

**Kinniya Urban Council**

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**Trincomalee District**  
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**1. Financial Statements**

**1.1 Presentation of Financial Statements**

Financial Statements for the year 2018 had been submitted to audit on 19 July 2019 and the summarized Auditor General's Report, Detail Management Report relating to the year under review were sent to the Chairman on 11 September 2019 and 06 November 2019 respectively.

**1.2 Adverse Opinion**

In my opinion, except for the effect of the matters described in paragraph of basis for adverse opinion, financial statements give a true and fair view of the financial position of the Kinniya Urban Council as at 31 December 2018 and its financial performance and the cash flow for the year then ended in accordance with Generally Accepted Accounting Principles.

**1.3 Basis for Adverse Opinion**

**1.3.1 Accounting Deficiencies**

| <b>Accounting Deficiencies</b>   | <b>Recommendations</b>  | <b>Comments of the Accounting Officer</b>   |
|--|---|---|
| (a) Carrying forwarded amount of the employee's loan had been overstated by Rs. 29,233 as at 01 January 2018.  | Action should be taken to confirm the accuracy of balances, which is currying forward to Financial Statements of next year. | Erroneous opening balance of employee's loan had been corrected.  |
| (b) The value of building which was constructed during the year had been overstated by Rs. 215,625. the amount shown in the financial statement was Rs. 4,169,967 but the actual amount is Rs.3,954,342. | Action should be taken to confirm the accuracy of balance.  | Erroneous balance will be corrected in the Financial Statements.  |
| (c) Receivable balance of stamp duty for the 2016 was Rs.2,105,588 and it was collected during the year under review. However, total amount was taken into the   | Action should be taken to prepare the financial statement free from the material misstatement.                              | The accounting system was followed for stamp duty was not accrual but cash based. and it will be corrected in future. |

- financial statement as income.
- (d) Tender deposit amount had been overstated by Rs. 7,371,118 due to erroneous computations. Action should be taken to adjust the overstated amount. Action will be taken for correct the amount.
- (e) A sum of Rs. 733,000 of render deposit had be return to the bidder. however it have been taken to account due to this deposit amount had been overstated by Rs. 733,000 Action should be taken to adjust the overstated amount. Action will be taken for correct the amount.
- (f) Closing stocks had been overstated by Rs. 123, 603 due to different between financial statement and stock register amounting Rs.563,758 and 440,155 respectively. Action should be taken to adjust the stock value. Action will be taken to adjust the stock value based on register.
- (g) the receivable amount from Commisioner of Logal Government was Rs.3,597,676 for paid salary and payment for the members of Sabha was Rs.3,387,676 and Rs. 210,000 respectively. However, the aggregating amount had not been taken to the financial statement as receivable. Action should be taken to adjust the accounting deficiency. The amount did not received from Commisioner of Logal Government. and it was not taken to the financial statement.
- (h) Payable amount of Rs. 1,278,411 had not been taken to the account. Due to this the creditor balance had been understated by Rs. 1,278,411. Action should be taken to adjust the creditor balance. The accrual accounting system was not followed because this not considered as financial operation of the Sabha.
- (i) A sum of Rs. 7,395,666 of court fines for the period of June to December 2017 had been received during the year under review. However, it had not taken to the account due to this the receivable account of fine had been overstated by same amount. Action should be taken to adjust the receivable account of fines. The accrual accounting system was not followed in past.
- (j) 31 December 2017 balance of Rs. 1,205,344 on deposit of NELSIP retention had been omitted from the financial statement and due to unavailability of evidence, the balance could not confirm by the audit. Action should be taken to solve this issue. the balance had confirmed but it could not settle to the supplier.

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|-----|---|--|--|
| (k) | Net expenditure over income for the year 2018 had been overstated by Rs. 6,402,743 due to erroneous.          | Action should be taken to adjust the balance | The error occurred in past and it will be corrected in future.                         |
| (l) | Accumulated Funds as at 31 December 2018 had been understated by Rs. 6,402,743 due to erroneous computations. | Action should be taken to adjust the balance | According to the account of income and expenditure, the balance was carried forwarded. |

### 1.3.2 Suspends Account

| -----<br>Details of Account Balances<br>-----  | -----<br>Recommendation<br>-----   | -----<br>Comments of the Accounting Officer<br>-----  |
|--|--|---|
| Credit balances of suspend account was Rs. 29,358,517 it had been taken to statement of financial position as 31 December 2018 without correction of erroneous balances and transaction. | Action should be taken to identifying the reason for balances of suspend account and correct the erroneous balances and transaction. | Balances of suspend account was reduced to Rs. 24,611,595 and further action will be taken to settle the account. |

