

Chavakachcheri Urban Council

Jaffna District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 22 April 2013 and the financial statements for the preceding year had been presented on 27 April 2012. The report of the Auditor General for the year under review was issued to the Chairman of the Council on 17 September 2013.

1.2 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Chavakachcheri Urban Council had maintained proper accounting records for the year ended 31 December 2012 and except for the effect on the financial statements of the matters referred to in my report, the financial statement have been prepared in accordance with Generally Accepted Accounting Principles, give a true and fair view of the state of affairs of the Chavakachcheri Urban Council as at 31 December 2012 and the financial results of its operations and cash flows for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

- (a) The accounting deficiencies observed in the financial statements in respect of assets, liabilities and revenue are shown in the following table.

<u>Effect on the Financial Statements</u>	<u>Assets</u>		<u>Liabilities</u>		<u>Revenue</u>	
	<u>No of Instances</u>	<u>Value Rs.</u>	<u>No of Instances</u>	<u>Value Rs.</u>	<u>No of Instances</u>	<u>Value Rs.</u>
Understatements	-	-	-	-	06	483,069
Overstatements	01	241,156	-	-	-	-
Omissions	-	-	01	953,741	-	-

- (b) 08 vehicles received as donations from Government and Non – Governmental Organizations had not been valued and brought to account.

1.3.2 Unreconciled Control Accounts

The balance of certain items of accounts according to the control accounts amounted to Rs. 7,582,680 whilst the total of the balances of these accounts according to the subsidiary records amounted to Rs. 7,461,760.

1.3.3 Lack of Evidence for Audit

5 transactions totaling Rs. 338,155,135 could not be satisfactorily vouched in audit due to the non-submission of required information to audit.

2. Financial and Operating Review

2.1 Financial Results

According to the financial statements presented, the excess of recurrent expenditure over revenue of the Council for the year ended 31 December 2012 amounted to Rs.18,043,728 as compared with the excess of recurrent expenditure over revenue amounting to Rs. 7,178,162 for the preceding year.

2.2 Financial Control

A difference of Rs. 5,287,316 was observed between the budgeted and the actual income and a difference of Rs. 9,769,180 was observed between the budgeted and the actual expenditure in respect of the year under review, thus indicating that the budget had not been made use of as an effective tool of control.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information on the estimated revenue actual revenue and the arrears of revenue in respect of the year under review as presented by the Chairman is given below.

<u>Item of Revenue</u>	<u>Estimated</u>	<u>Actual</u>	<u>Cumulative</u> <u>Arrears as at 31</u> <u>December</u>
	Rs. '000	Rs. '000	Rs. '000
Rates and Taxes	1,271	962	4,746
Lease Rent	13,501	13,899	534
Licence Fees	769	638	-
Other Revenue	51,678	57,007	32,366

2.3.2 Revenue Management

The followings observations are made.

- (a) No action had been taken to recover market lease, rent and trade licence amounting to Rs.5,287,316 for over 10 years.
- (b) Proper / legal action had not been taken to recover rates and taxes amounting to Rs.4,745,583 receivable by the Council as at end of the year under review.

2.3.3 Revenue Loss

An agreement had not been entered into with the Ceylon Electricity Board in respect of maintenance of street lights within the area of authority of the Council during the year 1999 and the expenditure amounting to Rs. 424,210 incurred by the Council for maintenance of street lights during the year under review could not be get reimbursed from the Ceylon Electricity Board and had become a loss to the Council.

2.3.4 Court Fines

Courts fines receivable from Magistrate Courts for the year 2012 under several laws had not been brought to account for the year.

2.3.5 Stamp Fees

Stamp fees amounting to Rs. 31,073,207 receivable for the years 2006, 2007, 2010, 2011 and 2012 had not been recovered from the Registrar General of Land. Details are given below.

<u>Year</u>	<u>Outstanding Stamp fees Rs.</u>
2006	1,158,415
2007	1,513,430
2010	4,772,100
2011	11,796,117
2012	<u>11, 833,145</u>
	<u>31,073,207</u>

2.4 Assets Management

2.4.1 Staff Loans Receivable

The staff loan balances recoverable form 26 officers amounting to Rs.121,946 had remained outstanding for over five years. However, action had not been taken to recover the above balances from suerties.

2.4.2 Annual Board of Survey Report

The Council had failed to submit 83 Tamil books and 09 English books for the Annual Board of Survey carried out during the year under review.

2.5 Non - compliances

Non - compliance with the provisions in the following laws, rules, regulations and management decisions were observed during the course of audit.

Reference to laws, rules and Regulations	Non - compliances
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(a) Financial Regulation 571 of the Democratic Socialist Republic of Sri Lanka	Action had not been taken to transfer sundry deposits amounting to Rs. 295,396 for over two years to revenue in terms of the Financial Regulation.
(b) Financial rules of Northern - Provincial council Rules 101 and 102	Council had not furnished internal audit programme and quarterly audit reports to the Auditor General.

2.6 Irregular Payments

Although a three wheeler had been purchased at Rs.504,980 from Council funds in April 2012, vehicle hire charges amounting to Rs.13,500 had been paid during the year from the Council fund.

2.7 Payments of Extraneous Nature

A sum of Rs.86,610 had been paid from the Council fund for a drama and photography relating to the International Women's Day and Local Government Week.

2.8 Contract Administration

(a) Delay in Implementation of Project

Six capital works to the value of Rs.9,964,815 budgeted to implement during the year under review had not been implemented. However, provisions had been made under sundry creditors to implement the Project in future period.

(b) Completely Abandoned Projects

Two capital works to the value of Rs.3,100,000 budgeted during the year under review had not been completed and abandoned whereas a sum of Rs. 1,554,385 had been deposited in the fixed deposits account of the National Savings Bank at the end of the year. Details of work are as follows.

<u>Abandoned Project</u>	<u>Estimated Amount</u>
	<u>Rs.</u>
Palaiyadi Vinayagar Road	800,000
Shopping Complex of Market	<u>2,300,000</u>
	<u>3,100,000</u>

2.9 Operating Inefficiencies

Following observations are made.

- (a) Donations for Community Centre amounting to Rs.10,000 given by the Assistant Commissioner of Local Government during the year 2010 – 2011 had been kept in the miscellaneous deposits account without being released the money to the Community Centre.
- (b) A sum of Rs. 291,644 included in the sundry creditors account for over 05 years had not been paid up to the date of this report.
- (c) Retention money amounting to Rs.32,815 recovered from the contracts had been kept in the miscellaneous deposits account without being paid to the contractors.

- (d) Recoveries amounting to Rs.538,910 and Rs.80,837 respectively made from the employees on EPF and ETF had not been remitted to the Director EPF and ETF up to the date of this report.

2.10 Internal Audit

Adequate internal audit had not been carried out by the Council.

3. Systems and Controls

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

- (i) Revenue Collection
- (ii) Non - refundable Sundry Deposits
- (iii) Accounting
- (iv) Human Resources Management
- (e) Grants
- (f) Fixed Assets