

Trincomalee Urban Council
Trincomalee District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 01 October 2015 . The financial statements for the preceding year had been presented for audit on 30 September 2014. The report of the Auditor General for the year under review was issued to the Secretary of the Council on 06 January 2016.

1.2 Disclaimer of Opinion

Because of the significance matters described in paragraph 1.3.1 to 1.3.5 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

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) Six vehicles donated by the Ministry of Local Government and Provincial Councils during the years 2010 to 2013 had not been valued and brought to accounts.
- (b) The stock of drugs remained at the stores of the Ayurvedic Centre of the Urban Council as at 31 December 2014 had not been valued and brought to accounts.
- (c) A sum of Rs.6,136,695 deducted from the salaries of the employees of the Council as pension contributions had not been remitted to the Department of Pension up to 31 December 2014. However, it had not been shown in the financial statements for the year under review.
- (d) Arrears of slaughter house rent as at 31 December 2014 amounting to Rs.143,349 had not been brought to accounts.
- (e) A sum of Rs.4,645,367 payable to the Sri Lanka Navy for water supplied to the Council had remained unsettled since year 1991. However, it had not been shown in the financial statements for the year under review.
- (f) According to the staff loan register, the balance of the outstanding loans as at the end of the year under review amounted to Rs.16,854,261. However, it had been shown as

Rs.17,581,796 in the financial statements. Therefore, the balance of the staff loans had been overstated in the financial statements by Rs.727,535.

- (g) A sum of Rs.123,913 received as interest income during the year under review from the Urban Development Authority relating to deposits had not been brought to the financial statements.
- (h) Levies amounting to Rs.430,820 collected during the year under review by the Council from the owners of hotels and restaurants established within the area of authority of the Council had not been separately shown in the financial statements.

1.3.3 Suspense Account

The credit balance of the suspense account amounting to Rs.30,153,029 had been continuously shown in the financial statements since the year 2010 without taking action to clear it.

1.3.4 Accounts Receivables and Payables

The following observations are made.

- (a) Accounts Receivable balances aggregating Rs.6,161,644 had remained outstanding since year 2003. However, action had not been taken to recover or to write-off those balances from the books of accounts.
- (b) Unidentified credit balances aggregating Rs.4,557,338 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

Evidence indicated against each item of accounts shown below had not been submitted for audit.

Items -----	Amount -----	Evidence not made available for audit -----
	Rs.	
Fixed assets	78,286,101	Register of fixed assets
Loans for utility services	5,010,261	
Staff loans	15,293,760	Letter of confirmation of balances, age analysis, detailed schedules
Recoverable utility services	110,137	
Revenue debtors	96,005,110	
Pre-payments	2,240,952	
Receipts in advance	4,533,938	
Refundable deposits	77,031,321	
Creditors	1,191,632	

1.3.6 Non – compliance with Laws, Rules and Regulations

The monthly performance summaries relating to 26 vehicles belonging to the Council had not been maintained properly in terms of Financial Regulations 433 of the Eastern Provincial Council.

2. Revenue Administration

2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

The information relating to estimated revenue, actual revenue and arrears of revenue for the year under review as presented by the Chairman are given below.

Item of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December 2014
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	Rs. '000'	Rs. '000'	Rs. '000'
(i) Rates and Taxes	62,100	31,249	80,270
(ii) Lease Rent	26,995	20,245	15,319
(iii) License Fees	8,310	3,918	-
(iv) Other Revenues	165,739	116,375	416

2.2 Arrears of Rent

The following observations are made in this connection.

- (a) Thirty three officers who occupied official quarters belonging to the Council had not paid rentals for several years and a sum of Rs.253,554 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 Council had rented out 298 stalls of the vegetable market and fish market. However, rentals aggregating Rs.14,899,765 had remained in arrears for more than 06 years without taking action to recover them.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2014 amounted to Rs.34,451,959 as compared with the excess of revenue over recurrent expenditure amounting to Rs.10,837,240 for the preceding year.

4. Operational Review
4.1 Management Inefficiencies

The following observations are made.

- (a) The gross salaries of the casual employees should be taken into consideration while computing employer and employees contributions for Employees Provident Fund (EPF). However, the Council had considered only the basic salary for computation of EPF contributions for 120 casual employees. As a result, there was a difference of Rs.2,635,185 between the total amount of contributions to be deducted and remitted to the EPF for the year under review and the actual amount of contributions deducted and remitted to the EPF.
- (b) A market building consists of 161 shops had been taken over in the year 2011 by the Council. Out of those shops, 81 shops had remained idle since year 2011. However, the Council had not taken action to rent out those shops up to now. As a result, the Council had lost an annual income of Rs.2,000,000 appropriately.
- (c) According to Section 164 of the Urban Council Ordinance, levies should be collected from hotels functioning within the area of authority of the Council based on the total income of those hotels. However, the Council had recovered levies based on the net income of those hotels. Therefore, the Council had lost revenue amounting to Rs.71,461 during the year under review.

