

Trincomalee Urban Council

Trincomalee District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2017 had been presented for audit on 22 June 2018. The report of the Auditor General for the year under review was issued to the Chairman on 11 October 2018.

1.2 Qualified Opinion

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 Trincomalee Urban Council as at 31 December 2017 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

Accounting policies adopted for preparation of accounts had not been disclosed in the financial statements.

1.3.2 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) Interest income on fixed deposit amounting to Rs. 2,297,514 for the year under review had been brought to the Income Statement as Rs. 2,234,125. Therefore income for the year is under stated by Rs. 63,389.
- (b) Fixed deposit interest income amounting to Rs. 753,333 for the previous year and Rs.63,389 for the current year had not been brought to the accounts.
- (c) According the Board of Survey carried out as at 31 December 2017, the total value of the General Stores Items amounted to Rs. 11,905,355 had been brought to the financial statement as Rs. 11,103,093. Therefore, the value of the general stores items had been understated by Rs. 802,262.
- (d) Payable for Sri Lanka Navy and Local Government Pension Fund aggregating Rs. 10,889,375 had been paid in the year 2016. But it had been shown in the financial statements as creditors.
- (e) A sum of Rs. 2,705,000 had been spent by the Council to purchase an incinerator in the year 2015. However, it had been shown in the financial statement as Rs. 4,057,500 under fixed asset. As a result the value of the incinerator had been over stated by Rs.1,352,500.

- (f) According to the staff loan register, the balance of the outstanding loans as at the end of the year under review amounting to Rs. 19,593,148 had been brought to the financial statements as Rs. 18,862,595. Therefore, the balance of the staff loan had been under stated by Rs. 730,553.
- (g) The receivable income from the Rest House amounting to Rs. 735,540 from May to December during the year 2017 had not been brought to the financial statement.
- (h) A sum of Rs. 15,391,243 court fine receivable income in 2017 had not been brought to the financial statement.
- (i) The stock of Drugs to the value of Rs. 321,608 remained at the stores of the Ayurvedic center as at 31 December 2017. But it had not been brought to the financial statement.
- (j) 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.
- (k) Buildings such as market complex, clinic center and fire brigade had not been valued and brought to the account.

1.3.3 Suspense Account

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 Non availability of Written Evidences for Audit

Fourteen items of accounts to the total value of Rs.17,501,070 had been shown continuously in the financial statements from several years. However, those items of accounts were unable to verify due to non-availability of any documentary evidence to prove existence of those items.

1.3.5 Non – compliance with Laws, Rules and Regulations

Instances of non – compliance with laws, rules and regulations observed in audit are given below.

Reference to Laws, Rules and Regulations

Non – compliance

(a) Section 177 (2) of urban councils ordinance (Chapter 255)	The summary of financial statement should be published in the gazette on or before 1 st March every financial year. However, they have not followed the requirement.
---	---

(b) Financial Regulations of the Government of the Democratic Socialist republic of Sri Lanka	
---	--

(i) FR No. 1646

Monthly performance summaries relating to 38 vehicles belonging to the Council had not been maintained and submitted to Auditor General.

(ii) FR NO. 371(5)

Action had not been taken to settle or recover a sum of Rs.24,300 advance given to the officers and private party in the year 2015 and 2017.

(c) Public Administration Circular No. 30/2016 dated 29 December 2016 Even though consumption of fuel of the vehicles should be re-tested after a period of 12 months from each fuel test, it had not been done accordingly in respect of 38 vehicles belonging to the Council.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2017 amounted to Rs.21,109,142 as compared with the excess of revenue over recurrent expenditure amounting to Rs.8,437,984 for the preceding year thus indicating an increase of Rs. 12,671,158 in the financial result for the year under review as compared with the preceding year.

2.2 Revenue Administration

2.2.1 Estimated revenue, billed revenue, collected revenue and arrears of revenue

The information on the estimated revenue, bill amount, Received amount and the arrears of revenue for the year under review and preceding year are given below.

