

## Jaffna Municipal 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 13 March 2013 and the financial statements for the preceding year had been presented on 04 April 2012. The report of the Auditor General for the year under review was issued to the Mayor of the Council on 07 November 2013.

##### 1.2 Opinion

In view of the comments and observations appearing in my report, I am unable to express an opinion on the financial statements of the Municipal Council, Jaffna for the year ended 31 December 2012 presented for audit.

##### 1.3 Comments on Financial Statements

###### 1.3.1 Accounting Deficiencies

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

<u>Effect on the Financial Statements</u>	<u>Assets</u>		<u>Revenue</u>		<u>Liabilities</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	02	21,810,183	01	611,000		
Overstatements	02	245,526	03	93,236,301		
Omissions					01	112,499,034

- (b) Three vehicles and stores items received as donations by the Council had not been valued and disclosed in the accounts

### 1.3.2 Bank Accounts

- (a) As at 31.12.2012 a huge amount of unutilized money had been kept in the five current accounts maintained by the Council. Details are as follows.

Name of Bank	Current Account No	Bank Balance as per Cash Book
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		<b>Rs.</b>
Bank of Ceylon	0001093012	3,336,281
Bank of Ceylon	0001090685	2,248,629
Bank of Ceylon	0071362436	21,728,259
Bank of Ceylon	0001093048	2,302,830
Commercial Bank	1060012686	1,846,590
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		31,462,589
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- (b) A sum of Rs.31,972,098 had been shown in the bank current accounts of the Council as at the end of the year as the programmes of the annual plan had not been implemented by the Council.
- (c) Action had not been taken on returned cheques to the value of Rs. 12,642 for over ten years.

### **1.3.3 Lack of Evidence for Audit**

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#### **a) Unanswered Audit Queries**

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Replies to 21 audit queries had not been furnished for the year 2012. The value of quantifiable transactions relating to the audit queries amounted to Rs. 301,197,196.

#### **b) Delay in Replying to Audit Queries**

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Replies to 09 audit queries had been furnished after a delay of one month in year 2012. The value of quantifiable transactions relating to the above audit queries amounted to Rs. 1,965,581.

#### **c) Non-submission of Information to Audit**

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17 transactions totaling Rs.223,484,408 could not be satisfactorily vouched in audit due to the non submission of required information to audit.

## **2. Financial and Operating Review**

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### **2.1 Financial Results**

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According to the financial statements presented, the excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2012 amounted to Rs. 15,988,564 as against the excess of recurrent expenditure over revenue amounting to Rs. 39,061,204 for the preceding year.

### **2.2 Financial Control**

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(a) A difference of Rs. 23,186,183 was observed between the budgeted revenue and the actual revenue and a difference of Rs. 459,458 was observed between the budgeted expenditure and the actual expenditure indicating that the budget had not been made use of as an instrument of financial control.

- (b) Out of the total recurrent expenditure of Rs.418,171,181, the expenditure on personal emoluments was Rs.333,276,573 for year under review and it represents 80% of the total recurrent expenditure. However, only a sum of Rs.250,801,958 had been received as refund of salaries from the Commissioner of Local Government and the balance Rs.82,474,615 had been spent from Council fund.

## 2.3 Revenue Administration

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### 2.3.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

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As per information furnished by the Mayor the estimated revenue, actual revenue and the arrears of revenue in respect of the year under review are given below.

<u>Item of Revenue</u>	<u>Estimated</u>	<u>Actual</u>	<u>Cumulative Arrears as</u>
	<u>Rs. 000'</u>	<u>Rs. 000'</u>	<u>at 31 December</u>
			<u>Rs. 000'</u>
Rates and Taxes	21,200	21,684	21,396
Lease Rent	39,420	55,352	1,577
Licence Fees	9,731	12,302	2,851
Other Revenue	<u>407,501</u>	<u>365,325</u>	<u>97,172</u>
<b>Total</b>	<b><u>477,852</u></b>	<b><u>454,663</u></b>	<b><u>122,996</u></b>

### 2.3.2 Progress of Revenue Collection

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The following observations are made.

- (a) Action had not been taken to recover the arrears of revenue amounting to Rs. 27,958,104. Details are given below.

