

Kurunegala Municipal Council
Kurunegala District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Audit on 31 March 2017 while Financial Statements relating to the preceding year had been submitted on 30 March 2016. The Auditor General's Report relating to the year under review was sent to the Municipal Commissioner of the Council on 29 September 2017.

1.2 Qualified 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 Kurunegala Municipal Council as at 31 December 2016 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following matters were observed.

- (a.) Recurrent revenue totalling Rs. 536,132,075 had been billed for the year under review, and a ledger account had been maintained to account Rates amounting to Rs. 64,181,059 therefrom, but only one ledger account had been maintained for accounting all other revenue totalling Rs. 471,951,016.
- (b.) Surety deposits of tenders amounting to Rs. 3,768,898 had been shown as Rs. 5,560,941 in the financial statements.
- (c.) According to the relevant documents, the arrears of stall rent of the new shopping complex amounted to Rs. 538,000, service charges in arrears amounted to Rs. 311,286, and fines in arrears amounted to Rs. 1,547,968, but those values had been shown as Rs. 533,500, Rs. 308,786, and Rs. 1,547,518 respectively in the financial statements.
- (d.) The revenue received previously amounted to Rs. 263,484 as at the end of the year under review, but that had been shown as Rs. 1,568 in the financial statements.
- (e.) Creditor balances in excess of the initial balance totalling Rs. 9,576,968, had been written off without being specifically identified.
- (f.) Value Added Tax of Rs. 10,589,608 relating to the expenses of the year under review, had been accounted as expenses.
- (g.) Value Added Tax of Rs. 388,373 relating to the purchase of assets, had been accounted under assets.
- (h.) Consumer goods valued at Rs. 678,227, had been accounted under furniture and fittings.
- (i.) Values relating to 04 categories of assets worth Rs. 7,766,494 expected to be purchased in due course as at 31 December 2016, had been accounted as assets.
- (j.) A sum of Rs. 51,546,495 payable to the Local Government Pension Scheme by the end of the year under review, had not been accounted.

- (k.) The value of the stock of water amounting to Rs. Rs. 4,112,041 purchased in April of the year under review, should have been shown under transport, relations, and other services, but the said value had been accounted under maintenance and repair of capital assets.

1.3.2 Unreconciled Control Accounts

The following matters were observed.

- (a.) Non-reconciliations amounting to Rs. 27,046,101 had existed by the end of the year under review between the balances of 08 Items of Accounts and the schedules relating thereto.
- (b.) Creditor balances amounting to Rs. 40,865,753 had been written off as **surplus allocations for expenditure of creditors** through journal entry No. 19. However, the value of the relevant balance amounted to Rs. 41,306,752 according to the schedules, thus observing a difference of Rs. 440,999.
- (c.) According to the financial statements, the balance of the dishonored cheques amounted to Rs. 741,006 as at the end of the year under review, but the said value amounted to Rs. 728,003 according to the schedules thus indicating a difference of Rs. 13,003.

1.3.3 Accounts Receivable and Payable

The following matters were observed.

(a.) Accounts Receivable

- (i) Of the receivable accounts valued at Rs. 134,061,608 as at 31 December of the year under review, a sum of Rs. 31,532,844 related to a period of over one year. Furthermore, an age analysis had not been prepared relating to a sum of Rs. 91,432,824 as well.
- (ii) A balance of Rs. 728,003 had existed relating to 15 dishonored cheques for the period 2007-2013.

(b.) Accounts Payable

- (i) The account balance payable as at 31 December 2016, amounted to Rs. 85,243,946.
- (ii) Action had not been taken by the end of the year under review to identify and settle the balances that can be settled relating to the deposits valued at Rs. 73,579,691 made during the period 1956-2016.
- (iii) By the end of the year under review, the loan balance payable to the Local Loan Development Fund and the Urban Development Authority, amounted to Rs. 81,587,381.

