

Mannar Urban Council

Mannar District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review should have been presented for audit on or before 31 March 2011. However, they had been presented for audit on 29 June 2011 and the financial statements of the preceding year had been presented for audit on 30 June 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 Mannar Urban Council 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 Generally Accepted Accounting Principles and give true and fair view of the state of affairs of the Mannar Urban Council 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 following observations are made.

- (a) Licence fees amounting to Rs.554,472 received on behalf of Urban Development Authority had been erroneously treated as an income of the Sabha, thus the income of the Sabha had been overstated by that amount.
- (b) The expenditure aggregating Rs.1,144,457 relating to the previous year had been taken as an expenditure for the year under review instead of being adjusted in the

sundry creditors accounts (accrued expenses). As a result the expenditure for the year under review had been overstated by that amount.

1.3.3 Bank Reconciliation

- (a) Follow up action had not been taken on unrealized deposits over a period of 6 month amounting to Rs. 3,348 after making inquires from the bank.
- (b) Action had not been taken on 14 dishonored cheques valued Rs. 165,181 in terms of Northern Provincial Financial Rules No. 237.

1.3.4 Lack of Evidence for Audit

Non – submission of Information for Audit

Transactions valued at Rs. 13,090,246 could not be satisfactorily vouched in audit due to unavailability of information required for audit.

1.3.5 Non-compliance

Non-Compliances with the provisions in the following Laws, Rules, Regulation and Management Decisions were observed during the course of audit.

Reference to Laws, Rule, Regulations and Management Decisions

Non-compliance

(a) Urban Council Ordinance

Chapter VII Section 159(f)

Although the prior approval of the Minister in charge of the subject should be obtained for expenditure in respect of entertainment incurred in excess of Rs. 5,000, a sum of Rs. 19,946 had been paid for refreshment without getting approval.

(b) Urban Council Financial Regulation

(i) Chapter III Section 99

Action had not been taken to recover of other revenue

(ii) Chapter IX Section 212

Security bond had not been obtained from the officers handling cash and store

items.

(iii) Chapter IX Section 222

Creditors Register had not been properly maintained.

(c) **Public Finance Circular**

No. 437

Two vehicles had been insured for Rs.21,038 in private insurance companies instead of Sri Lanka Insurance Corporation.

2. Financial and Operating Review

2.1 Financial Results

According to the Financial Statements presented, the excess of recurrent expenditure over the revenue of the Sabha for the year ended 31 December 2010 amounted to Rs.3,729.125 as compared the excess of over revenue the recurrent expenditure amounting to Rs.3,341,208 for the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

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

Item of Revenue	<u>2010</u>			<u>2009</u>		
	Estimated	Actual	Accumulated arrears as at 31December	Estimated	Actual	Accumulated arrears as at 31December
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
Rates and Taxes	1,033	722	3,768	405	886	3,462
Lease Rent	9,711	8,044	5,590	6,467	5,385	5,086
License Fees	2,244	3,665	-	1,585	1,913	-
Other Revenues	29,157	30,421	361	1,409	1,826	-

2.2.2 Stamp Fees

Action had not been taken to compute and accounted for Stamp Fees receivable by the Sabha.

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 variances are given below

Item of Expenditure	<u>2010</u>			<u>2009</u>		
	Budgeted	Actual	Variance	Budgeted	Actual	Variance
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	Rs	Rs	Rs	Rs	Rs	Rs
	000	000	000	000	000	000
<u>Recurrent Expenditure</u>						
Personal Emoluments	22,504	21,570	934	18,080	18,670	(5,90)
Other expenses	9,034	8,687	347	13,209	4,072	9,137
Sub Total	31,538	30,257	1,281	31,289	22,742	8,547
Capital Expenditure	5,500	12,627	(7,127)	10,809	-	10,089
Grand Total	37,038	42,884	(5,846)	42,098	22,742	18,636

2.4 Human Resource management

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	02	-
Secondary Grade	15	19
Primary Grade	45	46
Others (Casual/Temporary)	-	38
Total	62	103
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2.5 Assets Management

2.5.1 Account Receivable

Balances of accounts receivable as at 31 December 2010 amounted to Rs.935,566 and balances of accounts receivable older than 1 year totalled Rs.429,800

2.5.2 Staff Loans Recoverable

The balances of staff loans recoverable as at 31 December 2010 totalled Rs.6,498,100 and the balances remaining outstanding for period exceeding 01 year totalled Rs 13,100.

2.5.3 Assets not Verified

The value of assets not supported by physical verifications/ board of survey reports and computed as book balance as at 31 December 2010 amounted to Rs.228,372,589

2.6 Transaction not Supported by Adequate Authority

A sum of Rs. 10,000 had been donated for the collaboration of cultural festival with out proper authority of the Minister in charge of the subject.

2.7 Operating Inefficiencies

Withholding Tax amounting to Rs. 603,749 had not been recovered from the Suppliers by the Council.

2.8 Performance

The 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 there on could not be ascertained.

2.9 Internal Audit

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

3. System and Controls

Special attention is drawn to the following areas of system and controls.

- (a) Accounting
- (b) Budgetary Control
- (c) Revenue Administration
- (d) Utilization of Vehicles
- (e) Assets Management