

Kinniya 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 28 May 2018 and the report of the Auditor General for the year under review had been forwarded to the Chairman on 11 October 2018.

1.2 Adverse Opinion

In my opinion, because of the significance of the matters described in paragraph 1.3 of this report, the financial statements do not give a true and fair view of the financial position of the Kinniya Urban Council as at 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

The Sabha had prepared the financial statements on cash and accrual basis. However, the accounting policies for classifications had not been disclosed.

1.3.2 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) The following matters were observed at test checks with regard to ledgers, lack of double entry procedures etc.,
 - (i) The balances appearing in the balance sheet as at 31 December 2016 differed from the balances appearing in the balance sheet as at 01 January 2017. Details are as follows.

Details	Balance as per Balance Sheet	
	31.12.2016	01.01.2017
	Rs.	Rs.
Debtors	(3,016,367)	293,909
Tender Deposits	3,554,099	4,546,696
Library Deposits	27,100	27,350
Sundry Deposits	70,145	33,495
Provision for Audit Fees	224,720	497,629

(ii)

Details	31.12.2017	Note
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	Rs.	
Stamp Fees	3,194,320	The opening balance of Rs.5,740,020 had not been shown in the previous year's financial statements. However, the closing balance of the year under review included this balance.
Court Fines	8,510,774	The opening balance of Rs.6,707,724 had not been shown in the previous year's financial statements. However, the closing balance of the year under review included this balance.
Cash balance (Puraneguma)	786,535	Zero value had been shown as cash book balance.

(b)
A
tourist resort
had been
constructed at
a cost of
Rs.6,161,693
in 2015 under
the

Puraneguma Programme. This had been shown under work-in-progress. As such, the value of non-current assets had been understated by a similar amount.

- (c) Furniture purchased for Rs.1,707,967 in 2016 for use at the tourist resort had been shown as Rs.1,575,992 under non-current assets resulting in an understatement of Rs.131,975.
- (d) A sum of Rs.2,309,680 made up of tender deposits of Rs.2,294,099, library deposits of Rs.4,500 and other deposits of Rs.11,380 had been credited to the Consolidated Fund in 2016. As a result, the balance of the Accumulated Fund had been overstated by a similar amount.
- (e) The value of land, buildings and plant and machinery amounting to Rs.22,255,930 had not been entered in the Revenue Contributions to Capital Outlay Account resulting in an understatement of this account by a similar amount.

- (f) The net profit of Rs.2,254,021 for the year 2016 had not been entered in the Accumulated Fund. Therefore, the Accumulated Fund had been understated by a similar amount.
- (g) The bank balance as at 31 December 2017, as per cash book amounted to Rs.880,473. However, this had been shown as Rs.903,715 in the financial statements resulting in an overstatement of Rs.23,242.
- (h) The assessment tax recoverable for the year under review amounted to Rs.389,268 as per ledger whereas this had been shown as Rs.848,505 in the Income and Expenditure Account resulting in an increase in revenue by Rs.459,237.

1.3.3 Unreconciled Control Account

The total of 4 accounts amounted to Rs.22,673,255 as per financial statements which had been shown as Rs.23,296,722 in the schedule. As a result, the balance appearing in the financial results had been understated by Rs.623,497. These variances had not been reconciled. Details appear below.

Item	Balance as per Financial Statements	Balance as per Schedule	Variance
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	Rs.	Rs.	Rs.
Arrears of rates and taxes	1,579,107	1,975,716	(396,609)
Arrears of rent	9,501,606	11,114,970	(1,613,364)
Employees' Loans	4,215,395	4,115,322	100,073
Tender Deposits	7,377,117	6,090,714	1,286,403
	<u>22,673,225</u>	<u>23,296,722</u>	<u>(623,497)</u>

1.3.4 Suspense Account

A credit balance of Rs.29,358,517 continued to be shown in the Suspense Account. The Council had not taken action in this regard.

1.3.5 Lack of Evidence for audit

The Replacement Reserve as at end of the year under review amounted to Rs.2,708,694. However, documentary evidence to confirm the balance had not been furnished to audit.

1.3.6 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with laws, rules, regulations and management decisions appear below.

**Reference to Laws, Rules,
Regulations and Management
Decisions**

Non - compliance

- | | |
|---|---|
| (a) Urban Councils Ordinance Chapter 255 | A summary of the financial statements of the year under review should be published in the Government gazette for information of the public. However, such action had not been taken up to 29 August 2018. |
| (b) Financial Regulation No.571 of the Democratic Socialist Republic of Sri Lanka | Action had not been taken to credit to revenue or settle the deposits of Rs.515,999 exceeding 2 years |

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Urban Council for the year ended 31 December 2017 amounted to Rs.14,948,827 as against the excess of recurrent expenditure over revenue of the preceding year amounting to Rs..1,331,526.

