

Verugal Pradeshiya Sabha

Trincomalee District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year 2018 had been submitted to audit on 05 April 2019 and the summarized Auditor General's Report, Management Report relating to the year under review were sent to the Chairman on 16 May 2019 and 31 May 2019 respectively.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph of basis for qualified opinion, financial statements give a true and fair view of the financial position of the Verugal Pradeshiya Sabha as at 31 December 2018 and its financial performance and the cash flow for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Basis for Qualified Opinion

1.3.1 Accounting Deficiencies

Following observations are made.

	Audit Observations -----	Recommendation -----	Comments of the Accounting Officer -----
(a)	Although a sum of Rs.1,014,000 had been shown as income in the financial statements of the year 2017, Again, the same amount had been taken as income in the year under review. Therefore, the income for the year under review was overstated from that value.	The overstated amount of the year under review should be adjusted.	Courts fine amounting to Rs.1,014,000 had been doubled in this year. Please note that this value will be adjusted to the Accumulated Fund in the final accounts prepared for 2019.
(b)	Due to vehicle tires purchased for Rs.200,134 during the year under review shown as capital expenditure, the value of fixed assets was overstated from that value and recurrent expenditure was understated from that value.	Action should be taken to adjust the items classified with errors and it should be classified correctly in future.	Vehicle tires purchased for Rs.200,134 during the year under review had been shown as capital expenditure in this year. This value will be adjusted for the respective accounts in the forthcoming financial statements.

1.3.2 Accounts Payables

Audit Observations	Recommendation	Comments of the Accounting Officer
The total of 04 miscellaneous creditors balances amounting to Rs.47,954 had been continuously Shown in the past 10 years without settlement.	Gather information and take appropriate action.	Action will be taken to transfer to the revenue due to lack of documents for the total of 04miscellaneous creditors balances amounting to Rs.47,954.

1.3.3 Lack of Evidence for Audit

Account Item	Value	Evidence not submitted	Recommendation	Comments of the Accounting Officer
	Rs.			
Advance received	326,780	Detailed list	Further action should be taken after ensure that the evidence is not in the Sabha.	Although presented in the financial statements, there is no documentary evidence in this regard. I would kindly inform that further action will be taken in this regard.
Other investments	233,820			

1.4 Non-Compliances

Non-compliances with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules, Regulations and Management Decisions	Non-Compliances	Recommendation	Comments of the Accounting Officer
(a) The Pradeshiya Sabha Rules (Financial and Administrative) of 1988			
Section 193 of Chapter x	A clarification statement on the variances observed between the budgeted and actual expenditure had not been prepared and submitted to the Auditor General.	A statement containing explanations for variations must be prepared and submitted to the audit.	Attachments for the variances are disclosed in the following financial statements, comparing the actual revenue and expenses for the year with the budgeted amounts.

- (b) Financial Regulation 571 of the Democratic Socialist Republic of Sri Lanka
- Action had not been taken to settle or credit to revenue the tender deposits, miscellaneous deposits, withholdings and other deposits amounting to Rs.375,155 which were more than 02 years.
- Action should be taken as per financial regulations.
- With regard to deposits amounting to Rs. 375,155, I inform you that relevant documents will be inspected and refunded.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the revenue over recurrent expenditure for the year ended 31 December 2018 amounted to Rs.1,344,198 when compared with the revenue over recurrent expenditure of the preceding year amounted to Rs.4,074,709.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Arrears Revenue

Information of estimated revenue, billed revenue, collected revenue and arrears of revenue relating to the year under review and previous year are shown below.

Revenue Source	2018				2017			
	Estimated Revenue	Billed Revenue	Recovered Revenue	Arrears as at 31 December	Estimated Revenue	Billed Revenue	Recovered Revenue	Arrears as at 31 December
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
(i)Rental	1,684	922	1,253	505	609	1,130	1,157	632
(ii)Other Revenue	3,990	1,849	2,863	256	3,513	160	2,899	1,279

2.2.2 Rent Income

Following observations are made.

Audit Observations	Recommendation	Comments of the Accounting Officer
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The stall No. D of the Sabha stalls was rented from 01 February 2018. Following observations are made in this regard.		

