

## **Kurunegala Municipal Council**

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**Kurunegala District**  
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### **1. Financial Statements**

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#### **1.1 Presentation of Financial Statements**

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Financial Statements for the year under review had been submitted to Audit on 30 March 2016 while Financial Statements relating to the preceding year had been submitted on 31 March 2015. The Auditor General's Report relating to the year under review was sent to the Municipal Commissioner of the Council on 14 July 2016.

#### **1.2 Qualified Opinion**

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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 Kurunegala Municipal Council as at 31 December 2015 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.3 Financial Statements**

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##### **1.3.1 Accounting Deficiencies**

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Following accounting deficiencies are observed.

- (a) Although the accounting policy of the Council is to prepare a separate Profit and Loss Account relevant to Solid Wastes Centre named as "Samapath Piyasa", net profit of Rs. 213,569 had not been adjusted to the financial statements. Similarly, Closing Stock of Rs. 28,980 and Cash and Bank Balance of Rs. 684,402 had not been disclosed in the Balance Sheet.

- (b) Although adjustments to be made relevant to prior years for the Accumulated Fund and Surplus and Deficit Account should be made through journal entries with an approval, while a sum of Rs. 5,678,024 had been debited direct to the Accumulated Fund and Surplus and Deficit Account, a sum of Rs. 11,644,089 had been credited during the year under review without using journal entries accordingly.
- (c) Court Fines amounting to Rs. 162,000 and Salary Reimbursements amounting to Rs. 28,715,649 in respect of the year 2014, received during the year 2015 had been shown as revenue for the year under review.
- (d) Although the value of Salary Reimbursements Receivable as at 31 December 2015 was Rs. 45,277,188, it had not been accounted as Revenue receivable.
- (e) Although the amount relevant to the Local Government Pension Contribution relevant to the year under review was Rs. 1,801,556, the sum of Rs. 2,101,816 paid during the year under review with the installments for November and December 2014 had been accounted as expenditure for the year. Due to that, expenditure for the year had been overstated in a sum of Rs. 300,260. Similarly, the arrears money amounting to Rs. 50,819,736,385 payable to this fund as at 31 December 2015 had not been accounted as Creditors.
- (f) Rent receivable as at 31 December 2015 amounting to Rs.753,000 for leasing out Rajapihilla Rest House and Rent Receivable as at 31 December 2015 amounting to Rs.522,500 for leasing out Section A of Vehera Trade Complex had not been accounted as arrears of Revenue.
- (g) Tender Rent Receivable as at 31 December 2014 amounting to Rs. 208,595 had not been accounted as Revenue Receivable.

- (h) Bus Stand Latrine Charges amounting to Rs. 3,650,000 received relevant to the years 2014 and 2015 had been shown as revenue for the year under review, causing overstatement of revenue for the year to that extent. Similarly, Fines amounting to Rs. 136,374 due as at 31 December 2015 had not been accounted as Revenue Receivable.
- (i) Although the Nation Building Tax Payable as at 31 December 2015 was Rs. 177,150, it had not been identified and accounted as Creditors.
- (j) The value of 02 vehicles amounting to Rs. 13,750,000 purchased or received as donations during the year 2015 had not been accounted.
- (k) A sum of Rs.24,052,395 recovered during the year 2015 by the Municipal Council as Value Added Tax had been accounted under Other Revenue, while a sum of Rs. 13,278,573 paid by the Municipal Council as Value Added Tax during the year 2015 had been accounted as expenditure under Grants, Contributions and Subsidy Payments . Due to that revenue for the year in a sum of Rs. 24,052,395 and expenditure for the year in a sum of Rs. 13,278,573 had been overstated.

### **1.3.2 Non-reconciled Control Accounts**

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Following matters are observed.

- (a) Differences of Rs. 125,681,712 were observed between the balances relevant to 06 items of accounts at the end of the year under review and the balances in the subsidiary registers.
- (b) Differences of Rs. 14,008,258 were observed between the balances reported as Deposits, as at 31 December 2015 in the financial statements and the total of balances in the deposits registers.

### **1.3.3 Accounts Receivable**

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- (a) The value of Accounts Receivable balances as at 31 December 2015 was Rs. 128,732,188. Out of that 5 percent or Rs. 6,948,938 were balances brought forward since a period exceeding 03 years.
  
- (b) In the value of Utility Services Recoverable, a balance of Rs. 820,734 relevant to 21 dishonored cheques during the period from the year 2007 up to the year 2013 was included.

### **1.3.4 Accounts Payable**

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- (a) While the total value of accounts payable balances as at 31 December 2015 was Rs. 151,064,750, out of that 35 percent or Rs. 53,605,891 were balances brought forward since a period exceeding 03 years.
  
