

Kegalle Urban Council

Kegalle District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Audit on 30 March 2015 while Financial Statements relating to the preceding year had been submitted on 26 March 2014. The Auditor General's Report relating to the year under review was sent to the Chairman of the Council on 02 July 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 Kegalle Urban Council as at 31 December 2014 and its financial performance for the year then ended in accordance with Public Sector Accounting Standards of Sri Lanka.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

Following matters are observed.

- (a) The true value of Lands and Buildings had not been disclosed through the accounts due to, failure in computation and accounting the value of land with the Public Cemetery, Land with the Rest House, Land at Francis Molamure Avenue and official quarters located in the Herbert J Seneviratna Avenue etc.
- (b) A sum of Rs. 15,153,307 being the value of land in extent of 67.5 perches received as 10% portion of land received from the Pitihumawatta Land, sold in public auction during the year under review had not been included in the value of Lands and Buildings. Due to that, value of Fixed Assets had been understated to that extent.
- (c) A sum of Rs. 1,501,701 spent as salaries, overtime and holiday pay during the year under review which should be accounted under recurrent expenditure had been erroneously accounted as capital expenditure.

- (d) Although the total of Equipment Expenditure for the year under review was Rs. 57,515,512 it had been accounted as Rs. 57,870,296, overstating a sum of Rs. 354,784.
- (e) In computation of Stamp Fees Revenue for the year under review, the sum of Rs. 5,246,396 received from January 2013 to March 2014 had been accounted deviating from the accrual basis, while arrears revenue relevant to the year 2014 had not been accounted.
- (f) The entire sum of Rs. 533,550 received as Warrant Charges during the year under review had been accounted as revenue for the year under review, deviating from the accrual basis.
- (g) Although the Reimbursement Revenue of Members Allowance Receivable was Rs. 180,000, it had been shown as Rs. 155,000, understating a sum of Rs. 25,000. Due to that, Revenue Debtors had been understated to that extent.
- (h) The Deposit Money amounting to Rs. 1,784,746 being 1% of sale price of blocks of lands obtained on the basis of temporary assessment before approval of blocking out plan relevant to land sales during the year under review, had been erroneously accounted as a revenue for the year. Due to that, Revenue for the year had been understated to that extent.

1.3.2 Non-reconciled Control Accounts

Following matters are observed.

- (a) While the total of balances relevant to 03 items of accounts shown in the financial statements was Rs. 7,820,229, according to subsidiary registers and records the total of those balances had been Rs. 6,873,190. Accordingly the deference was Rs. 947,039.
- (b) The General Deposits Account shown as Rs. 16,392,330 according to financial statements had not been balanced during a number of years. Due to that, the balance in the account could not be reconciled with the General Deposits Register.

1.3.3 Suspense Account

The total of balances of non-settled Suspense Accounts as at 31 December 2014 was Rs.5,992.

1.3.4 Accounts Receivable and Payable

The values of Accounts Receivable and Payable that had been outstanding for more than one year as at 31 December 2014 were Rs.3,781,875 and Rs.44,682,834 respectively.

1.3.5 Lack of Evidence

Transactions totalling Rs. 13,447,846 relevant to 02 items of accounts could not be satisfactorily vouched in audit due to non-rendition of required information to audit.

1.3.6 Non-compliance with Laws, Rules and Regulations

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

Reference to Laws, Rules, Regulations etc.

- (a.) Circular No.2005/4 dated 01 June
2005 of the Sabaragamuwa Provincial
Commissioner of Local Government

Clause IV

Clause VIII

Non-compliance

- Although a sum of Rs. 1,784,746 as 1% Deposits had been obtained from two lands relevant to land sales, agreements had not been entered into including conditions to pay 1% tax relevant to sales proceeds of blocks of lands.
- The Register relating to Land Sales had not been maintained.

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.38,556,845 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs.49,050,076 indicating a decline of Rs.10,493,231 in the financial results.

2.2 **Analytical Financial Review**

The decrease of revenue in 4 revenue items and increase of expenditure in 3 expenditure items during the year under review when compared with those for the preceding year had been the main reasons for decline of financial results in a sum of Rs.10,493,231.

2.3 **Revenue Administration**

2.3.1 **Performance of Collection of Revenue**

Information furnished by the Chairman relating to Estimated Revenue, Actual Revenue and Arrears of Revenue for the year under review is shown below.

