

Kaththankudy Urban Council

Batticaloa District

1. **Financial Statements**

1.1 **Presentation of Financial Statements**

Financial Statements for the year under review had been submitted to the Audit on 06 April 2015 while Financial Statements relating to the preceding year had been submitted on 02 April 2014. The Auditor General's Report relating to the year under review was sent to the Secretary of the Council on 19 August 2015.

1.2 **Qualified Opinion**

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Kaththankudy Urban Council as at 31 December 2014 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 **Non-compliance with Public Sector Accounting Standards of Sri Lanka**

Although Cash Flow statements had been submitted with the financial statements, those had not been prepared according to Public Sector Accounting Standard No. 2.

1.3.2 **Accounts Receivable**

Staff Loans amounting to Rs. 42,037 due to be recovered from two deceased officers had been accounted continuously in the financial statements without action being taken to recover from their death gratuity or the guarantors.

1.3.3 Non-compliance with Laws, Rules, Regulations etc.

Instances of non-compliance with Laws, Rules and Regulations observed in audit are analyzed below.

References to Laws, Rules and Regulations	Non-compliance
Urban Councils Ordinance (Chapter 255)	
Section 177 (2)	- Action had not been taken to publish the summary of financial statements for the year 2013 in the Government Gazette for information of the General Public up to 31 December 2014.

2. Financial Review

2.1 Financial Results

While according to the Financial Statements presented, financial result for the year under review had been an excess of revenue over recurrent expenditure amounting to Rs.12,602,309, when compared with the excess of revenue over recurrent expenditure for preceding year had been Rs.4,354,466, indicating an improvement in a sum of Rs.8,247,843 in the financial results.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

According to Information furnished by the Council, material variances were observed between the estimated revenue and the actual revenue.

Item of Revenue	Estimated	Recovered	Difference	Percentage
	Rs.	Rs.	Rs.	
	000	000	000	
Rates and Taxes	8,900	8,730	170	01
Taxes	5,100	4,445	655	12
Other Revenue	21,145	14,674	6,470	30

2.2.2. **Rates and Taxes**

Rates totaling Rs. 4,965,387 due to be recovered for lands and buildings constructed in the area of authority of the Urban Council up to the end of the year 2014 had not been recovered in terms of Section 160 of the Urban Councils Ordinance (Chapter 255).

2.2.3 **Court Fines**

Action had not been to obtain Court Fines Receivable under various Ordinances and Acts from the Magistrate Court amounting to Rs. 381,572 as at 31 December 2014 from the Chief Secretary to the Provincial Council.

2.2.4 **Lessing of Council's Land**

The land belongs to the Council in extent of 15 Perches had been given on lease during the year to an individual to carry out a Cement Paved Concrete Blocks Industry for 02 years. Following matters were observed in this connection.

- (a) This land had been given on lease to the relevant individual without obtaining a valuation report from the Chief Valier of the Government.
- (b) Although the prevailing present monthly rental value of this land is R. 20,000, an income of Rs.150,000 had been lost due to leasing it out for Rs.7,500 per month.
- (c) In terms of letter No. PS/1/05/25 dated 14 December 2009 of the Ministry of Local Government and Provincial Councils, in the event of leasing out land belongs to the Local Government Institution, present value should be assessed and 25% of that value should be paid as first payment. However, 3 months lease rent amounting to Rs. 22,500 only had been paid as preliminary payment.

2.2.5 **Business License Fees**

Action had not been taken to recover Business License Fees amounting to Rs. 129,975 due to be recovered for the year under review.

2.2.6 **Other Revenue**

An agreement had been signed with an individual for sale of skins of cattle slaughtered in the Slaughter House of the Council for a period of 10 years effective from 10 October 2012. An income of Rs.514,000 had been obtained from this up to 31 December 2014. However, in the selection of Contractors for sale of cattle skins, quotations had not been called for in terms of clause 2.14.1 of Government Procurement Guidelines.

Although it is not possible to enter into agreements for a period exceeding five years without sanction of the Council in terms of Section 39 of the Urban Councils Ordinance (Chapter 255), agreements had been entered into by the Chairman contrary to those provisions.