### 1.3.3 Lack of Evidence for Audit

| -----<br>Details of Account Balances<br>-----   | -----<br>Recommendation<br>-----                         | -----<br>Comments of the Accounting Officer<br>-----                    |
|---|--|---|
| Evidence had not been submitted to the audit of the 08 item of account and the value of those items was Rs. 34,662,926. | Action should be taken to submit evidences to the audit. | Schedules for account had been submitted with the financial statements. |

## 1.4 Non-Compliances

### Non-compliances with Laws, Rules, Regulations and Management Decisions

| <b>Reference to<br/>Laws, Rules,<br/>Regulations and<br/>Management<br/>Decisions</b> | <b>Non-Compliances</b>   | <b>Recommendation</b>  | <b>Comments of the<br/>Accounting<br/>Officer</b> |
|---|--|--|---|
| (a) Section 177 (2) of chapter 255 of the Urban Council Ordinance.                    | The action had not been taken to publish the financial statements in brief through the Gazettes notice of the Government until 21 August 2019. | The action should be taken to publish the financial statements in brief through the Gazettes notice of the Government. | Action will be taken in future.                   |

## 2. Financial Review

### 2.1 Financial Result

According to the financial statements presented, the revenue over recurrent expenditure for the year ended 31 December 2018 amounted to Rs. 10,171,996 when compared with the revenue over recurrent expenditure of the preceding year amounted to Rs. 14,948,827.

### 2.2 Revenue Administration

#### 2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Arrears Revenue

Information of estimated revenue, billed revenue, collected revenue and arrears of revenue relating to the year under review and previous year are shown below.

| Revenue Item        | 2018              |                |                   |                           | 2017              |                |                   |                           |
|---------------------|-------------------|----------------|-------------------|---------------------------|-------------------|----------------|-------------------|---------------------------|
|                     | Estimated Revenue | Billed Revenue | Recovered Revenue | Arrears as at 31 December | Estimated Revenue | Billed Revenue | Recovered Revenue | Arrears as at 31 December |
|                     | Rs.000            | Rs.000         | Rs.000            | Rs.000                    | Rs.000            | Rs.000         | Rs.000            | Rs.000                    |
| (i) Rates and Taxes | 2,000             | 752            | 83                | 2,299                     | 3,626             | 1,178          | 411               | 1,579                     |
| (ii) Rental         | 11,500            | 8,718          | 9,536             | 11,529                    | 10,706            | 12,610         | 6,812             | 9,501                     |

The arrears of Rates and Taxes for the year under review had increased by Rs. 720,000 over the previous year. This indicates the slow form of recovering Rates and Taxes.

### 2.2.2 Stamp Duty

| Audit Observation  | Recommendation                                    | Comments of the Accounting Officer |
|--|---|------------------------------------|
| Action had not been taken to collect the stamp duty from Register General for year 2018. | Action should be taken to collect the stamp duty. | The action was taken in future.    |

## 3. Operational Review

### 3.1 Performance

Following matters were revealed relating to the functions which should be performed by the Sabha to regulate and administrate public health, public utility services and public roads and luxury, convenience and welfare of the people under section 4 of the Urban Council Ordinance.

#### (a) Environmental Issues

| Audit Observation  | Recommendation  | Comments of the Accounting Officer   |
|--|---|--|
| the garbage had been disposing in to the river and pools which were location in the administrative are of the urban council due to this particular river and pools are polluting. However, any action had not been taken by Urban Council. | Action should be taken to effective solid waste management. | The action had been taken based your observation and disposal of garbage move to suitable place. |

**(c) Sustainable Development Goals**  
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| <b>Audit Observation</b><br>-----   | <b>Recommendation</b><br>-----   | <b>Comments of the Accounting Officer</b><br>-----   |
|---|--|--|
| according to the Sustainable Development Goals act No 19 of 2017, Sabha did not identified the objective of Sustainable Development in their operation and also the indicators and agenda for achivement of the Sustainable Development Goals by 2030 had not been developed. | Action should be taken to understanding and achievement of the objective of Sustainable Development. | According to the COPA instruction, action had been taken to identify the Objective of Sustainable Development. |

