

Trincomalee Urban Council - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Trincomalee Urban Council for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021 and the income and expenditure account and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of section 181 (1) of Urban Council Ordinance (Cap.255) and the National Audit Act, No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Trincomalee Urban Council as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Urban Council's financial reporting process.

As per Sub Section 16(1) of the National Audit Act No. 19 of 2018, the Urban Council is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements.

1.4 **Audit Scope (Responsibility of the Auditor for the audit of Financial Statements)**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercised professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of its internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Urban Council, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Urban Council has complied with applicable written law, or other general or special directions issued by the governing body of the Urban Council.
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources of the Urban Council had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Report on Other Legal Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) The financial statements of the Urban Council is consistent with the preceding year as per the requirement of section 06 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The financial statements presented had included all recommendations made by me in the previous year as per the requirement of Section 06 (1) (d) (iv) of the Audit Act No. 19 of 2018.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

The following accounting deficiencies were observed.

Audit Observation -----	Comment of the Council -----	Recommendation -----
Stock value of pharmaceuticals amounting to Rs. 377,790 as at 31 December of the year under review at Ayurvedic Hospital comes under Urban Council had not been accounted,	Steps will be taken to disclose these as a note in the future.	The stock value of pharmaceuticals should be included in the financial statements.

1.6.2 Suspense Account

Audit Observation -----	Comment of the Council -----	Recommendation -----
The balance of the suspense account of Rs. 11,863,654 shown in the financial statements for more than 11 years, as at 31 December of the year under review had not been adjusted.	After detection of errors, action will be taken to adjust in the final accounts of the current year.	Suspense account should be adjusted.

1.7 Non-compliances

1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Instances of non-compliance with Laws, Rules, Regulations and Management Decisions etc. are given below.

Reference to Non-compliance with Laws, Rules, Regulations and Management Decisions etc.	Non-compliance	Comment of the Council	Recommendation
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(a) chapter 255 of the Urban Council Ordinance -----			
(i) Section 164	Although the accounts of a hostel, restaurant or canteen should have been audited by a proper recognized audit firm and charged a fee of 1 percent on its income, those recoveries had not been made by the revenue inspector.	It has been advised that the fees of 5 hostels should be paid.	Action should be taken in accordance with urban council ordinance.
(ii) Section 157(7)	Action had not been taken to recover advertising charges totalling Rs. 237,200 for the year under review	Steps have been taken to recover arrears and remove advertising boards that do not pay advertising fees.	Action should be taken in accordance with urban council ordinance.
(b) Public Administration Circular No. 02/2018 of 24 January 2018	Annual performance agreements were not signed for all staff.	Preliminary steps have been taken to sign annual performance agreements.	Appropriate action should be taken.
(c) Section 6.1 of Chapter XIX of the Establishment Code of the Democratic Socialist Republic of Sri Lanka	Appropriate measures were not taken regarding 50 officers who have been residing in government quarters for more than 05 years and no arrangements were made to provide quarters to those who applied for the new ones.	Appropriate action will be taken.	Appropriate action should be taken as per the Establishment Code.

(d) Other Circulars

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|------|--|--|---|---|
| (i) | Local Government Circular No. 2018/e Local Government-01 of 19 July 2018 | The citizens were not provided with the facilities to receive services through the internet. | A separate website has been prepared for the urban council. | Appropriate action should be taken. |
| (ii) | National Budget Circular No. 02/2017 of 25 July 2018 | At least 03 main performance indicators related to the performance results to be performed by the institution were not reported. | Steps will be taken in current year as per the relevant circular. | Action should be taken as per the circular. |

2 Financial Review

2.1 Financial Results

According to the Financial Statements presented, revenue over recurrent expenditure of the Council for the year ended 31 December 2021 amounted to Rs.2,374,395 as compared with the corresponding the revenue over recurrent expenditure of the preceding year amounted to Rs. 28,691,749.

2.2 Revenue Administration

2.2.1 Performance in Collection of Revenue

	Audit Observations -----	Comments of the Council -----	Recommendations -----
(a)	Rates and Taxes -----		
(i)	The council has to issue notices in 'k' form to the property owners to recover assessment tax on 18,533 immovable properties under the purview of the urban council. 10,130 property owners had not been notified through 'k' form in the year under review.	In the future, measures will be taken to fully issue "k" forms through revenue inspectors.	“k” forms should be issued to property owners in respect of assessment tax arrears.
(ii)	05 revenue collection officers had been appointed to collect the arrears of assessment taxes for the preceding year amounted to Rs. 97,870,729 shown in the financial statements presented by the urban council for the year under review, but they had collected only Rs. 11,123,969. This amount was only 11 percent of the outstanding amount.	Separate notice letters have been issued to arrears taxpayers.	Steps should be taken to collect assessment tax arrears.

