

**Kinniya Urban Council**

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**Trincomalee District**  
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**1. Financial Statements**

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**1.1 Presentation of Financial Statements**  
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The Financial Statements for the year under review had been presented to audit on 19 May 2014 and the Financial Statements for the preceding year had been presented on 08 May 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Council on 25 February 2015.

**1.2 Opinion**

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In my opinion except for the effects on the Financial Statements of the matters referred to in paragraph 1.3 of this report the Financial Statements have been prepared in accordance with Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Kinniya Urban Council as at 31 December 2013 and the financial result of its operations and cash flow for the year then ended.

**1.3 Comments on Financial Statements**

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**1.3.1 Accounting Deficiencies**  
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Following accounting deficiencies are observed.

- (a.) Stamp fees amounting to Rs.2,315,550 receivable for the year 2013 had not been brought to the account.

- (b.) Court fines amounting to Rs.249,170 receivable for the year 2013 had not been brought to account.
- (c.) The balance of Beef Stall Lease account amounting to Rs.6,658,914 as at 31 December 2013 as per Beef Stall Lease Ledger had been accounted in the Financial Statements as Rs.7,230,533. Due to this Beef Stall Lease account had been overstated by a sum of Rs.521,619 in the Financial Statements.
- (d.) The balance of assessment tax recoverable amounting to Rs.2,026,105 as per Ledger had been accounted in the Financial Statements as Rs.1,821,332. Due to this, Assessment Tax recoverable had been understated by a sum of Rs.204,773 in the Financial Statements.
- (e.) Recurrent expenditure on vehicle tire, vehicle lights and to hire of vehicle aggregating Rs.34,000 had been accounted as Capital expenditure in the Financial Statements.

### **1.3.2 Accounts Receivable and Payable**

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- (a.) Action had not been taken to recover the arrears of Beef Stall rent amounting to Rs.2,133,204 and fish market lease amounting to Rs.4,294,987 ledger for the period of 2006-2012 up to end of the year under review.
- (b.) Action had not been taken to recover the arrears of chicken stall lease rent amounting to Rs.20,667 for the period of 2010-2012 up to end of the year under review.
- (c.) Action had not been taken to recover the weekly Market Lease rent amounting to Rs.22,055 for the year under review.

### 1.3.3 Lack of Evidence for Audit

Following items of accounts could not be satisfactorily vouched or accepted in audit due to lack of evidence indicated against those items.

<u>Item of Account</u>	<u>Value</u>	<u>Evidence not furnished</u>
	Rs.	
Land and Buildings	31,403,838	Land Ownership Deeds
Machinery	4,638,775	Fixed Assets Register and Board of Survey Reports
Motor Vehicles	14,216,506	
Furniture and Fittings	4,214,257	
Office Equipment	285,619	
Creditors	3,452,568	Confirmation of Balances
Miscellaneous Deposits	4,582,602	Age Analysis

### 1.3.4 Non-compliance with Laws, Rules, Regulations etc.

Following instances of non-compliance with Laws, Rules, Regulations and Management Decisions were observed in audit.

<u>Reference to Laws, Rules, Regulations etc.</u>	<u>Non-compliance</u>
(a.) <u>Urban Council Ordinance Chapter 255</u>	
(i.) Section 177(2)	- An abstract of the statements of accounts had not been published in the Gazette for general information to public till 31 July 2014.

(ii.) Section 180(1)

- The Chairman of the Urban Council had not prepared the annual administration report for the year under review.

(b.) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

(i.) F.R. No.700(5)

- Procurement decisions and accepted contract documents had not been submitted to audit.

(ii.) F.R. No.702(3)

- Copy of the contract agreements had not been submitted to Audit.

(iii.) F.R No.571(1)

- Statement of lapsed deposits not been submitted to audit.

### 1.3.5 Underutilized Assets

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Particulars of assets remaining underutilized for periods of 01-06 years are given below.

