

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 to audit on 08 May 2013 and the financial statements for the preceding year had been presented on 19 April 2012. The report of the Auditor General for the year under review was issued to the Chairman of the Sabha on 13 December 2013.

1.2 Opinion

So far as appears from my examination and to the best of 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 2012 and except for the effects on the financial statements of the matters referred to in my report forwarded to the Chairman, 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 2012 and the financial results of its operations and cash flows for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Accounting Policy

The Sabha had utilized fixed assets aggregating Rs.58,338,860 for earning revenue and providing services during the year 2012. But, provision for depreciation of fixed assets had not been made in the accounts. Thus, it was observed that the expenditure incurred on earning the revenue had not been reflected in the financial statements.

1.3.2 Accounting Deficiencies

The following accounting deficiencies were made.

- (a.) Refundable tender deposits of Rs.5,578,066 had not been shown in the financial statements.
- (b.) The bank balance as at end of the year under review had been understated by Rs.27,816.
- (c.) Employees' loans had been understated by Rs.23,770 in the financial statements for the year under review.
- (d.) The arrears of revenue had been overstated by Rs.650,611 due to errors in computations.
- (e.) Provision for audit fees amounting to Rs.135,608 had not been made for the year under review.

1.3.3 Accounts Receivable and Payable

The following observations are made.

- (a.) Balances of sundry debtors amounting to Rs.3,593,661 had remained for over 02 years without action being taken to settle it.
- (b.) Action had not been taken for over 03 years to recover arrears of revenue amounting to Rs.7,378,573.

1.3.4 Lack of Evidence for Audit

The following items of assets could not be satisfactorily vouched in audit due to lack of evidence indicated against each item.

Item	Value	Evidence
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	Rs.	
Land and Buildings	31,403,838	Register of fixed assets, board of survey reports and title deeds.
Vehicles	14,200,006	} Register of fixed assets and board of survey reports
Plant	4,638,775	
Refundable Deposits	2,359,487	} Detailed schedule and age analysis
Miscellaneous Deposits	4,000,904	
Debtors	3,593,661	Confirmation letters and age analysis

1.3.5 Non -Compliance with Laws, Rules and Regulations

Instances of non-compliance with laws, rules and regulations appear below.

Reference to Laws, Rules and Regulations

Non compliance

Financial Rules of the Urban Council

(a.) No.124

Heads, sub heads and expenditure codes had not been indicated in the paid vouchers relating to expenditure amounting to Rs.116,597.

- (b.) No.131 Particulars such as dates, numbers and quantities had not been indicated in 06 paid vouchers amounting to Rs.276,007.
- (c.) No.174 The entries in the register of revenue deposits for the year 2012 with regard to opening balance, receipts and payments were incomplete.
- (d.) No.200 The ledger balances in the accounts had no reference relating to the main ledger.

2. Financial and Operating Review

2.1 Financial Results

According to the financial statements presented, the recurrent expenditure exceeding the revenue of the Council for the year ended 31 December 2012 was Rs.2,512,834 as against the revenue exceeding the recurrent expenditure of the preceding year amounting to Rs.3,255,561.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

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

Item of Revenue -----	Estimated -----	Actual -----	Cumulative Arrears as at 31 December -----
	Rs.'000	Rs.'000	Rs.'000
(i.) Rates and Taxes	1,061	303	758
(ii.) Lease Rent	11,396	7,917	3,479
(iii.) Licence Fees	3,977	3,452	525
(iv.) Other Revenue	3,435	1,053	2,382

2.3 **Idle Assets**

The following assets remained idle for many years.

Item of Assets	Date of Purchase	Value Rs.	Idle Period
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Ploughing Machine	Not mentioned	716,000	Over 03 years
Ploughing Machine – 02 Wheeled	October 1992	34,137	Over 05 years
Tipper	June 2008	5,098,000	01 year
Cement mixing machine	Not mentioned	300,000	02 years

3. **Systems and Controls**

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

- (a.) Budget
- (b.) Accounting
- (c.) Fixed Assets
- (d.) Collection of Revenue