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|-----|---|--|--|
| (a) | Although the total arrears of this shop amounted to Rs.87,120 aggregating Rs.79,200 arrears of rent and Rs.7,920 as fines, action had not been taken to recover this amount even by the audit date of 14 May 2019. | Actions should be taken to recover arrears rental. Similarly, the action should be taken by the Sabha in a manner that arrears will not be arisen in future. | The renter has been asked to pay the sum of Rs. 87,120 in 3 monthly installments. Legal action will be taken in case of default and I inform you that the relevant amount will be charged. |
| (b) | The last date of the agreement for the occupants of the shop is 01 February 2023; the agreements were terminated in November 2018. In accordance with clause (c), if the contract ended within the term of the contract, the secured deposits must be transferred to the non-refundable income. However, the security deposit of Rs.144,000 had not been transferred to the income. | Shall act in accordance with clause (c) of the Agreement. | I will inform you that action will be taken to follow your recommendations regarding the relevant shop. |

2.2.3 Courts Fines and Stamp Duty

	Audit Observations	Recommendation	Comments of the Accounting Officer
(a)	Courts Fines ----- No action was taken to calculate and pay court fines for the period from May to December of the year under review.	Court fines must be calculated and charged for the relevant period. Also, action should be taken to minimize the time lapse of the charges.	Reminders have been issued to the relevant department regarding court fines for the period from May to December of the year under review.
(b)	Stamp Duty ----- Stamp Duty for the years 2016, 2017 and 2018 have not been properly calculated and recover from the Registrar General.	Stamp Duty shall be calculated and charged for the period. Also, time delays in charging should be minimized.	Necessary steps have been taken to calculate and recover stamp fees for the years 2016, 2017 and 2018.

3. Operational Review

3.1 Performance

Following observations are made.

(a) Sustainable Development Goals

Audit Observation	Recommendation	Comments of the Accounting Officer
According to the decision of the Sustainable Development Conference of 2015, led by the Heads of State of the United Nations Member States, Sabha did not establish the indicators for the Sustainable Development Programs Agenda to be achieved by 2030.	The Sabha should set Sustainable Development Goals on this matter and initiate operations.	No action has been taken on sustainable development in 2018. Nevertheless, I inform you that in the future, the Sustainable Development Goals will be prepared and appropriate actions will be taken according to the relevant circular..

3.2 Management Inefficiencies

Following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) The ratio of underweight babies born in the local area of the council was 40, 50 and 55 , respectively, in the years 2015, 2016, 2017 and 2018 and from 2015 to 2019 , no budgetary provision was made for maternal and child welfare and child care. Therefore, the Sabha did not consider the maternal and child welfare.	The council should consider this matter.	In this regard, provisions have been allocated from the 2019 budget estimate. It has been decided to implement a nutrition plan (leaf porridge) of maternal infants.
(b) According to the Paragraph 2 (a) and Chapter XXI of the circular No. EST-8 / UNIF / O / 06/0302/6 dated 22 April 2013 of the Ministry of Public Administration and Home Affairs,	Steps should be taken to make annual allowances to the employees as per the circular.	The May 2018 budget estimate did not adequately provide for uniform allowances. For this reason, only six people

Drivers and office assistants will be paid a sum of Rs. 4,000 per annum effective 01 January 2013 instead of the cost of clothing and sewing fees provided. However, only 06 out of the 27 employees in the Sabha were paid for the uniforms this year.

have been given. Adequate Provisions had made for 2019. Therefore, according to the financial status of the council, all employees are given.

3.3 Human Resource Management

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
<p>The Governor's Secretary had given permanent appointments on 25 July 2018 to fill the vacancies in the Health Service Laborers of the Sabha. However, the chairman of the Sabha has refused to accept the duties of that employee. The Sabha has not taken any action in this regard.</p>	<p>In order to fill vacancies in the Sabha, the employee should immediately take up duties of the Sabha. The deviations from the schemes of recruitment should be formally confirmed.</p>	<p>With regard to the appointments made on 25 July 2018, one worker has been working for a long period of time for the relevant vacancy and the employee has refused to accept duties.</p>

3.4 Assets Management

3.4.1 Assets not Registered

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
<p>Seven vehicles donated by other institutions have been in use for 8 years, but action has not been taken to transfer the ownership by the Sabha.</p>	<p>Action should be taken to transfer.</p>	<p>Steps are being taken to transfer assets acquired from other institutions in the name of the Sabha.</p>

3.4.2 Idled Assets

Following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) A shop line valued at Rs. 2,272,800 with 07 rooms belonging to the Sabha remained idled from 2011 until the end of the year under review.	Action should be taken to use the existing shop line.	The shops line valued for Rs.2,272,800 used to the locked warehouse of the Sabha where the old items were stored. Action will be taken to rent out in future.
(b) Plowing machine, two-wheeler plowing, road roller and a three-wheeler have been idled for 04 years. Action had not been taken to repaired or sold at auction.	Must be repaired and used or sold at auction.	In the case of three-wheeler and roller repairs, dealing with the financial condition of the Sabha. Otherwise your recommendations will be complied with.