<b>Category of Income</b> -----	<b>Arrears</b> -----
	<b>Rs.</b>
Assessment Tax	21,396,250
Stall Rent	321,734
Rent on Meet Stalls	26,683
Lease on Meet Stalls	108,472
Lease on Market	1,120,503
Licence Fees	2,121,327
Trade Tax	2,850,535
Tax on Professional	<u>12,600</u>
	<b><u>27,958,104</u></b>

- (b) Services for cleaning of pits had been provided on credit basis for several parties and hence the Council had failed to recover charges amounting to Rs.782,254 during the year under review.
- (c) Water supply charges amounting to Rs. 2,102,167 had been in arrears as at end of the year under review. No meaningful action had been taken in this regard.

### **2.3.3 Loss of Revenue**

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Following observations are made.

- (a) Council had used the 05 buses donated by the Indian Government for transport services and hiring purposes. However the Council had sustained a loss of Rs.522,088 on this transport service during the year under review.
- (b) The Ceylon Electricity Board had approved the installation of street lights within the area of the Council during the year 1999. However, an agreement had not been entered into with the Ceylon Electricity Board for maintenance of street lights by the Council. As a result expenditure amounting to Rs. 1,599,750 incurred by the Council for maintenance of street lights during the year under review had not been reimbursed by the Ceylon Electricity Board.

- (c) The Council had allowed the private buses to park in a land owned by the Council near the Veerasingam Hall. However, vehicle parking charges had not been recovered by the Council.
- (d) Council had failed to recover daily tax from 05 temporary stalls constructed in Jaffna Town area. As a result the Council had lost a considerable amount of revenue.

## **2.4 Surcharges**

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The following observations are made.

- (a.) The Council had not deducted the 8% employee contribution to the Employees' Provident Fund and the Council had paid Rs.64,914 from its funds. A surcharge of Rs.65,996 had been paid due to the delay in remittance.
- (b.) The Council runs a Bicycle Park for the purpose of income generation. However a sum of Rs.11,900 had to be spent from the Council funds in respect of the value of a bicycle that had to be surcharge from the person in charge of the Bicycle Park.
- (c.) A sum of Rs. 72,211 had been paid as surcharges from the Council funds for delay in payment of electricity bills during the year under review.
- (d.) Unauthorized international telephone charges amounting to Rs.11,894 has to be surcharged from the responsible person.
- (e.) Rental charges amounting Rs. 611,000 for hiring of vehicles had been paid contrary to the provisions in the Establishments Code.

## **2.5 Assets Management**

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### **2.5.1 Idle and Underutilized Physical Resources**

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- (a) Eleven Tractors of the Council were not in running condition during the year under review.
- (b) Milo Meters of two vehicles used by the Council were under repairs.
- (c) A stock of a significant number of items including soap, washing powder, tooth paste etc. given by United Nations High Commission of Refugees had not been distributed by the Health Officer of the Council.
- (d) A stock of more than 340 items either purchased or received as donations had remained in the store without being utilized for the intended purposes for over several years.

### **2.5.2 Advance Accounts**

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The following observations are made.

- (a) Although advances should be settled immediate after the completion of the intended purposes in terms of Financial Regulation 371, advances amounting to Rs. 9,122,352 paid to an officer by the Council had not been settled up to end of the year under review.
- (b) Unsettled advances of Rs.5,438,085 shown in the financial statements included an advance of Rs.2,271,448 given prior to 1995 and a letter had been forwarded to the Governor to write off the advance and action had not been taken on unsettled advances amounting to Rs.3,166,637 remained for over 05 years.
- (c) An agreement had been entered into with Kleenwell Pvt. Ltd for Supper Market toilet sanitation cleaning works at a monthly payment of 75% of the charges recover from the lessees of the Super Market of Periya Kadai Market. However, a sum of Rs.1,125,000 had been paid from the Council funds as advances in 2010 and this amount had not been recovered from the lessees up to the date of this report.

- (d) Action had not been taken in respect of returned cheques valued at Rs. 122,680 for over 5 years and it had continued to be shown as advances in the final accounts.

### **2.5.3 Staff Loans Recoverable**

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Effective action had not been taken to recover the outstanding loans amounting to Rs.648,086 of retired officers for over 5 years from sureties and gratuities. However, these outstanding balances had continued to be shown in the final accounts.

### **2.6 Non - compliances with Laws, Rules and Regulations**

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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 Regulations and Management Decisions,**

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#### **Non - compliance**

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#### **(a) Municipal Council Act of 1987**

(i) Section 42 (1) of Chapter 252

Seventeen temporary stalls owned by the Council had been converted into permanent stalls by the private parties. But no action had been taken by the Council with regard to unauthorized constructions.