Sources of Income	2017				2016			
	Budgeted Income	Bill Income	Received Income	Receivable Income as at 31 Dec	Budgeted Income	Bill Income	Received Income	Receivable Income as at 31 Dec
	“000”	“000”	“000”	“000”	“000”	“000”	“000”	“000”
Assessment Tax	43,480	35,188	24,971	16,035	39,450	43,215	25,618	22,711
Rent	20,104	21,482	16,466	5,015	13,900	21,102	12,457	8,644
Trade License	4,500	4,442	4,442	-	4,500	4,091	4,091	-
Fine & Penalties	37,263	10,939	10,939	-	36,822	23,140	23,140	-
Other Income	24,262	6,988	6,988	-	22,821	11,619	11,619	-

2.2.2 Stamp Duty

Action had not been taken to identify the total amount of stamp duties for the year 2016 and 2017 and collect them from the Provincial Treasury, Eastern province.

2.2.3 Rent

According to the court order total sum of Rs. 4,118,295 had been received during the year 2016 from the tenants as recovery of shop rent arrears and this total recovery had been deducted from the total arrears amount. However, action had not been taken to identify the recovery from the each tenant and deduct that amount against the arrears of the relevant tenant. As a result, the arrears of shop rent of a particular tenant had been brought forward even though that amount had already been settled.

3. Operational Review

3.1 Performance

The following matters which should be performed to accomplish welfare and convenience of the Publics' through regularize and control public health, utility services and thoroughfares according to the clause 4 of the Urban Council ordinance.

(a) By - laws

The by - laws should be passed for no. of 40 main function to accomplish according to the clause 157 of the UC ordinance. However, by laws had been passed only for no. of 13 tasks up to 31 December 2017.

(b) Action Plan

The Council had not prepared an action plan for the year 2017 in respect of Public finance circular No. 01/2014 dated 17th February 2014.

(c) Abandon Constructions

The Urban Council had planned to complete two constructions amounted Rs. 3,245,038 during the year 2017. These constructions had been awarded to the community centers. Even through, these works had not been started up to the date of 17 September 2018. However, the Urban Council had not taken action to re-award these constructions to another contractor and blacklist above community centers. Therefore people of the area were unable to get benefits from those constructions on time.

Details are mentioned bellow.

Name of the construction	Community Center Name	Agreement Date	Period	Amount
-----	-----	-----	-----	-----
				Rs.
01. Repairing roof, damaged bath toiled, 2 nd floor bus stand, Trincomalee.	Aradady	27.10.2017	02 months	2,089,460
02. Construction of concrete Drainage, Varothayanagar	Ganthi	31.10.2017	02 months	1,320,858
Total				<u>3,409,318</u>

(d) Solid Waste Management

The following observations are made in this regard.

- (i) The number of 664 Garbage bins amounted Rs. 3,160,799 had been purchased under PSDG and Younpuraye Programme - 2017 for purpose of separation garbage as plastic, polythene, paper, organic and glasses and which are procured to the public places, Government institutions and schools in the Council area. The Urban Council had issued no. of 240 garbage bins to the public places and Government Institutions. The sample audit carried out by auditors who observed bins had been provided same colours, label not attached and disposed garbage without separation at central bus stand, Vehicle park, Fort Fredrick road and Council premises. However, without considering this requirement, proper distribution plan and maintaining, No of 272 bins amounted Rs. 1,223,400 had remained idle up to the date of 17 September 2018.
- (ii) The no. of 40,000 Garbage bags amounted Rs. 1,530,800 had been purchased under the Council fund to collect garbage as plastic, polythene papers, glasses and Organic from house in the Council area. However, No. of 28,000 bags amounted Rs. 1,071,560 had remained idle up to 17 September 2018 because of lack of conducting awareness programme with regard to the important of separation garbage.

(e) Environmental Issues

The following observations are made in this regard.

- i) In terms of National Environmental Act No. 47 of 1980 the business entrepreneur who organize such as cement works, carpentry works, garage and rice mills should obtain environmental protection license from the Urban Council. However, the above mentioned enterprises running without obtain such environmental protection license.
- ii) The garbage collected within the area of authority of the Council was approximately 19,350 tons per year and are being disposed in an irregular manner to an open land at Kanniya belonging to the Department of Forest Conservation. As a result, this

garbage had caused environmental problems in the rainy seasons and also health hazard to the wild animals.

