

Koralai Pattu West Pradeshiya Sabha

Batticaloa District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year 2019 had been submitted to audit on 27 February 2020 and the summarized Auditor General's Report on that financial statements was sent to the Chairman on 25 June 2020 and the detailed management report sent on 19 June 2020.

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 Koralai Pattu West Pradeshiya Sabha as at 31 December 2019 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Basis for Qualified Opinion

1.3.1 Accounting Policies

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
The Financial Statements did not disclose the accounting policies adopted by the Sabha when preparation of the financial statements.	The accounting policies followed in preparing the financial statements should be disclosed in the financial statements.	Accepted.

1.3.2 Accounting Deficiencies

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
(a) Stamp duty on transfers of property, dowries and donations receivable from the Eastern Provincial Treasury Department had not been properly calculated and disclosed as stamp duty in financial statements.	Provisions should be made to prepare financial statements properly.	Arrangements have been made to correct the errors you have revealed and to prepare proper financial statements in the future.
(b) The value of the computer sets and photocopiers purchased with the financial provisions of the Ministry of	Computer sets and photocopy machine should be accounted for.	Such errors will be corrected in the future.

Provincial Councils and Local Government were not accounted for.

- (c) The court fines due for the year 2018 were Rs.1,639,841 but in the financial statements it was stated as Rs.2,082,066. Corrections should be made to financial statements. Accepted.

1.3.3 Contingent Liabilities

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) The Pradeshiya Sabha was hearing cases against external parties and the details of which had not been disclosed in the financial statements.	Legal action taken against external parties should be disclosed in the financial statements as Contingent liabilities.	Such errors will be corrected in the future.

1.3.4 Accounts Receivables and Payables

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) Accounts Receivables Arrears Rate and Taxes amounting to Rs.11,937,904 is being shown in the financial statements for continuously for more than 10 years.	Action should be taken to recover arrears amount.	Accepted.
(b) The amount of Rs. 51,626 to be recovered as the loans from 6 employees who had been transferred, suspended and retired had been in arrears since 1998.	Action should be taken to recover the outstanding employee loans.	Accepted

1.3.5 Lack of Documentary Evidences

Audit Observation	Recommendation	Comments of the Accounting Officer
Six subjects of accounts amounting to Rs. 103,644,925 could not be satisfactorily verified during the audit due to non-submission of land deeds, asset documents, proof for the ownership.	Evidence for the items should be submitted.	Accepted

1.4 Non-Compliances

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

Instances of non-compliances with Laws, Rules, Regulations and Management Decisions are shown below.

Reference to Laws, Rules, Regulations and Management Decisions	Non-Compliance	Recommendation	Comments of the Accounting Officer
(a) Section 12 (1) and (2) of the Pradeshiya Sabha Act No.15 of 1987 and subsection 31 (1) of the Gazette Notification No. 488/16 of 13 January 1988 of the Ministry of Local Government Housing and Industry	Although separate committees have been set up for the purpose of easing the functions of the Pradeshiya Sabha, to make a complete decision and for matters such as council funds, policy planning, housing construction, social development, technical services, environmental and public utilities, action had not been taken to conduct committee meetings even by the audit date of February 2020.	Separate committees should be appointed for all matters of the Sabha.	Accepted

- (b) Financial and Administrative Rules of Pradeshiya Sabha 1988 Chapter X Section 193 and Actual Revenue and Expenditure Details for the year under review were not compared to the budget plan and a statement containing explanations for the variation was not submitted to the audit. The collected revenue and expenses incurred for the year under review should be compared with the budget estimates. Accepted

1.4.2 Non-compliance with Tax Requirements

Audit Observation	Recommendation	Comments of the Accounting Officer
VAT Invoices had not been obtained for VAT paid to various suppliers. Also, the Department of Inland Revenue and the Auditor General were not informed of the VAT paid.	Value Added Tax is payable on the VAT invoice presented by the supplier of the specified supply and service.	Accepted

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the revenue over expenditure recurrent for the year ended 31 December 2019 amounted to Rs. 4,145,655 against with the recurrent expenditure over revenue of the preceding year amounted to Rs. 1,601,133.

