

Kurunegala Municipal 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 29 March 2012. The report of the Auditor General for the year under review was issued to the Mayor of the Council on 09 October 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 Kurunegala Municipal 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 Kurunegala Municipal Council as at 31 December 2012 and the financial results of its operations and cash flows for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following observations are made.

- (a.) Adjustments amounting to Rs.373 million approximately had been done to the financial statements through 30 Journal Entries. Nevertheless, there were deficiencies such as non-obtaining approval for the said Journal Entries, non-using Journal Vouchers, non-numbering of Journal Entries, non-referring to the relevant ledger accounts etc. Further, schedules had not been submitted along with the financial statements in respect of fixed assets amounting to Rs.123,446,732.

- (b.) According to the schedules submitted with the financial statements the balance of the expenditure creditors amounted to Rs.42,408,108 whereas it had been shown in the financial statements as Rs.36,420,061 thus understating expenditure by Rs.5,988,047.
- (c.) A sum of Rs.50,549,243 payable to the Local Government Pension Fund by the Sabha had been accounted under creditors and the sum of Rs.117,136 payable for the year had been brought to account as an expenditure.
- (d.) Vehicle parking charges amounting to Rs.2,850,000 recoverable as per registers had not been identified and brought to account.

1.3.2 Lack of Evidence for Audit

Transactions totaling Rs.217,757,058 could not be satisfactorily vouched in audit due to the 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.66,330,174 as compared with the excess of revenue over recurrent expenditure amounting to Rs.57,621,426 for the preceding year.

2.2 Financial Control

The following deficiencies in financial control were observed.

- (a.) The creditors' balance of Rs.40,457,610 shown in the financial statements had been brought to account based on the payments made in year 2013 in respect of the year 2012 without prior identification. Further, over provision of Rs.14,604,831 made under creditors for the preceding year had been written-off.
- (b.) The employees loan balance in arrears amounted to Rs.2,619,432 and of this; loan balances amounting to Rs.481,391 were in arrears for over 03 years.
- (c.) According to the Bank Reconciliation Statements relating to 03 bank accounts, there were unsettled balances of unidentified receipts amounting to Rs.431,875

under 109 instances, unidentified payments amounting to Rs.138,382 under 22 instances and unrealized receipts amounting to Rs.3,087,436 under 168 instances.

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 Mayor is given below.

| Item of Revenue | Estimated | Actual | Cumulative Arrears as at 31 December |
|----------------------|-----------|---------|-----------------------------------------|
| ----- | ----- | ----- | ----- |
| | Rs.'000 | Rs.'000 | Rs.'000 |
| (i.) Rates and Taxes | 83,640 | 59,289 | 24,350 |
| (ii.) Lease Rent | 56,131 | 51,621 | 4,509 |
| (iii.) Licence Fees | 8,527 | 8,527 | - |
| (iv.) Other Revenue | 311,570 | 268,974 | 42,596 |

2.3.2 Rates and Taxes

The annual billing under rates is about Rs.30 million and the arrears as at end of the year under review amounted to Rs.24,350,468. There were long outstanding arrears amounting to Rs.773,600 prior to year 2002, Rs.2,318,660 relating to the period from 2002 to 2006 and Rs.8,826,927 relating to the period from 2007 to 2010.

2.3.3 Lease Rent

A building situated at No.01, Dambulla Road, Kurunegala had been leased out to run a hotel and according to the relevant lease agreement, the lessee had agreed to do all the repairs and it had been mentioned that repairs at an estimated value of Rs.853,222 should be done before 31 May 2012. But, these repairs had not been done.

2.3.4 Stall Rent

The Council could not lease out 02 stalls of the General Market since year 2007 and according to the lowest bid relating to the said stalls; the income that could have been earned was about Rs.3,564,000. Further, stall rent in arrears relating to 13 stalls at the Bus Stand amounted to Rs.1,635,634.

2.3.5 Hoarding Charges

Charges had been recovered for hoardings and banners under the Council Resolution No.5(14) dated 28August 2012. Hoarding charges amounting to Rs.488,495 that could have been earned had not been received in respect of 06 instances due to non-extending of time of hoardings. Further, hoarding charges recoverable amounting to Rs.109,465 had been in arrears since year 2011.The Council had not laid a by-law relating to recovery of hoarding charges.

2.3.6 Water Charges

Water charges had been computed on the average units consumed in respect of 923 out of 7129 water consumers and it represents 13%. A sample check revealed that charges had been computed on the average liters consumed for over one year in respect of 22 out of the total of 86 consumers of the Pubudu Mawatha and it represents 25%.

2.3.7 Business Tax and Trade Licence Fees

The Council had recovered charges based on the assessment of trade licence fees from 03 hotels within the area of authority of the Council that had been registered at the Tourism Promotion Authority of Sri Lanka; even though a charge not exceeding 1% of the turnover could be recovered in terms of Section 247(a) of the Municipal Council Ordinance.

2.3.8 Processing Charges for Telephone Transmission Towers

A survey had not been carried out in order to identify the telephone transmission towers installed within the area of authority of the Council. Processing charges, licence fees or any other charge had not been recovered on these towers.