3. **Operating Review**

3.1 **Management Inefficiencies**

- (a) Passenger Ferry utilized for passenger transport between Trincomalee and Kinnia abandoned after construction of the bridge between the cities during the year 2013 had been brought to Kaththankudy in order to commence a passenger boat service between Kaththankudy and Paduwankarai having spent a sum of Rs. 323,550. However, it had not been used up to now.
- (b) Although pension contribution of employees for the period from the year 1995 to the end of the year under review amounting to Rs. 2,375,058 was payable by the Council, necessary action had not been taken to pay and settle it.
- (c) Electricity supply had been made to General Public on behalf of the Ceylon Electricity Board during the year 1987 by the Town Council functioned before establishment of the Urban Council. Following matters were observed in this connection.
 - (i) An effective course of action had not been taken by the Council since the year 1991 to recover the advance amounting to Rs 2,399,352 granted to the Electricity Board.

- (ii) Action had not been taken during the past period of more than 21 years for the recovery of electricity charges in arrears amounting to Rs. 6,642,880 due to be paid to the Electricity Board for the electricity supplied to General Public.
- (d) According to Section 227(1) of the Urban Councils Ordinance(chapter 255), a member, an officer or an employee should not expect any interest or financial gain directly or indirectly with regard to agreements entered into with the Council or works performed. However, the van belongs to a brother of the Chairman had been obtained for hire and a sum of Rs.1,172,095 had been paid as vehicle hire charges during the year under review.
- (e) Although fifty PVC Pipes, two Stone Crushers, two Foton Vehicles a Compactor type Vehicle and Water Spray Motor were available in the Council, those had not been included in the Board of Survey Report for the year 2014, Fixed Assets Register, Register of Deposal etc.

3.2 **Operating Inefficiencies**

Nissan Vehicle belongs to the Council had been repaired having spent a sum of Rs.1,190,000 during the year under review without following the procurement procedure. However it had been defunct again and had been parked in the vehicle yard without being used

3.3 **Idle and Under-utilized Assets**

Following observations are made.

- (a) 23 Trailers belong to the Council used for removal of solid waste had been kept in the Work-Shop without being used during a period of more than 5 years due to lack of Truck Vehicles.
- (b) The Boat and the Outboard Engine provided to the Council from USAID Institute to be used in distress incidents had been given to a certain individual for two years without an agreement. However, action had not been taken to recover lease rent or to get back the machine.

3.4 **Solid Waste Management**

A composted fertilizer production center had been commenced at a cost of Rs.1,669,227 under 'pilisaru' Programme during the year 2013.

Following matters were observed in this connection.

- (a) Although a Centre had been established for the production of compost out of solid waste, solid waste had been dumped on a river bank in the area of authority of the Council.
- (b) Although there were 20 vehicles belong to the Council, a sum of Rs. 90,000 had been paid on 02 June 2014 to one contractor as lorry hire for transport of earth to cover solid waste dumped on the river bank.
- (c) Although a Backhoe Machine valued at Rs. 11,900,000 belongs to the Council was available, a Backhoe Machine had been obtained on hire for leveling the solid waste dumped on the river bank and a sum of Rs. 40,000 had been paid on 11 July 2014 to one individual.
- (d) Although there were 15 tractor machines belong to the Council, a total sum of Rs.156,000 at the rate of Rs. 1,500 per person had been paid for disposal of solid waste during the year under review.
- (e) A number of cases had been filed in courts by the General Public against the Council for pollution of environment due to dumping solid waste on the river bank.

4. **Accountability and Good Governance**

4.1 **Budgetary Control**

It was observed that the Budget had not been made use of as an effective tool of management as variations in a range from 57% to 95% were observed between the Budget and actual revenue and expenditure.

5. **Systems and Controls**

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Special attention is needed in the following areas of controls.

- (a) Accounting
- (b) Contracts Administration
- (c) Fixed Assets Control
- (d) Revenue Administration
- (e) Budgetary Control