

Jaffna Municipal Council
Jaffna District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2017 had been presented to Audit on 09 April 2018 and the Report of the Auditor General on those financial statements had been forwarded to the Mayor on 28 September 2018.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Jaffna Municipal Council as at 31 December 2017 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Policies

Accounting policies adopted in preparing the financial statements had not been disclosed in the financial statements.

1.3.2 Accounting Deficiencies

The following matters were observed.

- (a) Values of seventy-one properties belonging to the Council had not been assessed and brought to financial statements, thus the value of the properties had been understated in the financial statements for the year under review.
- (b) It was observed that a sum of Rs. 115,168,996 requested by the Director General of Pensions in respect of pensions and pensionable benefits of officers of Local Government Service had not been brought to financial statements .
- (c) Arrears of rates had not been computed by the Council as per issued schedules, thus it had been computed as 6 per cent on assessment of property erroneously. As a result, total arrears of rates accumulated by the end of the year had been overstated by Rs. 78.74 million

1.3.3 Unreconciled Accounts

The following matters were observed.

- (a) Differences ranging from Rs. 19,757 to Rs. 236,177 between the recovery of revenue and arrears of revenue included in the financial statements of the year under review and corresponding such balances shown in the revenue register were observed.
- (b) A difference of Rs. 11 million between the arrears of rates and taxes included in the financial statement of the year under review and computed rates and taxes was observed. However, reasons for it had not been made available to audit.

1.3.4 Lack of Evidence for Audit

----- Non-presentation of Information to Audit -----

Advance payments totalling Rs. 7,112,085 could not be satisfactorily vouched in audit due to non-submission of receiver details, provided purpose and issued date.

1.3.5 Non-compliances

----- 1.3.5.1 Non-compliances with Laws, Rules, Regulations and Management Decisions -----

Instances of non-compliance with laws, rules, regulations and management decisions are given below.

Reference to Laws, Rules, Regulations and Management Decisions	Value	Non-compliances
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	Rs.	
(a) Municipal Councils Ordinance of the year 1987		
(i) Section 42(1) of Chapter 252	-	Twelve temporary stalls belonging to the Council had been converted to permanent stalls whilst no meaningful actions had been taken by the Council relating to the unauthorized buildings.
(ii) Section 42(a) of Chapter 252	-	No action had been taken in respect of nine buildings of telecommunication towers constructed without being obtained approval from the Council.
(iii) Section 230 of Chapter 252	-	Assessments of property had not been carried out by the Council for over the last 05 years.

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| (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka | | |
| (i) Financial Regulation 371 | 549,000 | Advance for bicycle issued to 50 employees of the Council by the Minister of Traditional Industries and Small Enterprise Development in the year 2011 had not been settled up to now. |
| (ii) Financial Regulation 571 | 2,678,118 | Twenty-four miscellaneous deposits had been retained in the deposit account for more than two years without being taken actions. |
| (iii) Financial Regulation 849(2) | 13,993 | International call charges had been paid to three members of the Municipal Council from the fund of the Council. |
| (c) Ministry of Public Administration and Management Circular No. 30/2016 dated 29 December 2016 | | |
| | - | Fuel consumption had not been tested for 33 vehicles of the Council for over the last one year. |
| (d) Finance circular of Northern Province
No. PF/01/2017 of 07 March 2017 | | |
| | - | Security money had not been obtained from 36 officers who were given responsibility administratively or under delegation of authority to obtain money and store goods or to keep them in safe custody. |
| (e) Financial Rule of Northern Province
Rule No. 69 | | |
| | - | The Council had failed to take meaningful action for the last three years in respect pickup vehicle of the Council which had met with an accident. |

1.3.5.2 Non-compliance with Tax Requirements

Annual vehicle revenue license had not been computed and paid for 21 vehicles which were being used by the Council in the year under review.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue over recurrent expenditure of the Council for the year ended 31 December 2017 amounted to Rs. 231,451,523 as compared with the corresponding the revenue over recurrent expenditure of the preceding year amounted to Rs. 143,963,688.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information on the estimated revenue, billed revenue, collected revenue and arrears of revenue presented relating to the year under review and the preceding year is given below.

