

Kinniya Urban Council

Trincomalee District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 07 July 2011 and the financial statements for the preceding year had been presented for audit on 02 July 2010.

1.2 Opinion

So far as appears from my examination and to the best of my information and according to the explanations given to me, I am of opinion that the Kinniya Urban Council had maintained proper accounting records for the year ended 31 December 2010 and 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 the Generally Accepted Accounting Principles give a true and fair view of the state of affairs of the Kinniya Urban Council as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Accounts Payable

Balances of accounts payable for over a period of 1 year as at 31 December 2010 amounted to Rs.2,939,238.

1.3.2 Lack of Evidence for Audit

(a) Un – replied Audit Queries

Replies for 02 audit queries had not been furnished as at 31 December 2010 and the quantifiable value of transactions referred to in those audit queries amounted to Rs. 3,108,822

(b) Non – rendition of Information for Audit

Transactions valued at Rs. 580,233 could not be satisfactorily vouched in audit due to non-availability of information required in audit.

1.3.3 Non- compliance with Laws, Rules, Regulations and Objectives

Instances of non – compliance observed in audit are given below.

<u>Reference to Laws, Rules, Regulations, etc</u>	<u>Particulars</u>
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(a) Urban Council

Ordinance (Chapter 255)

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| i. Section 74 | While constructing buildings within the limits of the council area, limits on either side of the road had not been taken into consideration. |
| ii. Sections 121 and 125 | Inspections had not been carried out and action had not been taken in respect of unsanitary and unauthorized buildings. |

(b) Urban Council Administration Rules

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| i. Section 90 | Action had not been taken on nuisance on thoroughfares. |
| ii. Section 73 | Action had not been taken on special users of thoroughfares. |
| iii. Section 106 | Action had not been taken to clean any public drainage. |

(c) Provincial Council Financial Rules

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| i. No. 110 | A register of losses had not been maintained. |
| ii. No. 133 | An internal audit unit had not been established. |
| iii. No. 845 | A register of telephone calls had not been maintained. |
| iv. No. 880 | Officers who were administratively entrusted with the custody of money, stores and signing cheques and vouchers had not furnished security. |

(d) Inland Revenue Act No. 10 of 2006

Withholding Tax amounting to Rs. 12,829 had not been recovered and remitted to the Commissioner General of Inland Revenue.

2. Financial and Operating Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Urban Council amounted to Rs. 1,289,307 for the year ended 31 December 2010 as against the excess of recurrent expenditure over revenue amounting to Rs. 334,135 of the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

The information with regard to the estimated revenue, actual revenue and arrears of revenue for the year under review and the preceding year, as presented by the Chairman is given below.

<u>Item of Revenue</u>	<u>2010</u>			<u>2009</u>		
	<u>Estimated</u>	<u>Actual</u>	<u>Accumulated Arrears as at 31 December</u>	<u>Estimated</u>	<u>Actual</u>	<u>Accumulated Arrears as at 31 December</u>
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
	<u>000</u>	<u>000</u>	<u>000</u>	<u>000</u>	<u>000</u>	<u>000</u>
(i) Rates and taxes	436	382	2,038	450	164	2,186
(ii) Lease rent	7,050	8,484	-	7,370	2,867	1,873
(iii) Licence fees	1,117	483	3,528	635	556	-
(iv) Other revenues	2,676	747	-	21,190	12,410	-

2.2.2 Court Fines

Action had not been taken to recover courts fines amounting to Rs. 181,262,095 collected and remitted to the Chief Secretary / Provincial Commissioner of Revenue up to 31 December 2010 by the Trincomalee Magistrate's Court under various Ordinances. Court fines receivable by the Council had not been computed and accounted for.

2.3 Expenditure Structure

The budgeted and actual expenditure and the variances of the Sabha for the year under review and the preceding year are given below.

<u>Item of Expenditure</u>	<u>Budgeted</u>	<u>2010</u> <u>Actual</u>	<u>Variance</u>	<u>Budgeted</u>	<u>2009</u> <u>Actual</u>	<u>Variance</u>
	<u>Rs.</u> <u>000</u>	<u>Rs.</u> <u>000</u>	<u>Rs.</u> <u>000</u>	<u>Rs.</u> <u>000</u>	<u>Rs.</u> <u>000</u>	<u>Rs.</u> <u>000</u>
<u>Recurrent Expenditure</u>						
Personal Emoluments	17,910	14,939	2,971	14,651	13,006	1,645
Other	<u>5,096</u>	<u>3,512</u>	<u>1,584</u>	<u>3,547</u>	<u>3,473</u>	<u>74</u>
Sub Total	23,006	18,451	4,555	18,198	16,479	1,719
Capital Expenditure	28,247	14,417	13,830	5,980	2,675	3,305
Grand Total	<u>51,253</u>	<u>32,868</u>	<u>18,385</u>	<u>24,178</u>	<u>19,154</u>	<u>5,024</u>

2.4 Human Resources Management

2.4.1 Approved and Actual Cadre

Particulars of the approved and actual cadre of the Sabha as at 31 December 2010 are given below.

<u>Category of Post</u>	<u>Approved</u>	<u>Actual</u>	<u>Shortage/</u> <u>Excess</u>
Staff Grade	02	-	02
Secondary Grade	25	20	05
Primary Grade	27	13	14
Others (Casual / Temporary)	-	43	(43)
Total	<u>54</u>	<u>76</u>	<u>(22)</u>

2.5 Assets Management

2.5.1 Idle and Underutilized Physical Resources

Idle and underutilized physical resources revealed at audit test checks are given below.

<u>Item</u>	<u>No. of Items</u>	<u>Period</u>	<u>Idle or Underutilized</u>
(a) Photocopy Machine - Koniya	01	} 2 Years	} Idle
a. Fax Machine - Canon	01		
(b) Laser Jet Printer	01		
(c) Cannon Colour Printer	01		
(d) UPS	03		} Underutilized
(e) Plastic Cabinet	02		
(f) Mommoty	46		
(g) Shaval	37		
(h) Printer LQ- 2180	01		

2.5.2 Accounts Receivable

Balances of accounts receivable as at 31 December 2010 amounted to Rs. 6,360,953 while the balances of accounts receivable for over a period of 01 year amounted to Rs.182,841.

2.5.3 Staff Loans Recoverable

Balances of staff loans recoverable as at 31 December 2011 totalled Rs. 800,686 while balances outstanding for over a period of 01 year amounted to Rs. 122,421

2.5.4 Assets not Verified

The value of assets computed on book balances as at 31 December 2010 but not supported by physical verifications / board of survey reports amounted to Rs. 49,913,955.

2.6 Vehicle Utilization

The daily running charts of the vehicle of the Council had not contained the necessary information such as purpose of trip, distance performed, average performance per litre etc, and the monthly performance summary also had not been prepared

2.7 Internal Audit

An adequate internal audit had not been carried out at the Sabha.

3. Systems and Controls

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

- (a) Accounting
- (b) Revenue Administration
- (c) Budgetary Control
- (d) Control over Fixed Assets