4.2 Idle and Underutilized Assets

Twenty eight vehicles belong to the Council had remained idle at the office premises for period ranging from 01 year to 06 years without taking action to repair or to sell those by auction.

4.3 Contract Administration

4.3.1 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 entire construction works relating to the Night Soil Treatment Plant had been divided into three parts and awarded to three contractors in order to avoid obtaining approval from the relevant authorities.
- (b) In terms of Section 5.4.8 of the Government Procurement Procedure, the Procurement Entity should obtain a performance bond for a sum not less than 5 per cent of the estimated contract value to safeguard the entity in case of breach of the contract by the contractor. However, the Council had awarded this contract without obtaining performance bonds. Therefore, the Council could not take action against the contractors, even though the contractors had abandoned the construction works in the month of October 2015.

- (c) The contractors had abandoned the construction works after obtaining payment for bills amounting to Rs.4,485,156. However, the Council had not taken action to black list the contractors and re award the contract in order to complete the relevant work.
- (d) Even though one contractor had abandoned the work half-way of the stage II, the Council had released retention money of Rs.304,491 to the contractor.
- (e) 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.

4.3.2 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 solid waste treatment ground to protect it from the wild elephants had been monitored by the Council.

The following observations are made in this connection.

- (a) Even though the following items of works had not been completed by the contractor, the Provincial Engineer of the Department of Local Government had certified that the works had been completed satisfactorily and recommended to make payment of Rs.197,700 to the contractor. However following works had not been completed.

Item of Works -----	No. of Units -----	Amount Paid ----- Rs.
Solar Array 90 AMP	02	110,000
Lightning diverters	02	22,000
Galvanized earth stake with clamp	03	5,700
Check meters	03	60,000
Total		<u>197,700</u>

- (b) According to the specifications, the contractor should install the solar energizer with the capacity of 7.5 KV. However, the contractor had installed the solar energizer with the capacity of 1 KV and made the payment of Rs.160,000 as per specification. It was further observed that the solar energizer had been kept on the roof of the temporarily built hut without being properly installed.

- (c) 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 were getting touched with each other.
- (d) 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.
- (e) 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.

4.3.3 **Treatment of Garbage**

Garbage collected by the Urban Council, Trincomalee and Pradeshiya Sabha, Town and Gravest at the total weight of 19,350 tons approximately per annum are placed at the garbage treatment ground, Kanniya. However, action had not been taken by the Council with regard to treatment of garbage up to the date of audit on 15 October 2015. As a result, Garbage dumped at the forest land had caused environmental pollution and also health hazard to the wild elephant.

4.4 **Implementation of Recommendations made by the Board of Survey**

The following observations are made.

- (i) The Board of Survey conducted on 24 August 2015 had recommended to sell 199 items of goods by auction and to dispose 80 items of goods. However, those recommendations had not been implemented up to now.
- (ii) The Board of Survey conducted during the previous year revealed a shortage of 272 stores items and 218 library books. However, the management had not taken necessary action up to now against the officers responsible for shortage of stores items and library books.

4.5 **Management of Working Capital**

Bank balances ranging from Rs.41 million to Rs.55 million had remained in a Bank current account at the end of each month during the year 2014 without taking action to invest in an interest bearing Bank account.

4.6 **Human Resources Management**

The information relating to the approved cadre and actual cadre as at 31 December 2014 is given below.

Category of Employee	Approved Cadre	Actual Cadre	Number of Vacancies	Number of Excess
-----	-----	-----	-----	-----
Executives Grade	03	01	02	-
Secondary Grade	94	69	25	-
Minor Staff	186	154	32	-
Other (Casual/Temporary)	-	110	-	110
Total	<u>283</u>	<u>334</u>	<u>59</u>	<u>110</u>

The following observations are made in this connection.

- (a) The post of Accountant of the Council had remained vacant for more than 09 years. However, action had not been taken to appoint a permanent officer to this post.
- (b) Vacancies existed for the posts of Health Supervisor, Mid Wife, Public Health Inspector, Translator, Technical Officer, Librarian, Revenue Inspector, Market Supervisor, Motor Man and Fire Man had not been filled up to the date of audit on 10 October 2015.

5. Accountability and Good Governance

5.1 Budgetary Control

Variations ranging from 16 per cent to 78 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.

6. Systems and Controls

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

- (a) Accounting
- (b) Budgetary Control
- (c) Revenue Administration
- (d) Control over Fixed Assets
- (e) Stock Control
- (f) Human Resources Management
- (g) Contract Administration