

Trincomalee Urban Council

Trincomalee District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year 2019 had been submitted to audit on 18 May 2020 and the summarized Auditor General's Report relating to that was sent to the Chairman on 24 July 2020 and the detailed management report was sent on 12 August 2020.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph of Basis for Qualified Opinion, financial statements give a true and fair view of the financial position of the Trincomalee Urban Council as at 31 December 2019 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Basis for Qualified Opinion

(a) Accounting Deficiencies

Following observations are made.

	Audit Observation	Recommendation	Comments of the Accounting Officer
(i)	Although the stock at the end of the year under review, including stationery, water connection material, work material, street lighting fixtures and vehicle fuel in the Municipal Council's General Stock was Rs.14,481,643, the stock was stated in the financial statements as Rs.2,395,798.	Action should be taken to show the correct stock in the accounts.	It was observed that the stock value in the financial statements had incorrectly included Rs. 1.5 million in vehicle repair expenses. Therefore, with the relevant service value, the warehouse stock had increased. There is a stock counting procedure only for goods procurement payments. Steps have been taken to rectify the relevant deficiencies.
(ii)	The stock value of Rs.223,098 of medicines held at the Ayurvedic Center, had not been brought into the financial statements.	Action should be taken to include the stock of Ayurveda in the accounts.	Relevant Ayurvedic medicines will be added to the stock in the future.
(iii)	Until the end of the year under review, the value of 52 vehicles in the Council	The value of the vehicles should be	The majority of the vehicles were donated to the Council and the

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| had not been assessed and accounted for. | calculated and disclosed in the financial statements. | and value of those vehicles was not mentioned by the donor. However, I acknowledge that this is an accounting error and will inform you that this will be rectified by the end of 2020. |
| (iv) According to the Employee Loan Register, the outstanding loan balance as at the end of the year under review was Rs. 21,316,765 but it was stated as Rs. 20,578,220 in the financial statements. | Action should be taken to disclose the correct loan in the financial statements. | Relevant amounts of Rs. 729,545 have been continuously shown in the final accounts since the year 2010. preliminary work is underway to obtain the appropriate approval to write-off or recover the relevant value, after presenting the list of employee loan individual balances equivalent with the above value, to the Council due to there were borrowers who were transferred, retired or deceased officers . |
| (v) The interest amount of Rs.1,196,248 received on fixed deposits during the year under review had not been credited to the income and expenditure account of. | Action must be taken to bring the revenue into the revenue and expenditure account. | Accepted. In the future, interest earned on fixed deposits will be taken into income and expenses account. |
| (vi) The value of 39 buildings and 05 lands owned by the council had not been re-valued and accounted for. | The value should be assessed and the correct value of the land and buildings should be disclosed in the financial statements. | Accepted. Requests have been made from the officers of the Valuation Department to carry out an asset valuation regarding the revaluation of the relevant assets. However, at present two officers are temporarily attached to carry out a temporary assessment and the assessment functions are activated. |
| (vii) Although the outstanding stamp duty of Rs.18,662,906 was calculated till the end of the year under review and presented in the accounts, according to the books received from the Urban Council, the arrears of stamp duty calculated up to the end of the year under review were Rs. 26,434,310. | Action should be taken to disclose the correct value in financial statements. | Rs.26,434,310 was mentioned in the list of arrears for the year 2018 sent to us by the Department of the Registrar General of Lands and when inspecting by the Provincial Income Tax Department, certain values are removed based on |

Accordingly, it was understated by Rs.7,771,404.

various activities. Therefore, the method of submission to the final accounts is followed only after the net amount of the stamp duty is confirmed to the Provincial Treasury.

(b) Accounts Receivables

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
Although Rs.5,010,261 CEB transfers and Rs.108,005 arrears due on work had been submitted to the accounts for more than 10 consecutive years, there was no relevant documentation, books or corroborating evidence.	Appropriate action should be taken.	The Local Government Commissioner has appointed a committee with expertise in the field of Local Government Finance to identify arrears CEB transfers of Rs.5,010,261, arrears of Rs.108,005 due on works, and various arrears of Rs.2,132 which has been presented in the accounts for more than 10 consecutive years and the Council has decided to take action based on its report.

(c) Lack of Evidences for Audit

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
Due to non-submission of required information, 04 account subjects amounting to Rs. 149,885,647 could not be examined satisfactorily during the audit.	Relevant evidence should be submitted for the accounting subjects mentioned in the financial statements.	In the fixed assets register, only the lands and buildings owned by our Council are included. Land Title Confirmation Documents regarding the handing over of other lands and buildings to the Pradeshiya Sabha had been sent to the Divisional Secretariat but the title deeds of these lands and buildings had not been received.

