

## **Kinniya Urban Council**

### **Trincomalee District**

#### **1. Financial Statements**

##### **1.1 Presentation of Financial Statements**

The financial statements for year 2015 had been presented to audit on 13 June 2016 and the financial statements for the previous year had been furnished to audit on 05 June 2015. The report of the Auditor General for the year 2015 had been forwarded to the Secretary of the Council on 30 September 2016.

##### **1.2 Qualified Opinion**

In my opinion, except for the effects of the matters shown in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Kinniya Urban Council as at 31 December 2015 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 Accounting Policies**

The accounting policies adopted for preparation of financial statements had not been disclosed in the financial statements.

###### **1.3.2. Accounting Deficiencies**

The following accounting deficiencies were observed.

- (a) A tipper and a JCB machine value at Rs.6,009,602 and Rs.17,649,179 respectively donated to the Council had not been brought to account.
- (b) A circuit bungalow had been constructed at a cost of Rs.1,508,212 under the Puraneguma Project. This had been handed over to the Council and shown under work-in-progress resulting in an understatement of non current assets by a similar amount.
- (c) Arrears of lease rent due from the fish stalls at Sinna Kinniya as at end of the year under review amounted to Rs.1,770,000 as per ledger whereas the amount had been shown as Rs.770,000 in the financial statements resulting in an understatement of the arrears due from the fish stalls by Rs.1,000,000.
- (d) Even though the balances of creditors as per ledger amounted to Rs.1,541,751 as at 31 December 2015, it had been shown in the balance sheet as debit balance of Rs.1,470,143. As a result, the balances of creditors had been understated by Rs.3,011,894.

- (e) The deposits of contractors as at 31 December 2015 as per ledger amounted to Rs.7,117,166 and it was Rs.6,757,166 as per financial statements resulting in an understatement of the deposits of contractors by Rs.360,000.

### **1.3.3 Non -compliance with Laws, Rules and Regulations**

The following instances of non-compliance with laws, rules and regulations were observed in audit.

	<b><u>Reference to Laws, Rules and Regulations</u></b>	<b><u>Non-compliance</u></b>
(a)	Section 177(2) of Chapter 225 of Urban Councils Ordinance .	The Council had not taken action up to 30 August 2016 to publish the summary of financial statements of the year under review in the Government Gazette for information of the public.
(b)	Financial Regulations No.880 of the Democratic Socialist Republic of Sri Lanka	Security deposits had not been obtained from 5 officers who had been administratively entrusted with the custody of cash and stores.
(c)	Circular of the Ministry of Finance No.04/2015	Insurance for government vehicles should not be obtained through the Insurance Agents. But, four vehicles of the Council had been insured through Insurance Agents.

### **1.3.4 Transactions without Authority**

Festival advance could be paid once in 12 months only as per Section 11.6 of Chapter XXIV of the Establishments Code. But, festival advance had been paid to an employee of the Council on 2 instances.

## **2. Financial Review**

### **2.1 Financial Results**

According to the financial statements presented, the activities of the Urban Council for the year ended 31 December 2015 had resulted in an excess of revenue over recurrent expenditure amounting to Rs.925,243 as against the excess of recurrent expenditure over revenue amounting to Rs.2,813,401 of the preceding year.

## 2.2 Revenue Administration

### 2.2.1 Performance in Collection of Revenue

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

<u>Item of Revenue</u>	<u>Estimated Revenue</u>	<u>Amount Received</u>	<u>Accumulated Arrears</u> 31.12.2015
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	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>
Rates and taxes	3,927	1,455	1,742
Lease rent	10,944	3,873	11,340

### 2.2.2 Revenue Management

The following matters were observed.

- (a) Arrears of Lease aggregating Rs.10,050,307 comprised of Rs.2,947,185 from beef stalls and Rs.7,103,122 from fish market for the period from the year 2007 to year 2015 had not been recovered up to the end of the year under review.
- (b) The Council had not taken action up to the end of the year under review to recover lease amounting to Rs.349,722 from the weekly fair and lease amounting to Rs.17,666 from the poultry shop which were remained arrears for the period from 2009 to 2015.

