

Jaffna Municipal Council

Jaffna District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial statements for the year under review had been presented for audit on 12 April 2011 and the financial statements of the preceding year had been presented for audit on 30 March 2010.

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 Municipal Council, Jaffna had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph from 1.3 of this report, the financial statements have been prepared in accordance with Generally Accepted Accounting Principles, give a true and fair view of the state of affairs of the Municipal Council, Jaffna as at 31 December 2010 and the financial results of its operations and cash flow for the year then ended.

1.3 Comments on the Financial Statements

1.3.1 Accounting Policies

Accounting policies adopted for the preparation of Financial Statements had not been disclosed with the Financial Statements.

1.3.2 Accounting Deficiencies

The accounting deficiencies observed in audit in terms of revenue, expenditure, assets and liabilities under the number of instances and values are given in the following table.

	<u>Revenue</u>		<u>Expenditure</u>		<u>Assets</u>		<u>Liabilities</u>	
	<u>Number</u>	<u>Value</u>	<u>Number</u>	<u>Value</u>	<u>Number</u>	<u>Value</u>	<u>Number</u>	<u>Value</u>
	<u>of</u>	<u>Rs.</u>	<u>of</u>	<u>Rs.</u>	<u>of</u>	<u>Rs.</u>	<u>of</u>	<u>Rs.</u>
	<u>Instances</u>		<u>Instances</u>		<u>Instances</u>		<u>Instances</u>	
Overstatements								
in the Accounts	-	-	04	890,627	01	86,463,089	-	-
Understatements								
in the Accounts	01	151,256	01	1,040,332	-	-	-	-
Omission in the								
Accounts	-	-	01	647,238	01	14,417,581	03	145,173,819

1.3.3 Bank Reconciliation

- a. Delays were observed in the presentation of Bank Reconciliation Statements in respect of the five Bank Accounts of the Council.
- b. Action in terms of Financial Regulations 189 and 486 had not been taken on one dishonored cheque valued at Rs. 46,000.
- c. Proper action had not been taken in terms of Financial Regulation 396(d) in respect of 10 cheques valued at Rs.833,425 lapsed for more than six months from the date of issue.

1.3.4 Accounts Payable

Value of balances of accounts payable older than 01 year as at 31 December 2010 amounted to Rs. 71,511,683

1.3.5 Unauthorized Transactions

A sum of Rs. 5,478,358 had been withdrawn from the fixed deposits without the Council approval for the payment of salaries and wages and several other purposes.

1.3.6 Lack of Evidence for Audit

a) Unanswered Audit Queries

Replies to 12 Audit Queries had not been furnished as at 30 June 2011 and the value of quantifiable transactions relating to those audit queries amounted to Rs.10,796,436.

b) Non-Submission of Information

Transactions valued at Rs.1,572,615 could not be satisfactorily vouched in audit due to unavailability of information required for audit.

1.3.7 Non-compliances

Non –compliances with the provision in the following laws, rules, regulations and management decisions were observed during the course of audit.

<u>Reference to Laws, Rules and Regulations and Management Decisions</u>	<u>Non-compliance</u>
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<u>(a) Municipal Councils Ordinance (Cap 252)</u>	
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(i) Section 247 [A]	
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	Council had recovered license fees amounting to Rs. 44,600 from 5 hotels without obtaining the approval from the Sri Lanka Tourism Development Authority.
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(ii) Section 218	
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	Administration report for the year 2010 had not been submitted to the Council.
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<u>(b) Northern Provincial Financial Rules</u>	
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Financial Rule 433	
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	Council had not furnished Daily Running Charts and Monthly Performance Summaries of 09 motor vehicles to the Auditor General.
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(c) **Financial Regulations of Republic of Sri Lanka.**

Financial Regulation 571

Lapsed deposit amounting to Rs.7,919,918 in the Miscellaneous Deposit Account had not been disposed of in terms of the Financial Regulations.

(d) **Inland Revenue Act 2006**

Section 153

The withholding Tax amounting to Rs.108,616 had not been recovered from suppliers and contractors .

(e) Public Administration Circular No. 17/2007

The cost of living allowance amounting to Rs. 164,371 had been paid to re-employed staff contrary the circular instruction.

2. Financial and Operating Review

2.1 Financial Results

According to the Financial Statements presented the excess of expenditure over the revenue of the Council for the year ended 31 December 2010 amounted to Rs.751,253 as against the excess of revenue over the recurrent expenditure amounting to Rs.30,405,278 for the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue Actual Revenue and Arrears of Revenue

The information on the estimated revenue, the actual revenue and the arrears of revenue for the year under review and the preceding year presented by the Mayor is given below.

<u>Item of Revenue</u>	<u>2010</u>			<u>2009</u>		
	<u>Estimated</u>	<u>Actual</u>	<u>Accumulated</u> <u>Arrears as at</u> <u>31 December</u>	<u>Estimated</u>	<u>Actual</u>	<u>Accumulated</u> <u>Arrears as at 31</u> <u>December</u>
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
	000	000	000	000	000	000
Rates and Taxes	13,553	15,114	26,348	13,114	15,918	29,049
Lease Rent	19,840	23,975	2,165	17,765	19,806	3,000
Licence Fees	3,213	5,054	7,578	3,082	2,706	7,954
Other Revenue	357,429	287,110	37,712	284,027	251,028	1,830

2.2.2 Courts Fines

Action had not been taken to recover Courts fines amounting to Rs. 2,271,383 collected under various Ordinances by the Magistrates' Court, Jaffna and remitted to Chief Secretary up to 31 December 2010.

