

**Kinniya Urban Council**

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**Trincomalee District**  
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**1. Financial Statements**

**1.1 Presentation of Financial Statements**

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The financial statements for the year 2016 had been presented to audit on 31 March 2017 and the financial statements for the preceding year had been presented on 13 June 2016. The report of the Auditor General for the year 2016 had been forwarded to the Secretary of the Council on 29 September 2017.

**1.2 Qualified Opinion**

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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 Kinniya Urban Council 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 Deficiencies**

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The following accounting deficiencies were observed.

- (a) A circuit bungalow had been constructed at a cost of Rs.6,161,693 and handed over to the Council in 2015 under the Puraneguma Programme. This had been shown as work-in-progress and as such the non-current assets had been understated by a similar amount.
- (b) The balance of creditors as per ledger as at 31 December 2016 amounted to Rs.300,015. This had been shown as a debit balance of Rs.3,016,376 in the Balance Sheet as at that date. As such, the creditors had been understated by Rs.3,316,091.
- (c) The Council had purchased furniture valued at Rs.1,707,967 during the year under review for the circuit bungalow. This had been shown as Rs.1,575,992 under non-current assets resulting in an understatement of Rs.131,975.
- (d) The stall rent recovered for the year under review amounted to Rs.9,529,633 as per register of rent of stalls. However, this had been shown as Rs.5,919,219 in the Revenue and Expenditure Account. As a result, the stall rent had been understated by Rs.3,610,414.
- (e) The tender deposits amounted to Rs.4,240,695 as per ledger whereas it had been shown as Rs.3,554,099 in the financial statements. As a result, the balance of tender deposits had been understated by Rs.686,596.

- (f) A sum of Rs.477,856 had been paid to the Ceylon Electricity Board for installation of electricity connection at the Periya Kinniya Crematorium. This had not been reflected in the financial statements as receivable from the Provincial Council. As such, receivables had been understated by a similar amount.
- (g) Land, buildings, plant and equipment valued at Rs.2,263,918 had not been entered in the Revenue Contributions to Capital Outlay Account resulting in an understatement of the account by a similar amount.
- (h) The assets and liabilities shown in the balance sheet for the year under review amounted to Rs.137,050,753 and Rs.110,708,613 respectively resulting in an understatement of liabilities by Rs.26,342,140.

### 1.3.2 Non-compliance with Laws, Rules, Regulations

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A summary of the financial results should be published in the government gazette In terms of Chapter 255 of the Urban Councils Ordinance for information of the general public. Such action had not been taken by the Council up to 02 August 2017.

## 2. Financial Review

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### 2.1 Financial Results

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According to the financial statements presented to audit, the excess of recurrent expenditure over revenue of the year under review of the Council for the year ended 31 December amounted to Rs.1,331,526 as against the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.925,243.

### 2.2 Revenue Administration

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#### 2.2.1 Performance in collection of Revenue

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The information relating to the estimated revenue, actual revenue and the arrears of revenue at the end of the year under review as furnished by the Urban Council appear below.

Item of Revenue -----	Estimated Revenue -----	Actual Revenue -----	Accumulated Revenue -----
	Rs.'000	Rs.'000	Arrears as at 31.12.2016 -----
	Rs.'000	Rs.'000	Rs.'000
Rates and Taxes	3,500	1,455	1,273
Lease Rent	8,471	6,569	245
Service Charges	2,111	2,508	-
Collection of Revenue	3,720	3,273	446

## **2.2.2 Revenue Administration**

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The following matters were observed.

- (a) Lease rent due from beef stalls amounting to Rs.3,192,518 and the lease rent due from fish market amounting to Rs.6,103,122, both aggregating Rs.9,295,640 remained outstanding for 08 years. These had not been recovered up to end of the year under review.
- (b) The lease rent due from week end fair and the poultry shops amounting to Rs.245,722 and Rs.17,666 respectively remained outstanding for 06 years. Action had not been taken to recover these arrears up to end of the year under review.

## **2.2.3 Rates and Taxes**

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According to the Section 160 of Chapter 255 of the Urban Councils Ordinance the rates and taxes of Rs.1,273,221 due from land, buildings and houses constructed within the area of the Council, had not been recovered from 2006 to end of the year under review.

## **2.2.4 Fees for Telecommunication Towers**

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Action had not been taken to determine the fees chargeable and to recover it accordingly from 04 telecommunication towers installed within the area of the Council.

## **3. Operating Review**

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### **3.1 Management Inefficiencies**

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The following matters were observed.

- (a) The Council had used 06 vehicles donated by several institutions for over 11 years. However, Action had not been taken to transfer the ownership of such vehicles in favour of the Council.
- (b) The Council had not installed a machine to mark the arrival and departure of employees as required by the Public Administration Circular No.03/2017 dated 19 April 2017.
- (c) The board of survey for the year 2015 had recommended to sell 97 items by auction. However, this had not been done up to now.
- (d) The officer responsible had not maintained the daily running charts of JCB machine for the period 15 March 2016 to 06 April 2017 as required by the Provincial Financial Rules 432.2 and 432.3.

### 3.2 Uneconomic Transactions

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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.2/2011 of 24 February 2011 of the Department of Pensions. However, contravening this circular instructions, contributions had been made to the Employees' Provident Fund and the Employees' Trust Fund. The contributions to the Employees' Trust Fund had been delayed from January 2013 to April 2015 and the contributions to the Employees' Provident Fund had been delayed from March 2014 to February 2015. As a result, a sum of Rs.482,710 had been paid as surcharge to these Funds.

### 4. Human Resources Management

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Action had not been taken by the Council to fill the vacancies in the posts of Secretary and the Accountant for the last 06 years.

### 5. Systems and Controls

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

<b>Systems and Controls</b> -----	<b>Matters requiring Attention</b> -----
(a) Accounting	(i) Proper updated maintenance of ledgers  (ii) Classification of Assets
(b) Fixed Assets control	(i) Maintenance of a register of fixed assets
(c) Revenue Collection	Action to be taken for recovery of arrears of revenue.