

Kaththankudi Urban Council

Batticaloa District

1. Financial Statements

1.1. Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 02 April 2014 and the financial statements for the preceding year had been presented on 13 March 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Council on 04 December 2014.

1.2. Opinion

Except for the effects on the financial statements of the matters referred to in Paragraph 1.3 of this report, I am of opinion that the financial statements have been prepared in accordance with the Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Kaththankudi Urban Council as at 31 December 2013 and the financial result of its operations for the year then ended.

1.3. Comments on Financial Statements

1.3.1. Compliance with Sri Lanka Public Sector Accounting Standards

The financial statements had not been prepared in accordance with the Public Sector Accounting Standards, as stipulated in the Circular No. PL/05/PA/SFPSAS dated 27 January 2014 issued by the Secretary to the Ministry of Local Government and Provincial Councils.

1.3.2. Accounting Deficiencies

The following accounting deficiencies are observed.

- (a) 23 computers costing Rs.1,460,000, existed in the Council at the end of the year under review had not been brought to account.
- (b) The “Backhoe” Loader purchased from Council funds during the year under review had not been brought to account.

1.3.3. Accounts Payable and Receivable

The following observations are made.

- (a) Action had not been taken to recover the licence fees amounting to Rs.23,500 recoverable during the year under review .
- (b) The loan balance amounting to Rs.42,037, had been due from two officers who had died, and action had not been taken till 30 August 2014 to recover this from the death gratuity or from the sureties.

1.3.4. Lack of Evidence for Audit

The evidence indicated against the following subjects in the financial statements, had not been submitted to the audit.

Subject	Value – Rs.	Evidence not submitted
Lands and Buildings	23,362,316	Title Deeds
Plant and Machinery	2,501,435	Registers of Fixed Assets, and Reports of Survey Boards
Motor Vehicles	2,980,814	
Furniture and Fittings	2,937,684	
Office Equipment	494,595	
Library Books	1,251,373	

1.3.5. Non-compliance with Laws, Rules and Regulations

The following instances of non-compliance with Laws, Rules and Regulations were observed during the audit.

Reference of Laws, Rules and Regulations

(a) Urban Council Act (Chapter 255)

(i) Section 177 (2)

Non-compliance

The council had not taken action till 31 July 2014, to publish the summary of the financial statements of the year under review, in the Government Gazette, for public information.

(ii) Section 180 (1) The detailed annual administration report in respect of each accounting year should be prepared by the Chairman of the Council. However, such report had not been prepared for the year under review.

(iii) Section 227 (1) The members of the Town Council, officers and the employees should not directly or indirectly involve in contract work of the Council. Contravening this, the van belongs to a brother of a member of the Council had been obtained by the Council on rent, and Rs.53,595 had been paid as the rent, during the year under review.

2. Financial Review

2.1. Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2013 amounted to Rs.4,444,446 as against the excess of recurrent expenditure over revenue amounting to Rs.64,660 in the preceding year. Therefore financial result of the year under review had shown an improvement of Rs.4,509,106 in comparison to the preceding year.

2.2. Revenue Management

2.2.1. Performance on Revenue Collection

Significant variances were observed between the Estimated Revenue and the Actual Revenue, submitted by the Sabha for the year under review.

Source of Revenue	Estimated Revenue	Actual	Variance	Percentage
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	Rs.	Rs.	Rs.	%
(i.) Rates and Taxes	7,500,000	6,807,470	692,530	9.2
(ii.) Charges for the Services	5,825,000	4,235,892	1,589,108	27.3
(iii.) Warrant Charges	2,575,000	2,506,094	68,906	2.7
(iv.) Stamp Fees	5,200,000	3,688,199	1,511,801	29.1

2.2.2. Rates and Taxes

Action had not been taken as stipulated in Section 160 of the Town Council Act (Chapter 255), to recover the rates and taxes totalling to Rs.4,389,991 receivable for the period till the end of the year 2013, in respect of the lands, and constructed houses and buildings, situated within the area under the authority of the Council.

