

**Kurunegala Municipal Council**  
**Kurunegala District**

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**1. Financial Statements**

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**1.1 Presentation of Financial Statements**

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The financial statements for the year 2018 had been presented to the Audit on 29 March 2019, and the summary report of the Auditor General relating to those financial statements had been submitted to the Mayor on 11 June 2019 whilst the detailed management audit report had been submitted to the Mayor on 31 July 2019.

**1.2 Qualified Opinion**

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In my opinion, except for the effect of the matters described in paragraph “Basis for qualified Opinion” of this report, the financial statements give a true and fair view of the financial position of the Kurunegala Municipal Council as at 31 December 2018 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

**1.3 Basis for Qualified Opinion**

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	Audit Observation	Recommendation	Comments of the Accounting Officer
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(a)	Vehicles valued at Rs. 5,263,360 had been purchased in the year under review. However, that value had been shown as Rs. 6,361,482 in the financial statements.	Action should be taken to correctly record and account the purchase of vehicles.	It is informed that instructions were issued to separately include into the Register of Assets the value of 04 tractor trailers
(b)	The value of 32 hand carts belonging to the Municipal Council had not been assessed and brought to accounts as at the end of the year under review.	Action should be taken to account the value after being assessed.	Not commented.

- (c) Creditor provision had been made in the year under review for assets worth Rs. 3,175,236 on which no agreements had been reached for purchasing as at 31 December 2018. Creditor provision should not be made on goods and services on which no agreements had been reached for purchasing. The Urban Council has not received the relevant articles thus far, and action will be taken to write off the said allocations.
- (d) Payments amounting to Rs. 5,664,044 and Rs. 175,826 had been made from the water account and the bus halt account respectively in January 2019 with respect to the year under review. However, creditor provision had not been made for those expenses in the year under review. Action should be taken to correctly identify the creditors before being brought to accounts. Action will be taken to rectify the error caused by the failure to include them in the financial statements.
- (e) Members' allowances totaling Rs. 1,305,000 receivable as at the end of the year under review, had been shown as Rs. 870,000 in the financial statements. The accounts should be corrected. The error in understating the members' allowances in the financial statements will be rectified.

- (f) A sum of Rs. 94,716,039 had been billed for water revenue, but a sum of Rs. 93,748,287 had been shown in the financial statements. The total of the fees shown in the bill issued monthly, is the annual billing. Action should be taken to identify the revenue accordingly. It is informed that differences would occur in the billing of water due to miscellaneous reasons.
- (g) The value of Bobcat Machine granted by the Department of Local Government had not been assessed and brought to accounts. Action should be taken to confirm the value of assets belonging to the Municipal Council before being brought to accounts. Action will be taken to account the relevant values in the year 2019.
- (h) According to the financial statements, the revenue of water in arrears amounted to Rs. 38,523,337 by the end of the year under review, but the same amounted to Rs. 34,905,271 as per the information provided by the Revenue Division. Action should be taken to compare the differences between the relevant balances before being brought to accounts. It is informed that action will be taken to provide the reply after discussing with the Municipal Accountant / Municipal Engineer.
- (i) The water revenue collected in the year under review amounted to Rs. 97,775,425 as per the information provided by the Revenue Division, but same amounted to Rs. Action should be taken to compare the differences between the relevant balances before being brought to accounts. It is informed that action will be taken to provide the reply after discussing with the Municipal Accountant / Municipal Engineer.

93,193,107 as per the summarized register of revenue.

- (j) The value of motor vehicles and carts totaled Rs. 234,748,938 as per the Register of Vehicles. However, the same amounted to Rs. 173,135,254 in the financial statements. Action should be taken to correctly record the vehicles in the registers thereby including in the financial statements. Remedial action will be taken in the ensuing year by revaluing the vehicles.
- (k) According to the deposit registers, the balances of tender deposits, deposits on revenue, and miscellaneous deposits, amounted to Rs. 1,814,760, Rs. 20,783,827, and Rs. 12,099,828 respectively by the end of the year under review. Those balances amounted to Rs. 3,628,865, Rs. 28,747,579, and Rs. 5,455,283 respectively in the financial statements. Accounts should be prepared by comparing the balances in the financial statements with that of the registers. It is informed that action will be taken to rectify the financial statements in accordance with the correct balances in the registers as at 2018.12.31 relating to tender security deposits, revenue deposits, and miscellaneous deposits.
- (l) A non-reconciled value of Rs. 102,598,561 was observed between the balances of 06 Action should be taken to compare the differences in the relevant balances before being brought to accounts. It is informed that remedial action will be taken in the year 2019.

items of accounts shown in the financial statements by the end of the year under review, and balances in the schedules relating thereto.

