

**KINNIYA URBAN COUNCIL**  
**TRINCOMALEE DISTRICT**

**1. Financial Statements**

**1.1 Presentation of Financial Statements**

The Financial Statements for year under review had been presented to audit on 06 May 2015 and the Financial Statements for the previous year had been furnished to audit on 19 May 2014. The Report of the Auditor General for the year under review had been furnished to the Secretary of the Council on 01 September 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 Kinniya 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 Compliance with Sri Lanka Public Sector Accounting Standards**

The Cash Flow Statement had not been prepared and furnished to audit together with the Financial Statements according to Sri Lanka Public Sector Accounting Standard No.02.

**1.3.2. Accounting Deficiencies**

The following accounting deficiencies were observed.

- (a) A sum of Rs.1,220,950 being stamp fees receivable for the year 2014 had not been brought to accounts.
- (b) Court Fines amounting to Rs.1,426,867 receivable for the year 2014 had not been brought to accounts.
- (c) Although the Assessment Tax recoverable during the year under review according to the ledger had been Rs.2,196,642, this receivable had been shown in the Financial Statements as Rs.1,923,043 thus understating the Assessment Tax recoverable by Rs.273,599.

**1.3.3 Accounts Receivable and Payable**

Action had not been taken till the end of the year under review to recover the meat stall lease rental amounting to Rs.2,457,554 and the fish stall lease rental amounting to Rs.4,613,353 that had been outstanding from the year 2006 and continuously shown in the Financial Statements.

#### 1.3.4 Lack of Evidence for Audit

Evidence indicated against the following each item in the Financial Statements had not been furnished to audit.

<b>Item</b>	<b>Value</b> Rs.	<b>Evidence</b>
Land and Buildings	40,325,057	Title Deeds
Plant and Machineries	4,638,775	} Register of Fixed Assets and Verification Reports
Motor Vehicles	14,216,506	
Furniture and Fittings	4,246,857	
Office Equipment	3,061,520	} Confirmation of balances
Creditors	2,398,969	

#### 1.3.5 Non -compliance with Laws, Rules, Regulations etc:

Non-compliance with the following Laws, Rules, Regulations etc. were observed in audit.

<b>Reference to Laws, Rules, Regulations etc;</b>	<b>Non-compliance</b>
(a) Urban Councils Ordinance (Chapter 255)	
(i) Section 177(2)	Action had not been taken by the Council to publish the extract of the Financial Statements for the year under review for the information of the General Public.
(ii) Section 180(1)	A detail Annual Administration Report should be prepared by the Chairman of the Council at the end of each Financial Year. However, such report had not been prepared during the year under review.
(b) Financial Regulations of the Urban Councils	
(i) Regulation No. 174	The opening balances, receipts and payments had not been completed in the Revenue Ledger for the year 2014.
(ii) Regulation No. 178	A detail Statement of Revenue Deposits had not been prepared at the end of the year.

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

(i) F.R. 700(5)

Tender Board decision and the letters for the acceptance of contracts in respect of 7 construction contracts had not been furnished to audit.

(ii) F.R. 702(3)

Copies of the agreements entered into with the contractors in respect of 7 construction contracts amounting to Rs 6,957,659 had not been furnished to audit.

(iii) F.R. 571(1)

Half yearly statements in respect of lapsed deposits had not been prepared and furnished to audit.

### 1.3.6 Idle Assets

The undermentioned assets had remained idle for periods ranging from 03 to 07 years without action being taken to repair and use or sell by auction.

Name of Asset	Value	Period of Idling
	Rs.	
Tractor	716,000	5 Years
Two wheel Tractor	34,137	7 Years
Tipper	5,098,000	3 Years
Cement Mixer	300,000	4 Years

## 2. Financial Review

### 2.1 Financial Results

According to the Financial Statements presented, the operation of the Council for the year ended 31 December 2014 had resulted in an excess of income over expenditure amounting to Rs.2,813,401 as against the expenditure over income amounting to Rs.20,386,740 for the preceding year thus indicating an improvement of Rs.23,200,141 in the financial results.

## 2.2 Revenue Management

### 2.2.1 Performance of Revenue Collection

According to the information furnished by the Chairman of the Council, considerable differences were observed between the estimated revenue and actual revenue during the year under review.

