

Kandy Municipal Council

Kandy District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to the Audit on 31 March 2015 while Financial Statements relating to the preceding year had been submitted on 31 March 2014. The Auditor General's Report relating to the year under review was issued to the Secretary of the Council on 25 August 2015.

1.2 Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Kandy Municipal Council as at 31 December 2014, its financial performance for the year then ended and cash flows in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

Following deficiencies are observed.

- (a) The balance of 03 Sinking Funds amounting to Rs.22,983,102 existed as at 31 December 2014 had been included as Rs.22,889,880 in the accounts. Due to that a sum of Rs.93,222 had been understated in the accounts.
- (b) The value of Library Books amounting to Rs.19,033,111 belongs to the Council in the main library in Head Office and branch libraries had not been accounted under Fixed Assets.
- (c) Five balances of accounts amounting to Rs.15,902,381 relevant to Pre-payments had been shown under Suspense Accounts.

1.3.2 Non-reconciled Control Accounts

While the total of 08 items of accounts according to control accounts was Rs.409,844,946, according to schedules the total of those accounts had been 335,835,050 and therefore a difference of Rs.74,009,896 was observed.

1.3.3 Accounts Receivable

While the total of value of 02 Accounts Receivable Balances as at 31 December 2014 was Rs.43,979,985, these balances had elapsed more than 10 years.

1.3.4 Accounts Payable

While the total of value of 03 Accounts Payable Balances as at 31 December 2014 was Rs.534,045,489, a sum of Rs.492,883,875 out of those Accounts Payable balances were Expense Creditors. Out of that, the total of balances that had elapsed more than one year had been Rs.225,529,305.

1.3.5 Lack of Evidence for Audit

Schedule required for confirming the value of Rs.12,760,491 shown in the Value Added Tax Account as at 31 December 2014 was not furnished to audit.

1.3.6 Non-compliance with Laws, Rules, Regulations etc.

Following instances of non-compliance with Laws, Rules and Regulations were observed in audit.

- (a) Acton in terms of Financial Regulations 571(2) of the Republic of Sri Lanka had not been taken with regard to 477 items of Deposits valued at Rs.1,773,745.
- (b) Board f Survey works of 12 Departments of the Council in terms of Financial Regulations 756 and 757 of the Republic of Sri Lanka relevant to the year 2014 had not been finalized even as at 30 June 2015.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2014 amounted to Rs.347,248,051 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs.229,972,207 indicating an improvement in a sum of Rs.117,275,844 in the financial results.

2.2 Financial Control

- (i) Action had not been taken to investigate reasons and to take remedial steps with regard to 241 instances of receipt of credit notes, cheques ,cash and under deposit valued at Rs.7,943,744 deposited in the bank relevant to 02 bank accounts, but not realized.

- (ii) While the value of unidentified credit balances of 02 bank accounts during the period from the year 2012 to 31 December 2014 amounted to Rs.17,535,578, value of unidentified debits amounted to Rs.2,020,587.

2.3 Revenue Administration

2.3.1 Rates

Following matters are observed.

- i. While the Balance of Rates in Arrears at the commencement of the year under review was Rs.114,086,538, billings during the year had been Rs.270,978,811. A balance of Rs.145,611,673 remained to be recovered as at 31 December 2014 as recoveries had been 35 per cent of the arrears and 75 per cent of the billings. However, action in terms of Section 242 of Municipal Councils Ordinance had not been followed for the recovery of arrears.
- ii. According to the account, the balance of Rates as at the date of end of the year under review was Rs.145,611,674. However, according to information furnished in audit by the Municipal Commissioner, the balance had been Rs.143,344,394. A difference of Rs.2,267,280 was observed.

2.3.2 Water Charges

Following matters are observed.

- i. While there was balance of Rs.91,313,547 in arrears at the commencement of the year under review, billings during the year had been Rs.485,757,091. information with regard to extent of recoveries out of opening balance and the extent of collections out of billings during the year were not furnished to audit. However, action had not been taken to recover those arrears of revenue.
- ii. According to the account, the balance of Water Charges in arrears as at the date of commencement of the year under review was Rs.92,647,416. However, according to information furnished through the Water Works Department, the balance had been Rs.91,313,547. A difference of Rs.1,333,869 was observed.

2.3.3 Other Revenue

Following matters are observed.

- i. While there were arrears totalling Rs.43,903,011 relating to 08 Revenue Items at the commencement of the year under review, billings during the year had been Rs.214,744,555. There were arrears of Rs.78,771,072 as at 31 December 2014, as the

recoveries during the year had been 63 per cent. However, action had not been taken to recover those arrears of revenue.

- ii. According to the account, the balance of Other Revenue in arrears as at the date of end of the year under review was Rs.183,458,940. However, according to information furnished by the Council the balance had been Rs.78,771,072 and a difference of Rs.104,687,868 was observed.

2.3.4 Court Fines and Stamp Fees

- i. Court Fines amounting to Rs.2,856,076 and Stamp Fees amounting to Rs.52,769,066 were due from the Chief Secretary to the Uva Provincial Council and other authorities as at 31 December 2014.
- ii. According to the account, the balance of Court Fines in arrears as at the date of end of the year under review was Rs.2,856,076. However, according to information furnished in by the Municipal Commissioner the balance had been Rs.1,156,326 and a difference of Rs.1,699,750 was observed.

2.3.5 Rest House Rent

While Rest House Rent in arrears amounting to Rs.9,178,732 had been shown under Lease Rent as at 31 December 2014, according to information furnished in by the Municipal Commissioner the balance in arrears as at the end of the year had been Rs.7,178,732 and non-reconciliations in a sum of Rs.2,000,000 were observed.

