

Trincomalee Urban Council

Trincomalee District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2016 had been presented for audit on 30 March 2017. The financial statements for the preceding year had been presented for audit on 05 September 2016 after a delay of 06 months. The report of the Auditor General for the year 2016 was issued to the Secretary of the Council on 14 August 2017.

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 Urban Council Trincomalee as at 31 December 2016 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) According to the audited financial statements for the year ended 31 December 2015, the balance of the quarters rent receivable amounted to Rs. 482,642. However, this balance had been brought forward during the year 2016 as Rs. 461,807. Therefore, the balance of the rent receivable had been understated by Rs. 20,835 in the financial statement.
- (b) Interest income receivable on fixed deposit amounting to Rs. 733,333 for the year under review had not been brought to the account.
- (c) Assessment Tax amounting to Rs. 11,442,929 receivable for the year under review had been shown in the Balance Sheet as receivable. However, it had not been brought to the Statement of Financial Performance as income and as such the income for the year under review had been understated by that amount.
- (d) According the Board of Survey carried out as at 31 December 2016, the total value of the General Stores Items as at that date amounted to Rs. 10,945,878. However, it had been brought

to the account as Rs. 5,495,204. Therefore, the value of the general stores items had been understated by Rs. 5,450,674.

- (e) A sum of Rs. 2,705,000 had been spent by the Council to purchase an incinerator in 2015. However, only a sum of Rs. 1,352,500 had been shown in the financial statement under fixed assets as the cost of the incinerator. As a result, the value of the total cost had been understated by Rs. 1,352,500.
- (f) 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.
- (g) Buildings such as market complex, clinic center and fire brigade had not been valued and brought to the account.
- (h) According to the Registers maintained by the Council, the balances of outstanding festival advance and book advance amounted to Rs. 84,250 and Rs. 6,750 respectively. However, those balances had been taken to the financial statement as Rs. 91,750 and Rs. 10,750. Therefore the balance of the festival advance and book advance had been overstated by Rs. 11,500.
- (i) Audit fees payables as at 31 December 2016 amounting to Rs. 3,239,972 had not been brought to accounts.

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 Accounts Receivables and Payables

The following observations are made.

- (a) Unidentified balances aggregating Rs. 6,161,644 had remained outstanding since year 2003. However, action had not been taken to recover or write it off from the books of accounts.
- (b) Unidentified credit balance amounting Rs.4,545,638 had been shown in the financial statements continuously since year 2008 without taking action to identify and settle them.

1.3.5 Lack of Evidences for Audit

Thirteen items of accounts to the total value of Rs.28,376,583 had been shown continuously in the financial statements for several years. However, it was unable to verify those items of accounts due to non-availability of any documentary evidence to prove existence of those items.

1.3.6 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) Financial Regulations of the Government of the Democratic Socialist republic of Sri Lanka	

(i) FR 396 (d)	Action had not been taken for more than 3 years with regard to 08 cheques amounting to Rs. 474,076 issued but not presented for payment.
(ii)FR 1646	Monthly performance summaries relating to 38 vehicles belonging to the Council had not been maintained and submitted to Auditor General.
(b) Public Administration Circular No. 41/90 dated 10 October 1990	Even though consumption of fuel of the vehicles should be tested over in 06 months, 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 2016 amounted to Rs.8,437,984 as compared with the excess of revenue over recurrent expenditure amounting to Rs.29,061,043 for the preceding year thus indicating a deterioration of Rs. 20,623,059 in the financial for the year under review as compared with the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

(a) The information on the estimated revenue, the actual revenue and the arrears of revenue for the year under review presented by the Secretary are given below.

Item of Revenue -----	Estimated -----	Actual -----	Cumulative Arrears as at 31 December 2016 -----
	Rs. '000'	Rs. '000'	Rs. '000'
(i) Rates and Taxes	39,555	34,788	98,369
(ii) Lease Rent	17,171	22,779	19,404
(iii) License Fees	4,720	4,258	Nil
(iv) Other Revenues	22,821	11,620	431

- (b) 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.

2.2.2 Arrears of Rent

The following observations are made in this connection.

- (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.429,432 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) The Urban Council had rented out 300 trade stalls which were located at Linganagar, Anuradapura Junction and Central Bus Stand. However, rentals aggregating Rs. 14,200,543 from 268 trade stalls had remained arrears for more than 08 years without taking action to recover them.

3. Operational Review

3.1 Management Inefficiencies

The following observations are made.

- (a) Action had not been taken to identify the total amount of court fines and stamp duties for the years 2015 and 2016 and collect them from the Provincial Treasury, Eastern province.
- (b) Six quarters had been rented out by the Council for private parties since 2005 without entering into agreements with relevant parties. However, the Council had not taken action to recover the arrears of rent up to now.

