, a bill valued at Rs.5,022,257 had been submitted for payments after 02 years of the cancellation of agreement. A committee had been appointed by the Provincial Project Director on 06 March 2017 to inspect the worksite and to submit a report in respect of this bill. But the second contractor had laid the concrete on the road and completed and it had been handed over to the Sabha on 30 September 2014. Therefore the way of obtaining measurement was questionable. However, a sum of Rs.2,048,538 had been paid on 18 June 2017 to the first contractor on the bill dated 21 January 2016 certified by the Project Engineer.
- (e) The payments amounting to Rs.589,648 made to the second contractor for the certified work executed by him had not been deducted in payments made to the first contractor,
- (f) Despite, that a loss more than Rs.07 million had been incurred by the Government due to breach of the contract agreement, the Assistant Project Director had informed to the Secretary of the Pradeshiya Sabha to pay a sum of Rs.1,294,696 which deducted as liquidated damages in payments made to the first contractor on 05 April 2017 in terms of Standard Bid Document 49.2. Accordingly a sum of Rs.1,000,000 had been paid by the Pradeshiya Sabha on 16 August 2017. However, the reasons for repayment of liquidated damages deducted from the contractor whose agreement cancelled had not been shown in the Standard Bid Document 49.2.

- (g) The Performance Bond of the contractor who breached the agreement valued at Rs.647,347 had been encashed by the Sabha on 30 January 2014. However, the Assistant Project Director had informed the Secretary to pay back that sum to the contractor on 05 April 2017 in terms of the Standard Bid Document (SBD) 60.2. Accordingly, the Performance Bond amounting to Rs.647,347 had been paid by the Sabha to the contractor on 08 May 2017. However, as per the Standard Bid Document SBD 60.2, the reasons for the releasing of Performance Bond of the contract agreements had not been stated.

3.2.2 Construction of Multi-purpose Building under Puraneguma Project – Rs.8,401,836

The following observations are made in this connection.

- (a) Even though, the work of this building had been completed and handed over to the Sabha on 30 November 2016, the work of fixing of rain gutters and making ramp for about 30 metres of one side of the building had not been carried out and as such water had collected on the outside wall in the rainy days.
- (b) The works of painting of about 177 square metres of the outside wall of the building and laying tiles on the floor of 2 rooms inside had not been carried out even by 03 August 2017.
- (c) As per the Engineering Estimate, 03 items of work valued at Rs.265,148 had not been executed in the construction of the building.
- (d) The completion date for the constructions of this building had been extended up to 12 September 2016. Nevertheless, the work of the building had been completed only on 30 November 2016 as per the work completion certificate. Accordingly, action had not been taken to recover the liquidated damages recoverable amounting to Rs.327,671.

3.2.3 Concreting of Mylakudawewa Main Road

A contract agreement for the second stage of the concreting of Mylakudawewa Main Road under the Puraneguma Project valued at Rs.4,000,280 had been signed on 08 July 2016. Even though the work of the contract should be completed by 08 October 2016, the work had been completed only on 01 January 2017 as per the work completion certificate. The liquidated damages should be recovered as per the Section 6.4 of the contract agreement amounted to Rs.168,012. However only a sum of Rs.60,004 had been recovered. Action had not been taken to deduct the balance sum of Rs.108,008 which was to be recovered from the contractor.

3.2.4 Construction of Mahadivulwewa Trade Stalls under Puraneguma Project – Rs.1,843,000

The following observations are made in this connection.

- (a) Even though, the above trade stalls had been handed over to the Sabha on 08 November 2016, several places of the walls had cracked. Even though, two bath rooms had been constructed, the septic tank for those had not been constructed. As such those could not be utilized.

- (b) Even though, the work should be completed on 08 October 2016 as per the agreement, the work had been completed only on 08 November 2016 as per work completion certificate. Action had not been taken to deduct the liquidated damages recoverable amounting to Rs.27,645.

4. Systems and Controls

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

	<u>System</u>	<u>Area needed Attention</u>
(a)	Accounting	(i) Accounting (ii) Maintenance of Subsidiary Ledgers
(b)	Revenue Administration	(i) Recovery of Arrears of Revenue (ii) Recovery of court fines and stamp fees
(c)	Contract Administration	Action to be taken to complete the contracts within the contracted period.