- (b) In the value of Refundable Deposits amounting to Rs. 67,819,473, Miscellaneous Deposits amounting to Rs. 8,883,234 and Tender Deposits balance of Rs. 631,193 relevant to the period from the year 2010 to the year 2013 were included.

### **1.3.5 Lack of Evidence for Audit**

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Evidence such as schedules indicating make up and confirmations of balances relevant to 14 items of accounts amounting to Rs. 348,381,329 were not furnished and therefore those items of accounts could not be satisfactorily vouched in audit.

## 2. Financial Review

### 2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure for the year ended 31 December 2015 amounted to Rs. 198,984,605 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 85,019,489, indicating an improvement of financial results in a sum of Rs. 113,865,116. When Capital Grant of Rs. 59,943,029 and capital expenditure of Rs. 195,086,307 are adjusted to this financial result, financial result relevant to the year under review had become a surplus of Rs. 63,841,327.

### 2.2 Analytical financial Review

Following matters are observed.

- (a) Variations relevant to actual revenue and expenditure between the year under review and the preceding year were as follows.

Source of Revenue	Revenue			Expenditure Item	Expenditure		
	2015	2014	Variance		2015	2014	Variance
	Rs.000	Rs.000	Rs.000		Rs.000	Rs.000	Rs.000
(i) Generated Revenue	308,709	279,748	28,961	Personal Emoluments	253,044	181,657	71,387
(ii) Others	<u>300,873</u>	<u>167,697</u>	<u>133,176</u>	Others	<u>157,553</u>	<u>180,769</u>	<u>(23,216)</u>
Sub total	<u>609,582</u>	<u>447,445</u>	<u>162,137</u>	Sub total	<u>410,597</u>	<u>362,486</u>	<u>48,171</u>
(iii) Capital Grant	59,943	15,368	44,575	Capital Expenditure	195,086	88,273	106,813
Grand Total	<u>669,525</u>	<u>462,813</u>	<u>206,712</u>		<u>605,683</u>	<u>450,699</u>	<u>154,984</u>
Excess of Revenue over Expenditure	<u>198,985</u>	<u>85,109</u>	<u>113,966</u>	Surplus	<u>63,841</u>	<u>12,114</u>	<u>51,727</u>

- (b) Out of the total Recurrent Revenue of Rs.609,581,435 relevant to the year under review, a sum of Rs. 300,873,032 or 49 per cent approximately, were revenue not falling under a nature generated in the Council such as Court fines, Stamp Fees and Salary Reimbursements while it had been 79 per cent when compared with that for the year 2014.
- (c) Out of the total Capital Revenue of Rs.59,943,029, a sum of Rs. 42,515,664 as 71 per cent and out of Capital Expenditure of Rs. 195,086,307, a sum of Rs. 42,515,664 or 22 per cent were value of vehicles received as donations.
- (d) Out of the total Recurrent Expenditure of Rs.410,596,830 relevant to the year under review, a sum of Rs. 253,043,682 as 62 per cent was expenditure for Personnel Emoluments. Out of that, a sum of Rs. 215,070,903 as 85 per cent had been provided by the Commissioner of Local Government as salary reimbursements while that value had been accounted under Revenue Grants.

### **2.3 Working Capital Management**

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According to the bank reconciliation statements prepared at the end of the year under review relevant to 03 bank accounts of the Council, balances of unidentified receipts in 21 instances amounting to Rs.721,552 and unrealized receipts amounting to Rs.20,40,538 in 04 instances existing during a period exceeding one year were observed.

### **2.4 Revenue Administration**

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#### **2.4.1 Performance in Revenue Collection**

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Estimated Revenue, Actual Revenue and Arrears of Revenue relevant to the year under review and the preceding year had been as follows.

Item of Revenue	2015			2014		
	Estimated	Actual	Accumulated Arrears as at 31 December	Estimated	Actual	Accumulated Arrears as at 31 December
	Rs000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
(i) Rates and Taxes	150,736	163,319	85,971	142,500	141,376	73,209
(ii) Lease Rent	70,677	66,633	5,290	69,475	63,561	4,132
(iii) License Fees	8,405	12,082	--	7,855	11,1999	--
(iv) Other Revenue	<u>324,411</u>	<u>367,547</u>	<u>30,264</u>	<u>283,910</u>	<u>231,307</u>	<u>23,431</u>
Total	<u>554,229</u>	<u>609,581</u>	<u>121,525</u>	<u>503,740</u>	<u>447,443</u>	<u>100,772</u>

#### 2.4.2 Revenue Billed and Arrears of Revenue

Revenue billed during the year and arrears of revenue are as follows.