(ii) Section 188 (1) of Chapter 252

A sum of Rs. 227,404 had been paid by the Council for 4 transactions which were contrary to the objectives of the Council.

#### **(b) Establishments Code of the Republic of Sri Lanka.**

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Chapter XIV- Section 10(4)

Council had paid of vehicle hire charges amounting to Rs. 611,000 for use of rented vehicle.



**(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.**  
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(i) Financial Regulation No. 234

Action had not been taken relating to 18 cheques amounting to Rs.108,608 remained unrealized for over 06 months and it had been included in the miscellaneous deposits.

(ii) Financial Regulation No. 571

Deposits amounting to Rs. 2,829,698 over 2 years had been included in miscellaneous deposits without being transferred to revenue.

(iii) Financial Regulation No. 849(2)

International telephone charges of Rs. 11,894 had been paid out of Council funds.

**(d) Northern Provincial Financial Regulations**  
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Rules 101 and 102

Internal audit programmes and internal audit reports had not been submitted to the Auditor General, quarterly by the Council.

**(e) Inland Revenue Act No. 10 of 2006.**

Withholding Tax amounting to Rs.11,960 recovered in 2011 had not been remitted to the Department of Inland Revenue.

**(f) Valued Added Tax Act No. 14 of 2002.**

Valued Added Tax amounting to Rs. 12,077 recovered during the under review had not been remitted to the Department of Inland Revenue.

**(g) Nation Building Tax Act No. 09 of 2009.**

Nation Building Tax amounting to Rs. 2,013 recovered during the under review had not been remitted to the Department of Inland Revenue.

- (h) **Public Administration Circular No. 12/2000(iv) dated 20 January 2012.** Allowances for Trainees of the Technical College during the under review had been understated by Rs. 163,450.
- (i) **Public Administration Circular No. 22/999(X) dated 08 August 2007.** The vehicle bearing No 59 - 7103 assigned to the Mayor of the Municipal Council had been used by the Council Secretary to travel from residence to office.

## **2.7 Uneconomic Transactions**

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Following observations are made.

- (a) In terms of provisions in Section 03of Chapter XIV of the Establishments Code, duty travels should be performed at least cost. But air fair amounting to Rs. 14,900 had been paid to the Mayor to travel from Jaffna to Colombo.
- (b) A sum of Rs. 99,000 had been paid from the Council funds during the year under review for the Samsung Galaxy SII Mobile phone purchased and used by the Mayor and a sum of Rs. 10,050 had been paid for the three number of Nokia Mobil phone purchased and used by the Commissioner.
- (c) A total sum of Rs. 611,000 had been paid by the Council as vehicle hire charges for 188 days at Rs. 3,250 per day, contrary to provisions of Section 10(a) of Chapter XIV of the Establishments Code.

## 2.8 Irregular Transactions

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The following observations are made

- (a) A sum of Rs. 16,750 had been paid to supply electricity connection for the temporary stall at Muneeswaran Road of Jaffna Municipal Council area without approval being obtained from the Commissioner of Local Government.
- (b) A sum of Rs. 200,000 had been paid for provision of mobile telephone connections to the employees and the members and monthly telephone bills amounting to Rs. 154,202 had been paid from Council funds.
- (c) A sum of Rs. 197,481 had been paid as telephone charges for the telephones used by the Mayor for the period January to December 2012 without obtaining the authority from the Commissioner of Local Government.

## 2.9 Contract Administration

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### 2.9.1 Capital Works under Councils Funds

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According to the budget of the Council, a sum of Rs. 19,700,000 had been allocated from the Council funds for road works, drainage works and construction of buildings. But, according to the works plans of the current year Rs. 26,744,000 had been allocated for that expenditure showing a difference of Rs. 7,044,000 between the budget and the work plans. Details are given below.

<b>Work</b>	<b>Amount allocated as per budget</b>	<b>Amount allocated as per works plan</b>	<b>Difference</b>
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	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
Road works	11,000,000	13,063,000	2,063,000
Drainage works	5,700,000	9,118,000	3,418,000
Construction of buildings	<u>3,000,000</u>	<u>4,563,000</u>	<u>1,563,000</u>
	<b><u>19,700,000</u></b>	<b><u>26,744,000</u></b>	<b><u>7,044,000</u></b>

## 2.9.2 Delay in Implementation of Projects

- (a) Considerable delays were observed in implementation of 05 projects valued at Rs.2,107,000 under council funds. Details are given below.