Source of Revenue	Arrears as at 01.01.2014	Recoveries out of Arrears as at 31.12.2014	Billings during the year	Recoveries out of billings for the year	Recoveries out of arrears as at 01.01.2014	Out of billings for the year	Total Arrears
	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
(i) Rates and Taxes	4,985	1,965	9,355	6,582	3,020	2,733	5,753
(ii) Lease Rent	5,343	5,462	28,342	27,436	(120)	905	785
(iii) Licence Fees	267	267	2,609	2,887	--	(278)	(278)
(iv) Other Revenue	17,221	16,690	14,018	13,347	525	671	1,196

When above information is compared with the balances in the financial statements, following observations were made.

	Balance According to Statement of Revenue in Arrears	Balance according to Financial Statements	Difference
	Rs. 000	Rs. 000	Rs. 000
Rates in Arrears	5,753	5,002	751
Other Revenue in Arrears	1,703	39,358	37,655

2.3.2 Rates

Following matters were observed.

- (a) Although majority of Rate Payers out of Rate Payers in arrears amounting to Rs.5,002,800 as at 31 December 2014 had defaulted payments since a long period, action in terms of Section 170 (1) of the Urban Councils Ordinance (Chapter 255) had not been taken to recover taxes in arrears.
- (b) Properties subject to Rates had not been got assessed by the Government Valuer after the year 2002.
- (c) Owners of 77 properties subject to Rates had not been identified.
- (d) While Rates had been recovered for properties named in favor of the Council by including personal names, action had not been taken to identify and vest the properties belong to the Council.

2.3.3 Lease Rent

While there was an arrears sum of Rs.1,529,853 at the time of vesting 52 stalls in the open market during the year 2010 in the New Economic Centre on the grounds of non-payment of lease rent properly, it had not been possible to recover the arrears due to failure in entering into agreements with lessees.

2.3.4 License Fees

It had been allowed to carry on businesses without obtaining licenses in the area of authority of the Council causing tax loss of Rs.48,000 to the Council Fund. during the year 2014

2.3.5 Tax Revenue of the Latrines Complex

A total sum of Rs.222,622 was outstanding to be recovered as Rs.109,977 being Lease Rent and as Rs.112,645 being Water Bills in arrears from 4 lessees during the two years 2013 and 2014.

2.3.6 Entertainment Tax

Although Entertainment Tax other than Cinema Halls Tax amounting to Rs. 122,875 had been recovered during the year under review, legal provisions for that had not been made.

2.3.7 Business Tax

A sum of Rs.55,000 as Business Tax to be recovered for which action had not been taken in terms of the agreements although agreements had been entered in to , a sum of Rs.37,024 as monthly Lease Rent in arrears and a sum of Rs. 34,200 to be forfeited by the Council due to breach of agreement which could not be recovered due to lack of security deposits totalling in all to Rs.126,224 had been lost to the Council.

3. Operating Review

3.1 Operational Inefficiencies

Following matters are observed.

- (a) Action had not been taken to get the ownership transferred in favor of the Council with regard to 13 vehicles valued at Rs.18,005,000 received from the Chief Ministry of the Sabaragamuwa Provincial Council.
- (b) Action had not been taken up to end of the year under review to get settlement of advances amounting to Rs.83,410 paid for 03 Works during the period from the year 2010 to January 2014.
- (c) Action had not been taken to get back 46 books carried away or to recover the value from the guarantors as pointed out through the board of survey reports for number of years.
- (d) A loss of Rs.505,842 had occurred to the Council Fund during the years 2013 and 2014 alone, due to recovery of no-pay leave from the salaries based only on the basic salary.

3.2 Assets Management

Idle and Under-utilized Assets

Following matters are observed.

- (a) Four Items of Fixed Assets valued at Rs. 397,500 remained idle.

- (b) A stock of 516 meters of 1 ½ inch Pipes valued at Rs. 73,640 for more than a period of one year, 248 meters of 2 Inch PVC Pipes valued at Rs. 58,766 since January 2010, and 14.73 Tar Barrels valued at Rs. 256,650 since 04 June 2013 remained as non-moving stores stocks.

3.3 Contracts Administration

Although provisions amounting to Rs. 300,000 had been received for development of Nandiwala Watta Play Ground under Local Government Criteria Based Fund for the year 2014, the relevant work had not been fulfilled even up to February 2015.

4. 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.) Assets Management
- (d.) Stock Control
- (e.) Debtors Control