1.4 Non-Compliance

----- Non-Compliances with Laws, Rules, Regulations and Management decisions -----

Reference to Laws, Rules, Regulations and Management decisions	Non-Compliance	Recommendation	Comments of the Accounting Officer
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(a) Section 177 (2) of the Urban Council Ordinance (Appendix 255)	Summaries of the financial statements should be published in the Gazette on or before March 1 of each financial year. However, last year's financial statements were not published by the Council.	Summaries of the financial statements should be published in the Gazette on or before March 1 of each financial year.	In the future, the above measures will be followed.
(b) Sections 6.2 and 6.3 of Chapter XIX of the Establishments Code of the Democratic Socialist Republic of Sri Lanka	05 Government quarters were provided for the use of persons other than Public Officers during the year under review.	The quarters of the council should be repaired and handed over to the relevant officers.	Municipal workers' quarters have been outsourced. These houses are strong buildings and do not have essential facilities (water, electricity, toilet facilities). However, letters have been sent to the occupants of these houses asking them to return and vacate. The Council had decided on 16.06.2020 to demolish these houses and construct new apartment complexes. I also mention that the government houses on New Anthony Road have been rented out to the Provincial Council by the Governor's Memorandum.

(c) **Financial Regulations of
the Democratic Socialist
Republic of Sri Lanka**

(i) Financial
Regulations 571

• No action had been taken to pay and settle or transfer to the income in accordance with the financial regulations regarding Bid, contract deposits, library deposits, miscellaneous and water connection deposits amounting to Rs.12,062,083 which were more than 3 to 6 years.

Activities to be done in accordance with the lease agreement.

The money deposited by the lessees is largely in the public deposit account. Furthermore, the shops continue to lease and operate on their own, so we continue to have the money as a deposit. Therefore, they cannot be repaid / settled.

(ii) Financial Regulations
371(3)

No action had been taken to settle or recover the advance of Rs. 608,584 paid to the officers of the Council and private parties.

Advances should be settled in the correct manner.

With regard to the advance amount of Rs.608,584, action will be taken to settle expeditiously.

(d) **Public Administration
Circulars**

Section 02 (iv) of
Circular No. 9/2009 dated
16 April 2009

Although it has been stated that overtime and holiday allowances should be verified by fingerprint machines, the allowances of Rs. 236,162 given to three technical officers on duty in the House were paid without verification by fingerprint machines.

Must comply with the circular.

Even then, in the central yard, they did not use the machine due to the difficulty of activation due to fingerprinting.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the revenue over recurrent expenditure for the year ended 31 December 2019 amounted to Rs. 89,963,948 compared with the revenue over recurrent expenditure of the preceding year amounted to Rs.16,434,872.

2.2 Revenue Administration

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

Details of estimated revenue, billed revenue, collected revenue and arrears of revenue relating to the year under review and previous year as per the information submitted are shown below.

Revenue Source	2019				2018			
	Estimated Revenue Rs. 000"	Billed Revenue Rs. 000"	Collected Revenue Rs. 000"	Arrears as at 31 December Rs. 000"	Estimated Revenue Rs. 000"	Billed Revenue Rs. 000"	Collected Revenue Rs. 000"	Arrears as at 31 December Rs. 000"
Rates and Taxes	35,500	135,881	39,249	96,633	43,420	140,882	41,080	99,802
Rent	31,800	48,180	19,018	29,162	30,707	48,097	21,129	26,968
License Fee	6,225	5,122	5,122	--	5,275	5,175	5,175	-
Other Revenue	25,124	83,067	64,404	18,663	49,663	27,960	27,624	336
Total	<u>98,649</u>	<u>272,250</u>	<u>127,793</u>	<u>144,458</u>	<u>129,065</u>	<u>222,114</u>	<u>95,008</u>	<u>127,106</u>

2.2.2 Rates and Taxes

	Audit Observation	Recommendation	Comments of the Accounting Officer
(a)	Although revenue officers have been appointed to collect Rs.99,802,932 arrears of rates and taxes for the year prior to the year under review, they have recovered only Rs.5,990,935	Appropriate action should be taken to recover the arrears.	Accepted. Measures have been taken to determine the amount of arrears to be collected during the year and to issue instruction letters to the collection officers. Further, steps have been taken to cancel the appointments of collection officers who fail to collect the determined arrears and to appoint new collection officers.

