

Trincomalee 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 2015 had been presented for audit on 05 September 2016 after a delay of 05 months. The financial statements for the preceding year had been presented for audit on 01 October 2015. The report of the Auditor General for the year 2015 was issued to the Secretary of the Council on 08 December 2016.

1.2 Qualified Opinion  
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In my opinion, except for the effects of the matters described in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Urban Council Trincomalee 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  
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1.3.1 Accounting Policies  
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Accounting policies adopted for preparation of accounts had not been disclosed in the financial statements.

### 1.3.2 Accounting Deficiencies

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The following accounting deficiencies were observed.

- (a) The value of 10 vehicles donated by the Ministry of Local Government and Provincial Councils had not been brought to accounts even though the ownership of those vehicles had been transferred to the Council.
- (b) The stock of drugs to the value of Rs. 294,191 remained at the stores of the Ayurvedic Centre of the Urban Council as at 31 December 2015 had not been brought to accounts.
- (c) According to the records maintained by the Council, income from water charges for the year under review amounted to Rs. 1,084,232. However, it had been shown in the income and expenditure statement as Rs. 1,056,045. As a result, income from water charges had been understated by Rs. 28,187.
- (d) According to the records maintained by the Council, income from shop rent for the year under review amounted to Rs. 20,039,978. However, it had been shown in the income and expenditure statement as Rs. 16,620,905. As a result, income from shop rent had been understated by Rs. 3,419,073.
- (e) Even though a sum of Rs. 2,705,000 had been spent by the Council during the year under review to purchase an incinerator, a sum of Rs. 1,352,500 had only been shown in the financial statement under fixed assets as the cost of the incinerator.
- (f) Books valued at Rs.9,900 donated to the Council during the year under review had not been brought to the accounts.
- (g) According to the staff loan register, the balance of the outstanding loans as at the end of the year under review amounted to Rs.19,408,227. However, it had been brought to the financial statements as Rs.18,678,111. Therefore, the balance of the staff loans had been overstated in the financial statements by Rs.730,116.
- (h) Buildings such as auditorium and fuel station constructed by the Council at the total cost of Rs. 16,887,724 had not been shown in the financial statement under non-current assets.
- (i) Buildings such as market complex, clinic center and fire brigade had not been valued and brought to the account.

(j) According to the records maintained by the Council, income from assessment tax for the year under review amounted to Rs. 38,532,710. However, it had been shown in the income and expenditure account as Rs. 30,992,531. As a result, income from assessment tax had been understated by Rs.7,540,179.

(k) According to the information available for audit, the value of stocks in hand as at 31 December 2015 amounted to Rs. 4,630,945. However, it had been shown in the balance sheet as Rs. 2,946,536. Therefore, the balance of stocks in hand had been understated by Rs. 1,684,409.

### 1.3.3 Suspense Account

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The credit balance of the suspense account amounting to Rs.11,863,654 had been shown in the financial statements without taking action to clear it.

### 1.3.4 Accounts Receivables and Payables

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The following observations are made.

(a) Sums aggregating Rs. 6,161,644 had remained outstanding since year 2003. However, action had not been taken to recover or write it off from the books of accounts.

(b) Unidentified credit balances aggregating Rs.4,557,338 had been shown in the financial statements continuously since year 2008 without taking action to identify and settle them.

### 1.3.5 Lack of Evidences for Audit

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The following items of accounts had been shown continuously in the financial statements for several years. However, we are unable to verify those items of accounts due to non-submission of any documentary evidence to prove existence of those items.

Items	Amount
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	Rs.
Hand over electrical Board	5,010,261
Revenue receipts in advance	4,545,638
Deposit against revenue	4,523,682
Pre-payments	1,041,246
Unpaid Salary	921,907
Library Deposit	728,707
Electricity Deposit	340,145
Works pending recovery	108,005

#### 1.3.6 Non – compliance with Laws, Rules and Regulations

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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 Rules of the Eastern Province	
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(i) PFR 433	Monthly performance summaries relating to 38 vehicles belonging to the Council had not been maintained properly.
(b) Circular No. 41/90 dated 10 October 1990 of the Secretary of the Ministry of Public Administration Provincial Councils and Home Affairs.	Even though consumption of fuel of the vehicles should be tested once in 06 months, it had not been done accordingly in respect of 38 vehicles belonging to the Council.

## 2. Financial Review

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### 2.1 Financial Results

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According to the financial statements presented, the excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2015 amounted to Rs.29,061,043 as compared with the excess of revenue over recurrent expenditure amounting to Rs.34,451,959 for the preceding year.

### 2.2 Management of Working Capital

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Bank balances ranging from Rs. 29 million to Rs. 51 million had remained in a Bank current account at the end of each month during the year under review without taking action to invest in an interest bearing Bank account.

### 2.3 Revenue Administration

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#### 2.3.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

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The information on the estimated revenue, the actual revenue and the arrears of revenue for the year under review are given below.

Item of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December 2015
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	Rs. '000'	Rs. '000'	Rs. '000'
(i) Rates and Taxes	40,070	36,184	86,926
(ii) Lease Rent	19,220	19,847	18,781
(iii) License Fees	5,423	4,532	-
(iv) Other Revenues	28,538	25,195	324

### 2.3.2 Arrears of Rent

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The following observations are made in this connection.

- (a) Thirty five officers who occupied official quarters belonging to the Council had not paid rentals for several years and a sum of Rs.424,593 had remained arrears as at the end of the year under review. However, proper action had not been taken to recover those arrears of rent.
- (b) The Council had rented out 274 stalls of the vegetable market and fish market. However, rentals aggregating Rs. 14,899,765 had remained arrears for more than 07 years without taking action to recover them.

### 3. Operational Review

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#### 3.1 Management Inefficiencies

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The following observations are made.