- (c) A current account maintained at the Bank of Ceylon had become a dormant account five year ago. However, action had not been taken in this regard.
- (d) Action had not been taken for more than five year to transfer the ownership of 09 vehicles donated by the Ministry of Local Government and Provincial Councils.

3.2 Operational Inefficiencies

The following observations are made.

- (a) Out of 299 shops belonging to the Council, 90 shops had remained idle since year 2011. 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 not recovered even a single amount of rentals from 21 shops amounting Rs. 1,330,104 which were rented out during the year under review.
- (c) 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, Council had not taken action to recover levy from a tourist hotel for the year 2016.

3.3 Contract Administration

3.3.1 Construction of Night Soil Treatment Plant

The Council had awarded a contract on 28 January 2012 to construct the Night Soil Treatment Plant at the contract value of Rs.6,401,355. The following observations are made in this connection.

- (a) The contractor had abandoned the construction work after obtaining payment for bills amounting to Rs.4,485,156. However, the Council had not taken action to black list the contractor.
- (b) Even though the contractor had abandoned the work half-way as mentioned above, the Provincial Engineer of the Department of Local Government had certified by his letter dated 20 November 2014 that the entire construction works had been completed satisfactorily. Accordingly, the Council had released retention money of Rs. 304,491 to the contractor.
- (c) The entire amount spent relating to this construction work had become a fruitless expenditure due to awarding contract without carrying out proper feasibility studies.

3.3.2 Erection of Electrical Fence

A contract awarded by the Commissioner of Local Government at a contract value of Rs. 893,060 on 20 June 2014 to erect electrical fence around the land which was ear marked for dumping solid waste had been monitored by the Council.

The following observations are made in this connection.

- (a) According to the specifications and drawings, the distance between two wooden poles laid for erection of fence should be 4m. However, the contractor had laid the wooden poles with the distance of 33m. As a result, 03 phase wires installed for electric fence had touched with each other.
- (b) Most of the wooden poles installed by the contractor had been damaged by the wild elephants from the date of installation due to non-supply of electricity to the electric fence.
- (c) It was observed at the field visit carried out on 15 October 2015 that the entire items used for erection of electrical fence such as wooden poles, wires etc had been removed by unknown person, Therefore, the total amount of Rs. 618,858 spent for these works had become a fruitless expenditure.

3.4 Environmental Issues

In terms of National Environmental Act No. 47 of 1980 the business entrepreneur who organize such as fuel filling stations, cement works, carpentry works, garage and rice mills should obtain environmental protection license from the Urban Council. However, the above mentioned enterprises running business without obtaining such environmental protection license.

4. Good government and Accountability

4.1 Budgetary Control

Variations ranging from 16 per cent to 52 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 use of as an effective instrument of management control.

4.2 Assets Management

4.2.1 Idle and Underutilized Assets

Fifteen vehicles belonging to the Council had remained idle at the office premises for period ranging from 01 year to 08 years without taking action to repair or dispose them.

4.2.2 Implementation of Recommendations made by the Board of Survey Committee

The following observations are made.

- (i) Board of Survey conducted for the year 2015 had recommended to sell 222 items of goods by auction and to dispose 203 items of goods and library books and to repair 430 items of goods and library books. However, those recommendations had not been implemented up to 13 June 2017.
- (ii) The Board of Survey conducted for the year 2015 had revealed a shortage of 1652 library books. However, the management had not taken necessary action up to now against the officer who is responsible for shortage of library books.

(iii) In terms of Financial Regulations 757, Board of Survey should be conducted for the year 2016. However, the Urban Council had not conducted the Board of survey up to 13 June 2017.

4.3 Unanswered Audit Queries

The Council had not taken action to reply for two audit queries issued in the year 2016 and the total value of transaction include in those audit query amounted to Rs. 6,733,227.

4.4 Human Resources Management

The following observations are made.

- (a) 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.
- (b) Vacancies existed for the posts of Health Supervisor, Mid Wife, Public Health Inspector, Translator, Technical Officer, Market Supervisor, Motor Man and Fire Man had not been filled up to the date of audit on 13 June 2017.

5. Systems and Controls

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

system	Area needed attention
-----	-----
Accounting	Improper maintenance of ledger and not recording non-current assets and revenue.
Budgetary Control	Preparation of budget estimate without forecasting the revenue and expenditure.
Revenue Administration	Long delays in collection of arrears of revenue.
Human Resources Management	Long delays in filling vacancies for key posts.
Contract Administration	Not taking action against the contractors who abandoned the construction works.