1.3.4 Lack of Evidence for Audit

As detailed schedules, reports of the annual Board of Survey, register for the deposits of water charges relating to the period 1956-1997, deposit registers, stamp fees register, and verification of balances, in respect of a sum totalling Rs. 328,786,949 relating to 13 Items of Accounts, had not been made available to audit, a detailed audit could not be conducted thereon.

1.3.5 Non-compliances with Laws, Rules, Regulations, and Management Decisions

The following non-compliances were observed.

<u>Reference to Laws, Rules, Regulations and Management Decisions</u>	<u>Non-compliance</u>
(a.) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 396 (d)	Failure to take action on 24 cheques valued at Rs. 81,520 that had exceeded 06 months after being issued.
(ii) Financial Regulation 571	The existence of 1046 deposits valued at Rs. 20,334,859 that had exceeded 02 years.
(iii) Financial Regulation 751 (2)	Inventories had not been maintained in respect of electrical fittings and equipment in the buildings, town hall, and official quarters belonging to the Municipal Council.
(iv) Financial Regulation 751 (4)	Items received had not been inventoried, and only bin cards had been maintained. Goods had not been properly arranged. Hence, the stock balances could not be verified in the physical inspection.
(v) Financial Regulation 755 (1) (2)	The goods in the stores had not been properly handed over by examining the stock balances as the Storekeepers had been transferred, or retired. As such, shortages and surpluses existed in the stocks.
(vi) Financial Regulation 756	The annual Board of Survey had been conducted without inspecting the goods physically. Stock books had not been balanced properly.
(vii) Financial Regulation 762	Unnecessary stocks not issued for use over a long period of time, had been stored.
(b.) Circular, No. IAI/2002/02 of the Secretary to the Treasury, dated 28 November 2002.	A Register of Fixed Assets had not been maintained in respect of computer accessories and software.
(c.) The letter of the Director (North Western) of Urban Development Authority dated 10 October 2014 recommending the demarcation of the land Andagala Kanda Watta.	The minimum area of a plot of land should not be less than 15 perches, but the area of the plot Nos. 17 and 33 on the land of Muttettugala, Andagalakanda, had been less than that.
(d.) Public Administration Circular, No. 16/2014, dated 16 June 2014.	An officer not entitled to an official vehicle had used an official vehicle, and spent a sum of Rs. 30,637 on 322 liters of fuel with respect to the period from August to November, 2016.

02. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue of the Council over recurrent expenditure for the year ended 31 December 2016 amounted to Rs. 136,766,383 as year amounted to Rs. 198,984,605, indicating a deterioration in the financial results by a sum of Rs. 62,218,222.

2.2 Analytical Financial Review

The decrease in the Rates and taxes, license fees, other revenue, and revenue aid by sums of Rs. 9,090,917, Rs. 1,562,076, Rs. 51,048,214, and Rs. 21,652,971 respectively, had mainly attributed to the deterioration of the financial result.

2.3 Revenue Administration

2.3.1 Performance in Collecting Revenue

Even though the revenue estimated for the year under review had been Rs. 655 million, a revenue of Rs. 536 million had been collected. The arrears of Rs. 121 million as at 31 December of the preceding year, had increased up to Rs. 125 million by the end of the year under review.

2.3.2 Rates

A revenue of Rs. 62,632,717 had been billed under 14,280 units of Rates in 12 divisions during the year under review, whilst the revenue recoverable as at 31 December of the year under review amounted to Rs. 37,850,288, representing 60 per cent of the amount billed annually, and a balance of Rs. 3,141,540 recoverable with respect to 13 properties of the Government had been included therein.

2.3.3 Stall Rent

The following matters were observed.

- (a.) Stall rent amounting to Rs. 538,000, and service charges amounting to Rs. 311,286 had remained in arrears by the end of the year under review relating to 54 stalls in the new shopping complex, Kurunegala.
- (b.) The stall rent recoverable by the end of the year under review from 71 stalls at the bus station, Kurunegala amounted to Rs. 879,314, whilst the prepaid amount in arrears amounted to Rs. 890,605.
- (c.) Action had not been taken to recover the rent amounting to Rs. 6,254,150 recoverable from the Rajapihilla and Ranthaliya Rest Houses by the end of the year under review.
- (d.) Necessary action had not been taken to recover the rent of the public market amounting to Rs. 1,421,646 and other stalls by the end of the year under review.