- (a) Six quarters had been rented out by the Council for private parties since 2005 without entering written agreement. However, the Council had not taken action to recover the arrears of rent.
- (b) The Council had not taken action to transfer the ownership of fifteen vehicles which were donated by the Commissioner of Local Government and other three Ministries during the period from 1990 to 2011.
- (c) A fully furnished office quarters consisting of five rooms located at Kulakottam had remained idle for more than 05 years without taking action to repair and reuse it.
- (d) A washroom constructed at the Bus Terminal Trincomalee had been rented out to a private party at the monthly rentals of Rs. 9,639 for one year period from 1 January 2016. However, it was observed at the audit inspection carried out on 11 October 2016 that passengers were unable to use the washroom due to non- maintenance by the tenant.
- (e) The Council had spent a sum of Rs. 2,705,000 to supply and install an incinerator for the purpose of burning medical wastage. However, the incinerator had not been utilized for the intended purpose from the date of installment on 10 March 2015 due to non-supply of electricity.

### 3.1.1 Operational Inefficiency

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The following observations are made.

- (a) Out of 299 shops belonging to the Council, 90 shops had remained idle since year 2011. However, the Council had not taken action to rent out those shops up to now. As a result, the Council had lost an annual income of Rs. 2,000,000 approximately.
- (b) The Council had not recovered even a single amount of rentals from 26 shops which were rented out during the year under review.
- (c) According to Section 164(2) of the Urban Council Ordinance, levies should be collected from hotels functioning within the area of authority of the Council based on the total income of those hotels. However, Council had not taken action to recover those revenue from four hotels for the year 2015. As a result the Council had been lost revenue amounting Rs. 530,519 approximately.

### 3.2 Contract Administration

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#### 3.2.1 Construction of Night Soil Treatment Plant

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The Council had awarded a contract on 28 January 2012 to construct the Night Soil Treatment Plant at the contract value of Rs.6,401,355. The following observations are made in this connection.

- (a) The contractor had abandoned the construction work after obtaining payment for bills amounting to Rs.4,485,156. However, the Council had not taken action to black list the contractor.
- (b) Even though the contractor had abandoned the work half-way as mentioned above, the Provincial Engineer of the Department of Local Government had certified by his letter dated 20 November 2014 that the entire construction works had been completed satisfactorily. Accordingly, the Council had released retention money of Rs. 304,491 to the contractor.
- (c) The entire amount spent relating this construction work had become a fruitless expenditure due to awarding contract without carrying out proper feasibility studies.

### 3.2.2 Erection of Electrical Fence

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

The following observations are made in this connection.

- (a) According to the specifications and drawings, the distance between two wooden poles laid for erection of fence should be 4m. However, the contractor had laid the wooden poles with the distance of 33m. As a result, 03 phase wires installed for electric fence had touched with each other.
  
- (b) 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.
  
- (c) It was observed at the field visit carried out on 15 October 2015 that the entire items used for erection of electrical fence such as wooden poles, wires etc had been removed by unknown person, Therefore, the total amount of Rs. 618,858 spent for these works had become a fruitless expenditure.

### 3.3 Environmental Issues

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The entity which is operating the business such as fuel filling stations, cement works, carpentry works, Garage, Rice mills without obtaining environmental protection license in the relevant authorities in terms of National Environmental Act No. 47 of 1980. (Amendment Act no. 55 of 1980 and Act No. 53 of 2000). However, the Council had issued trade license for this entity without considering environmental protection license.



#### 4. Good governance and Accountability

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##### 4.1 Presentation of Financial Statements

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The financial statements for the year under review had been presented for audit on 05 September 2016 after a delay of 05 months. The financial statements for the preceding year had been presented for audit on 01 October 2015.

##### 4.2 Budgetary Control

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Variations ranging from 16 per cent to 78 per cent were observed between the estimated 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.

##### 4.3 Assets Management

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###### 4.3.1 Idle and Underutilized Assets

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Nineteen vehicles belonging to the Council had remained idle at the office premises for period ranging from 01 year to 07 years without taking action to repair or to sell them by auction.

###### 4.3.2 Implementation of Recommendations made by the Board of Survey Committee

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The following observations are made.

- (a) The Board of Survey had recommended to sell 222 items of goods by auction and to dispose 203 items of goods and library books and to repair 430 items of goods and library books. However, those recommendations had not been implemented up to 10 October 2016.
- (b) The Board of Survey carried out during the year under review had revealed a shortage of 1652 library books. However, the management had not taken necessary action up to now against the officer who is responsible for shortage of library books.

#### 4.4 Human Resources Management

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The information relating to the approved cadre and actual cadre as at 31 December 2015 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	--
Tertiary	02	02	--	--
Secondary Grade	94	50	44	-
Minor Staff	186	282	--	96
Other (Casual/Temporary)	-	66	--	66
Total	<u>285</u>	<u>401</u>	<u>46</u>	<u>162</u>

The following observations are made in this connection.

- (a) The post of Accountant of the Council had remained vacant for more than 10 years. However, action had not been taken to appoint permanent officer to this post.
- (b) Vacancies existed for the posts of Health Supervisor, Mid Wife, Public Health Inspector, Translator, Technical Officer, Market Supervisor, Motor Man and Fire Man had not been filled up to the date of audit on 10 October 2015.

#### 5. Systems and Controls

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

System	Observations
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(a) Accounting	Improper maintenance of ledger and not recording non-current assets and revenue.
(b) Budgetary Control	Preparation of budget estimate without forecasting the revenue and expenditure.
(c) Revenue Administration	Long delays in collection of arrears of revenue.

(d) Human Resources Management

Long delays in filling vacancies for key posts.

(e) Contract Administration

Not taking action against the contractors who abandoned the construction works.