

Kalmunai Municipal Council

Ampara District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Audit on 09 September 2014 while Financial Statements relating to the preceding year had been submitted on 05 August 2013. The Auditor General's Report relating to the year under review was sent to the Mayor of the Council on 29 December 2014.

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 2013 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 Non- compliance with Sri Lanka Public Sector Accounting Standards

Financial Statements had not been prepared according to Public Sector Accounting Standards of Sri Lanka as per Circular No.PL/05/PA/SFPSAS dated 27 January 2014 of the Secretary to the Minister of Local Government and Provincial Councils.

1.3.2 Accounting Deficiencies

Following Accounting Deficiencies were observed.

- (a) Provision had not been made in the accounts for Audit Fees payable for the year under review amounting to Rs. 11,500.
- (b) Although the Tender Deposits Refundable as at the end of the year under review had been shown as Rs.18,078,640 according to the Ledger, it had been shown as Rs. 24,554,249 in the financial statements for the year under review presented by the Sabha. Accordingly, the Tender Deposits Refundable had been overstated in a sum of Rs. 6,475,609.
- (c) The Sabha had purchased Machinery and Equipment, Office Equipment, and Furniture and Fixture for Rs. 3,432,130, Rs. 5,444,300 and Rs. 1,641,340 respectively. Purchasing Price of those items had been shown in the financial statements as Rs. 29,304,324, Rs. 6,341,312 and Rs. 1,728,410 respectively, overstating the Assets in a sum totalling Rs. 26,856,276.
- (d) Although the balance of Public Servants Advance Account balance as at the end of the year under review had been shown as Rs. 7,301,700 according to the ledger, it had been shown as Rs. 8,632,563 in the accounting statements. Due to that, outstanding balance of Public Servants Advance Account had been overstated in a sum of Rs. 1,330,863.

1.3.3 Lack of Evidence for Audit

Evidence shown in front of following items in the financial statements had not been furnished to audit.

Item -----	Value -----	Evidence not Furnished -----
	Rs.	
Land and Buildings	89,430,210	Register of Land and Building
Machinery and Equipment	26,364,290	} Register of Fixed Assets and Board of survey Reports
Furniture and Fixtures	1,623,540	
Office Equipment	1,586,984	

1.3.4 Non –compliances with Laws, Rules, Regulations and Management Decisions

Following instances of non-compliance with Laws, Rules and Regulations were observed in audit.

Reference to laws, rules, regulations etc.	Non-compliance
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(a.) Public Finance Circular No. BF/437	- Although it had been stated that insurance cover for vehicles should be obtained only from the National Insurance Trust Fund or Sri Lanka Insurance Trust Fund, contrary to that, insurance cover for vehicles had been obtained from a private insurance institution, having paid a sum of Rs.66,820.
(b.) Establishments Code of the Democratic Socialist Republic of Sri Lanka Chapter xxviii Clause 1.3	- According to provisions referred to, all officers are required sign in the Attendance Register to establish own attendance. However, an officer of the staff grade served in the Sabha had obtained salaries and all allowances totalling Rs.1,282,487 for 3 years without establishing own attendance.
(c.) Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R.396(d)	- Action had not been taken in terms of relevant provisions with regard to 04 uncashed cheques totalling Rs. 9,580 which had elapsed 06 months after issue.

1.3.5 Transactions not covered with Adequate Authority

Following observations are made.

- (a) A sum of Rs.58,500 for purchase of a Computer for the Akkaraipattu Journalists Conference and a sum of Rs.98,010 for construction of buildings for the Maruthamane Central College had been spent without approval of the Council.

- (b) Budgetary provisions of Rs.2,000,000 had been made with the intention of providing sports equipment for sport societies registered in the area of authority of the Municipal Council during the year under review. A sum of Rs.2,240,269 had been spent for that objective and approval of the Council had not been obtained for the sum of Rs.240,269 overspent.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2013 had been Rs. 2,190,353 as compared with the corresponding excess of revenue over recurrent expenditure amounted to Rs.9,413,149 in the preceding year indicating a decline of Rs.7,222,796 in the financial result.

2.2 Revenue Administration

2.2.1 Stamp Fees

Action had not been taken to obtain Stamp Fees amounting to Rs. 2,518,644 due from the Registrar General as at 31 December 2013.

2.2.2 Other Revenue

Following observations are made.

- (a) License Fees Revenue of Rs.72,000 to be recovered to the Council for the year under review connected with 24 Telecommunication Towers erected by Telecommunication Institutions in the area of authority of the Council had been lost to the Council, due to non-enforcement of by-laws for collection of revenue by the Council.
- (b) Action had not been taken up to 02 October 2014 to recover Beef Stalls Lease Rent amounting to Rs.537,386 in arrears not recovered up to now, relevant to the period from 1982 to 2012 or to write-off.

3. Operating Review

3.1 Management Inefficiencies

Following observations are made.

- (a) Action had not been taken to remit Value added Tax amounting to Rs. 1,261,703 recovered from the contractors during the period from the year 2008 to end of the year 2012, to the Commissioner General of Inland Revenue up to date of audit, 02 October 2014.
- (b) Four cheques valued at Rs.460,699 received as security deposits from three lessees who got the leasing of beef stalls had been dishonored after depositing in the bank. Action had not been taken up to 02 October 2014 to recover cash from the relevant lessees in lieu of dishonored cheques or to take legal steps against them.
- (c) A Lap Top Computer had been purchased for a sum of Rs. 85,000 during the year under review by the Municipal Council and had been handed over to an officer in the staff grade for official duties. Although that officer had left on transfer on 30 April 2014, the Municipal Council had not taken action to get back that computer up to 02 October 2014.

- (d) A totaled sum of Rs. 7,796,594 had been spent over and above the allocations made for 51 items of expenditure approved in the budget for the year under review without obtaining supplementary approval.
- (e) Although a sum of Rs. 123,000 had been paid during the year under review for making a board indicating the location of the office, at the physical inspection carried out in audit on 02 October 2014, it was observed that there was no such board.

3.2 Transactions of Contentious Nature

Following matters were observed.

- (a) A sum of Rs. 145,000 had been paid during the year under review to a private institution to obtain a feasibility study report for construction of the Children's Park, Vehicles Garage and the Cattle Slaughter House, without approval of the Council. However, the relevant report had not been received from that Institution up to 02 October 2014.
- (b) Although it was stated that the Lap Top Computer, the Printer and the Scanner etc. were purchased for a sum of Rs. 100,000 out of the Council Fund during the year under review and provided to a Society of Youngsters, that Lap Top Computer, the Printer and the Scanner had not been handed over to the relevant Youngsters Society, up to 02 October 2014.

4. Accountability and Good Governance

4.1 Internal Audit

Although it had been stated that, each Local Authority should establish an Internal Audit Section according to their capacity, vide clause 8 in Local Government Restructure Circular No. 3 dated 08 November 2005 of the Ministry of Provincial Councils and Local Government, an Internal Audit Section had not been established.

5. Systems and Controls

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

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