- (m) The value of miscellaneous deposits amounted to Rs. 11,114,800 as per the schedules presented along with the financial statements by the end of the year under review, but the same amounted to Rs. 7,244,316 in the relevant register. Action should be taken to compare the differences in the relevant balances before being brought to accounts. It is informed that remedial action will be taken in the year 2019.
- (n) Due to failure in presenting the relevant evidence, 14 items of accounts valued at Rs. 317,551,164 could not be satisfactorily vouched in audit. Registers for the confirmation of account balances, schedules, and the relevant evidence should be made available. Instructions have been issued to prepare all other registers in addition to the reports of Board of Survey, schedules on fixed deposits, and employee loan schedules.

## 1.4 Non-compliances

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

Reference to Laws, Rules, Regulations, and Management Decisions	Non-compliance	Recommendation	Comments of the Accounting Officer
Sections 247, (a), (b), & (c) of the Municipal Councils Ordinance.	Action had not been taken to conduct an annual survey on the taxable institutions in the division of the Municipal Council thereby failing to record such institutions in the registers and levy the relevant fees.	Action should be taken in accordance with the provisions set out in the Municipal Councils Ordinance.	It is informed that the Municipal Accountant, Revenue Inspectors, and the Officers in charge of the subject, will be instructed to maintain the registers up-to-date by conducting the surveys annually.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the revenue of the Municipal Council in excess of the recurrent expenditure amounted to Rs. 281,518,678 for the year ended 31 December 2018 as compared with the revenue in excess of the recurrent expenditure amounting to Rs. 212,024,949 for the preceding year.

### 2.2 Revenue Administration

#### 2.2.1 Estimated Revenue, Actual Revenue, and Outstanding Revenue

Information relating to the estimated revenue, billed revenue, collected revenue and revenue in arrears presented with respect to the year under review and the preceding year, is given below.

Source of Revenue	2018				2017			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
I. Rates and Taxes	174,446	176,342	179,193	82,495	160,900	167,197	162,305	85,347
II. Rents	76,456	70,803	74,723	12,220	80,630	71,123	67,977	16,139
III. Licence Fees	16,152	20,107	20,107	-	14,705	15,914	15,914	-
IV. Other Revenue	409,862	476,761	472,077	104,224	413,147	336,470	268,771	99,540
<b>Total</b>	<b>676,916</b>	<b>744,013</b>	<b>746,100</b>	<b>198,939</b>	<b>669,382</b>	<b>590,704</b>	<b>514,967</b>	<b>201,026</b>

## 2.2.2 Rates and Taxes

	Audit Observation	Recommendation	Comments of the Accounting Officer
a)	The revenue billed for the year under review in regard to 12 divisions of Rates, totaled Rs. 74,489,507, and the balance receivable as at 31 December amounted to Rs. 42,872,002 representing 57 per cent of the amount billed for the year. That included a balance of Rs. 3,737,010 recoverable from 25 properties of the Government. Of the outstanding amount recoverable as at the end of the year under review, the balance continued to exist over a period of one year, amounted to Rs. 26,936,893.	Action should be taken to collect the taxes on time, and recover the revenue in arrears in terms of provisions set out in the Act.	Activities relating to the confiscation of properties are taking place for the recovery of monies in arrears. Reminders have been sent requesting the payment of monies in arrears relating to the Government properties.

- b) The water revenue in arrears amounted to Rs. 38,523,337 as at the end of the year under review. of that, a balance of Rs. 9,266,762 existed relating to 22 consumers of water with an arrears of over Rs. 100,000. Action should be taken for the recovery of revenue on time. Action will be taken to recover the water charges in arrears.

### 2.2.3 Rents

	Audit Observation	Recommendation	Comment of the Accounting Officer
(a)	Action had not been taken to recover the rents relating to lottery stalls and tourism receivable as at the end of the year under review.	Action should be taken to recover the rents on time.	Of the lottery stall rent in arrears, a sum of Rs. 296,259.13 had been recovered as at 2019.06.10.
(b)	A stall rent of Rs. 50,000 relating to 05 stalls at the shopping complex in Wehera, stall rents totaling Rs. 482,500 in regard to 45 stalls at the new shopping complex in Kurunegala, and service charges totaling Rs. 260,010 relating to 49 stalls, had remained in arrears as at the end of the year under review.	Action should be taken to recover the rents and the outstanding rents in accordance with the agreements.	The Legal Officer has been entrusted to file cases against stall owners from whom rents had not been recovered.
(c)	The stall rent recoverable from 49 stalls at the bus station in Kurunegala by the end of the year under review, totaled Rs.	Action should be taken to recover the monies on time.	Action will be taken to file cases for the recovery of arrears.

509,968 whereas the prepaid amounts in arrears totaled Rs. 41,400.