**3.2 Management Inefficiencies**  
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| <b>Audit Observations</b><br>-----   | <b>Recommendations</b><br>-----                                     | <b>Comments of the Accounting Officer</b><br>-----  |
|--|---|---|
| (a) The vehicle No PP-LL 6921 had been used by Urban Council and that vehicle had met an accident on 14 December 2017. However, according to the FR 104, the action had not been taken as at date of audit.  | Action should be taken according to the FR.                         | The action will be taken to auction procedure for the vehicle and in future, the loss will collected from right person.   |
| (b) Property Tax assessment was carried out for 05 zone out of 07 in 2012 and balance 02 zone could not be done as the date of audit. Further in all 07 zone, property tax collection is based on the 1999 tax assessment data.  | Action should be taken to assessment and collection of property tax | This is due to delay of the of tax collection department and internal control system will develop for this problem after the next audit and management committee meeting. |
| (c) Under the funding of the Canadian International Development Agency, the Urban Council was received 26 sewing machine in 2008. However there are 22 out of sewing machine were not usable condition due the impairment. However, the action had not been taken to repair. | Action should be taken to use the asset in proper manner.           | Action will be taken to rent out and use the machines.  |

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|-----|---|---|--|
| (d) | According to the Section 4 of the circular No 03/2017 of Secretary to the Ministry of Public Administrations, all Government Institutions which have failed to implement the above system so far should take action to keep records to confirm the arrival and departure of officers. However, so far the system was not implemented. | Action should be taken to keep records to confirm the arrival and departure of officers to and from the office by using finger scanners, in terms of the provisions of the Circulars. | Due to acting appointment the confirmation of finger does not recorded and the action will be taken in future. |
| (f) | According to the Section 5 of the circular No 11//2015 of Secretary to the Ministry of Public Administrations, office can be take only 30 minutes for lunch break. However it was observed that, 30 minutes to 2.30 hours had been taken by offices for lunch and no action have been by the Urban Council.                           | Action should be taken to base on the circular.   | Action will be taken base on the instruction by the audit in future.   |

### 3.3 Human Resource Management

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| Audit Observation  | Recommendation                            | Comments of the Accounting Officer                          |
|--|---|---|
| -----  | -----                                     | -----   |
| More than 08 year, the cadre for accountant is available but action had not been taken so far. | Action should be taken to fill the cadre. | We already informed to the Commisioner of Logal Government. |

### 3.4 Assets Management

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#### 3.4.1. Not Transfer Register Ownership of Assets.

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| Audit Observation  | Recommendation  | Comments of the Accounting Officer |
|--|---|------------------------------------|
| -----  | -----   | -----                              |
| There are 17 vehicles using more than 12 years by Urban Council and it were given by other Ministry, Department and some other organization more than 12 years. However, the register ownership of those | Action should be taken to transfer register ownership of those vehicles to Urban Council. | The action will be taken.          |

vehicles had not been transfer to Urban Council.

**3.4.2 Idle Assets.**

| -----<br><b>Audit Observations</b><br>-----   | -----<br><b>Recommendations</b><br>-----              | -----<br><b>Comments of the Accounting Officer</b><br>-----                 |
|---|---|---|
| (b) Gully Bowser, 02 four wheel tractor and one two wheel tractor had been idle more than five years. | Action should be taken to utilization of idle assets. | Action will be taken to disposal of assets based on board of server report. |

**3.5 Procurement**

**3.5.1 Procurement Plan**

| -----<br><b>Audit Observations</b><br>-----   | -----<br><b>Recommendations</b><br>-----                                       | -----<br><b>Comments of the Accounting Officer</b><br>----- |
|---|--|---|
| (a) According to the circular No 128/2006 of Department of Budget, the procurement plan had not been prepared by Sabha. | Action should be taken to prepare procurement plan based of the said circular. | In future it will be corrected                              |

**4. Accountability and Good Governance**

**4.1 Internal Audit**

| -----<br><b>Audit Observations</b><br>-----  | -----<br><b>Recommendations</b><br>-----  | -----<br><b>Comments of the Accounting Officer</b><br>-----  |
|--|---|--|
| (a) An internal audit division had not been established for the year under review by the Urban Council in terms of the section 08 of circular No. 03/2005 of Local Government. | Action should be taken to established internal audit division in the Urban Council. | An internal audit division will be established and an officer was assign to internal audit works and duties. |