<b>Details of Projects</b>	<b>Amount Allocated</b>
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	<b>Rs.</b>
Construction of bus Stand 10 A stall buildings	131,000
Ariakulam Drainage wall	659,000
Chankilian street canals	1,000,000
Repairs of 1 <sup>st</sup> Cross Street drainage	200,000
Sivalingpuliady 2 <sup>nd</sup> Lane Road works	<u>117,000</u>
	<b><u>2,107,000</u></b>

- (b) Funds amounting to Rs.7,001,915 provided under sundry creditors over 05 years for 05 capital works, funds amounting to Rs.568,544 allocated for 05 capital works in 2010 and funds amounting to Rs.1,434,908 allocated for 02 capital works during year 2011 had not been utilized. Details are given below.

<b>Work</b>	<b>Amount</b>
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	<b>Rs.</b>
<b>Works plans for year 2010</b>	
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Expansion of vehicle park of Municipal Council of Jaffna	114,093
Rehabilitation of Shenkuntha Shopping Complex building II	4,679,177
Rehabilitation of side drainage	800,000
Repairs of Ratnam Avenue	470,000
Bandara Valavu sub store.	<u>938,645</u>
	<b><u>7,001,915</u></b>

### **Works plans for year 2011**

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Construction of Kurunagar tank wall	146,901
Survey of Pannai container land	75,147
Sea side canal works	159,012
Improvement of Paasiyur vegetable market	80,000
Construction of Jaffna Minsara street mobile toilet	<u>107,484</u>
	<b><u>568,544</u></b>

### **Works plans for year 2012**

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Repairs of sea side road of Anthoniyar road drainage	995,000
Rehabilitation of Church road drainage	<u>439,908</u>
	<b><u>1,434,908</u></b>

### **2.9.3 Deficiencies in Estimates for Road Works**

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The following observations are made.

- (a) 2<sup>nd</sup> Cross Street works, Cheddy Street had been valued at Rs. 480,000 whereas according to the certificate of work completed the value of work completed was Rs. 266,566.
- (b) Although 120 working days estimated for 2<sup>nd</sup> Cross Street of Cheddy Street, as per certificate of works completed the work had been completed within 08 days.

### **2.9.4 Transactions of Contentious Nature**

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Although sum of Rs. 110,807 had been paid for rehabilitation of Hindu College Road on 20 January 2012, the Road Development Authority had also done the very same work. The reasons were not explained to audit.

## 2.10 Operating Inefficiencies

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The following observations are made.

- (a) Donations amounting to Rs. 3,147,424 received for various purposes during the year under review had not been utilized for the intended purposes and were lying in the sundry deposits account. Therefore, it was observed in audit that people living in that area had not been benefitted by the above donations given to the Council. Details are given below.

<b>Year</b>	<b>Donor</b>	<b>Purpose of Donation</b>	<b>Amount</b>
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			<b>Rs</b>
2006	UNHCR	Construction of Roads	212,000
2012	Development Lotteries Board	Cement Works	19,930
2012	High Commissioner of China	Painting of reading section of the Public Library	1,000,000
2012	Road Development Authority	Construction of Drainage	1,826,321
2012	Sinnththurai Public Library	Painting of reading section of the Library	60,000
2012	High Commissioner of China	Painting of reading section of the Public Library	29,173
			<u><b>3,147,424</b></u>

- (b) A sum of Rs. 54,334,876 had been kept in the Sundry Creditors account for more than five years without being paid up to the date of this report.
- (c) A sum of Rs. 2,944,190 payable by the Council for capital works and other payments had been kept in the Sundry Creditors account for more than one year.
- (d) W & OP, Employees Provident Fund, Employees Trust Fund and Agrahara contribution amounting to Rs. 1,297,857 recovered from employees had been kept in a deposits account and action had not been taken to remit these contributions to respective institutions up to the date of this report.

## **2.11 Internal Audit**

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

## **3. Systems and Controls**

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

- (a) Revenue Collection
- (b) Fixed Assets
- (c) Accounting
- (d) Human Resources Management
- (e) Grants and Donations
- (f) Vehicle Utilization
- (g) Tender Procedure
- (h) Miscellaneous Deposits
- (i) Budgetary Control.