

Batticaloa Municipal Council,
Batticaloa District.

1. Financial Statements

1.1 Presentation of Financial Statements:

The financial statements for the year under review had not been presented for audit till 09 June 2011 and the financial statements for the previous year had been presented for audit on 11 June 2010.

1.2 Opinion

So far as appears from my examination and to the best of my information and according to the explanations given to me, I am of opinion that, the Municipal Council Batticaloa 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 1.3 of this report, the financial statements have been prepared in accordance with the Generally Accepted Accounting Principles give a true and fair view of the state of affairs of the Municipal Council Batticaloa as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Accounts Payable

The balances of accounts payable for over a period of 3 years as at 31 December 2010 amounted to Rs 13,117,204.

1.3.2. Non-compliances.

The following non-compliances with Laws, Rules and Regulations were observed in audit.

Reference to Laws, Rules, Regulations etc.	Non – Compliance
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a) Municipal Councils Ordinance No.16 of 1947 (Chapter 252) Section 253(1)	Action had not been taken by the Commissioner of Municipal Council to recover lease rent aggregating Rs. 3.09 million due from occupants of quarters, traders and owners of stalls in various public markets in Batticaloa.
b) Section 242	Arrears of assessment tax aggregating Rs. 28.26 million remained unrecovered for more than two quarters without action being taken to recover it.

2. Financial and Operating Review

2.1 Financial Results

According to the financial statement presented, the revenue exceeding the recurrent expenditure of the Council for the year ended 31 December 2010 amounted to Rs34,699,982 as compared with the revenue exceeding the recurrent expenditure of the preceding year amounting to Rs 28,500,424.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

The position with regard to the estimated revenue, actual revenue and arrears of revenue for the year under review and the preceding year, as 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 Arrears as at 31 December</u>	<u>Estimated</u>	<u>Actual</u>	<u>Accumulated Arrears as at 31 December</u>
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
(i) Rates and Taxes	15,754	16,398	28,088	19,374	16,332	28,732
(ii) Lease Rent	13,855	9,152	12,222	13,012	11,140	7,519
(iii) Licence Fees	4,834	4,074	2,488	4,969	4,278	1,727
(iv) Other Revenues	165	15,652	67	20,430	21,153	166

2.3 Expenditure Structure

The estimated and the actual expenditure of the Council for the year under review and the preceding year are given below.

<u>Item of Expenditure</u>	<u>2010</u>			<u>2009</u>		
	<u>Estimated</u>	<u>Actual</u>	<u>Variance</u>	<u>Estimated</u>	<u>Actual</u>	<u>Variance</u>
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Recurrent Expenditure						
Personal						
Emoluments	122,257	94,345	27,912	129,683	104,000	25,683
Other	<u>19,021</u>	<u>7,226</u>	<u>11,795</u>	<u>29,401</u>	<u>23,805</u>	<u>5,596</u>
Sub total	141,278	101,571	39,707	159,084	127,805	31,279
Capital Expenditure	<u>89,377</u>	<u>11,557</u>	<u>77,820</u>	<u>120,000</u>	<u>26,467</u>	<u>93,533</u>
Total	<u>230,655</u>	<u>113,128</u>	<u>117,527</u>	<u>279,084</u>	<u>154,272</u>	<u>124,812</u>

2.4 Human Resources Management

Approved and Actual Cadre

Particulars of the approved and the actual cadre of the Council are given below.

<u>Category of Post</u>	<u>As at 31December 2010</u>	
	<u>Approved</u>	<u>Actual</u>
Staff Grades	05	05
Secondary Grades	61	61
Primary Grades	335	335
Others (Casual/ Temporary)	---	62
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	401	463
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2.5. Assets Management

2.5.1. Accounts Receivable

Balances of accounts receivable as at 31 December 2010 amounted to Rs 8,487,617.

2.5.2. Staff Loans Recoverable

Balances of staff loans recoverable as at 31 December 2010 totalled Rs 280,293 and balances outstanding for over 3 years totalled Rs 280,294.

2.5.3. Assets not Verified

The value of the assets computed on book balances and not supported by physical verifications/ board of survey reports amounted to Rs.322,005,438 as at 31 December 2010.

2.6 Operating Inefficiencies.

2.6.1 Weaknesses in Control Over Constructions and Maintenance Works

The following observations are made in respect of constructions and maintenance works.

- a) Estimate of labour for each job had not been maintained.
- b) All the construction works had been carried out by the Council using check roll laboures and the check roll employed in respect of each laboures work had not been identified to ensure proper distribution of labour.
- c) Cost of materials issued for works had not been charged to the work concerned.
- d) The following books and returns had not been maintained.

- i. Materials returned to stores.
- ii. Register of metal and gravel.
- iii. Measurement book showing detailed measurements of each work with reference to the connected estimate and voucher.

2.6.2 Weaknesses in Control over Stores

- (a) The register of inventory and stores ledger had not been maintained properly and the receipts and issues of materials and articles had not been checked and initialled by a staff officer.
- (b) The stores had not been methodically arranged in that items had not been separately grouped in the stores and entered in a stores ledger.
- (c) Electrical items had been handed over to the Ceylon Electricity Board. However, no adjustments had been made in the relevant accounts.
- (d) Stores items returned from the work sites had not been stored under used items.
- (e) Building materials such as river sand, gravel and metals had not been properly piled up and therefore it was very difficult to measure the actual stock in hand.

2.7 Contract Administration

General observations with regard to Road Contract Administration using Funds Allocated to Members of the Municipal Council.

Following deficiencies were observed.

- (i) There is no provision in Part IX of the Municipal Councils Ordinance of 1987(Chapter 252) for allocation of funds to the members of the Council for contractual Work.
- (ii) Contracts for Roads, Toilets and Tube well work had been awarded to Rural Development Societies, Women's Rural Development Societies and Community centres in 35 instances without adopting proper Tender Procedure, Procurement Committee decisions etc. contrary to the Procurement Guidelines. The amount involved in these transactions totalled Rs.6,790.
- (iii) The Mayor had decided to award the Road contracts to the Rural Development Societies, Women's Rural Development Societies and Community Centres without obtaining reports from the Finance Committee of the Council in terms of Section 28 (Chapter 252) of the Municipal Councils Ordinance of 1987.
- (iv) The Mayor, Deputy Mayor and the members of the Council had requested to award the contract to Approved Societies, contrary to Section 3.9.1 of the Procurement Guidelines and Manual.
- (v) An examination of the books and documents of the above mentioned Rural Development Societies and Women's Rural Development Societies revealed that they were financially weak and lack of competence. However, contracts had been awarded without verifying the above requirements in terms of Section 3.9.1 of

the Procurement Guidelines.

- (vi) Several Road Construction contracts had been awarded to community centres. In terms of Section 3.9.1 of the Procurement Guidelines and Manual, contracts may be awarded to the Community Development Societies (Praja Sanwardhana Samithi – which contribute to the development activities in the Local Government Sector) and not to the Community Centres.
- (vii) It was observed that work such as trimming, levelling compaction of the existing road surface, piling, transporting the approved gravel, spreading and compacting using machinery etc; had not been satisfactorily carried out.

2.8 Internal Audit

An adequate internal audit had not been carried out by the Council.

3. Systems and Controls

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

- (a) Accounting
- (b) Internal Audit
- (c) Revenue Administration