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| (b) | At least once in 5 years, a rates and taxes revaluation should be conducted and taxes levied. However, no revaluation has been conducted since 2009. | Action should be taken by contacting the officers of the Valuation Department. | Request letters have been sent to the Valuation Department regarding the property valuation but no reply has been received so far. However, with the approval of the Council, two officers will be temporarily appointed and a revaluation will be conducted to obtain an approximate provisional assessment. |
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2.2.3 Other Revenue

Audit Observation	Recommendation	Comments of the Accounting Officer	
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Income tax on Tourist Hotels			

The following matters were observed regarding income tax on resorts levied during the period 2017 to 2019 in the Municipal Council area.			
(a)	No action had been taken to collect taxes from one of the rest houses, restaurants or lodges registered under the Urban Council Ordinance even by the audit date of 05 May 2020.	Appropriate action should be taken to collect taxes.	Accepted. Action will be taken to recover this in the future.
(b)	The council had not calculated and levied taxes on 03 hotels in the urban council area for the period from 2017 to the end of 2019.	Appropriate action should be taken.	Hotels have been informed about this in writing. Revenue inspectors have been instructed on these taxes. These will be charged promptly.
(c)	During the year under review, the Council had issued trade licenses to the owners of 04 hotels, without recovering past arrears.	Appropriate action should be taken to recover the arrears.	Arrangements have been made to recover arrears from hotel owners. Trade licenses were issued to them because they had paid the prescribed business tax. In the future, trade licenses will be issued after taxing 1% from them.

2.2.4 Courts Fines and Stamp Duty

Audit Observation	Recommendation	Comments of the Accounting Officer
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<p>(a) Courts Fines</p> <p>-----</p> <p>Court Fines of Rs.10,036,458 received during the year under review for the period from August 2018 to July 2019. However, the Council had not taken action to fully recover the court fines up to the end of the year under review even by the audit date of 06 May 2020.</p>	<p>Need to take action to recover arrears.</p>	<p>The court fines for the period up to July 2019 are the amount we went directly to request and collect. Action will be taken to recover the remaining arrears.</p>
<p>(b) Stamp Duty</p> <p>-----</p> <p>(i) Although stamp duty should be charged annually as per Section 3 of the Stamp Duty Amendment Act No. 06 of 2010 of the Eastern Provincial Council, The stamp duty for the period from January 2018 to 31 December 2019 had not been calculated by the Urban Council and action had been taken to collect from the Registrar General within the stipulated time.</p> <p>(ii) The Council had not calculated and recovered the additional stamp duty charged by the Eastern Provincial Income Tax Department on property owners through direct and mobile services during the periods 2016, 2017, 2018 and up to December 2019.</p>	<p>Need to take action to recover arrears.</p> <p>Need to take action to recover additional stamp duty.</p>	<p>Details of stamp duty for the period from January to December 2018 have been obtained from the Registrar General's Department and forwarded to the Deputy Chief Secretary (Finance). Details of stamp duty for the year 2019 have been requested from the Registrar General's Department. Action will be taken to obtain this expeditiously.</p> <p>These additional stamp duty requests have been forwarded by us to the Deputy Chief Secretary (Finance).</p>

3. Operating Review

3.1 Performance

(a) By-Laws

Audit Observation	Recommendation	Comments of the Accounting Officer
In terms of Section 157 of the Urban Councils Ordinance, by-laws on key matters should have been prepared and implemented. However, no by-laws had been established even by the end of the year under review.	Action should be taken to establish the remaining by-laws.	There are 03 approved by-laws. By-laws for 10 subjects have been prepared and sent to the Secretary to the Ministry through ACLG, CLG in the year 2015. These have not yet been approved and returned to us. Action will be taken to prepare the remaining by-laws expeditiously.

(b) Action Plan

Audit Observation	Recommendation	Comments of the Accounting Officer
An Annual Action Plan had not been prepared.	An Annual Action Plan should be prepared.	Action has been taken to prepare it in the prescribed format.

3.2 Management Inefficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) Use of government Quarters		
(i) Housing rent to be paid by 30 officers is Rs.324,250 had been in arrears for more than 10 years and no action had been taken to recover or take action against the officers concerned.	Appropriate action should be taken.	Lawsuits have been filed against those on the arrears list regarding rents on government housing. Further, in the case of 2 deceased officers who are on the relevant list, action is being taken to write-off with the decision of the Council.
(ii) Government housing for 8 officers of the Urban Council and government housing for	Appropriate action should be taken	Agreements will be signed for existing government housing. However, for those who have not

work and health workers had been rented out but the council had not signed the lease agreements.

signed the agreement, letters regarding the period of residence will be obtained and the agreement will be made in the future.