Source of Revenue	2017				2016			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December
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	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	74,677,000	50,796,815	77,086,379	78,740,943	60,800,000	51,730,391	74,086,322	77,968,600
(ii) Rentals	103,932,000		101,762,393		90,292,000		78,669,607	
(iii) License Fees	68,489,000		65,046,106		69,962,000		70,020,699	
(iv) Other Revenue	102,902,000		170,746,912	260,474,339	80,737,000		123,390,323	370,972,912
	350,000,000	50,796,815	414,641,790	339,215,282	301,791,000	51,730,391	346,166,951	448,941,512

2.2.2 Rates and Taxes

Rates

The following matters were observed.

- (i) It was observed that 57,360 schedules had not been written in form "K" and issued to the owners of the properties to recover rates for the last 03 years. In this regard, two types of fees totalling Rs. 200,760 on the basis of Rs. 3.50 per each had been paid to officers. However, no meaningful actions had been taken by the Council to issue such schedules up to the end of the year under review and reasons for it had not been made available to audit.
- (ii) Deficiencies ranging from 15 per cent to 40 per cent were observed in number of issued schedules during the last 03 years and deficiencies in issuing schedules had not been verified satisfactorily due to non-submission of confirmation rates in respect of number of properties identified by the Council, number of properties written in schedules and number of properties which schedules issued and differences among them to audit.
- (iii) No meaningful actions had been taken by the Council to recover arrears of assessment taxes totalling Rs. 78,740,943 up to the end of the year under review.

2.2.3 Rentals

The following matters were observed.

(a) **Stall Rent**

No meaningful actions had been taken by the Council to recover arrears of rents totalling Rs. 660,000 for 04 stalls which situated in new market shopping complex for the last five years.

(b) **Lease on Trade Ownership**

No meaningful actions had been taken by the Council to recover arrears of leases totalling Rs. 1,232,634 for the last five years.

2.2.4 License Fees

The following matters were observed.

(a) **Trade Licenses**

No meaningful actions had been taken by the Council to recover arrears of market stall licenses totalling Rs. 240,534 for over the last five years.

(b) **Professional Licenses**

According to the Gazette notification No. 2055 of the Democratic Socialist Republic of Sri Lanka dated 19 January 2017 and Sub section 247(c) of section 147 of Chapter 252 of Municipal Councils Ordinance No. 19 of the year 1978, it was mentioned that trade tax should be recovered ranging from Rs. 2,000 to Rs. 5,000. However, no meaningful actions had been taken by the Council to recover total sum of Rs. 777,663.

2.2.5 Stamp Fees

Stamp fees of Rs. 96,918,652 had to be received continuously as at 31 December 2017.

3. Operating Review

3.1 Management Inefficiencies

The following matters were observed.

(a) **Failure to recover Losses and Damages**

The following matters were observed.

- (i) Out of revenue collected by the Public Management Assistant of Physical Panning Division of the Council by issuing receipt in the year 2016, a total

sum of Rs. 2,614,429 had been obtained by him fraudulently. However, it was observed that meaningful actions to recover such amount had been delayed for over the last 01 year.

- (ii) No meaningful actions had been taken in respect of a cash shortage of Rs. 3,710 and returned cheques from the bank amounting to Rs. 21,222 relating to Electrical Section for the last five years.

(b) Failure to utilize Reserves

The Council had made reserves from revenue for various purposes annually. However, such reserves had remained without being utilized for intended purposes. Details are as follows.

