

**Kalmunai Municipal Council
Ampara 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 September 2015 and the financial statements for the preceding year had been presented on 09 September 2014. The report of the Auditor General for the year under review had been forwarded to the Secretary of the Council on 08 December 2015.

1.2 Qualified Opinion

In my opinion, except for the effects on the financial statements of the matters shown in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Kalmunai Municipal Council as at 31 December 2014 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.2 Accounting Policies

The accounting policies adopted in preparing the accounts had not been disclosed in the financial statements.

1.3.1 Compliance with Sri Lanka Public Sector Accounting Standards

Cash flow statements had not been furnished with the financial statements in terms of Sri Lanka Public Sector Accounting Standard No. 02.

1.3.3 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) Provision had not been made in the accounts for the audit fees of Rs.18,500 payable for the year under review.
- (b) According to the ledger, the balance of refundable deposit as at end of the year under review amounted to Rs.32,344,040. However, the balance concerned had been shown as Rs.31,221,629 in the financial statements for the year under review. As such, the balance of deposit had been understated by Rs.1,122,411.

- (c) The revenue receivable from interest on fixed deposits of the Sabha amounting to Rs.24,379,424 for the year under review amounted to Rs.3,090,687. This had not been brought to accounts.
- (d) According to the ledger, the balance of employees' loans as at end of the year under review amounted to Rs.8,007,878. However, this had been shown as Rs.8,089,127 in the financial statements resulting in an overstatement of the balances of employees' loans by Rs.81,249.
- (e) The total net value of fixed assets as at 31 December 2013 had been shown as Rs.203,471,540 in the financial statements. This had been shown as Rs.153,492,042 while being brought forward as at 01 January 2014. As a result, the total net value of fixed assets as at end of the year under review had been understated by Rs.50,145,498.
- (f) Quotations had been called for, to purchase an amplifier during the year under review and the purchase price had been overstated by Rs.49,950 while bringing it to account. As a result, the value of assets had been overstated by a similar amount.
- (g) The value of the "TATA ACE ZIP" vehicle purchased by the Sabha for the Rs.695,000 during the year under review had not been shown in the accounts.
- (h) The amount receivable from the lease of meat stalls as at end of the year under review amounted to Rs.2,972,603. Meanwhile, a sum of Rs.247,717 had been granted to the lessees as a relief measure on behalf of the cattle that had fallen sick. This amount had not been brought to accounts.
- (i) According to the information obtained in audit, the sum of Rs.417,875 paid to a private institution on 11 November 2014 for repairs to vehicles had been brought to accounts as assets instead of expenditure.

1.3.4 Accounts Receivable

 The following observations are made.

- (a) The lease rent of Rs.13,768,753 for the period 1987 to 2012 had not been recovered upto now. Action had not been taken upto the date of audit of 05 October 2015 to recover this amount to take legal action against the lessees.
- (b) Action had not been taken upto 05 October 2015, the date of audit, to recover or to take legal action with regard to the arrears of tax of Rs.6,436,834 for the period 1987 to 2012 which remained unrecovered upto now.

- (c) Four hundred and seventy five stalls of the public market had been given on lease in 1987. However, a sum of Rs.13,497,553 was receivable from lessees of stalls for the period 1996 to 2013. Action had not been taken upto 05 October 2015, the date of audit, to recover this amount or to take legal action against the lessees.
- (d) The arrears of parking charges for bicycles and vehicles for the period 1996 to 2013, which still remains unrecovered, upto now, amounted to Rs.3,325,163. Action had not been taken to recover this amount or to take legal action upto 05 October 2015, the date of audit.

1.3.5 Lack of Evidence for Audit

The following evidence indicated against each item of account had not been furnished for audit.

Item -----	Value ----- Rs.	Evidence not Furnished -----
Land and buildings	119,239,060	} Register of fixed assets and board of survey reports. } Confirmation of balances and register of creditors
Furniture and fittings	4,751,565	
Machines and machinery	5,86,250	
Motor vehicles and carts	11,130,013	
Creditors	9,945,808	
Arrears of stalls of the public market	13,497,553	Register of lease
Arrears of advances	34,981,246	Register of advances

1.3.6 Non-compliance with Laws, Rules, Regulations etc.,

Instances of non-compliance with the following laws, rules, regulations and management decisions were observed in audit.

