

Kuliyapitiya Urban Council
Kurunegala District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to the Audi on 08 April 2015 while Financial Statements relating to the preceding year had been submitted on 27 March 2014. The Auditor General's Report relating to the year under review was issued to the Secretary of the Council on 13 August 2015.

1.2 Opinion

I am of opinion that except for the effect on the financial statements of the matters referred to in paragraph 1.3 of this report, that the financial statements had been prepared in accordance with Generally Accepted Accounting Principles and give a true and fair view of the financial position of the Kuliyapitiya Urban Council as at 31 December 2014 and financial results of its operation for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

Following Accounting Deficiencies were observed.

- (a) Although the Courts Fine Revenue relevant to the year under review was Rs. 290,167, it had been shown as Rs. 152,500, understating the revenue for the year in a sum of Rs.137,667. While the Courts Fine Revenue Receivable at the end of the year under review had been Rs. 266,167, it had not been accounted as Debtors.

- (b) While Interest Revenue amounting to Rs. 112,500 received for the year 2012 relevant to the Fixed Deposit No. 46-00866-1 for Rs. 3,000,000 had been accounted as revenue for the year under review, Interest Revenue for the Fixed Deposit No. 44-00125-1 amounting to Rs. 1,457,685 relevant to the year 2014 had not been identified and accounted. A Fixed Deposit balance of Rs. 1,803,948

had been written off against the Accumulated Fund through Journal Entry No. 08 without giving specific reasons.

- (c) Value of Motor Vehicles amounting to Rs.4,106,500 received during the year as donations had not been accounted as Capital Revenue and Assets.
- (d) Although the value of Stores Stock balance at the end of the year under review according to the Board of Survey reports had been Rs. 4,015,238, it had been shown as Rs. 22,612,596 in the financial statements overstating the Stock Balance in a sum of Rs. 18,597,358.
- (e) Rates Revenue amounting to Rs. 284,005 received during the year under review in respect of the ensuing year, had been shown deducted from the Rates Revenue debtors Receivable as at the end of the year under review instead of accounting it as Revenue received in Advance (Creditors).

1.3.2 Unreconciled Control Accounts

Non-reconciliations amounting Rs. 4,193,206 relating to 08 items of accounts between the account and the relevant subsidiary registers were observed under final balances for the year under review.

1.3.3 Accounts Receivable an Payable

Following matters are observed.

- (a) While there were Revenue Debtors amounting to Rs. 25,142,884 in Accounts Receivable, Rates in arrears amounting to Rs. 9,877,653, Water Charges in arrears amounting to Rs.3,689,672 and Stamp Fees Receivable amounting to Rs.5,590,894 were included therein.
- (b) A sum of Rs. 490,000 to be received for construction work of side drains of “Sumudu Mawatha” had not been accounted as Revenue Receivable.

- (c) Value of Accounts Payable as at 31 December 2014 was Rs. 49,170,785. Out of this a sum of Rs. 16,874,880 as 34% approximately, were balances existing for more than a period of 3 years.
- (d) The balance of Miscellaneous Deposits as at the end of the year under review was Rs. 5,990,545. Out of that 22 Deposit Balances amounting to Rs. 1,524,728 were Miscellaneous Deposits not settled during a period from the year 2007 to 2013.

1.3.4 Lack of Evidence for Audit

Transactions totalling Rs. 34,270,508 could not be satisfactorily examined due to non-submission of required information to audit.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, the excess of revenue over recurrent expenditure for the year ended 31 December 2014 amounted to Rs. 14,886,643 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 16,402,197 indicating a decline of Rs. 1,515,554 in the financial results. When Capital Grants of Rs. 2,267,605 and Capital Expenditure of Rs. 18,255,480 are adjusted to this operational result, financial result relevant to the year under review had become a deficit of Rs.1,101,232.

2.2 Analytical Financial Review

Following matters are observed.

- (a) Out of the total Recurrent Revenue of Rs.102,528,915 relevant to the year under review of the Sabha, a sum of Rs. 49,086,013 as 48 per cent approximately was consisting revenue not falling under a nature generated in the Sabha such as Court Fines, Stamp Fees and Salary Reimbursements. Similarly, the entire Capital Revenue of Rs. 2,267,605 was consisting funds provided for development activities of the area of authority through other institutions from sources such as Gama Neguma and Maga Neguma.

- (b) Out of the total Recurrent Expenditure of Rs. 87,642,272 relevant to the year under review, a sum of Rs. 55,833,993 as 64 per cent approximately was expenditure for Personnel Emoluments. Out of that a sum of Rs. 35,227,594 as 63 per cent approximately had been received from the Commissioner of Local Government as salary reimbursements and that value had been accounted under Other Revenue. Similarly, out of the Capital Expenditure of Rs. 18,255,480, a sum of Rs. 15,987,787 as 87 per cent approximately had been spent out of the Sabha Fund.

2.3 Revenue Administration

2.3.1 Rates

While the arrears under 4454 Rates Units was Rs. 9,877,653, when it is compared with the annual billings of Rs. 14,856,776, it was 66% approximately.

2.3.2 Entertainment Tax

While there were 03 Cinema Halls in the area of authority of the Council, entry tickets of the relevant Cinema Halls had not been sealed after January 2013. While calculation of Entertainment Tax had been made on the basis of returns sent to the Film Corporation by the Cinema Halls, consequent to that, Entertainment Tax recovered from Cinema Halls during the year under review had gone down in a range from 45% to 59%, when compared with the year 2013. Entertainment Tax in arrears as at the end of the year under review had been Rs. 599,517.

2.3.3 Water Charges

While the Water Project had been operated by the Council itself utilizing a Water Purification Centre belongs to the Council, water supply had been made to 1855 consumers. However, an evaluation of the Water Project had not been there with regard to the effectiveness of the Water Project due to lack of Bulk Water Meters and information such as volume of production and distribution. Similarly, the balance of Water Charges in arrears as at the end of the year under review had been Rs. 3,689,672 while it was 76% of the annual billings.

2.3.4 Court Fines and Stamp Fees

While the Stamp Fees Receivable as at the end of the year under review from the Chief Secretary to the Provincial Council was Rs. 5,590,894, Court Fines Receivable had not been identified and accounted.

3. Operating Review

3.1 Performance Evaluation

Seven Welfare Activities amounting to Rs. 310,000 planned to be implemented during the year by the Council had not been performed.

3.2 Management Inefficiencies

(a) Rates Procedure

While a Computer Programme had been used for Rates procedure of the Council, following deficiencies are observed with regard to that.

- i. Lack of proper supervision through secret pass words according to the relevant official levels for the computer program and possibility for altering any information by the officers operating it without proper approval.
- ii. Engagement of the same officer in duties relating to this computer program for more than 10 years from the year of introducing the computer program in 2003 to the year 2013 and lack of rotation of duties and training other employees.
- iii. While it had been revealed that Rates paid by the Rate Payers had been defrauded through altering the receipt numbers by the employees and Secretary to the Council had been informed by the Commissioner of Local Government during October 2014 to conduct a preliminary inquiry with regard to that .

(b) Water Project

Although a Computer Program had been used for the Water Project since the year 2012, following weaknesses were observed with regard to that.

- i. Lack of providing secret pass words for the relevant computer program and lack of proper supervision over that.
- ii. Possibility for altering any data by individuals who are operating the relevant computer program.
- iii. Using both the computer program and the registers for the Water Project for more than 02years and improper function of the computer program as at December 2014.
- iv. Existence of large differences between arrears of balance according to the registers and arrears of balances according to the computer program as at 31 December 2014.

4. Systems and Controls

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

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