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| (d) | Action had not been taken to recover rents totaling Rs. 6,367,256 from the two Rest Houses of Rajaphilla and Ranthaliya as at the end of the year under review. | Action should be taken for the recovery in terms of the agreement. | The case, 26 RE has been filed against the Rajapihilla Rest House whilst the Lanka Rest House Limited has been informed through letters requesting the payment for the Ranthaliya Rest House. |
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#### 2.2.4 Licence Fees

Audit Observation	Recommendation	Comment of the Accounting Officer
Annual surveys had not been conducted on the trade Institutions within the division of the Municipal Council that should have obtained licences thereby failing to maintain the registers up-to-date. The Revenue Division did not possess correct information on the business establishments that should obtain licences or already obtained licences.	Action should be taken to properly conduct the annual survey, record the findings, and update the registers in accordance with the taxes levied. The existing software should be configured enabling the disclosure of information.	All the activities relating to the recovery of charges on the trade licences had been computerized since the year 2016. Accordingly, a manual register is not maintained. When a new business is registered, the essential information is stated in the licence based on the report furnished by the Revenue Inspector.

#### 2.2.5 Other Revenue

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) The outstanding lavatory fees amounting to	Action should be taken for the recovery of fees receivable in	Of the outstanding amount of Rs. 264,712 relating to tourism rents and penalties for late payment

Rs. 110,000, and penalties for late payment amounting to Rs. 273,430 relating to sales locations of SIM cards, tourism rents, and lottery stalls, had remained recoverable as at the end of the year under review.

accordance with the agreements.

on lottery stalls, a sum of Rs. 29,626 had been recovered as at 2019.06.10

- (b) Slaughter house fees amounting to Rs. 277,250 and Rs. 630,555 on SIM card sales locations had remained recoverable as at the end of the year under review.
- Action should be taken for the recovery within the specified time.
- Not commented.

## 2.2.6 Court Fines and Stamp Fees

Audit Observation	Recommendation	Comment of the Accounting Officer
The balance of the stamp fees receivable as at 31 December 2018 amounted to Rs. 36,616,288.	Action should be taken to recover the stamp fees receivable.	The relevant Divisions have been informed to settle the receivable court fines and stamp fees.

## 03. Operating Review

### 3.1 Performance

Matters revealed in the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the

protection and promotion of the comfort, convenience and welfare of the people in terms of Section 4 of Municipal Councils Ordinance, are as follows.

(a) Action Plan

Audit Observation	Recommendation	Comment of the Accounting Officer
An annual Action Plan had not been prepared relating to the activities that should have been executed by the Municipal Council in terms of the bylaws made.	An Action Plan should be prepared in terms of Public Finance Circular, No. 01/2014, dated 17 February 2014.	An Action Plan has been prepared for the year 2018 (including industries and constructions)

(b) Failure to Make Provision

Audit Observation	Recommendation	Comment of the Accounting Officer
An expenditure of Rs. 41,023,254 had been incurred for the completion of 81 works for which no provision had been made through the annual budget in the year under review.	Action should be taken based on the priority for making provision through the budget.	Those amendments had been made by considering the proposals made by the Municipal Council and the Urban Councilors.

(c) Solid waste management

Audit Observation	Recommendation	Comments of the Accounting Officer
(i) A huge dump of waste remained in the possession of the Municipal Council for producing organic fertilizer. As both of the huller machines	Action should be taken to provide facilities ensuring the continuous production of fertilizer.	It is informed that one huller machine remains functional at present whilst action is taken to fix a mesh to the other machine while repairing the motor.

used in hulling the waste had remained non-functional, organic fertilizer had not been produced.

- (ii) In the year 2010, a plastic recycling project had been commenced under the provision amounting to Rs. 8 million granted by the Central Environmental Authority, and 02 machines had been installed for cutting the plastic into pieces and melting the plastic. However, the said project had been halted after 05 years, thus the expenditure incurred had become uneconomic.
- Action should be taken to make use of the machines as per requirements.
- Although tenders had been called for the machines of the plastic recycling project, bidders with prior experience in the field had not been present. Those machines do not remain functional, and special attention is already drawn.

### 3.2 Management Inefficiencies

Audit Observation	Recommendation	Comment of the Accounting Officer
During the period from January to November, 2018, a number of 2,762,658 units of water had been purchased by incurring	By regulating the issue of water and finding out the reasons for the difference in billing, the necessary measures should be	It is informed that a reply will be provided by after having discussions with the Municipal Accountant / Municipal Engineer.

a sum of Rs. taken. 57,914,422. However, only 618,234 units of water had been issued. Thus, a difference of 2,144,424 units of water had existed.

