

Kalmunai Municipal Council

Ampara District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year 2017 had been submitted to Audit on 12 October 2018 and the Auditor General's Report was sent to the Commissioner of the Municipal Council on 31 October 2018.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Kalmunai 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

The financial statements did not disclose the accounting policies used to prepare the financial statements.

1.3.2 Accounting Deficiencies

Following observations are made.

- (a) The Valuation Department had assessed the value of 32 vehicles for total of Rs. 43,080,000 in the year under review. Nevertheless, as it was shown as Rs.11,152,013 in the financial statements, fixed assets and accumulated funds understated by Rs 31,927,987.
- (b) According to the Ledger Account, the advance balance as at 31 December 2016 was Rs.40,259,540, the balance was brought forward as at 01 January 2017 as Rs.38,932,934 and due to that this amount was understated in the financial statements by Rs. 1,326,606.
- (c) According to the Balance Confirmation Letter, the municipal council had to pay a sum of Rs.2,854,802 as at 31 December 2017 to the Karaittivu Pradeshiya Sabha on solid waste management, that amount was not accounted for.

- (d) The value of four computers donated under the 'Nenasala' program has not been assessed and accounted for.

1.3.3 Accounts Receivables

Following observations are made.

- (a) Arrears amounts of Rs.12,314,393 of General Market lease rentals, Rs.7,661,912 of meat market rentals, Rs.13,657,443 of shop rentals etc. which were in arrear from the year 1987, were continuously being presented in the financial statements without being taking action to recover or write off the books.
- (b) Three-wheeler and vehicle safety tax amount of Rs.3,394,613, which has been in arrears since 1996, was continuously being presented in the financial statements without taking action to recover.

1.3.4 Lack of Documentary Evidences

The evidence shown before the each of the following account items was not submitted to the audit.

Item	Value	Evidences not Furnished
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	Rs.	
Arrears lease rental of General Market	12,314,393	Register of arrears lease rental
Deposit Account balances	31,742,610	Reconciliation statement and age analysis.

1.3.5 Non-compliance with Laws, Rules and Regulations

Non-compliance with laws, rules and regulations observed during the audit is analyzed and shown below.

Reference to Laws, Rules and Regulations	Non-compliance
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(a) Chapter 252, Section 218 of the Municipal Council Ordinance	The detailed report regarding administration to be prepared for each financial year by the Commissioner was not prepared for the year 2017.
(b) Public Finance Circular No. 05/2016 dated 31 March 2016	Action had not been taken even by 19 October 2018, in respect of 1,294 library books to be destroyed and 595 inventory items to be sold, as recommended by the Annual Board of Survey and a copy of the report of the Board of

survey has not been submitted to the Auditor General.

- (c) Circular No. 15 dated 18 November 1993 of the Urban Development Authority
- Although each Provincial Council has informed to open a bank account named 'Urban Development' and the service charges and fines should be deposited into that account, the municipal council had not opened such a bank account in the name of 'Urban Development'.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue over recurrent expenditure for the year ended 31 December 2017 amounted to Rs. 13,431,998 when compared with the revenue over recurrent expenditure of the preceding year amounted to Rs. 21,251,122 and it shown an deterioration of Rs. 7,819,124 in the financial results.

2.2 Revenue Administration

Following observations are made.

2.2.1 Estimated Revenue, Actual Revenue and Arrears Revenue

Details of estimated revenue, billed revenue, collected revenue and arrears of revenue relating to the year under review and previous year as per the information submitted are shown below.

Revenue Item	2017				2016			
	Estimated Revenue	Collected Revenue	Billed Revenue	Arrears as at 31 December	Estimated Revenue	Collected Revenue	Billed Revenue	Arrears as at 31 December
	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'
(i) Rates and Taxes	11,100	12,174	11,592	91,567	11,100	15,280	18,309	90,985
(ii) Rental	19,980	16,637	15,621	38,792	21,410	15,530	14,840	36,505
(iii) Licence Fee	9,705	7,254	7,254	-	6,885	8,735	8,735	-
(iv) Other Revenue	43,255	24,295	24,295	-	34,481	36,715	36,715	-

2.2.2 Performance of Revenue Collection

Out of the revenue recoverable amount of Rs. 189,121,226 up to 31 December 2017 a sum of Rs. 58,762,245 had been recovered during the year under review. Accordingly, the percentage of revenue collection was 31 per cent.