(iii)	The assessment tax had been assessed finally by the urban council in 2009. Also, the percentage charged on annual value was only 6 percent for all properties.	A separate committee of the regional department of valuation will be appointed and further action will be taken.	Properties should be reassessed and assessment tax should be recovered accordingly.
(b)	Rent -----		
(i)	Although 167 shops were given for rent, agreements were entered for 21 shops and they were leased out for a long time without specifying the lease period.	In order to prevent the loss of revenue due to the fact that no one obtain on the lease in the years 2020 and 2021, thus steps were taken to give it again to all 21 lessees who obtained on lease in the previous year.	Arrangements should be made to properly lease the shops.
(ii)	Actions had not been taken to collect rent arrears of Rs. 17,480,539 for the period from 2009 to 2021 from 176 shops located in the central market complex.	In the period of 2022, the arrears amount of Rs. 254,130 has been recovered.	Steps should be taken to recover the arrears.
(iii)	Rents had been recovered based on estimate prepared in the period of 13 years ago.	The new rental value will be determined after valuation of the said shops made by the valuation department.	Shops should be re-assessed and fixed a new rental value.
(iv)	There were 215 shops in the central market complex, but since 2009, 48 shops were not given for rent. Due to this, total income of Rs. 33,186,816 had been lost.	Steps are being taken to change the form of the shops and convert them into a tourist resort.	Appropriate action should be taken.

3. Operational Review

The matters observed in respect of execution of activities that should be executed under Section 4 of the Urban Councils Ordinance such as regularize and control over the matters of public health, public utility services and public thoroughfares and the comfort, convenience and welfare of the people are given below.

3.1 Management Inefficiencies

Audit Observations	Comments of the Council	Recommendations
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Public Officers Quarters		

(i) Rent arrears of public officer quarters of Rs. 833,819 for more than 10 years in 109 occasions had to be recovered as at 31 December of the year under review.	Evidence is being sought to file lawsuit against those who have not paid the government quarters rent arrears and notification letters have also been issued.	Steps should be taken to collect the arrears rent of quarters.
(ii) Shop rent of Rs. 7,617,690 had been written off in contrary to Section 171 of Chapter 255 of the Urban Council Act,	A sum of Rs. 7,617,690 out of shop rent arrears has been sent for approval of the minister for writing off. However, certain ambiguities identified were rectified and sent back for approval.	The approval of the ministry should be obtained regarding write off of revenue.

3.2 Operating Inefficiencies

Audit Observation	Comment of the Council	Recommendation
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By-laws should be enacted to fulfill 30 main matters under Section 157 of the Urban Council Ordinance. However, by-laws were enacted for only 05 matters even as at 31 December 2021.	Steps are being taken to enact other by-laws.	By-laws should be enacted and required supervision should be made.

3.3 Assets Management

Audit Observation	Comment of the Council	Recommendation
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(a) Failure to perform maintenance and repairs		

45 vehicles belonging to the urban council should have been repaired for 2 to 15 years, but no action has been taken to repair or sell them by auction.	Majority of the vehicles remained unable to be repaired due to lack of necessary spare parts.	Appropriate action should be taken.

- (b) Failure to take over assets/ assets whose ownership has not been transferred

51 vehicles had been used by the urban council for a period of 03 to 35 years, but no steps had been taken to transfer the ownership in the name of the urban council.

After obtaining the approval of the chief secretary regarding these vehicle registration books, action has been taken to file a complaint with the police. -do-

- (c) Idle/ underutilized assets

The machine valued at Rs. 5,695,830 installed for incineration of hospital waste remained idle since 2018 up to now.

It was decided to appoint a committee and sell this machine at auction. -do-

3.4 Human Resources Management

----- Audit Observation -----	----- Comment of the Council -----	----- Recommendation -----
(a) Employee Vacancies and Excesses		

(i) No action had been taken to fill total number of 70 vacancies including 49 primary level posts, 19 secondary level posts and 02 senior level posts.	No answers have been given.	Appropriate action should be taken.
(ii) Although the posts of secretary and accountant of the council have existed as vacant for more than 05 years, the officers of Sri Lanka Administrative Service and Sri Lanka Accountant Service have not been recruited for that purpose.	Regarding the posts of secretary and accountant of our council, it has been submitted to the Eastern Provincial Deputy Chief Secretary (Administration) through the Eastern Provincial Commissioner of the Local Government.	-do-
(b) Employee loans		

According to the employee loan register, out of the outstanding balance as at the end of the year under review, the outstanding loan balance of the employees who worked in the period from 1993 to 2000 amounting to Rs. 729,545 had been included. Proper actions had not been taken to recover this loan amount.	Arrangements are being made to settle this balance promptly.	-do-

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Observation	Comment of the Sabha	Recommendation
According to Provincial Treasury Circular No. PT/12/2020 dated 30 December 2020, the financial statements should be submitted before February 28, but the financial statements of the year under review had only been submitted for audit on 08 April 2022.	In the near future, steps will be taken to submit the final accounts within the stipulated time after approval of the council.	The financial statements must be submitted for audit before the due date.

4.2 Internal Audit

Audit Observation	Comment of the Council	Recommendation
The Council had not appointed an internal auditor during the year under review, thus no internal audit works had been carried out.	At present, an internal auditor is appointed and list of duties was issued.	Appropriate action should be taken.

4.3 Audit and Management Committee

Audit Observation	Comment of the Council	Recommendation
Audit and management committees were established in accordance with Circular No. DMA/01-2019 dated 12 January 2019 of the Management Audit Department of the Ministry of Finance and Media, but their activities were not effectively performed.	I mention that audit and management committee meetings were held for the 1st and 2nd quarters of the current year.	Appropriate action should be taken as per the circular.