2.3.6 Lease Rent

Although the Lease Rent arrears as at date of end of the year under review according to the accounts was Rs.99,080,287, according to the schedule furnished Lease Rent arrears had been Rs.101,080,287.

3. Operating Review

3.1 Management Inefficiencies

- (a) According to the bank reconciliation statement for December 2014, there were 37 dishonored cheques, while 14 cheques valued at Rs.171,696 were balances being brought forward over period during a period from 01 to 05 years.
- (b) The loss amounting to Rs.380,460 occurred connected with the accident took place during the year 2003 to the vehicle No. 253-3800 had been brought forward in the accounts without action being taken to recover or taking any other suitable action.

3.2 Operational Inefficiencies

Action had not been taken to settle advances totaling Rs.4,581,493 relevant to the period ranging from the year 2008 to the year 2013 granted in 25 instances even up to the end of the year under review. Action had not been taken to settle Advances totalling Rs.637,177 granted in 07 instances during the year under review even as at 30 June 2015.

3.3 Improper Transactions

(a) Settlement of Telephone Bills

PEO TV bills amounting to Rs.7,710 relevant to the period from August to December 2014 in the telephone bill of the official residence of an officer had been paid by the Council contrary to the directions in the paragraph (2) of the Public Finance Circular No. 446 dated 01 September 2010. A totaled sum of Rs.33,075 had been paid as telephone expenses to 23 Council Officers in excess of the combined limit during the years 2013 - and 2014 as telephone expenditure.

- Although Charges for international direct dialing facilities could be paid only in the instances where approval of the relevant Secretary to the Ministry had been obtained, a sum of Rs.4,649 had been paid for international telephone calls of official residence of two officers where such approval had not been obtained during the year 2014.

(b) Payment of Council Meetings allowances

It has been stated that, no order made under Section 289 (2) of the Municipal Councils Ordinance shall have the effect unless it has been approved by the Parliament and notification of such approval is published in the Gazette, a sum of Rs.1,259,000 had been paid to Council Members as Council Meetings and Committee Allowances relevant to the period from 17 February 2014 to 31 December 2014 according to the letter No. CPC/CMS/01/06/01/4.4 of the Secretary to the Chief Ministry of the Central Province disregarding provisions.

(c) Air Travel Ticket Charges

Although it has been informed in terms of Public Finance Circular No. 431 dated 24 April 2008 that all officers going abroad on all official travel including seminars, conferences training programs by incurring expenditure out of any sources funding should purchase their air travel tickets only from Sri Lankan Air Line Company or Mihin Lanka (Private) Company, contrary to that, air travel tickets had been purchased for three foreign tours from the World Air Private Limited Establishment having spent a sum of Rs. 487,610.

3.4 Staff Loans

Following matters are observed.

- (i) Action had not been taken to recover loan balances amounting to Rs.1,585,992 due to be recovered from 24 officers who had deceased or retired during the period from the year 2004 to 2013 even up to the end of the year under review.
- (ii) Loan balances amounting to Rs.794,983 due to be recovered for the period from the year 1999 to July 2014 from 156 officers and employees who had left on transfers had not been recovered.
- (iii) Action had not been taken during the year under review to settle loans amounting to Rs.77,557 over paid by 22 officers who had left on transfers.
- (iv) A proper methodology had not been followed to settle loan balance amounting to Rs.346,836 due from 07 officers who had vacated service during the period from the year 2009 to the year 2014.
- (v) Action had not been taken up to 31 December 2014 to get settled loans amounting to Rs.650,337 due from 14 interdicted officers.
- (vi) A proper course of action had not been taken with regard to a loan balance of Rs.74,464 due from a female officer vanished in the Tsunami disaster.

3.5 Idle and Under-utilized Assets

Following matters are observed.

- (a) While four vehicles taken to the custody of the Government by the Kandy High Court and taken to the Municipal Council and kept in the work shop, value of those had not been identified and registration works had not been made. Action had not been taken to carry out the relevant repairs and deploy those vehicles for a useful purpose.
- (b) Although the two vehicles as the Farm Tractor received from the Central Provincial Council and the Nissan Salem of the Fire Extinguish Section had been handover to the Work Shop on 01 January 2014, repair works had not been commenced even as at 10 February 2014, these two vehicles too had not been registered.
- (c) Ten vehicles handed over to the work shop for repairs during the period from the year 2013 to January 2014 for repairs had been withheld in the mechanical work shop during a time range between 01 day to 79 days without being repaired.

3.6 **Contracts Administration**

Although quotations had been called for from institutions with experience of more than 10 years in supply of software relating to Local Government Institutions according to the tender notice for computerization of Rates, Sundry Revenue and Stores Works, the tender for Rs.1,075,000 had been awarded to a private firm with an experience less than 05 years from the date of establishment.

4. **Accountability and Good Governance**

Budgetary Control

Following matters are observed.

- (a) According to the budget prepared for the year under review, when estimated revenue and expenditure are compared with the actual revenue and expenditure variations in a range from 18 per cent to 81 percent of 02 items of revenue and variations in a range from 16 per cent to 52 percent of 07 items of expenditure were observed, indicating that the Budget had not been made use of as an effective tool of management.
- (b) The entire hundred per cent of provisions amounting to Rs.29,900,000 of 16 capital expenditure items had been saved as the provisions had been obtained without proper planning and attention and identification of the requirements.
- (c) A totaled sum of Rs.64,632,863 had been utilized as excess expenditure in a range from 16 to 100 per cent under 14 capital expenditure items.
- (d) Out of provisions made for 17 estimated capital expenditure items, provisions in a range from 51 to 99 per cent had been saved.

5. **Systems and Controls**

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

- (a) Accounting
- (b) Budgetary Control
- (c) Revenue Administration
- (d) Assets Management
- (e) Contracts Administration