2.2.3 Stamp Fees

Action had not been taken to recover a sum of Rs. 33,036,632 receivable as at 31 December 2010 from the Registrar General as stamp fees.

2.2.4 Revenue Recoverable

- a) Action had not been taken to recover the arrears of Rates, Lease Rent License Fees and other revenue amounting to Rs.73,803,080 recoverable as at 31 December 2010 in respect of preceding year in terms of Section 254(a) (1) and (2) of Municipal Councils Ordinance(cap 252)

- b) Rates billed by the Jaffna Municipal Council from January to December 2010 amounted to Rs. 7,502,717 and the rates in arrears as at 31 December 2010 amounted to Rs. 23,924,982. Out of these arrears, the arrears due from Government and Government affiliated institutions amounted to Rs. 392,154.
- c) Action had not been taken to recover 1 per cent tax from the revenue earned by the hotels which are registered in the Sri Lanka Tourism Development Authority and located with the area of authority of the Council in terms of Section 247(A) of the Municipal Councils Ordinance. (cap 252)

2.3 Expenditure structure

The budgeted and the actual expenditure of the Council for the year under review and the preceding year together with the variance are given below.

<u>Item of Expenditure</u>	<u>2010</u>			<u>2009</u>		
	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
	<i>Rs.</i> <i>000</i>	<i>Rs.</i> <i>000</i>	<i>Rs.</i> <i>000</i>	<i>Rs.</i> <i>000</i>	<i>Rs.</i> <i>000</i>	<i>Rs.</i> <i>000</i>
<u>Recurrent Expenditure</u>						
Personal						
Emoluments	327,085	266,405	60,680	257,483	222,707	34,776
Other	49,762	65,600	(15,838)	44,794	36,345	8,449
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Sub-total	376,847	332,005	44,842	302,277	259,052	43,225
Capital Expenditure	21,387	26,892	(5,505)	34,102	30,218	3,884
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Grand Total	398,234	358,897	39,337	336,379	289,270	47,109
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2.4 Approved and Actual Cadre

Particulars of the approved and actual cadre of the Council as at 31 December 2010 are given below.

<u>Category of Posts</u>	<u>Approved</u>	<u>Actual</u>
Staff Grade	30	23
Secondary Grade	219	164
Primary Grade	974	761
Others	-	422
Total	<u>1223</u>	<u>1370</u>

The following observation is made.

In terms of provisions in Section 2:1 of the Establishments Code, whenever a person holding a permanent post does not report for work for a limited period, a substitutes employees can be deployed to perform the duties of such post. Nevertheless 408 substitute's employees recruited to the Council outside the approved cadre and had been deployed throughout the year and the salaries paid to them totalled Rs. 40,790,592.

2.5 Assets Management

2.5.1 Accounts Receivable

Balances of accounts receivable as at 31 December 2010 amounted to Rs. 5,229,556 and balances of accounts older than 01 year totalled Rs. 3,160,638.

2.5.2 Staff Loans Recoverable

The balances of staff loans and advances recoverable as at 31 December 2010 totalled Rs.19,398,220 and balance remaining outstanding for periods exceeding of 01 year totalled to Rs.37,014.

2.5.3 Non-moving Current Assets

The value of non-moving current assets older than 01 year as at 31 December 2010 amounted to Rs. 2,505,084

2.5.4 Assets not Surveyed

The value of assets not supported by Board of Survey Reports and computed at book balances as at 31 December 2010 amounted to Rs. 103,019,028.

2.6 Idle and Underutilized Physical Assets.

- a) A stock of more than two hundred goods and equipment remained without being used over a period exceeding one year. Action had not been taken either to repair or dispose of them. The value of the goods and equipment was not made available to audit.
- b) Seven motor vehicles of the Council including tractors and trailers remained out-of order and such motor vehicle had been off the road for over 5 years.

2.7 Identified Losses and Damages

According to the information maintained by the Council and as revealed at audit test checks, the value of losses and damage amounted to Rs. 14,651,217.

2.8 Operating Inefficiencies

The following observations are made.

- a) The unsettled advances from 1995 to 2010 according to the Register of Advances amounted to Rs. 7,507,004. Of these the parties from whom recoveries could be made had not been identified in respect of advances amounting to Rs. 2,271,448
- b) Permit had not been obtained for slaughter house maintained by the Council in terms of National Environmental Act No. 47 of 1980 and Gazette Notification No. 1159/22 dated 22 November 2000. Details of the number of cattle slaughtered had not been registered as required in terms of Section 10 of Slaughter Ordinance.

c) **Maintenance of Street Lights**

The Ceylon Electricity Board had approved the installation of 4200 street lights for the area of authority of the Council in the year 2010. But, at the survey carried out in June 2010 revealed that 1300 street lights exceeding the approved limit had been installed. Steps had not been taken to make a request to the Ceylon Electricity Board for the regularization of the unauthorized street lights. The maintenance expenditure incurred on street lights had increased. An agreement had not been entered into with the Ceylon Electricity Board for maintenance of street lights within the area of authority of the Council and an expenditure amounting to Rs.360,000 had been incurred by the Council for maintenance during the year 2010.

2.9 Performance

Council had not prepared an Annual Action Plan at the beginning of the year of accounts. Therefore, the expected objectives to be achieved and the progress thereon could not be ascertained.

2.10 Internal Audit

An adequate internal audit of the institution had not been carried out.

3 Systems and Controls

Special attention is drawn to the following arrears of systems and controls.

- (a.) Budgetary Control.
- (b.) Accounting
- (c.) Revenue Administration
- (d.) Human Resources
- (e.) Assets Management
- (f.) Miscellaneous Deposits
- (g.) Utilization of Motor Vehicles
- (h.) Grants and Donations