

Trincomalee Urban Council

Trincomalee District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been submitted to the for audit on 30 September 2014 after a delay of 06 months, while the financial statements for the preceding year had been submitted on 29 November 2013.

1.2 Opinion

In my opinion expect for the effects of the matters described in paragraph 1.3 of this report, the financial statements give true and fair view of the financial position of the Urban Council Trincomalee as at 31 December 2013 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards

The financial statements had not been prepared in accordance with the Public Sector Accounting Standards in terms of Circular No.PL/05/BA/SLPSAS dated 27 January 2014 of the Ministry of Local Government and Provincial Councils.

1.3.2 Accounting Policies

Accounting policies adopted for preparation of accounts had not been disclosed in the financial statements.

1.3.3 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) Six vehicles donated by the Ministry of Local Government and Provincial Councils during the years 2010, 2011 and 2013 had not been valued and brought to accounts.
- (b) The stocks in hand as at 31 December 2013 relating to the ayurvedic drugs had not been valued and brought to accounts.
- (c) A sum of Rs.7,150,382 payable to the Department of Pension with regard to pension contributions deducted from the salaries of the employees of the Council had not been shown in the financial statements.
- (d) Arrears of rent on slaughter house amounting to Rs.143,349 had not been brought to accounts.
- (e) A sum of Rs.4,645,367 payable to the Sri Lanka Navy since the year 1991 for of water supplied to the Council had not been shown in the financial statements.
- (f) According to the staff loan register, the balance of the outstanding staff loans as at end of the year under review amounted to Rs.15,893,361. However, it had been brought to the financial statements as Rs.15,222,733. Therefore, the balance of the staff loans had been understated in the financial statements by Rs.670,628.
- (g) Retention money amounting to Rs.1,495,345 and the final bills amounting to Rs.668,257 payable to Contractors as at 31 December 2013 had not been shown in the financial statements.

(h) According to the records maintained by the Council, 04 balances of receivables as at the end of the year under review amounted to Rs.94,791,767. However, it had been brought to the financial statements as Rs.78,881,410. Therefore, the balance of receivables had been understated in the financial statements by Rs.15,910,357.

(i) According to the records maintained by the Council, 02 balances of payables as at the end of the year under review amounted to Rs.23,965,613. However, it had been brought to the financial statements as Rs.49,155,732. Therefore, the balance of payables had been overstated in the financial statements by Rs.25,190,119.

1.3.4 Suspense Account

The credit balance of the suspense account amounting to Rs.30,153,029 had been continuously shown in the financial statements since the year 2010 without taking action to clear it.

1.3.5 Accounts Receivables and Payables

The following observations are made.

(a) Action had not been taken to recover or to write-off the receivables aggregating Rs.6,161,644 remained outstanding since the year 2003.

(b) Action had not been taken to settle or to write-off the payables aggregating Rs.4,557,338 remained outstanding since the year 2008.

1.3.6 Lack of Evidences for Audit

Evidence indicated against the following items of accounts had not been submitted for audit.

Items	Amount	Evidence not made available for audit
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	Rs.	
Fixed assets	76,392,129	Register of fixed assets
Loans for utility services	5,010,261	} Confirmations of balances, age analysis, detailed schedules
Staff loans	15,222,733	
Recoverable utility services	110,137	
Revenue debtors	90,357,658	
Pre-payments	2,768,536	
Creditors	1,751,117	
Receipts in advance	4,533,938	
Refundable deposits	73,598,712	

1.3.7 Non – compliance with Laws, Rules and Regulations

Instances of non – compliance with laws, rules and regulations observed in audit are given below.

Reference to Laws, Rules and Regulations	Non - compliance
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(a) Financial Regulations of the Eastern Provincial Council	

PFR 104	A scheme of delegation of functions had not been prepared in order to facilitate the system of financial control.
(b) Paragraph 3 of the Circular of the Ministry of Local Government, dated 08 November 2005	Action had not been taken up to the date of audit on 10 March 2015 to establish an Internal Audit Unit.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2013 amounted to Rs.10,837,240 as compared with the excess of revenue over recurrent expenditure amounting to Rs.7,441,990 for the preceding year.

2.2 Budgetary Control

Variations ranging from 5 per cent to 100 per cent were observed between the budgeted income and expenditure and the actual income and expenditure thus, indicating that the budget had not been made use of as an effective instrument of management control.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

The information relating to the estimated revenue, the actual revenue and the arrears of revenue for the year under review presented by the Chairman are given below.

Item of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December 2013
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	Rs. '000'	Rs. '000'	Rs. '000'
(i) Rates and Taxes	55,000	31,441	69,090
(ii) Lease Rent	23,420	19,997	11,855
(iii) License Fees	8,107	4,231	-
(iv) Other Revenues	215,510	94,710	9,134

2.3.2 Arrears of Rent

The following observations are made in this connection.

- (i) Thirty three officers who occupied official quarters belong to the Council had not paid rent for several years and a sum of Rs.256,928 had remained in arrears as at the end of the year under review. However, proper action had not been taken to recover those arrears.

- (ii) Arrears of rent as at the end of the year under review due from several shop owners amounted to Rs. 11,854,420. However, the Council had not taken action for more than 05 years to recover those arrears of rent.

3. Operational Review

3.1 Management Inefficiencies

The following observations are made.

- (a) Two hundred and eighty eight unauthorized persons had encroached a land at Gandhi Nagar belongs to the Council. However, the Council had issued deeds to those encroachers during the year 2008 without obtaining approval from the relevant authority.