2.2.3 Rates and Taxes

Following observations are made.

- (a) The Municipality did not issue rates and tax notices to the residents in the year under review, and the assessment tax register was not maintained.
- (b) A sum of Rs.2.5 million had been paid as salaries during the year under review to 08 employees who had been appointed to collect the Rates and Taxes, but they had collected only 10 per cent or Rs 10.5 million from the Rates and Tax recoverable amount of Rs 102.1 million at the end of the year under review. Further, the Municipal Council has not taken any legal action against property owners who have defaulted in payment of rates and tax for more than two years.

2.2.4 Market Shop Rentals

Following observations are made.

- (a) Arrears shop rental amounting to Rs.5,130,143 has not been recovered for more than 7 years from those who had rented 64 stalls out of 503 stalls in the general market belonging to the Municipal Council.
- (b) Adjacent to this market, the private apartments were rented for a minimum monthly rental of between Rs. 10,000 to Rs. 20,000. However, these stalls belonging to the Municipal Council have been renting in the range of Rs.300 to Rs.2,500 monthly since 1980, without offering new prices, the council had been lost approximately Rs. 60 million annually.
- (c) Although the Municipal Council has given out 18 stalls out of the 24 stalls in Unity Square for a rent of Rs. 1,614,000 in the year under review, out of that amount a sum of Rs. 1,272,500 had not been recovered even by 18 October 2018.
- (d) The rental income receivable from the National Water Supply and Drainage Board for renting out the JCB in the year 2016 amounted to Rs. 76,500 had not been recovered even by the end of the year under review.

2.2.5 Recovery of Trade License Fees

Although it is estimated that Rs. 9,000,000 will be charged as trade license fees from 2,778 business establishments in the year under review, only Rs. 6,918,625 had been recovered by 18 October 2018, from 1501 business establishments. Nevertheless, the council did not take legal action against 1,277 business entities that did not obtain trade licenses during the year under review.

3. Operational Review

3.1 Management Inefficiencies

Following observations are made.

- (a) The safety equipment, fire extinguishers and plumbing fixtures of the municipal fire brigade have not been repaired for over a year, so the public is unable to provide the services they need.
- (b) Although 243 officials and employees of the Municipal Council are on duty, according to the Public Administration Circular No. 09/2009 dated 16 April 2009, 05 officers and 150 employees, were not confirmed their arrival and departure at the office using the fingerprint machine until 18 October 2018.
- (c) Out of the 79 cars and machines used in the Municipal Council, the ownership of 38 cars and machines has not been transferred to the name of the council. Also, 25 cars and machines were unusable, and the council did not take action to destroy or sell them at auction.
- (d) Outstanding balances of Rs.169,545 from 4 employees who have transferred and left the service, have not been recovered from 02 years to 10 years. Action had not been taken even by 18 October 2018 for recover these arrears from the guarantors or taking legal action against them.

3.2 Operational Inefficiencies

3.2.1 Library Activities

The following observations are made with regard to public libraries operating under the Municipal Council at Kalmunai, Saindamarudu, Marudamunai and Natpittimunai.

- (a) No action has been taken against the persons responsible for the 8,102 missing library books pointed out by the Board of Survey in the years 2015 and 2016.
- (b) Since the renovations of the Kalmunai Public Library had not been completed for over a year, the books in the issuing division of the Library were stored in the backpacks and the needs of the teachers could not be fulfilled and it was observed that the children's section was also closed.

3.3 Human Resource Management

Following observations are made.

- (a) Fifty cleaners, including 22 permanent employees and 28 casual employees, were assigned to clean drains within the municipality, but 20 permanent employees and 07 casual workers were assigned to the office and library sections of the Municipal Council without being used for the cleaning of drains.