<b>Revenue Item</b>	<b>Estimated</b>	<b>Actual</b>	<b>Difference</b>	<b>Collected Revenue as a percentage of Estimated Revenue</b>
	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>%</b>
Assessment Tax	3,128,000	1,189,196	1,938,804	40
Lease Rental	10,666,750	8,372,290	2,294,460	56

### **2.2.2 License Fee**

Action had not been taken by the Council to recover license fees in respect of 14 advertisement boards erected within the area of operation of the Council during the year under review.

### **2.2.3 Lease Rent**

(a) There were 02 fish stalls and 12 mutton stalls within the area of operation of the Council. All these stalls had been given on lease rental to two individuals instead of giving each stall separately to different persons. Due to giving all the stalls to only two and the same persons, the Council had enabled those persons to give those stalls for sub-lease and thereby earn money lavishly. As such the Council had lost a significant amount of income.

(b) Action had not been taken to recover the weekly market lease rental amounting to Rs.232,868 and the chicken stall lease rental amounting to Rs.32,667 which were outstanding from the year 2009 to 2014.

### **2.2.4 Rates and Taxes**

Rates aggregating Rs.2,196,642 which were recoverable according to Section 160 of the Urban Councils Ordinance (Chapter 255) on lands, and houses and buildings constructed within the authority limit of the Council from the year 2006 until the end of the year 2014 had not been recovered.

### **2.2.5 Charges for Telecommunication Towers**

The Council had lost the revenue amounting to Rs.48,000 due to non-recovery of revenue administration charges as per the Council decision No. 273 on 08 telecommunication towers erected within the authority limit of the Council.

### **2.2.6 Court Fines**

Action had not been taken to receive the court fines from the Chief Secretary of the Provincial Council, which were recovered by the Magistrate Court under various Ordinances up to 31 December 2015.

### **3 Operating Review**

#### **3.2 Management Inefficiencies**

- (a) Action had not been taken to transfer the ownership of 06 vehicles to the Council which were received as donation from various organisations and being utilized by the Council for over 10 years.
- (b) Although it was indicated in the reports of Annual Boards of Survey for the years 2011,2012,2013 and 2014 that 109 inventory items and 3905 library books were short, proper action had not been taken by the Council in this regard.
- (c) The Council had to pay Rs.135,553 and Rs.26,359 as surcharges during the year under review due to non-remittance of contributions to Employees Provident Fund and Employees Trust Fund respectively during the year under review.
- (d) Although the Time Recording Machine should be fixed according to circular No. 9/2009 dated 16 April 2009 of the Ministry of Public Administration, the machine had not been fixed.
- (e) A sum of Rs.6,720 had been paid by the Council as fines due to non – settlement of water bills and electricity bills of public market stalls within the stipulated time.

#### **3.2 Contract Administration**

Although agreement had been signed with the Contractor to pave concrete bricks to Kattayaru – Malinthurai road under Puraneguma (NELSIP) Project and later the contract terminated as the contractor had not completed the contract within the stipulated time, the Performance Bond submitted by the contractor to the value of Rs.579,156 had not been encashed by the Council in due time.

#### **3.3 Solid Waste Management**

Although a Centre had been constructed at a cost of Rs.3.75 million under solid waste management project to remove solid waste, the project had been completely abandoned as the Centre had not been operated properly.

### **4 Accountability and Good Governance**

#### **4.1 Budgetary Control**

It was observed that the Budget had not been made use of as an effective instrument of management control as variances ranging from 27% to 100% were observed between the budgeted expenditure and actual expenditure

**5 Human Resource Management**

Details regarding the approved cadre and actual cadre as at 31 December 2014 are given below.

<b>Category of Staff</b>	<b>Approved Cadre</b>	<b>Actual Cadre</b>	<b>Excesses</b>	<b>Vacancies</b>
Executives	02	-	-	02
Subordinates	27	24	-	03
Minor Employees	80	69	-	11
Temporary / Daily Wage Employees	-	16	16	-
<b>Total</b>	<b>109</b>	<b>109</b>	<b>16</b>	<b>16</b>

Although the posts in Class II Grade III of Secretary Service and the Class II Grade III of The Accountants Service had been vacant for the past five years, action had not been taken to fill these vacancies.

**6 Systems and Controls**

Special attention is required in respect of the following items of system and control.

- (a) Accounting
- (b) Contract Administration
- (c) Control of Fixed Assets
- (d) Revenue management
- (e) Budgetary Control