- (b) The gross salaries of the casual employees should be taken into consideration for computing employer and employees contributions for Employees Provident Fund (EPF). However, the Council had considered only the basic salary for computation of EPF contributions for 102 casual employees. As a result, there was a difference of Rs. 1,525,665 between the total amount of contributions computed and remitted to the EPF for the year under review and the actual amount of contributions to the EPF.

(c) Implementation of recommendations made by the Board of Survey

(i) The Board of Survey conducted on 21 October 2014 had recommended to sell 589 items of goods by auction and to dispose 51 items of goods. However, those recommendations had not been implemented up to now.

(ii) The Board of Survey conducted on 21 October 2014 revealed a shortage of 111 stores items and 4293 library books. However, the management had not taken necessary action against the officers responsible for shortage of stores items and library books.

(d) Management of Working Capital

Bank balances ranging from Rs. 16 million to Rs. 47 million had remained in a Bank current account at the end of each month during the year 2013 without taking action to invest in an interest bearing Bank account.

3.2 Idle and Underutilized Assets

The following observations are made.

(a) Twenty five vehicles belong to the Council had remained idle at the office premises of the Council for a period ranging from 01 year to 05 years without taking action to repair or dispose them.

(b) The Home for the aged constructed at a cost of Rs.746,964 during the year 1999 had remained idle up to now without being utilized for the intended purpose.

3.3 Uneconomic Transaction

A Surcharge of Rs.1,477 had been paid to the Employees Trust Fund due to non-remittance of contributions within the specified period.

3.4 Contract Administration

3.4.1 Solid Waste Management

Construction of Night Soil Treatment Plant

The Council had awarded a contract on 28 January 2012 to construct the Night Soil Treatment Plant at the contract value of Rs.3,202,125. The following observations are made in this connection.

- (a) The entire construction works relating to the Night Soil Treatment Plant had been divided purposely into two parts in order to avoid obtaining approval from the relevant authorities.
- (b) In terms of Clause 5.4.8 of the Government Procurement Guidelines, the Procurement Entity should obtain a performance bond of not less than 5 per cent of the estimated contract value to safeguard the entity in case of breach of the contract by the contractor. However, the Council had awarded this contract without obtaining a performance bond. Therefore, the Council could not take action against the contractor, although the contractor had abandoned construction works in August 2014.
- (c) Mobilization advance of Rs.1000,000 had been paid to the contractor without obtaining a security bond in terms of Clause 5.4.4 of the Government Procurement Guidelines.
- (d) The contractor had abandoned the construction work after obtaining payment for bills amounting to Rs.1,850,150. However, the Council had not taken legal action against the contractor to recover the mobilization advance.

3.4.2 Erection of Elephant Electrical Fence

The Council had awarded a contract on 20 June 2014 at a contract value of Rs.893,060 to erect electrical fence around the solid waste treatment ground to protect it from the wild elephants.

The following observations are made in this connection.

- (a) Even though the following items of works had not been done by the contractor, sums aggregating Rs.197,700 had been paid to the contractor for those incompletd works by certifying that those works had been satisfactorily completed.

Item of Works	No. of Units	Amount Paid
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		Rs.
Solar Array 90 AMP	02	110,000
Lightning diverters	02	22,000
Galvanized earth stake with clamp	03	5,700
Check meters	03	60,000
Total		<u>197,700</u>

- (b) According to the specifications, the contractor should install the solar energizer with capacity of 7.5 KV. However, the contractor had installed the solar energizer with the capacity of 1 KV and made the payment of Rs.160,000 as per specification. It was further observed that the solar energizer had been kept on the roof of the temporarily built hut without placing in a proper manner.

- (c) According to the specifications and drawings, the distance between two wooden pole laid for erection of fence should be 4m. However, the contractor had laid the wooden pole with the distance of 33m. As a result, 03 phase wires installed for electric fence had touched with each other.
- (d) Most of the wooden poles installed by the contractor had been damaged by the wild elephants from the date of installation due to non supply of electricity to the electric fence.

3.4.3 Manufacturing Compost Fertilizer

Garbage collected by the Urban Council, Trincomalee and Pradeshiya Sabha, Town and Gravest at the total weight of 19,350 tons approximately per annum were being dropped at the garbage treatment ground, Kanniya. However, any measure had not been taken by the Council with regard to treatment of garbage up to the date of audit on 17 March 2015.

4. Human Resources Management

The information relating to the approved cadre and actual cadre as at 31 December 2013 is given below.

Category of Employee	Approved Cadre	Actual Cadre	Number of Vacancies	Number of Excess
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Executives Grade	03	01	02	-
Secondary Grade	70	55	15	-
Minor Staff	171	159	12	-
Other (Casual/Temporary)	-	88	-	88
Total	<u>244</u>	<u>303</u>	<u>29</u>	<u>88</u>

The following observations are made in this connection.

- (a) Even though key posts such as Secretary and Accountant of the Council had remained vacant since year 1996 and 2007 respectively, duties of Secretary and Accountant had been performed by the officers appointed on acting basis without taking action to appoint permanent officers to those posts.
- (b) Vacancies existed for the posts of Health Supervisor, Mid Wife, Public Health Inspector, Translator, Technical Officer, Librarian, Revenue Inspector, Market Supervisor, Motor Mechanic, Fire Man, and Driver had not been filled up to the date of audit on 10 March 2015.

5. Systems and Controls

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

- (a) Accounting
- (b) Budgetary Control
- (c) Revenue Administration
- (d) Control over Fixed Assets
- (e) Stock Control
- (f) Human Resources Management
- (g) Contract Administration