2.3.9 Vehicle Parking Charges

Although there is a by-law with regard to parking vehicles within the area of authority of the Council, action had not been taken to carry out a survey annually or periodically in respect of parking three wheelers and to register three wheelers and charges had not been recovered in terms of the Council Decision No. 05(45) dated 30 August 2006.

2.4 Vehicle Utilization

The following observations are made.

- (a.) According to the running charts of the small gully bowser, it had been stated that 150 liters of fuel obtained during the period January to September 2012; whilst according to the register of goods issue orders and settlement of fuel bills, 610 liters of fuel had been issued during the respective period. As such there was a difference of 460 liters in respect of the fuel issued to the gully bowser.
- (b.) There was a difference of 230 liters between the quantity of fuel issued from the stores to the gully bowser bearing No.43-2882 during the period February to October 2012 and the quantity of fuel entered in the running charts.

2.5 Irregular Transactions

A sum of Rs.104,568 and Rs.173,703 respectively had been paid to a Revenue Inspector and 04 employees of the Council covering the duties of the said post at 3% of the money collected and to 03 persons recruited on the basis of paying a commission within a range of 8% to 12% of the money collected in respect in recovery of rates in arrears relating to the 1st and 2nd quarter of year 2012. Nevertheless, an approval had not been obtained for these payments in terms of the Circular No.UI/Gen/7(1) dated 05 October 1987 of the Commissioner of Local Government, North Western Province.

2.6 Assets Management

According to the Board of Survey Reports there were 70 Nos. of motor vehicles and carts and of this, 43 Nos. of motor vehicles and carts had been valued at Rs.93,136,029 and the value of the balance of the motor vehicles and carts had not been computed.

2.7 Human Resources Management

The following observations are made.

- (a.) The approved cadre of the Council was 470 and the actual cadre was 375 and there were 96 vacancies and an excess of one. In addition to this 192 employees had been recruited on casual and substitute basis and salaries had been paid from the Council funds.
- (b.) Three out of 08 posts of Technical Officers, 01 out of 02 posts of Revenue Inspectors and 01 out of 04 Librarian posts had been vacant and there was an excess of 01 post of Medical Officer under the approved cadre. Further, there were 14 vacancies under 06 posts relating to the Public Library Kurunegala.
- (c.) A person had been recruited for the post of Secretary of the personal staff of the Mayor on the basis of a monthly allowance of Rs.20,000 according to the Council Resolution No.05(31) dated 22 November 2011 and payments had been made accordingly. But, according to the Decision No.05/අම/2012/48 of the Cabinet of Ministers of the North Western Provincial Council, the monthly allowance payable for this type of appointment is Rs.8,000. The Municipal Commissioner informed me on 08 September 2013 that this allowance has been paid subject to the approval of the Honorable Governor in terms of 1(a) and (b) of Section 40 of the Municipal Council Ordinance.

2.8 Legal Matters Initiated By the Council

- (a.) The Council had filed a case in November 2006 to recover arrears for the year 2004 amounting to Rs.291,389 relating to the Stall No.03 of the General Market; and instalments had been recovered at Rs.10,000 monthly up to September 2007. Action taken by the Council to recover the balance sum of Rs.191,389 due is not explained to audit.
- (b.) A case had been filed in September 2006 to recover arrears of Rs.405,959 for the year 2005 relating to the stall No.02 of the General Market and instalments had been recovered at Rs.10,000 up to September 2008. Action taken by the Council to recover the balance sum of Rs.195,959 due is not explained to audit.

- (c.) Although it had been reported that cases had been filed by 2010 to recover the arrears amounting to Rs.191,751 for the years 2006 and 2007 relating to the stall No.01 of the General Market; arrears amounting to Rs.125,308 for the year 2006 relating to the stall No.03; arrears amounting to Rs.85,460 for the year 2006 relating to the stall No.05 and arrears for the year 2006 relating to the stall No.04; the respective files had not been made available within the period of audit examination. The progress of these cases also could not be ascertained.
- (d.) Three cases relating to the arrears of water charges amounting to Rs.252,487 had not been finalized even as at end of the year.

2.9 Contract Administration

A business complex and a housing complex had been constructed at Wehera at a cost of Rs.40 million approximately and a loan of Rs.21 million approximately had been obtained from the Asian Development Bank as 53% contribution for this construction. An interest of Rs.2,131,872 had to be paid for this loan by 31 December 2012. Although the construction works had been completed by June 2012, half of the building had not been used for any purpose. Further, a sum of Rs.2,372,755 had been spent for additional works and there is a risk of removing these additional constructions due to widening of roads nearby.

2.10 Operating Inefficiencies

The following observations are made.

- (a.) Contributions payable to the Local Government Pension Fund had not been duly paid and therefore, the balance payable to the said Fund amounted to Rs.50,549,243.
- (b.) Electricity expenses amounting to Rs.8,148,188 salaries and overtime amounting to Rs.986,466 and cleaning charges amounting to Rs.210,000 totalling a recurrent operating expenditure of Rs.9,344,654 had been incurred for the period January to June 2012 in respect of the New Shopping Complex lease out by the Council. Further, a sum of Rs.148,430 had been spent for the maintenance works for the same period. However, the revenue that can be billed for the Trade Complex for

the same period was Rs.9,459,600 only. Accordingly, a material amount of revenue is not earned by the Council Fund from the shopping complex as compared with the operating expenses.

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.) Vehicle utilization