2.3.4 Water Revenue

The water revenue that remained in arrears by the end of the year under review amounted to Rs. 41,789,884. An arrears totalling Rs. 18,576,354 had existed with respect to 87 consumers of water with an arrears of over Rs. 50,000 representing 44 per cent of the total arrears. That included an arrears sum of Rs. 3,422,421 billed as Municipal Commissioner, an arrears sum of

Rs. 2,294,742 under consumer No. 6747 relevant to Vilgoda Road Public Water Tap, and an arrears sum of Rs. 4,705,999 under consumer No. 5163 relevant to Kurunegala Teaching Hospital were due to be recovered.

2.3.5 Other Revenue

The following matters were observed.

- (a.) A sum of Rs. 740,821 relating to a tender for lavatories had remained recoverable by the end of the year under review.
- (b.) Action had not been taken to recover lottery stall and tourism rent totalling Rs. 2,783,951 recoverable by the end of the year under review.

2.3.6 Court Fines and Stamp Fees

Court fines amounting to Rs. 1,415,457, and stamp fees amounting to Rs. 27,800,577 had remained recoverable from the Chief Secretary of the Provincial Council by the end of the year under review.

03. Operating Review

3.1 Management Inefficiencies

The following matters were observed.

- (a.) Registers of consumer items such as tyres and tubes, electric appliances, stationeries, pipes and accessories, iron frames, wires, and GI pipes, had not been maintained.
- (b.) Although 15 vehicles of the Sabha had remained in a state of disposal, no suitable action had been taken.
- (c.) In terms of Section 247 (e) of the Municipal Councils Ordinance (Chapter 252), one per cent of the income received from the sale of lands within the area of the Municipal Council, should be paid to the Sabha. However, as for 42 plots of land relating to the demarcation of Muttettugala land of the Andagala Kanda Estate, taxes had been recovered in short of Rs. 236,537 with respect to the value of the deeds.
- (d.) According to the bank reconciliation statements prepared by the end of the year under review with respect to 03 bank accounts of the Sabha, unidentified receipts amounting to Rs. 42,953 in 05 instances, non-cash receipts amounting to Rs. 40,538 continued to exist over a period of one year in 04 instances, and a balance of unidentified balance amounting to Rs. 1,653 in 02 instances, had existed.
- (e.) Stocks of logs and timber, PVC accessories and pipes, tyres, goods belonging to an external person, and removed goods had been littered at the stores and the open area without being evaluated and entered in the stock books.
- (f.) A large quantity of items removed from buildings had been insecurely littered at the premises of the office of the Municipal Council exposing to the elements in an incalculable manner.

3.2 Operating Inefficiencies

The following matters were observed.

- (a.) According to the land register, the Sabha did not possess the deeds of 30 lands with a total acreage of 35 acres, 01 rood and 39.13 perches.

- (b.) The officers of the Sabha failed to declare 04 lands with in acreage of 34 acres, 01 rood, and 42.03 perches during the physical inspection carried out on 05 September 2016 by selecting a sample of lands mentioned in the land register
- (c.) An area of about 13 perches from the land of 16.48 perches in Wilgoda where the Bim Bo tree had grown, was encroached and unauthorized constructions had been made by external parties.
- (d.) Despite being stated that the area of the land with well in Wilgoda, Molawatta had been 19 acres, 2 roods and 24 perches, the land shown physically was less than 01 acre in extent.
- (e.) As there had been a small reservoir covering half of the land in extent of 01 acre, 03 roods, and 01 perch granted to the Sabha when land of Millennium City, Andagalawatta had been demarcated, an unfavorable situation had arisen for the Sabha.
- (f.) When the land in Andagala Kanda watta had been demarcated, a stony land had been allocated to the Sabha for common amenities.