2.2.3. Court Fines

The amount receivable under each Act from the Magistrate Courts as at 31 December 2013 amounted to Rs.749,294, and necessary action had not been taken to recover the amount from the Chief Secretary of the Provincial Council.

3. Operating Review

3.1. Management Inefficiencies

The following observations are made.

- (a) A passenger boat had been used to transport passengers between Trincomalee and Kinniyawa, and after the construction of the bridge between two cities, this boat had been transferred to Kaththankudi, incurring a cost of Rs.323,550. But the boat had not been used for a period of about two years.
- (b) The Council had not been able to pay the monthly contributions for the pension scheme of Local Authorities, and the contributions payable by the Council from the year 1995 till the end of the year under review, amounted to Rs.2,375,058.
- (c) Before establishing the Pradeshiya Sabha in 1987, the Council had functioned as a Town Council, and during this period the electricity had been provided to the general public on behalf of the Electricity Board. The following were observed in respect of this matter.
 - (i) The advance payment which had been provided to the Electricity Board amounted to Rs.2,399,352 and suitable action had not been taken by the Council since the year 1991, to recover the advance.
 - (ii) The electricity charges in arrears payable by the customers to the Electricity Board for providing electricity, amounted to Rs.6,642,880, and necessary action had not been taken, over last 20 years to recover the arrears.

3.2. Purchasing of Backhoe Loader

The Council had purchased a Backhoe Loader at a cost of Rs.11,900,000 (JCB type JCB 3CX 4WD). The followings are observed on this.

- (a) The members of the tender board related to the purchasing of Backhoe Loader, had opened the tender documents on 06 March 2013. The Secretary of the Council is a member of the tender board and he had participated in the activities of the tender documents opening, but had not signed.
- (b) Though two organizations had submitted lower quotations, a Loader produced in United Kingdom had been purchased at a cost of Rs.11,900,000, from a organization which had forwarded highest quotations. However if type “JCB 3DX Super” Loader was purchased, Rs.2,740,00 would have been saved.
- (c) Though it was possible to obtain Free Services from the distributing institute as per agreement, maintenance services had been carried out twice during the year under review, spending Rs.186,696 from the Council funds.
- (d) During the year under review, the Manmunai Pattu Pradeshiya Sabha had purchased a Backhoe Loader of the same type from the same organization for Rs.11,800,000.

3.3. Solid Waste Management

The vehicles of Tipper type had been obtain on rent from the private sector during the year under review, incurring a cost of Rs.2,309,150, to transport the garbage collected within the area under the authority of the Council to the location “Engineering Landfill Facility” which is situated within the authority of the Addalachenai Pradeshiya Sabha. The following are observed about this matter.

- (a) Though a sum of Rs.225,000 had been paid on five instances as rent for dumping the garbage at the garbage collection location of Addalachenai Pradeshiya Sabha, the owners of the vehicles had not produced relevant documents to prove that garbage had been dumped.

- (b) In one instance, without following the tender procedure, a garbage transporting rent of Rs.448,800 had been paid to a person, who is involved in the tender procedure of the Council.
- (c) A compost fertilizer centre had been constructed during the year under review, under the “Pilisar” programme, incurring a cost of Rs.1,669,227. The following are observed about this matter.
- (i) Twelve blocks of land owned by general public had been purchased incurring a cost of Rs.6,500,000 to construct a compost centre. However the market value of the land had not been assessed by the Department of Valuation.
- (ii) A sum of Rs.326,500 had been paid to a private lawyer from the council funds, as the charges for preparation of deeds, without collecting from the land owners.

4. Accountability and Good Governance

4.1. Internal Audit

Though the Section 8 of the Local Government Restructure Circular No. 03 dated 08 November 2005 stipulates that each Local Authority should establish an internal audit section depending on their capacity, an internal audit section had not been established in the Sabha.

4.2. Budgetary Control

The variances in the range of 47% to 85% were observed between the estimated expenditure and the actual expenditure. Therefore it was observed that the budget had not been made use of as an effective tool of management control.

5. Systems and Controls

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

- a) Accounting
- b) Contract Administration
- c) Fixed Assets Control
- d) Revenue Management
- e) Budgetary Control