(f) Sustainable Development Goals

The Council had not determined the goals, targets and criteria according to the sustainable Development Act No. 19 of 2017 and they have insufficient knowledge about the sustainable development goals

3.2 Management Inefficiencies

The following observations are made.

- (a) Thirty four officers who occupied official quarters belonging to the Urban Council had not paid rentals for several years and a sum of Rs.452,142 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) According to the paragraph No. 6.3 of Chapter XIX of the establishment code, government quarters can be used only by the government officers. However, the Council provided 5 quarters for the private parties.
- (c) According to the paragraph No. 6.1 of Chapter XIX of the establishment code, the maximum period for providing government quarters is 5 years. However, the Council had provided quarters for 23 officers more than 5 years.
- (d) When considering arrears of assessment tax more than 50,000. In here, assessment tax arrears had been identified more than 10 Years as about amounting Rs. 10,913,161. However, Council had not taken action to recover these arrears.
- (e) Action had not been taken to obtained revenue license for 10 vehicles belonging to the Council.
- (f) According to Section 164(2) of the Urban Council Ordinance, levies should be collected from tourist hotels functioning within the area of authority of the Council based on the total income of those hotels. However, the Council had not taken action to recover levy from three tourist hotels for the financial year 2016/2017. Therefore the council was unable to earn Rs.300,000 approximately.
- (g) The Council had not recovered arrears rentals aggregating Rs. 19,193,327 from 271 Trade shops within 1 to 9 years.
- (h) Whole sale fish market is operated by the Fishery Co-operation and they have rented out no. of 48 shops out of 62 and earned Rs. 480,000 per month and also earned income from parking space of their premise. However, this land is owned to the Urban Council and cleaning service also done by the Council. But the Council is not getting any income from this property.

3.3 Human Resource Management

The following observations are made.

- (a) According to the Chapter XXIV of establishment code, Action had not been taken to recover a sum of Rs. 958,231 remained outstanding of thirty three officers who had retired, death and vacated their posts.
- (b) The post of Accountant of the Council had remained vacant for more than 11 years. However, action had not been taken to appoint permanent officer to this post.
- (c) The post of Secretary of the council should be an officer in Sri Lanka Administration Service. However, action had not been taken to appoint a permanent officer to this post from 28 February 2017.
- (d) Vacancies existed for the posts of Management Assistant, Health Supervisor, Mid Wife, Public Health Inspector, Translator, Librarian, Technical Officer, Market Supervisor, Motor Man had not been filled up to the date of audit on 17 September 2018.

3.4 Operational Inefficiencies

The following observations are made.

- (a) Out of 374 shops belonging to the Council, 93 shops had remained idle since year 2014 and 22 shops had not rented out in the year 2017. However, the Council had not taken action up to now to rent out those shops. As a result, the Council had lost an annual income of Rs. 2,000,000 approximately.
- (b) The Council had assessed property at last in the year 2010 and the assessment tax has been levied base on the annual value of that year. But now a day some buildings had been removed and refurbished. However, The Council had not taken action to assess the property again and to determine the correct annual value.
- (c) The Urban Council had repaired their old hall and constructed new toilet near the quarters at power house road expended amount Rs.433,929 to provide infrastructures for doing study for the handicapped children. However, the Council was unable to provide water supply and electricity to the hall up to the 17 September 2018. Therefore, handicapped Children were unable properly doings their studies.

3.5 Management of Assets

3.5.1 Idle Assets

19 vehicles belonging to the Council had remained idle at the office premises for period ranging from 01 year to 09 years without taking action to dispose them.

3.5.2 Board of Survey

Board of Survey conducted for the year 2017 had recommended to sell 209 items of goods by auction and to dispose 36 items of goods. However, those recommendations had not been implemented up to 17 September 2018.

3.6 Procurement

3.6.1 Procurement Plan

The Council had not prepared a procurement plan for the year 2017 in respect of Public Finance circular No. 1/28 dated 17 February 2014.

