

Kegalle Urban Council

Kegalle 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 28 March 2012. The report of the Auditor General for the year under review was issued to the Chairman of the Council on 10 July 2013.

1.2 Opinion

In view of the comments and observations appearing in my report, I do not express an opinion on the financial statements of the Kegalle Urban Council for the year ended 31 December 2012 presented for audit.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

- (a) Creditors had been understated by a sum of Rs.4,667,983 and therefore, current liabilities had been understated by a similar amount.
- (b) Revenue debtors on stamp fees as at 01 January 2012 had been accounted less by Rs.6,260,540 and therefore, the current assets as at 31 December 2012 had been understated by a similar amount.

- (c) Sixteen motor cars and carts valued at Rs.833,463 included in the Register of Fixed Assets had not been brought to account and 02 tractors valued at Rs.608,000 included in the Register had been brought to account as Rs.676,000 overstating by Rs.68,000.
- (d) A sum of Rs.2,516,838 spent on development of buildings during the year under review and the value of 83 lands and buildings included in the Register of Fixed Assets had not been capitalized and therefore, the value of land and buildings had been understated in the balance sheet.

Unreconciled Control Accounts

The total of the balances relating to 12 items of accounts was Rs.154,923,462 as per relevant control accounts and the total of the balances of accounts as per subsidiary registers/records was Rs.144,708,822 indicating a difference of Rs.10,214,640.

1.3.3 Lack of Evidence for Audit

Transactions totaling Rs.9,200,138 could not be satisfactorily vouched in audit due to the non-submission of 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.23,342,929 as compared with the excess of revenue over recurrent expenditure amounting to Rs.29,124,729 for the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information on the estimated revenue, actual revenue and the arrears of revenue in respect of 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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	T u " ÷ 2 2	T u " ÷ 2 2	Rs ÷ 2 2 2
(i) Rates and Taxes	9,525	10,145	(620)
(ii) Lease Rent	34,352	35,421	(1,069)
(iii) Licence Fees	779	1,326	(547)
(iv) Other Revenue	55,315	15,296	40,019

2.2.2 Stamp Fees

Stamp fees amounting to Rs.2,117,398 had been due from the Registrar General as at 31 December 2012.

2.3 Idle and Underutilized Physical Resources

Two machines valued at Rs.648,000 and 03 vehicles valued at Rs.249,500 had remained idle and underutilized.

2.4 Transactions Not Supported by Adequate Authority

In preparing financial statements for the year 2011 sum of Rs.5,111,597 had been accounted by Journal Entry without proper approval in order to tally the schedules of assets and the balances of the goods verified. It had not been settled even during the year under review.

2.5 Operating Inefficiencies

The following observations are made.

- (a.) A re-check had not been carried-out in order to ensure the buildings have been constructed complying with the approved plans and to minimize the unauthorized constructions.
- (b.) Action had not been taken even by 31 December 2012 to obtain salary reimbursements amounting to Rs.3,509,416 receivable for the year 2010.
- (c.) A private company had blocked-out lands under the Town Hood Project and the block out plans had been approved subject to the payment of Rs.2,935,107 to the Urban Council for development and maintenance of access roads of the said Project. The company had paid a sum of Rs.1,500,000 on 20 December 2011 and it had been deposited in the general deposits account of the Council. Action had not been taken to obtain the balance sum of Rs.1,435,107 receivable to the Council and the sum of Rs.1,500,000 retained in the general deposits account had not been used for the maintenance works of the Project.
- (d.) Interest amounting to Rs.80,176 paid to the Bank in respect of property loans had not been get reimbursed even by 09 January 2013.
- (e.) Action had not been taken to recover the outstanding employees loan balance of Rs.69,176 relating to 15 officers retired, died and vacated posts even prior to year 2000.

3. Systems and Controls

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

- (a) Accounting
- (b) Revenue Administration
- (c) Stock Control
- (d) Assets Management