### 3.3 Human Resource Management

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>(a) Vacancies and Excess Employees.</p> <p>(i) Although 109 persons had been made permanent for the posts of Health Laborer, Watchman, and Field Laborer, in terms of Public Administration Circular, No. 25/2014, dated 12 November 2014, a number of 86 employees had been recruited on casual and daily bases without obtaining prior approval of the Department of Management contrary to Section 07 of the said Circular.</p> <p>(ii) Contrary to Section 02 of the Management Services Circular, No. 03/2014, dated 31 March 2014, nine employees had been recruited for 03 posts not included in the approved cadre in the Municipal Council without obtaining prior approval of the</p>	<p>Action should be taken in accordance with provisions of Circulars.</p> <p>Action should be taken in accordance with the provisions of Circulars.</p>	<p>As per the requests and proposals made by the Municipal Council, that essential employees be recruited so as to proceed with essential services, 86 laborers had to be recruited in the year 2018 on the basis of daily wages.</p> <p>As per the requests and proposals made by the Municipal Council, that essential employees be recruited so as to proceed with essential services, those recruitments had to be made.</p>

Department of  
Management Services.

- (iii) Fifty employees had been recruited for 04 posts in excess of the approved cadre as at 31 December 2018. In case the approved cadre is not adequate, action should be taken for the revision of cadre. As per the requests and proposals made by the Municipal Council, that essential employees be recruited so as to proceed with essential services, 86 laborers had to be recruited in the year 2018 on the basis of daily wages.
- (iv) There existed 06 excesses in the post of Revenue Inspector as at 31 December 2018. Attachments / recruitments should be made within the scope of the approved cadre. As per the requests and proposals made by the Municipal Council, that essential employees be recruited so as to proceed with essential services, 86 laborers had to be recruited in the year 2018 on the basis of daily wages.
- (v) Payments totaling Rs. 5,169,954 had been made from the Council Fund to 39 employees recruited during the year 2018 for primary technical and non-technical posts. Instructions of the Circular should be followed. As per the requests and proposals made by the Municipal Council, that essential employees be recruited so as to proceed with essential services, 86 labourers had to be recruited in the year 2018 on the basis of daily wages.
- (b) Employee Loans  
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Due to failure in finding personal information and loan balances totaling Rs. 623,863 receivable from 11 officers transferred, retired, deceased, vacated the service, or interdicted Action should be taken for the recovery of outstanding employee loan balances. No comments given.

as at the end of the year under review, action had not been taken to recover loan balances totaling Rs. 167,751 from 05 officers.

(c) Securities of Employees

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Action had not been taken to obtain security deposits from 31 officers.

Action should be taken to obtain securities from the relevant officers in terms of Laws, Rules, and Regulations.

It is informed that the Urban Secretary / Urban Accountant has been instructed to obtain security deposits from all the officers entitled to give securities in terms of Financial Regulation 881.

### 3.4 Procurement

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer -----
A Procurement Plan had not been prepared for the year under review in accordance with Guideline 4.2.1 of the Procurement Guidelines.	The Procurement Plan should be prepared.	The Head of the Municipal Department will be instructed to prepare a Procurement Plan in line with the budget for the programs of the year 2020.

### 3.4.2 Supplies and Services

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
(a) As for the installation of CCTV cameras at the public library in Kurunegala, action had not been taken to call for quotations from the suppliers registered to supply CCTV cameras	Purchases should be made on competitive prices, thus taking action in a manner favorable to the Municipal Council.	Action will be taken to provide a reply in due course after discussing with the Urban Accountant and the Urban Engineer.

for the year 2018; instead, quotations had been obtained only from 03 selected institutions in Kurunegala without transparency. A difference of Rs. 88,400 had existed between the prices of the contractor and the agent relating to 44 cameras.

- (b) Only one of the 4 LED TVs of the CCTV system installed at the library had been provided with the warranty. The date of purchase thereof had been stated as 26 September 2018 though, the relevant agreement had been signed on 10 October 2018. As such, the relevant activity had been executed before entering into the contract agreement. Furthermore, despite being stated that a warranty period of 2 years would be provided for the 48 cameras installed, no warranty cards had been provided therefor. The TVs and cables used had not been consistent with the specifications on which quotations had been called for the CCTV system.
- Instructions in the Procurement Guidelines should be followed. Action will be taken to provide a reply in due course after discussing with the Urban Accountant and the Urban Engineer

#### 04. Accountability and Good Governance

##### Internal Audit

Audit Observation	Recommendation	Comment of the Accounting Officer
<p>An Internal Audit Unit had not been established in accordance with Section 13 of Part III of the Gazette Extraordinary, No. 541/17 of the Democratic Socialist Republic of Sri Lanka, dated 20 January 1989.</p>	<p>Action should be taken to establish an Internal Audit Unit thereby continuing the audits.</p>	<p>An independent Internal Audit Unit has been established since 01 January 2019 whilst the Audit and Management Committee that had remained non-functional, has also been revived.</p>