- (b) Although 57 permanent workers were assigned to collect garbage in the Municipal Council area, 20 casual employees were recruited while 14 employees were employed in office and other areas.

3.4 Unresolved Audit Queries

Following observations are made.

(a) **Cheques Rejected by the Bank**

Although the bank had refused to pay the deposits of 6 cheques amounting to Rs. 544,154 which were deposited in the bank in 2012 relating to meat stall lease rental guarantees, and the officer responsible for this has not taken any action, no disciplinary action has been taken against him.

(b) **The Name board of the office**

A sum of Rs.123,000 had been paid in 2013 for preparing and fixing wooden name boards showing the location of the office, the relevant boards had not yet been installed even by 18 October 2018.

(c) **Development Assistance Provided to the Provincial Council**

Funds allocated to the Provincial Council for the implementation of the development activities in the year 2009, had not been utilized for the purpose and a sum of Rs. 3 million deposited in fixed deposits and Rs. 2,468,590 had been deposited in current accounts

(d) **Mobile Phone Usage Charges**

Although mobile phone bills amounting to Rs.13,011 for three months submitted by the former mayor of Municipal Council had been paid twice in 2015, no disciplinary action has been taken against the officer responsible for the payment.

(e) **Purchasing of School Equipment**

Although it was reported that the required learning materials for the students had been purchased by using Municipal Council funds of Rs 124,969 and handed over them to the Kalmunai Al-Ameen School on 30 June 2015, according to a written statement from the Principal of the school, the items were not delivered to the school even by 25 September 2017.

(f) **Construction of Auditorium for Marudamunai Public Library**

The following observations have been made regarding the contracts awarded to the value of Rs. 13,131,163 on 8 November 2016 by the Ministry of Town Planning and

Water Resources, for the extension of the Marudamunai Public Library Building and constructing the Auditorium for the.

- (i) Although the estimate should be prepared as Rs. 279 per square meter according to the Provincial Building Schedule Rate (BSR), to paint this auditorium, since the engineer had prepared an estimate of Rs. 1,165 per square meter, this work had been awarded on a high estimate of Rs. 930,605.
- (ii) The contractor had purchased 14 air conditioners in December 2016 for total of Rs. 2,864,400 at a price of each Rs. 204,600. However, as stated to the audit, Abans Showroom Kalmunai had agreed to furnish the same type of air conditioner under the same trademark at a price of Rs. 114,900. Accordingly, a sum of Rs. 1,255,800 had been over paid to the contractor.

(g) Wastewater Treatment Project

The wastewater treatment project of the Kalmunai Islamath tsunami housing construction project was completed in 2014 at a cost of Rs. 4,380,000 and all payments and guarantees were paid on the recommendation of the technical officer and the certification of the engineer. Nevertheless, the contractor had not completed 09 items valued at Rs. 903,520 included in the quantity sheets, but no action had been taken relating to the payment made as certifying the work was done.

(h) Construction of Kalmunai Tourist Information Centre

A sum of Rs.2,593,013 had been paid as recommended by the technical officer that the construction of Kalmunai Tourist Information Centre has been completed on 04 April 2017 under the Development Assistance allocated to the Provincial Council for the year under review. Nevertheless, 04 works valued at Rs. 333,000 have not been completed and thus remain idled as inaccessible to the public use.

4. Accountability and Good Governance

4.1 Furnishing Financial Statements

Following observations are made.

- (a) Although the financial statements for the year under review should be submitted for audit before 31 March 2018, the relevant financial statements were submitted on 12 October 2018, after a lapse of 06 months.
- (b) The cash flow statement, one of the key elements of a financial statement, was not presented.

5. System and Control

Special attention is needed in respect of the following system and matters mentioned against them.

Control Area -----	Matters to be made Special Attention ----- -----
(a) Fixed Assets Control	(i) Maintaining fixed assets register. (ii) Taking action to use idle fixed assets.
(b) Revenue Collection Management	Taking action to recover arrears of revenue.
(c) Solid Waste Management	(i) Collecting of solid wastes separately. (ii) Recovering service charges of solid wastes.
(d) Human Resource Management	Proper distribution of human resources for vacant places.