3.6.2 Contract Administration

3.6.2.1 Construction of Fence in Mckeyzar Ground at Konesar Kovil Road

A contract had been awarded by the Urban Council to the community center at a contract value of Rs. 1,207,850 on 21 August 2017 to construct fence side of Mckeyzar ground at Koneswar Kovil Road to avoid enter vehicle to the ground.

Following observations are made in this connection.

- (a) According to the payment bill a sum of Rs. 567,350 had been paid for 85 GI pipe post and 300m GI pipe by certifying these works are satisfactorily completed. However, Community Center had fixed only 58 GI posts and 90m GI pipes aggregating Rs. 304,430. Therefore over paid amounted Rs. 262,920 for 27 GI posts and 210m GI pipes.
- (b) As per the agreement construction should be completed before 20 November 2017. However, the construction had not been completed up to the date of 17 September 2018.

4. Good government and Accountability

4.1 Budgetary Control

Variations ranging from 01 per cent to 71 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 to use of as an effective instrument of management control.

4.2 Un-solved observations and Un-answered audit queries

Following observations are made.

- a) The Council had not taken action to reply an audit query issued at the date of March 2018 amounted to Rs. 3,054,810. 13
- b) Five Public Health Inspectors had been attached to the Urban Council, Trincomalee. As a result of failure to include the duties identified according to the priority by the Urban Council in the preparation of the advance programmes of those officers, instead of that, duties decided by the

Public Health Inspector by him- self according to the Public Health Inspectors Guideline and performed under the approval of the Medical Officer of Health. Accordingly, as the co- ordination between the Urban Council and the Public Health Inspectors had not been at a satisfactory level, failure to make contribution of the service of the Public Health Inspectors at a maximum level.

- c) The Sewerage Treatment Plant which was constructed at a cost of Rs.4,044,907 in the year 2014 with a view to purifying the sewerage water and to releasing it to the environment and the essential work of the plant which is laying coir had not been done. As such, the sewerage water had been released to the environment through the Plant without being purified. Therefore, the objective of preventing the environmental pollution by the dirty water had not been fulfilled by this Plant and the expenditure incurred therefor had become fruitless.
- d) Even though the Chairman has no authority to hand over the lands belonging to the Urban Council to the private sector, lands of 3,212 perches in extent belonging to the Council had been handed over to 576 persons by the former Chairman in the year 2008. The Chief Minister had appointed a retired High Court Judge by a Gazette Extra Ordinary dated 11 August 2010 to look into this matter. According to his report, it is decided that failure to act in compliance with the laws, rules and regulations followed by the Urban Council. As such, as decided at the Provincial Committee on Public Accounts meeting held on 26 May 2015, a Committee had been appointed chaired by the Secretary to the Chief Minister according to the Order delivered as to furnish a report by carrying out a proper investigation in this connection. However, the relevant committee had not furnished a report in this connection even by 29 June 2018. As a result of that, taking legal actions against the Chairman was further delayed.
- e) An electrical fence had been erected in the year 2014 by the Council at a cost of Rs.618,858 for the prevention of elephants invading the land where the solid waste was disposed. However, the electricity had not been provided thereto, thus the wild elephants had damaged the electrical fence and at present there was no electrical fence around the land and it was observed that wild elephants come to consume the solid waste.
- f) Installation of an Incinerator with a view to burning the hazardous waste disposed from hospitals at the Weeranagar area in the area of authority of the Urban Council had been commenced in the year 2015 and completed in the year 2017. The expenditure incurred therefor amounted to Rs.4,230,155. However, this Incinerator remains idle at present due to the failure in obtaining electricity to operate it and the hazardous waste of hospitals is being disposed further to the open land of the area of Kanniya.

5. Systems and Controls

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

Items -----	Weakness -----
i. Accounting	Improper maintenance of ledger and not recording non-current assets and revenue.

- | | | |
|------|----------------------------|---|
| ii. | Budgetary Control | Preparation of budget estimate without forecasting the revenue and expenditure. |
| iii. | Revenue Administration | Long delays in collection of arrears of revenue. |
| iv. | Human Resources Management | Long delays in filling vacancies for key posts. |
| v. | Contract Administration | Not taking action against the contractors who abandoned the construction works. |