### 2.2.3 Rates and Taxes

Rates and taxes aggregating Rs.1,741,969 remained arrears from 2006 to 2015 on the lands houses and buildings within the area of authority of the Urban Council had not been recovered in terms of Section 160 of the Urban Councils Ordinance (Chapter 255).

### 2.2.4 Fees from Telecommunication Towers

Even though there were 04 telecommunication towers which were erected within the area of authority of the Council by the privates utilization, fees had not been recovered from those towers for the period from 2013 to 2015.

### **3 Operating Review**

#### **3.1 Management Inefficiencies**

The following matters were observed.

- (a) Six Vehicles donated to the Council had not been used for more than 11 years. However, action had not been taken to transfer the ownership of those vehicles in the name of the Council.
- (b) Time recording machines had not been installed to record the attendance of the employees in terms of the Circular No.09/2009 dated 16 April 2009 of Ministry of Public Administration.
- (c) A three wheeler used by the Council had performed 868 kilometres during the year under review without entering in the running charts.
- (d) Action had not been taken to construct a vehicle park to Sixteen vehicles used by the Council. As a result, the safety of vehicles was at a risk and this may lead to damages being caused to vehicles.
- (e) The internet facilities installed during the year under review by spending Rs.48,025 had malfunctioned and action had not been taken by the Council to repair it up to now.
- (f) Twelve out of 26 sewing machines provided to the Urban Council under the funding of by the Canadian International Development Agency in 2008 had become inoperative and action had not been taken to repair and use them.

#### **3.2 Uneconomic Transactions**

The following matters were observed.

- (a) Contributions to the Public Service Provident Fund should be remitted for the employees appointed on casual and temporary basis in terms of Section 4.1 of the Circular No.02/2011 dated 24 February 2011 of the Department of Pensions. However, contrary to this, contributions to the Employees' Provident Fund and Employees' Trust Fund had been made for the employees 'of the Council instead of making contributions to the Public Service Provident Fund and contribution to the Employees' Trust Fund from January 2012 to April 2015 and contribution to the Employees' Provident Fund from March 2014 to February 2015 had not been remitted on due date and as such a sum of Rs.482,710 had been paid as penalty for those Funds.
- (b) Water bills of the public market, library and the fish stalls had not been promptly settled resulting in disconnection of water supply. A sum of Rs.59,946 had been paid as penalty from the funds of the Council for reconnection.

### 3.3 Idle Assets

The following matters were observed.

- (a) Fifty one compost containers purchased at a cost of Rs.219,254 in 2012 under the Provincial Specific Development Grant and out of them. 35 containers valued at Rs.150,465 remained at the stores for 4 years without supplying for the intended purposes.
- (b) Three motor vehicles and a tipper valued at Rs.5,098,000 of the Council remained idle for over 4 years.

### 4 Human Resources Management

The particulars of approved and actual cadre as at 31 December 2015 appear below.

<b>Category of Staff</b>	<b>Approved Cadre</b>	<b>Actual Cadre</b>	<b>Excesses</b>	<b>Vacancies</b>
Executives	02	-	-	02
Subordinates	40	30	-	10
Minor employees	67	73	06	-
Casual employees	-	14	14	-
<b>Total</b>	<b>109</b>	<b>117</b>	<b>20</b>	<b>12</b>

Action had not been taken to fill the vacancies for the posts of Secretary and the Accountant of the Council which remained vacant for the last 6 years.

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**Systems and Controls**

Special attention is required with regard to the matters indicated against each item of control.

<b>Control</b> -----	<b>Matters requiring special Attention</b> -----
(a) Accounting	(i) Ledgers had not been updated and maintained. (ii) Assets had not been classified as per the nature of the expenditure.
(b) Control over Fixed Assets	A register of fixed assets had not been maintained.
(c) Management of Revenue Collection	Action had not been taken to collect arrears of revenue.