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| (iii) 04 Government Houses in the Urban Council had not been used for more than 03 years. | Appropriate action should be taken | Government labour workers house and health workers' houses are also unused. |
| (iv) Although, 05 officers working in the Urban Council, 06 health workers and 15 laborers had applied for the rental of government houses, appropriate action had not been taken against employees residing in government houses for more than 05 years and No action had been taken to provide housing to the new applicants. | Appropriate action should be taken | Accepted. All those who have been living in government houses for more than 05 years now have been instructed to vacate them. |

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| (b) With regard to the Employees Provident Fund of Rs. 19,969 charged from the employees of the Urban Council, without finding employees' documents and paying them to the Employees Provident Fund have been presented in the accounts for more than 05 years. | Appropriate action should be taken. | Persons related Relevant employee provident balance will be traced. |
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3.3 Human Resource Management

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
(a) Vacancies and Excesses in Posts ----- (i) There were vacancies for the post of Secretary and Accountant in the Council but no action had been taken to recruit a designated officer from the Sri Lanka Administrative Service and the Sri Lanka Accountants' Service.	Action should be taken to fill the vacancies.	Vacancies in the post of Secretary had not been filled since 28.02.2017. The Chief Accounting Officer shall take action on this appointment as instructed by the Parliamentary Accounts Council. The relevant senior officers have already been informed about this vacancy.

(ii)	According to the approved Cadre of the Urban Council, there were 37 vacancies in 11 categories out of the 18 categories of posts in the Council.	Appropriate action should be taken.	The Deputy Chief Secretary has been informed of the island wide vacancies and related services and the Secretary to the Chief Minister has been informed of other vacancies that can be filled by the Council. However, only 04 excess firefighters have been recruited and no redundancies have been made in any other service.
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(b) Employee Loans

<p>-----</p> <p>Although the outstanding loan balance of the employees who worked during the period from 1993 to 2000 was Rs.729,545, the Council had not taken any action to write off or recover, this balance.</p>	<p>Appropriate action should be taken.</p>	<p>Relevant loans amounting to Rs.729,545 had not been reconciled between the final accounts and the credit list for a long time. With the assistance of the Commissioner of Local Government, a committee with expertise in the accounting system of Local Government Institutions will be established to settle such balances.</p>
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3.4 Operational Inefficiencies

3.4.1 Taxes on Land sales

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) In accordance with sub-section 165d of the Urban Council Ordinance (Authority 255) “When a piece of land in the Urban Council area is sold at a public auction or otherwise sold by the auction seller or broker or his employee or agent, the seller or his employee or agent must pay a tax equal to 1% of the sale price on such land to the Urban Council,” a sum of Rs.5,653,900 as sales tax of 1% on land sales for the year 2018 and land sales tax for the year 2019 had not been calculated and collected.	Appropriate action should be taken.	Letters have been sent to all lawyers in this regard. Also, when submitting the transfer of ownership of the land, it was decided to transfer the ownership only to the lands for which these taxes have been paid.

3.5 Assets Management

3.5.1 Idled Assets

	Audit Observation	Recommendation	Comments of the Accounting Officer
(a)	17 vehicles belonging to the Council had been idle in the Council premises for 1 to 10 years and no action had been taken to dispose of them.	Action must be taken to dispose of or use.	Not answered.
(b)	The installation of hospital waste incinerator was started in 2015 at a cost of Rs.5,695,830 and was completed in 2018. However, this waste incinerator machine was idled even by the audit date of 14 March 2020.	Steps should be taken to initiate such plans only after conducting a feasibility study.	The relevant machine was installed during the year 2015 at Trincomalee Government Hospital for incineration of hospital waste. However, the hospital did not accept or use the machine installed by the Council next to the public cemetery, as another waste incinerator had been installed on the hospital premises after the relevant work was completed in 2018.

4 Accountability and Good Governance

4.1 Internal Audit

Audit Observation	Recommendation	Comments of the Accounting Officer
During the year under review, internal audit activities of the Council had not taken place.	Appropriate action should be taken.	Since the officer attached to the Internal Audit was appointed as the Procurement Officer, steps have been taken to appoint another officer instead.

4.2 Audit and Management Committee

Audit Observation	Recommendation	Comments of the Accounting Officer
The Audit and Management Committees of the Council were established during the year under review and held only two Committee meetings.	Arrangements should be made to hold Audit and Management Committee meetings quarterly.	Accepted. The Audit and Management Committee Meetings for the year 2020 were scheduled to be held on time.