

Kuliyapitiya Urban Council

Kurunegala District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 28 March 2013 and the financial statements for the preceding year had been presented on 30 March 2012. The report of the Auditor General for the year under review was issued to the Chairman of the Council on 30 August 2013.

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 Kuliyapitiya Urban Council had maintained proper accounting records for the year ended 31 December 2012 and except for the effects on the financial statements of the matters referred to in my report the financial statements have been prepared in accordance with Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Kuliyapitiya Urban Council as at 31 December 2012 and the financial results of its operations for the year then ended

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following observations are made.

- (a.) According to the verification of stores, the value of the stock amounted to Rs.8,078,128 but, it had been shown in the financial statements as Rs.16,200,834. Therefore, the balance of the general stores as at end of the year under review had been overstated in the accounts by Rs.8,122,706.
- (b.) Interest of Rs.1,343,503 payable to the Asian Development Bank in respect of the loan obtained by the Council had not been brought to account. Further, loan installments amounting to Rs.2,184,995 payable in respect of the above loan had not been removed from the loan account and accounted under creditors.

- (c.) The creditors balance included an amount of Rs.13,627,856 relating to 10 capital projects planned to be carry out under capital projects but not implemented.

1.3.2 Lack of Evidence for Audit

Transactions totaling Rs.53,255,509 could not be satisfactorily vouched in audit due to non-submission of the required information to audit.

2. Financial and Operating Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2012 amounted to Rs.19,942,442 as compared with the excess of revenue over recurrent expenditure amounting to Rs.25,387,723 for the preceding year.

2.2 Financial Control

There were unsettled balances amounting to Rs.376,721 allocated for the Solid Waste Management Project during the year 2008.A sum of Rs.3,611,168 allocated for payment of interest on Asian Development Bank Loan during the year 2010 had been shown under creditors; even though the relevant interest had already been paid.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information on the estimated revenue, actual revenue and the arrears of revenue relating to the year under review as presented by the Chairman is given below.

Item of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
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	Rs.'000	Rs.'000	Rs.'000
(i.) Rates and Taxes	9,398	9,280	6,443
(ii.) Lease Rent	10,193	10,640	1,254
(iii.) Licence Fees	13,559	13,559	-
(iv.) Other Revenue	55,155	51,329	10,790

2.3.2 Rates and Taxes

Billing of rates relating to the year amounted to Rs.7,859,249 and action had not been taken in terms of Section 170 of the Urban Council Ordinance to issue warrants and recover arrears of rates amounting to Rs.5,493,262 as at end of the year. A sample check carried out in audit revealed long outstanding balances of Rs.516,079.

2.3.3 Bus Stand Charges

The Council charge Rs.25,000 a month as bus stand charges to enter Ceylon Transport Board buses but, an agreement relating to the above had not been made available to audit. A sum of Rs.298,806 had been due to the Council as at 31 December 2012 from the Ceylon Transport Board, and action had not been taken up to date to recover the above money. Fines had not been computed on these arrears.

2.3.4 Water Charges

Water Charges amounting to Rs.51,085 had been due from 13 water consumers of whom water supply had been disconnected due to default of payment of water charges. Water supply connections had been given to 14 Police Quarters under Urban Council Water Scheme and a monthly fixed charge of Rs.150 had been recovered as the water meters are out of order. There was an outstanding balance of Rs.77,059 with regard to 09 water meters.

2.3.5 Entertainment Tax

Entertainment tax had not been recovered at the time of stamping the relevant entrance tickets of the Cinema Halls. Therefore, entertainment tax amounting to Rs.796,488 had been in arrears as at 31 December 2012 in respect of 03 Cinema Halls.

2.3.6 Vehicle Parking Charges

A by-law had not been passed for parking vehicles within the area of the Council. An annual or periodical survey had not been carried out relating to parking of three wheels available in the area. The three wheels in the area had not been registered and parking locations had not been properly fixed.

2.3.7 Stamp Fees

Stamp fees receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2012 amounted to Rs.5,899,892.

2.4 Transactions of Contentious Nature

The old Kachcheri Building of the Council situated at Kuliypitiya- Madampe road had been given on a monthly rent of Rs.30,000 and it had stated that the lessee had repaired this building at an expense of Rs.2,000,000 approximately. But, the approval obtained for the repairs, the agreement with the lessee and the estimate on repairs approved by the Council had not been made available to audit. A clause regarding the security deposits had not been included in the agreement entered into with the lessee and security deposits amounting to Rs.90,000 had been obtained for this building.

2.5 Irregular Transactions

Approval had been given by the letter No.CGRC/21/30 dated 25 July 2012 of the Commissioner of Local Government, Wayamba to spent a sum of Rs.172,500 for all the expenses including air travel charges food and lodging and USA \$ 30 per day as incidental expenses out of Council funds with regard to Vietnam tour of the Mayors, Chairmen and Officers of the Local Authorities from 09 to 16 August 2012. Accordingly only an amount of Rs.401,171 could be spent from the Council fund whereas a sum of Rs.497,371 had been spent from the Council funds for the said tour.

2.6 Assets Management

The Council had not maintained a register of fixed assets in respect of land and buildings and a periodically survey also had not been carried out on land and buildings.

2.7 Human Resources Management

The approved cadre of the Council is 124 and the actual cadre was 101 and the number of vacancies was 21. The post of Secretary, 02 out of 03 posts of Technical Officers, 01 out of 03 posts of Revenue Administrators had been vacant as at end of the year under review. In addition 81 employees had been recruited on casual and substitute basis by end of the year under review.

2.8 Legal Matters Against the Council

The following observations are made.

- (a.) Court case no.15082 had been filed against the Council at Kuliypitiya District Courts in respect of the ownership of the property under Rate No.206 “B” at Kuliypitiya-Madampe road and after the examination, verdict had been given in favour of the complaint and had ordered to pay a sum of Rs.500,000 for the damages done by the Council. The Council had made an appeal to the Provincial Civil Appeal Courts, Kurunegala against the said order and the case is not yet finalized.
- (b.) The land owners had filled a case against the Council under case No.15593L on 08 December 2006 in respect of construction of a drain across the land and the case had not been finalized even up to the date of audit examination.

2.9 Operating Inefficiencies

The following observations are made.

- (a.) Contributions payable to the Local Government Pension Fund had not been duly paid and as such, a balance of Rs.6,771,790 had been payable to the said Fund as at end of the year under review. Although the Fund recovers a monthly installment of Rs.21,541 the Council is not aware of the particular employees to whom these payments are related to.
- (b.) The Council had purchased 06 health protected sales huts from the Ministry of Fisheries, Wayamba at Rs.113,160 in May 2012 to distribute among fish products sellers and institutions under 50% relief aid. These sales huts had not been distributed to the beneficiaries even up to end of the year under review and the

Council had not prepared procedures to select the beneficiaries to issue these sales huts; to recover the money spent on the above; and to fix the locations to keep these sales huts.

- (c.) The Council had planned to implement 09 welfare activities from provisions of Rs.720,000; 13 capital programmes of which the estimated cost is Rs.8,650,000 and 04 projects for which a sum of Rs.4,475,107 had been provided under creditors in the year 2011. But, the above projects had not been commenced.

3. Systems and Controls

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

- (a.) Accounting
- (b.) Financial Control
- (c.) Revenue Administration
- (d.) Assets Management
- (e.) Contract Administration
- (f.) Human Resources Management