3.3 Idle Assets

The land named Wilgoda Mills in extent of 30 perches had been purchased by the Sabha in the year 2012 for a sum of Rs. 6,000,000, and the said land had not been made use of for any activity even by the year 2016.

3.4 Contract Administration

The following matters were observed.

(a.) Construction of preschool and daycare center

The following matters were observed.

- (i) A part of this building had been constructed by September, 2016 under 05 stages in the years 2014, 2015, and 2016 by incurring a sum of Rs. 25,418,023 from the Sabha Fund. It had been planned to construct this building with 04 storeys, but the construction process had been divided into stages and the first stage had been limited to the value of Rs. 1,790,637 in a manner that limited bids can be called. Thereafter, open bids had been called, but no contractor had availed himself of the building built halfway by a different contractor. As such, the initial contractor had done the construction.
- (ii) In terms of Guideline 5.4.8 (b) of the Government Procurement Guidelines, the performance bond should be effective for 28 days beyond the expected date of completion. However, stages I, II, III, and IV had not complied therewith. Furthermore, the period of the performance bond had not been extended in line with the extension of the contract period. The liquidated damages amounting to Rs. 53,460 recoverable in respect of the delay of 30 days in the construction of stage III, had not been recovered as well.
- (iii) According to the agreement, accessories mentioned in the BOQs with respect to the bath rooms and toilets, were of American standard. It was revealed in the site inspection carried out on 25 August 2016 together with the Technical Officers that 25 accessories valued at Rs. 387,000 had been of Chinese, Malaysian, and Sri Lankan origin.

- (iv) When the approved rates are in use, and in accordance with the conditions of the quotations, water and electricity should be supplied by the contractors for the constructions, and only a connection fee can be included in the BOQ in that connection. However, in order to complete the value of finished work amounting to Rs. 22,751,900 in the 04 initial stages of the said work, water and electricity had been supplied by the Municipal Council, and even for the fifth stage progressing at a value of Rs. 13,994,838, water and electricity had been supplied by the Municipal Council itself. No reductions suitable therefor, had been made.
- (b.) At an estimated value of Rs. 1,943,556, the work of stage II of the community hall, Andagala had been carried out by spending the funds from the Sabha Fund – 2015. Despite being stated that limited quotations had been called up to 28 July 2015, no information relating thereto, had been made available. Although the performance bond should have been obtained in a manner that it remains effective up to 28 days beyond the date by which the constructions are expected to be completed, the bond had been obtained in a manner that it had remained effective only up to the expected date of completion. According to the agreement, the commode and the ceramic wash basin should have been on par with Toto or American standard, but it was revealed in the site inspection carried out on 25 August 2016 together with the Technical Officers that Max Global accessories had been used.
- (c.) Construction of new Office Complex and the Rest room
The following matters were observed.
- (i) Although the period of agreement for the work was 06 months, the bond furnished by the contractor for a period of 03 months, was accepted. Despite the delay of 23 days in the constructions of stage 01, no liquidated damages were accepted, and the period of the performance bond was not extended as well.
- (ii) In accordance with the guidance relating to the invitation for bids and making use of the approved rates, all the utility expenses including water and electricity charges, should be borne by the contractor, and it is specifically mentioned that only a value added rate should be paid thereon. However, despite the payment of added values amounting to Rs. 35,000 and Rs. 40,000 for the connections of water and electricity respectively in the stage I, the Council had supplied water and electricity for the completion of finished work valued at Rs. 10,124,132 under stage I. In addition to that, the Council had supplied water and electricity in respect of the constructions of which the certified value of work amounting to Rs. 7,973,173 (with VAT) had been paid for the second stage, and the certified value of work amounting to Rs. 7,620,358 completed by 25 August 2016 under third stage.
- (iii) According to the Bill of Quantity, payments had been made up to Rs. 400,000 as project management, but a fair basis for the inclusion of such a payment was not clear to audit. Furthermore, the contractor had not carried out such works, but the Engineering Division of the Municipal Council had carried out those works.