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 Item	2019				2018			
	Estimated Revenue	Billed Revenue	Collected Revenue	Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	2,511,000	2,550,000	1,084,360	11,937,904	4,150,000	13,550,280	1,612,376	11,937,904
Rental	9,794,900	9,802,900	5,913,416	1,518,226	13,588,600	6,043,392	4,724,363	1,329,028
Licence Fee	4,175,000	4,185,000	3,057,390	252,460	2,835,000	3,121,463	3,121,463	--
Other Revenue	19,290,000	19,295,000	13,632,138	4,493,677	19,408,000	14,234,567	12,161,501	2,082,066
	35,770,900	35,832,900	23,687,304	18,202,267	39,981,600	36,949,702	21,619,703	15,348,998

2.2.2 Performance of Revenue Collection

Following observations are made.

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
(a) Action had not been taken to recover arrears shop rental amounting to Rs. 943,595 existing for a long time.	Action should be taken to recover arrears shop rental.	Corrections will be made so that such errors do not occur in the future.
(b) Slaughterhouse Revenue -----		
Although the slaughter of buffaloes is prohibited under the Animal Slaughter Act, all cattle, including buffaloes, are slaughtered in the slaughterhouse of the Sabha. Further,	According to the Slaughter Act, slaughter should be done.	Corrections will be made so that such errors do not occur in the future.
(i) Rs. 1,500 will be charged from each butcher for one buffalo.		
(ii) Although there is an approved vacancy for a slaughterer, the slaughterer is paid Rs. 50 per cow without taking action to fill it.		
(c) Properties without Levied Rates and Taxes -----		
Properties were not assessed and rates and taxes had not been levied on 08 out of the 14 divisions in the Pradeshiya Sabha area.	Forms "K" should be distributed to the public in a timely manner to provide discounts on rates and taxes.	Corrections will be made so that such errors do not occur in the future.
(d) Tares and Taxes of Rs. 11,937,904 had not been levied on the National Paper Manufacturing Factory from 1996 to 2019.	The correct value of the rates and tax should be presented in the accounts, including the actual arrears for the year under review.	Corrections will be made to avoid such errors in the future.
(e) The JCB machine bearing number ZA-5021 has been in operation for 3274.8 hours from 17.01.2017 to 26.09.2019, but has been damaged for the last 04 months and a large amount of money is being spent on repairs and maintenance.	The JCB machine should be managed in a manner that does not incur losses when used by public institutions.	Corrections will be made to avoid such errors in the future.

2.2.3 Courts Fines and Stamp Duty

	Audit Observation	Recommendation	Comments of the Accounting Officer
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(a)	Courts fines of Rs. 1,639,841 were due from all authorities including the Chief Secretary of the Provincial Council as at 31 December 2019 and the stamp duty had not been calculated and submitted to the accounts.	Stamp duty should be calculated by the Pradeshiya Sabha and action should be taken to collect from the Registrar General within the stipulated time.	Corrections will be made to avoid such errors in the future.
(b)	Stamp Duty -----		
(i)	In terms of Section 03 of the Stamp Duty Amendment Act No. 06 of 2010, Stamp duty should be charged annually, Nevertheless, the Urban council had not calculated the stamp duty for the period from January to 31 December 2018 and collect it from the Registrar General in due course.	Action should be taken to calculate the stamp duty by the Pradeshiya Sabha and collect it from time to time from the Registrar General of land.	Corrections will be made to avoid such errors in the future.
(ii)	In terms of Section 37 of the Finance and Law Ac No. 01 of 2008 relating to Imposing and Collecting Taxes and Fees from the Inland Revenue Department of the Eastern Province, action had not been taken to calculate and recover the stamp duty paid by the property owners to the Eastern Provincial Inland Revenue Department in respect of additional stamp duty charged by direct and mobile services, when transferring real estate in the Urban Council area for the period 2017, 2018 and up to December 2019.	The additional stamp duties paid by the property owners to the Provincial Revenue Department of the Eastern Province should be calculated and taken back.	Corrections will be made to avoid such errors in the future.