Reserve	Arrears as at 31 December 2017	Annual Reserve				
		2017	2016	2015	2014	2013
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Development Reserve	20,875,028	26,102	1,264,681	13,035,789	-	-
(ii) Public Fund Reserve	21,834,279	14,052,807	3,555,481	-	-	-
(iii) Public Library Fund Reserve	114,157,751	9,962,643	6,206,397	14,821	-	-
(iv) Urban Development Reserve	13,931,674	4,871,039	1,972,390	2,171,021	1,847,873	1,222,761

3.2 Human Resources Management

The following matters were observed.

- (a) It was observed in audit that the Council had not recruited and deployed human resources properly. As a result, works to be completed by 188 human resources had been delayed in the year under review.
- (b) No meaningful actions had been taken up to now in respect of three electricians who were appointed contrary to the service minutes in the years 2013 but do not have professional qualifications.
- (c) No meaningful actions had been taken by the Council to recover arrears of staff loan totalling Rs. 652,486 due from 133 officers who retired from the service for more than last five years.

3.3 Transactions in Contentious Nature

According to the contract made by the former Mayor of the Council with a private company on 31 January 2011, a Vannankulam land in extent of 7.295 lachams belonging to the Council had been handed over without being obtained approval of the Council and 28 shopping complexes had been constructed by the contractor in that property without being obtained

approval from the Council and other authorities properly and initial deposit money totalling Rs. 102.96 million had been obtained from stall tenants. However, no meaningful actions had been taken by the Council up to the end of the year under review in respect of non-obtained permission from the Council and revenues to be credited by the contractor to the Council in respect of these transactions.

3.4 Assets Management

3.4.1 Failure to carry out Maintenance and Repairing

Five vehicles belonging to the Council had remained in damaged condition at vehicle park for the last 05 years to 22 years without being taken action to repair. However, causes for it had not been made available to audit.

3.4.2 Failure to handed over Assets

Ownership of thirty-four vehicles being used by the Council had not been transferred to the name of the Council.

3.4.3 Idle Assets

Thirty-one vehicles had remained idle at vehicle park. Even though such vehicles could not be changed to usable condition, reasons for it had not been made available to audit.

3.4.4 Annual Board of Survey

No actions had been taken up to now in accordance with the recommendation of the annual board of survey for the year under review in respect of shortages of 67 goods and 3,156 items not entered in the inventory register. However, reasons for it had not been made available to audit.

3.5 Uneconomic Transactions

The following matters were observed.

- (a) Fifteen tractors had been obtained on the basis of rental to collect wastes and a sum of Rs. 15,110,203 had been paid in the year under review without being taken actions to repair 37 tractors which had remained in damaged condition in the Council.
- (b) A pickup vehicle had been examined by a private company for repairing instead of examining by a mechanical engineer and a sum of Rs. 43,326 had been paid as examination fees in the year 2015.

3.6 Irregular Transactions

According to the Circular No. 21 dated 11 August 2008 of the Urban Development Authority, it was stated that a committee includes mayor, deputy mayor and commissioner and divisional heads who involved activities in granting approval for planning in the year under review.

However, contrary to that, a sum of Rs. 497,500 had been paid to chief accountant, management assistants, development officers, technical officers and minor employees for participation of planning meeting. Further, a total sum of Rs. 150,000 had been paid to medical health officer, engineer and in charge of assessment tax section without being defined the officers include the divisional heads who involved activities in granting approval for planning clearly.

4. Accountability and Good Governance

Budgetary Control

Variances ranging from Rs. 1,904,801 to Rs. 67,846,912 or from 9 per cent to 66 per cent between the budgeted revenue and actual revenue and from Rs. 386,525 to Rs. 29,177,183 or 11 per cent to 44 per cent between the budgeted expenditure and actual expenditure were observed.

5. Systems and Controls

Deficiencies observed during the course of audit were brought to the notice of the Council from time to time. Special attention is needed in respect of the following areas of control.

Systems

Accounting

Deficiencies

Failure to maintain register of tax on land sales and register of computer maintenance.