<u>Item of Assets</u>	<u>Value</u>	<u>Underutilized</u> <u>Period</u>
	Rs.	
Tractor	716,000	04 Years
Two wheel Tractor	34,137	06 Years
Deeper	5,098,000	02 Years
Cement Mixer	300,000	03 Years
Camera	-	01 Year
Digital Camera	Donation	02 Years
Fax Machine	-	02 Years
Overhead Projector	-	01 Year
Conica Photo Copier	-	01 Year
Voice Recorder	Donation	02 Years

## 2. Financial Review

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### 2.1 Financial Results

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According to the Financial Statements presented, recurrent expenditure over revenue of the Council for the year ended 31 December 2013 amounted to Rs.20,386,740 as compared with the excess of recurrent expenditure over revenue amounting to Rs.2,512,834 for the preceding year. The financial result for the year under review had been decreased by Rs.17,873,906 over the preceding year.

### 2.2 Revenue Administration

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#### 2.2.1 Performance in Revenue Collection

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Information furnished by the Council relating to the Estimated Revenue, Actual Revenue and the Arrears of Revenue for the year under review are shown below.

	<b>Source of Revenue</b>	<b>Estimated</b>	<b>Actual</b>	<b>Cumulative Arrears as at 31 December</b>
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		Rs.	Rs.	Rs.
(i)	Assessment Tax	398,728	127,266	271,462
(ii)	Lease Rent	9,281,500	5,171,333	4,110,167
(iii)	Rent	2,070,000	82,926	1,987,074

#### 2.2.2 Assessment Tax and Rates

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The arrears of Assessment Tax and Rates amounting to Rs.2,026,105 for construction of buildings and houses, lands situated in the limits of the Urban Council for the period of 2006 to 2013 had not been recovered up to end of the year under review.

### **2.2.3 Telecommunication Tower Charges**

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08 telecommunication towers had been installed in the Urban Council Administrative area. But the Council had not recovered charges as per Council decision No.273. Therefore, the Council had lost revenue amounting to of Rs.24,000 yearly.

### **2.2.4 Court Fines**

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Court Fines receivable by the Council as at 31 December 2013 under various ordinances had not been computed and remitted to the Chief Secretary of the Provincial Council and had remained recoverable by the Council.

## **3. Operating Review**

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### **3.1 Management Inefficiencies**

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Following observations were made.

- (a.) Although seven vehicles had been received as donations from other institutions during a period of 09 years, the Council had not taken action to change the ownership in the name of the Urban Council and the vehicles had not been utilized too.
- (b.) The Council had to pay contributions and fines amounting to Rs.632,644 to the Labour Department because the Council had not paid the contributions for 24 officers for the period of 2006-2008.
- (c.) According to the reports of the Board of Survey for the years 2011, 2012 and 2013, it had revealed of shortages of 109 inventory goods and library books. However, necessary action had not been taken with regard to the shortages.

### 3.2 Solid Waste Management

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The Solid Waste Management Centre had been constructed at a cost of Rs.3.7 million under the Solid Waste Management Project in year 2013. The solid waste had not been properly sought out and later the project had been abandoned, resulting an environment pollution in the area.

## 4. Human Resources Management

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Particulars of the approved and actual cadre of the Council as at 31 December 2013 are given below.

<b>Category of Employees</b>	<b>Approved</b>	<b>Actual</b>	<b>Excesses</b>	<b>Vacancies</b>
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Executive	02	-	-	02
Subordinate	27	24	-	03
Minor Employees	80	69	-	11
Others	-	16	16	-
Total	109	109	16	16

Action had not been taken to fill the vacancies in the Sri Lanka Administrative Service Grade II class III and Sri Lanka Accounting Service Grade II class III that had been vacant more than 05 years.

## **5. Accountability and Good Governance**

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### **5.1 Budgetary Control**

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Actual and Budgeted Expenditure for the year under review indicated a variation between 27 per cent and 100 per cent. Accordingly it was observed that the Budget had not been made use of as an effective instrument of management control.

### **5.2 Internal Audit**

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According to paragraph 08 of the circular No.03 dated 08 November 2015 of the Ministry of Provincial Councils and Local Government every Local Authority should establish an Internal Audit Section. However, the Council had not established an Internal Audit Section.

## **6. Systems and Controls**

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

- (a.) Accounting
- (b.) Contract Administration
- (c.) Fixed Assets Control
- (d.) Revenue Administration
- (e.) Budgetary Control