3.4.3 Annual Board of Survey

Audit Observation	Recommendation	Comments of the Accounting Officer
In the Board of Survey in the year 2018, the Board had pointed out the missing of 143 books in the Library maintained by the Sabha. Action had not been taken by the Sabha in this regard.	The matter mentioned by the survey officer, should be implemented immediately.	The employee of the library was inquired about the lack of 143 books mentioned. According to the value of the relevant books, action has been taken to charge the employee.

3.5 Procurement

3.5.1 Procurement Plan

Audit Observation	Recommendation	Comments of the Accounting Officer
In accordance with the Circular No. 128 dated 24 March 2006 of the Department of National Budget, the Sabha had not	The Annual Procurement Plan shall be prepared by the Sabha.	The Procurement Plan for the Sabha for the year 2018 has not been fully prepared. However, I am pleased to inform you that the procurement plan for 2019 has been

prepared a procurement plan for the year under review.

prepared.

3.5.2 Contract Administration

Following observations are made.

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) Solar power		
(i) According to the Procurement Procedure (Supplement) No. 28 of 04 July 2014, the Sabha can make procurement up to Rs.2,000,000 only. But this had been done in violating of pricing procedures. As such, the expected objectives of the Procurement Procedure 1.2.1 (II) have not been achieved.	Procurement guidelines must be followed in the procurement process.	We received the provisions for Solar Power Lamp Repairs, by Pradeshiya Sabha Strengthening Program in the month of October. It has been informed that the relevant program should be completed within 30 November 2017 and submits the payment voucher to the Ministry within that day. Accordingly, solar power lamps already installed have to be repaired on purchase basis because the public complaints from time to time to repair them immediately as the failure of the solar power lights already installed and due to the lack of time limit to send through the Local Government Commissioner after completing the relevant task, and because of the lack of provision to publish in newspapers and pay advertising fees.
(ii) A clause for continuous maintenance after repairs was not included in this contract. So when a repair opportunity occurs, it may have to pay extra.	When contracting for maintenance, action should be taken to submit it to us.	I kindly inform you that although the contract has been entered into with the agency for maintenance, other than the maintenance of the plan, the focus is on another type of maintenance agreement or other appropriate action.
(iii) At the time of testing of the refurbished 65 lamp batteries in March 2019, 33 batteries were below the test standards. The Sabha	All lights should be switched on.	Of the 65 refurbished lamps, some of them have been removed and tested for battery performance as they are too short to burn. As this is the battery's

has not taken any action in this regard..

warranty period, the contractor has been notified of the relevant issue. A security deposit of the contractor is with us. I would like to inform you that action will be taken in this regard.

(b) Construction of the Auditorium

Under the provisions provided by the Ministry of Local Government and Provincial Councils for the empowerment of Pradeshiya Sabhas, the contract of constructing the auditorium was awarded to a sum of Rs.749,486 on 17 November 2017. Following observations are made in this regard.

Since the procurement body is its own Sabhya, action should be taken to present the explanations to the audit.

The above bidding process was carried out by the Commissioner of Local Government due to (A), (b), (c), (d), (e) and (f) were above Rs. 5 million and the technical evaluation work for this was done through the above mentioned institution.

- (i) Limited Competitive Bidding (LNCB) may be called in case the number of contractors appears to be small, as per paragraph 3.3 of the Procurement Procedure. However, even though there were a large number of contractors, limited competitive bids were called instead of the National Level Competitive Bid (NCB). Therefore, the intended objectives of Procurement Procedure 1.2.1 (d) have not been achieved.
- (ii) After made the required calculation errors by the contractor, the contract price was Rs.7,248,750. But despite this revised price, the Sabha had awarded contract for Rs.6,749,486.
- (iii) The offer by the contractor was less than the estimated price by Rs 1,793,814. Therefore, the Technical Evaluation Committee had recommended awarding of contracts

without complying with Section 7.9.11 of the Procurement Guidelines.

- (iv) The bids submitted by the contractor had exceeded the estimate by Rs. 2,406,590. However, the Technical Evaluation Committee had recommended the awarding of the contract.

- (v) The estimated work for Rs.785,000 had not been carried out even at the audit date of 23 March 23, 2018. However, in order to obtain the impeachment from the Ministry of Local Government and Provincial Councils, the relevant technical officer has certified that the work has been done and sent it to the Ministry.

- (vi) The contractor had to complete and deliver the work by 12 January 2018. But 76 percent of the industry was unfinished at the audit date of 14 May 2019. Also, delayed charges of Rs. 674,948 had not been recovered from the contractor.