

Verugal Pradeshiya Sabha

Trincomalee District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2016 had been presented to audit on 05 June 2017 and the financial statements for the preceding year had been presented on 11 July 2016. The report of the Auditor General for the year 2016 had been forwarded to the Secretary of the Sabha on 30 August 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 Verugal 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 Policies

The accounting policies adopted in preparation of financial statements had not been disclosed in the financial statements.

1.3.2 Accounting Deficiencies

Tyres, tubes and batteries for vehicles purchased for Rs.178,870 in 2015 had been capitalized. As a result, the value of fixed assets had been overstated by a similar amount.

1.3.3 Accounts Payable

Four sundry debtors aggregating Rs.47,954 remaining unsettled for 09 years continued to be shown in the financial statements.

1.3.4 Lack of Evidence for Audit

The following evidence indicated against each item of account had not been furnished for audit.

<u>Item</u> -----	<u>Value</u> ----- Rs.	<u>Evidence not furnished</u> -----
Work debtors	7,142,375	} Letters of confirmation of debtors, age analysis Detailed lists.
Creditors	13,094,010	
Other investments	233,820	

1.3.5 Non-compliance with Laws, Rules, Regulations

The following Instances of non-compliance with laws, rules and regulations were observed.

<u>Reference to Laws, Rules, Regulations</u>	<u>Non-compliance</u>
(a) 1988 Pradeshiya Sabha (Finance and Administration) Rules Chapter X, Section 193	The details of revenue and expenditure of the year had not been compared with the budgeted estimates and a statement relating to variances had not been furnished for audit.
(b) Section 134(1) of the Pradeshiya Sabha Act No. 15 of 1987	The immovable assets within the area of the Sabha had not been identified so as to determine their values and levy rates and taxes accordingly.
(c) Financial Regulation 571 of the Democratic Socialist Republic of Sri Lanka	Action had not been taken to settle/ credit to revenue the deposits of Rs.180,245 exceeding 02 years.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2016 amounted to Rs.1,242,843 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.2,731,376 showing a deterioration in financial results amounting to Rs1,488,553.

2.2 Revenue Administration

2.2.1 Performance in collection of Revenue

According to the information furnished by the Sabha, the other revenue estimated for the year amounted to Rs.1,648,200 whereas the actual revenue amounted to Rs.209, 101. The arrears of revenue amounted to Rs.1,439,098.

3. Operating Review

3.1 Contract Administration

The following observations are made.

- (a) Temporary measures, such as gravelling of roads should be avoided and carpeting, tarring and concreting work should be carried out so as to use the roads for a long period, according to Paragraph 1.2 of the Circular of the Finance Commission No.2016/1 of 30 December 2015. However, the Sabha had gravelled five roads at a cost of Rs.4,779,010 contravening the circular instructions.

- (b) The Sabha had entered into an agreement with the Arun contractors on 27 January 2016 to concrete the Soorainagar Kovil Road at a cost of Rs.7,701,794 under the Puraneguma Programme. The Sabha had furnished the performance bond furnished by the contractor to the bank to get it confirmed. But, the bank had informed in writing that the security bond had not been furnished by the bank and the contract had been subsequently cancelled. Legal action had not been taken against the contractor who had furnished a fictitious bond and to black list the contractor. This would enable the contractor concerned to engage in such fraudulent activities in future.

3.2 Management Inefficiencies

The following observations are made.

- (a) The Sabha had not taken action to acquire ownership of 06 vehicles received as donations and used by the Sabha for over 06 years.

- (b) Advances should be settled within 10 days in terms of Provincial Financial Rule No. 16.3.3. But, action had not been taken with regard to advances amounting to Rs.663,213 ranging for a period of 02 to 10 years.

- (c) Action had not been taken in terms of Financial Regulation 571 with regard to tender deposits, retentions and miscellaneous deposits amounting to Rs. 131,001 ranging for a period of 04 to 10 years.

- (d) Contributions to the Employees' Provident Fund of substitute employees should be based on their gross salaries. However, the contributions made to the Employees' Provident Fund on behalf of 03 substitute employees during the year 2016 had been

based on their basic salaries. As a result, a sum of Rs.62,719 had been remitted less to the Fund.

- (e) The Sabha had not utilized the Ice Factory valued at Rs.1,483,472 donated to it by the People in Need Organization in 2012 for the required purpose. As such, the refrigerators, motors and water tank installed in it had been damaged beyond repairs.
- (f) Seven stalls of the trade complex belonging to the Sabha had been given on rent from 2015 to 2017 without valuations being made and calling for tenders.
- (g) The Ministry of Provincial Councils and Local Government had allocated Rs.6,000,000 to the Sabha under the Strengthening of Pradeshiya Sabhas Programme. However, estimates of work to be performed had not been prepared and work had not commenced. As a result, the Sabha had been deprived of the benefits due to it.

3.2 Idle Assets

The following observations are made.

- (a) The trade complex of the Sabha comprising 07 stalls valued at Rs.2,272,800 remained idle since 2011.
- (b) A ploughing machine, a two wheeled ploughing machine, a road roller and a three wheeler valued at Rs.1,451,750 remained idle at the Sabha for 04 years. Action had not been taken to repair and use them or to sell them by auction.

4. Good Governance and Accountability

4.1 Presentation of Financial Statements

The financial statements should be presented for audit before March 31 in terms of Section 168(1) of Chapter V11 of the 1988 Finance and Administration Rules of Pradeshiya Sabhas. However, the financial statements for the year under review had been furnished for audit on 05 June 2017, after a delay of 02 months.

4.2 Annual Board of Survey

Shortages of 331 library books had been pointed out during the annual board of survey for the year 2016. Action had not been taken in this regard.

4.3 Human Resources Management

Action had not been taken during the last 02 years to fill 03 vacancies of Development Officers. Further, 02 management assistants had been transferred without replacements while there were 03 vacancies in the posts of management assistants.

5. Systems and Controls

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

Systems and Controls -----	Matters requiring Attention -----
(a) Accounting	(i) Proper updated maintenance of ledgers (ii) Classification of assets (iii) Maintenance of debtors' and creditors' ledgers.
(b) Fixed Assets Control	(i) Maintenance of a register of fixed assets (ii) Proper maintenance of stores ledger.
(c) Revenue Collection	Action to be taken for recovery.
(d) Staff Management	Replacements to be considered while transferring officers.
(e) Contract Administration	To follow the procurement guidelines and circulars of the Finance Commission while awarding contracts.