2.2 Revenue Administration

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

The information relating to the estimated revenue, revenue billed, revenue collected and the arrears of revenue furnished for the year under review and the previous year appear below.

Item of Revenue	2017				2016			
	Estimated Revenue	Revenue Billed	Revenue Collected	Total arrears as at 31 December	Estimated Revenue	Revenue Billed	Revenue Collected	Total arrears as at 31 December
	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'
Rates and Taxes	3,626	1,178	411	1,579	3,500	1,145	1,455	1,273
Rent	10,706	12,610	6,812	9,501	8,471	6,569	6,571	10,585
Licence Fees	2,605	2,783	2,783	-	2,111	2,508	2,557	-
Other Revenue	3,970	6,574	2,850	11,705	3,720	3,273	719	-

2.2.2 Rates and Taxes

The arrears of rates and taxes aggregating Rs.1,975,716 for the period 2006 to end of the year under review with regard to land, houses constructed and buildings had not been recovered in terms of Section 160 of the Urban Councils Ordinance (Chapter 255).

2.2.3 Revenue Administration

The following matters were observed.

(a) Lease of Fish Market

The Council had not taken action up to now to recover arrears of lease rent of Rs.6,636,250 for the period 2008 to 2017.

(b) Lease of Beef Stall

The Council had not taken action up to now to recover arrears of lease rent of Rs.2,781,727 for the period 2007 to 2016.

(c) Lease of Week-end Fair, Poultry Shop and Dried Fish Stall

The Council had not taken action up to now to recover arrears of lease rent of Rs.425,568 on behalf of the week-end fair, poultry shop and dried fish stall for the period 2009 to 2018.

2.2.4 Stamp Fees

Action had not been taken to compute and recover stamp fees due for the period June 2016 to end of the year under review from the Registrar General.

3. Operating Review

3.1 Performance

(a) Environmental Problems

Disposal of garbage by the public in the area around the Karaichchi Road which comes under the authoritative area of the Council had caused environmental problems. The Council had not taken action to clean the place.

(b) Sustainable Development Targets

The Council was unaware of the 2030 Agenda of the Sustainable Development Target as decided at the conference of heads of countries of the United Nations in 2015.

3.2 Management Inefficiencies

The following matters were observed.

- (a) The tipper of the Council bearing No. PP- LL 6921 had met with an accident on 14 December 2017. Investigations had not been carried out to determine the loss and to identify persons responsible. Action had not been taken to repair the vehicle up to 29 August 2018, the date of audit.
- (b) Properties within 05 out of 07 wards of the Council had been assessed by the Department of Valuation in 2002. However, the Council continued to recover assessment rates on the basis of valuation made in 1999. Valuation of properties of 02 wards had not been made up to now.
- (c) Twenty two out of 26 sewing machines donated to the Council in 2008 by the Canadian International Development Agency had become inoperative. Action had not been taken to repair and utilize them.

3.3 Human Resources Management

Action had not been taken to fill the vacancy in the post of Accountant existing for the last 07 years.

3.4 Assets Management

3.4.1 Registration of Assets

The Council uses 17 vehicles donated to it by other institutions. However, action had not been taken to acquire ownership of those vehicles.

3.4.2 Annual Board of Survey

Action had not been taken regarding books not presented for verification by the board of survey In 2017, such as , 1744 books at Kinniya Public library. 574 books at Alankerny Public Library and 08 books at Makuroof Public Library. Action had not been taken regarding these 2326 books.

3.5 Uneconomic Transactions

Contributions to the Public Service Provident Fund should be made for casual and temporary employees of local authorities in terms of Section 4.1 of the Circular No.02/2011 of 24 February

2011 of the Department of Pensions. However, contributions had been made to the Employees' Provident Fund instead of the Public Service Provident Fund. The contributions to the Employees' Trust Fund for the period January 2012 to April 2015 and the contributions to the Employees' Provident Fund for the period March 2014 to February 2015 had not been made on the due dates. As such, a sum of Rs.482,710 had been paid as surcharge.

3.6 Procurement Procedure

3.6.1 Procurement Plan

The Council had not prepared a procurement plan in terms of the Circular No.128 of 24 March 2006 of the Department of National Budget.

4. Accountability and Good Governance

4.1 Budgetary Control

Variances ranging from 15 to 68 per cent were observed between the estimated and actual expenditure showing that the budget had not been utilized as an effective instrument of management control. Further, the revenue assessed from properties had been estimated at Rs.389,268 whereas the amount included in the budget amounted to Rs.3,000,000.

5. Systems and Controls

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

System and Control	Matters Requiring Attention
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(a) Accounting	(i) Maintenance of updated ledgers (ii) Classification of assets according to expenditure (iii) Maintenance of a main ledger.
(b) Fixed Assets Control	Maintenance of a register of fixed assets
(c) Revenue Administration	Action to be taken to collect arrears of revenue.