Reference to Laws, Rules and Regulations

Non-compliance

(a) Municipal Councils' Ordinance

Section 218 of
Chapter 252

The annual administrative report to be prepared by the Commissioner regarding his administration had not been prepared and presented for the year 2015.

(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

(i) F.R 396(d)

Action had not been taken in terms of the provisions with regard to 10 cheques totalling Rs.69,462 which had not been presented to the bank since the date of issue.

(ii) F.R 571

Action had not been taken in terms of the financial regulation with regard to 12 lapsed deposits valued at Rs.989,162.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2014 amounted to Rs.4,559,836 as against the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.2,190,353 showing a deterioration in financial results of the year under review amounting to Rs6,750,189.

2.2 Revenue Administration

2.2.1 Rates and Taxes

The recovery of rates and taxes of Rs.83,475,778 due from 45,545 owners of properties from 1988 to the year under review had been entrusted to 05 tax recovery officers and 03 restraining officers in 2012 in terms of Section 251(1)(b) of the Municipal Councils Ordinance. However, the amount recovered during the year under review with regard to the previous year amounted to Rs.5,285,342 only.

3. Operating Review

3.1 Management Weaknesses

(a) The arrivals and departures of each officer should be noted in the register of attendance with signature in terms of Section 1.3 of Chapter xxviii of the Establishments Code. However, the medical officer and the Engineer of the Municipal Council had not signed the register of attendance to denote the arrivals and salaries and allowances amounting to Rs.538,440 and Rs.311,220 respectively had been paid to them for the period January to December 2014.

- (b) According to the Public Administration Circular No.09/2009 of 16 April 2009 of the Ministry of Public Administration and Home Affairs, it had been stated that officers of all institutions should use the finger print machine to confirm their arrivals and departures. However, a finger print machine had not been installed in the Municipal Council upto 05 October 2015, the date of audit where 177 persons work.
- (c) Action had not been taken upto 05 October 2015 to recover the loan balances of Rs.339,973 from 08 officers who had gone on change of station transfers 2 years ago.
- (d) The Council had purchased street lights and fittings for Rs.1,194,675 to maintain street lighting during the year under review. However, the goods concerned had not been handed over at the stores of the Council. The Secretary of the Council had directly taken over and distributed them. As such, it was not confirmed in audit whether the goods concerned had been used for the required needs.
- (e) The Municipal Council had paid Rs.222,300 to purchase building materials from the funds of the Municipal Council for building a kovil. However, the Municipal Council had not purchased those building materials to complete the work upto the date of audit of 05 October 2015. The Ampara District Secretariat had spent Rs.391,020 under the “Deyata Kirula” Programme of 2013 for the said work.
- (f) Six cheques valued at Rs.544,154 had been obtained from 3 lessees of meat stalls in 2013 and the year under review and had been banked during the said period. Subsequently, the bank had rejected payments. However, action had not been taken upto 05 October 2015, the date of audit, to recover money from the lessees for the rejected cheques or to take legal action against the lessees.
- (g) The Municipal Council had purchased a laptop computer for Rs.85,000 in 2013 and had handed over it to an executive officer for the office needs. The officer concerned had gone on transfer on 30 April 2014. However, the Municipal Council had not taken action to receive it back upto 05 October 2015, the date of audit.
- (h) A sum of Rs.123,000 had been paid in 2013 to prepare and install a plaque to clearly show the place where the office had been established. However, the plaque concerned had not been installed at the Municipal Council upto date of audit, that is, 05 October 2015.

3.2 Idle Assets

The Sabha had 07 tractors, 04 trailers, 01 water, bowser, 01 pickup vehicle, one excavator etc., which could be repaired and made use of. But, these remained idle for over 2 years without action being taken to repair and make use of them.

4. Accountability and Good Governance

4.1 Internal Audit

Paragraph 8 of the circular No.03 dated 08 November 2005 of the Ministry of Local Government relating to Local Government Reforms states that each local authority should establish their own internal audit branch according to their ability. The Sabha had not established an internal audit branch as directed.

4.2 Unresolved Audit Queries

Replies had not been furnished upto now for 24 out of 25 audit queries issued during 2011 to end of 2014.

5. Systems and Controls

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

- (a) Accounting
- (b) Collection of Revenue
- (c) Fixed Assets Control