(iii)Stamp Duty is an income to the Pradeshiya Sabha. Nevertheless, the Pradeshiya Sabha had not received the stamp duty of Rs.2,598,641 for the period from 2010 to 2019 even at the audit date of April 2019. As a result, revenue, such as stamp duty was losing yearly.	Need to confirm the annual receipt of land sales fee revenue.	Corrections will be made to avoid such errors in the future.
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3. Operational Review

3.1 Performance

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
(a) By-Laws -----		
In terms of Section 126 of the Pradeshiya Sabha Act No.15 of 1987, by-laws should be imposed and implemented in respect of the revenue and regulation of the Pradeshiya Sabha on key issues. Nevertheless, the Pradeshiya Sabha had sent proposals on by-laws on August 4, 2012 to the Ministry of Local Government in the Eastern Province for approval but, action had not been taken to obtain approval and implement even as at 31 December 2019.	The approval of the Ministry of Local Government of the Eastern Province should be obtained by the Sabha.	Corrections will be made to avoid such errors in the future.
(b) Solid Waste Management -----		
Solid waste management was not carried out properly and plans such as compost production and recycling sales were proposed. However, no other revenue-generating plans had been implemented.	Solid waste management needs to be streamlined and revenue generation plans need to be implemented.	Corrections will be made to avoid such errors in the future.
(c) Sustainable Development Goals -----		
The Sabha had not established the indicators for the Sustainable Development Programs Agenda to be achieved by 2030.	The Sabha should establish the indicators for the Sustainable Development Programs Agenda to be achieved by 2030.	Corrections will be made to avoid such errors in the future.

3.2 Operational Inefficiencies

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
Although the proposed design report stated that a monthly income of Rs.566,000 could be obtained from the purchase of the excavator, no such revenue was earned. This machine was leased to a private person from 31.04.2017 to 23.04.2018 and was used for 491 machine hours. Rs. 433,880 due from him had not been recovered even after 21 months.	Revenue should be earned as proposed and arrears should be recovered.	Accepted.

3.3 Assets Management

3.3.1 Assets not Documented

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
Lands and buildings had not been recorded in fixed assets register.	The Sabha should take action to record fixed assets in the fixed asset register.	Corrections will be made to avoid such errors in the future.

3.3.2 Vehicle Control

Following observations are made.

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
(a) (i) Circular No. 30/2016 dated 29.12.2016 of the Ministry of Public Administration Management No. EST-6 / TPORT / 05/3515 states that the driving distance per litre of fuel should be inspected annually by the Mechanical Engineer, but inspections were not carried out accordingly.	Fuel Consumption Test should be conducted annually.	Accepted.
(ii) 08 vehicles had not obtained registration books as per the Motor Traffic Act.	Vehicle registration books should be obtained.	Accepted.

(iii) Transport Revenue License was obtained only for 23 vehicles.	Revenue License should be obtained for all vehicles.	Accepted.
(iv) There were 09 vehicles which could not be used or could not be take any other actions.	Action should be taken to dispose.	Accepted.
(v) The value of the vehicles had not been assessed and brought to the final accounts for several years.	The present value of the vehicles should be assessed and taken into account.	Accepted.

4. Accountability and Good Governance

4.1 Internal audit

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
Internal audit of the Sabha had not taken place.	Internal Audit Functions of the Sabha should be implemented.	Corrections will be made to avoid such errors in the future.

4.2 Audit and Management Committee

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
The Audit and Management Committees were not established and no Committee Meetings were held.	Audit and Management Committees should be established and Committee Meetings should be held.	Corrections will be made to avoid such errors in the future.