Item of Revenue	Revenue Collection					Balance in arrears			
	Balance as at 01.01 2015	Billings during the year	Total	From arrears up to 01.01.2015	From Revenue billed	Total	From arrears as at 01.01. 2015	From Revenue billed	Total arrears as at 31.12.2015
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Rates and Taxes	73,209	150,789	223,998	23,744	117,933	141,677	53,115	32,856	85,971
Lease Rent	4,132	66,633	70,765	3,709	61,766	65,475		4,867	5,290
License Fees									
Other Revenue	--	12,082	12,082	--	12,082	12,082	423	--	--
Total	<u>23,431</u>	<u>367,547</u>	<u>390,978</u>	<u>81,189</u>	<u>337,283</u>	<u>418,472</u>	--	<u>30,264</u>	<u>30,264</u>
	<u>100,772</u>	<u>597,051</u>	<u>697,823</u>	<u>108,642</u>	<u>529,064</u>	<u>637,706</u>	<u>53,538</u>	<u>67,987</u>	<u>121,525</u>

Following matters are observed.

(a) Rates

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While Rates Revenue amounting to Rs. 67,915,802 had been billed under 12 divisions relevant to the year under review, out of that an arrears sum amounting to Rs. 35,421,685 or 52 percent was outstanding. According to audit sample checks carried out in audit, there was an arrears sum of Rs. 3,920,346 due from 56 Rates Units with arrears more than Rs. 40,000 per unit as at 31 December 2015.

(b) Water Revenue

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While billings for the year had been Rs. 85,058,589, under that a sum of Rs. 49,154,524 or 58 percent was in arrears as at the end of the year under review. According to audit sample checks carried out in audit, there was an arrears sum of Rs. 26,967,499 relevant to 115 water consumers in arrears exceeding Rs.50,000 and it was 53 percent of the total arrears. Similarly, an arrears sum of Rs. 3,585,039 billed as Municipal Commissioner relevant to 04 consumers, an arrears sum of Rs. 7,489,001 under consumer No. 5163 relevant to Kurunegala Teaching Hospital and an arrears sum of Rs. 2,312,762 under consumer No. 6747 relevant to Vilgoda Road Public Water Tap were due to be recovered.

(c) Stalls Rent

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There were arrears of Stalls Rent amounting to Rs. 472,762 and arrears of service charges amounting to Rs. 188,987 relevant to 55 stalls in the Kurunegala New Shopping Complex at the end of the year under review. Similarly, Stalls Rent, Key Money and Interest in arrears relevant to 85 stalls in Kurunegala New Bus Stand amounted to Rs. 2,139,238.



(d) Court Fines and Stamp Fees

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Court Fines and Stamp Fees receivable from the Chief Secretary of the Provincial Council at the end of the year under review amounted to R. 501,000 and Rs. 26,790,797 respectively.

**3. Operating Review**

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**3.1 Management Inefficiencies.**

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While Deposits valued at Rs. 4,996,245 included in the Miscellaneous Deposits were Grants received from various parties for development works, those funds had been held as Deposits without being utilized for development works.

**3.2 Physical Resources Management**

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In spite of the fact that Lease Rent amounting to Rs. 1,193,630 and Water Charges in arrears amounting to Rs. 2,900,000 were due to be recovered as at the end of the lease period from 01 July 2008 to 30 June 2013 from the private establishment which obtained the contract for collection of public bus stand latrine revenue, it had been leased out to the relevant establishment without calling for tenders for the ensuing 5 years as well. While recoveries relevant to past 5 years had not been duly given to the Council, the tender had been given again and due to that the relevant amount in arrears together with Water Charges as at 31 December 2015 had been Rs. 3,405,213.

### **3.3 Cadre Control**

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Although the approved cadre for watchers of the Council had been 34, including the employees made permanent in terms of Public Administration Circular no. 25/2014 dated 15 November 2014 the number of watchers were 64. In spite of that, three watchers had been recruited on substitute basis and salaries and allowances had been paid out of the Council fund during the year 2015. Information relevant to that was not furnished to audit.

## **04. Accountability and Good Governness**

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### **4.1 Budgetary Control**

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Excess expenditure amounting to Rs. 11,757,806 had been incurred relevant to two recurrent expenditure items in the Budget for the year under review.

### **4.2 Internal audit**

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While the Internal Audit Unit had not been expanded to facilitate an adequate internal audit, audit programs and copies of internal audit reports had not been furnished to the Auditor General.

### **4.3 Audit and Management Committees**

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Audit and Management Committee had met only in one instance during the year under review.

#### **4.4 Assets Management**

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Two Road Rollers and a Tractor assessed at a valuation of Rs. 174,000 were in unserviceable condition at end of the year under review.

#### **05. Systems and Controls**

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

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