- (iv) Under the second stage of this construction, 19 accessories of the American standard, Toto, valued at Rs. 313,700 should have been fixed for the lavatory system of the ground floor as per the Bill of Quantity, but it was revealed in the site inspection carried out on 25 August 2016 with the Technical Officers that accessories of Chinese, Malaysian, and Sri Lankan origin had been fixed.
 - (v) Two stages of the new office complex and restroom planned to be completed with 04 storeys, had been completed by 25 August 2016, and the third stage had been in progress. Despite being stated that the construction estimate of this work should be carried out by an external institution, it had not been clarified as to what institute had approved the rates of the prices used.
- (d.) Repairing the Roof of the Town Hall
The following matters were observed.
- (i) The estimated value of the said work amounting to Rs. 3,800,000, had been divided into 02 stages in terms of Rs. 2,000,000, and Rs. 1,800,000 making it possible to call for limited quotations by avoiding national competition.
 - (ii) Approval of the Law and Finance Committee should have been obtained prior to granting approving the estimates, calling for quotations, and selection of suppliers. Nevertheless, approval had been sought after completion of those activities.
- (e.) The engineering estimate for repairing the ceiling of the Town Hall valued at Rs. 2,620,000 had been divided into Rs. 1,850,000 and Rs. 770,000 on 08 April 2015 and 18 March 2016 respectively. The contract had been awarded through limited quotations by avoiding national competitive bidding, and action had been taken to award the second stage too to the initial contractor. Furthermore, the electricity required for repairs should have been obtained by the contractor himself, but the Municipal Council had supplied electricity, and no payments had been recovered in that connection. After a lapse of a short period since the completion of the repairs of the ceiling, parts thereof had collapsed onto the floor, but no remedial action had been taken even up to 31 July 2017.

3.5 Solid Waste Management

The solid waste management center of the Council had been maintained at a land belonging to the Pradeshiya Sabha, Kurunegala. The following matters were observed in the physical inspection carried out on 11 July 2017.

- (a.) As the water released through the sewage system had not been properly purified, objections had been raised by the residents. Hence, dumping waste from the lavatories at this place has been halted currently.
- (b.) A waste segregator machine being used for producing compost, had remained non-functional for a period of about one year.
- (c.) During a week day, 25 – 30 loads of waste are collected at the solid waste management center, and of that load, 25 per cent had been collected after being segregated. Out of the

total load of waste collected, an amount of over 20 loads equivalent to 75 per cent had been dumped on open ground without being segregated, thus forming a heap of garbage.

- (d.) Twenty one vehicles had been allocated for the management of solid waste. As 10 of those vehicles had been in a state of breakdown as at the date of audit, they had fallen into disuse.

04. Good Governance and Accountability

4.1 Budgetary Control

Significant variances ranging from 15 per cent to 51 per cent had existed between the budgeted and actual values of 05 Items of Revenue and 07 Items of Expenditure in the year under review.

4.2 Internal Audit

As only one Internal Auditor had been attached to the Internal Audit Unit, an internal audit had not been carried out adequately.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Municipal Council through my audit queries from time to time. Special attention is needed in respect of the following areas of Systems and Controls.

<u>System</u>	<u>Observation</u>
(a.) Accounting	(i) Failure to maintain individual ledger accounts adequate for revenue and expenditure. (ii) Non-reconciliation of control accounts. (iii) Failure to verify the fixed assets through detailed schedules. (iv) Failure to correctly identify and account the payable balance.
(b.) Contract Administration	(i) Deviation from the Procurement Guidelines. (ii) Supply of electricity and water for the constructions without charging fees.
(c.) Control of Vehicles	(i) Broken-down vehicles had not been repaired and fallen into disuse (ii) Incomplete Running Charts had been handed over to the officer in charge after being delayed. (iii) Disposable vehicles had remained over an extensive period without being disposed of.
(d.) Solid Waste Management	Collection of waste without being segregated, and lack of a proper methodology for disposal.
(e.) Revenue	Existence of revenue remaining in arrears over a long period on which age analysis could not be performed.