

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

**1. Financial Statements**  
-----

**1.1 Presentation of Financial Statements**  
-----

The financial statements for the year 2017 had been presented to audit on 11 May 2018 and the report of the Auditor General on the financial statements was issued to the Council on 26 October 2018.

**1.2 Qualified Opinion**  
-----

In my opinion, except for the effects of the matters described in paragraph 1.3 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 2017 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) The value of 08 motor vehicles belonging to the Council had not been assessed and shown under fixed assets.
- (b) A sum of Rs.50,229,595 payable to Local Government Pension Fund as at the end of the year under review had not been shown in the financial statements.
- (c) The adjustments relating to under provisions of audit fees for the preceding year amounting to Rs.65,800 had not been made in the accounts of the year under review.
- (d) The water bills revenue for the year under review amounting to Rs.82,695,481 had been shown as Rs.79,215,994 in the financial statements.
- (e) Understatement of write offs of over provisions of creditors amounting to Rs.440,999 relating to the preceding year had not been rectified even during the year under review.
- (f) Provisions for creditors of 06 works of 02 Departments in the preceding year amounting to Rs.5,786,078 had not been paid or written off in the year under review but it had not been included to the creditors balance as at the end of the year.
- (g) The provisions for creditors amounting to Rs.5,297,022 had been made in the financial statements relating to 05 works for which had not been entered in to agreements in the year under review.

- (h) The provisions had not been made in the financial statements for water and electricity charges payable amounting to Rs.5,167,484 relating to the year under review.
- (i) Other revenue received in advance as at the end of the year under review amounting to Rs.77,549 had been shown as Rs.341,033 in the financial statements.
- (j) Receipts in advance amounting to Rs.260,004 omitted from the financial statements of the preceding year had not been brought to account in the year under review.
- (k) Fixed assets amounting to Rs.1,087,428 purchased in the year 2018 had not been brought to account relating to the year under review.
- (i) Value Added Tax amounting to Rs.11,458,360 had been brought to account as expenditure in the year under review.
- (m) Value Added Tax amounting to Rs.4,929,856 payable as at 31 December 2017 had not been brought to account.
- (n) Even though the bills for penalties relating to revenue item 50352 in the year had been Rs.76,187, it was shown as a unfavourable value of Rs.212,920 in the income and expenditure account.
- (o) The interest on fixed deposits in 2 banks amounting to Rs.1,339,829 had not been brought to account as the revenue for the year.

### **1.3.2 Unreconciled Accounts**

-----

The following matters were observed.

- (a) Unreconciliations of Rs.40,690,000 were shown between the balances as per the financial statements relating to 19 items of accounts and the balances of the corresponding schedules.
- (b) Unreconciliations of Rs.1,410,574 were shown between the summarized analysis of revenue presented with the financial statements and the register of group total.
- (c) The creditors balance as at the beginning of the year amounted to Rs.81,672,021 and the payments for creditors and write offs during the year totalled Rs.84,984,660 thus a difference of Rs.3,312,639 was shown.

### **1.3.3 Accounts Receivable and Payable**

-----

#### **(a) Accounts Receivable**

-----

Out of the receivable accounts balances of Rs.211,450,043 as at the end of the year under review, the balances which remained over 01 year amounting to Rs.37,253,164 had not been recovered.

**(b) Accounts Payable**  
-----

Out of the payable accounts balances of Rs.150,205,485 as at 31 December 2017, the balances which remained over 01 year amounting to Rs.46,924,564 had not been settled.

**1.3.4 Lack of written evidence for Audit**  
-----

Twenty six items of accounts totalling Rs.370,192,935 could not be satisfactorily vouched in audit due to non-availability of required information.

**1.3.5 Non-compliance with Laws, Rules, Regulations and Management Decisions**  
-----

Instances of non-compliance with laws, rules, regulations and management decisions are given below.

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Value</b>	<b>Non-compliance</b>
-----	-----	-----
	Rs.	
(a) Establishments Code of the Democratic Socialist Republic of Sri Lanka Chapter XXIV Section 3.7	120,000	Installments and interests of distress loans given to 12 officers during the year under review had not been recovered.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka. (i) Financial Regulation 135	-	The duties had not been divided and delegated so as to check and passes of each transaction through different officers.
(ii) Financial Regulation 177(1)	107,231	Money collecting in the field had not been remitted to the cashier daily or at the earliest possible.
(iii) Financial Regulation 189	750,305	Action had not been taken in respect of 18 dishonoured cheques which remained unsettled for a period ranging from 01 year to 10 years.

(iv)	Financial 384(3)	Regulation	-	A register had not been maintained to record the particulars relating to the cheques received to the Council.
(v)	Financial 396(d)	Regulation	59,874	Action had not been taken on 25 cheques issued but not presented for payment.
(vi)	Financial 571(2)	Regulation	9,288,051	Action had not been taken on 22 deposits older than 2 years.
(c)	Procurement Guidelines 2006 Guideline 6.2.2		765,868	Minimum period of competitive bidding time had not been maintained.
(d)	Public Administration Circular No.30/2016 dated 29 December 2016.		72,570	The estimates had been obtained without being dismantled the vehicle when making internal repairs of the vehicles and as such the extra expenditure had to be incurred.
(e)	Circular of Secretary to the Treasury No.IAI/2002/02 dated 28 November 2002.		-	A separate Register of Assets in respect of Computers, Accessories and Software had not been maintained.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2017 amounted to Rs.212,024,949 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting Rs.136,766,383.

### 2.2 Financial Control

The following matters were observed.

- Unidentified payments amounting to Rs.96,411 had shown in 13 instances as per the monthly reconciliation of 03 bank accounts.
- A sum of Rs.34,509 deposited but not realized in 02 bank accounts had not been settled for a period ranging from 07 months to 06 years.
- Action had not been taken to identify 41 direct remittances amounting to Rs.5,290,452 in 03 bank accounts as at the end of the year under review.

## 2.3 Revenue Administration

### 2.3.1 Estimated Revenue, Billed Revenue, Collected Revenue and the Arrears of Revenue

The information with regard to the estimated revenue, billed revenue, collected revenue and the arrears of revenue furnished for the year under review and for the preceding year is given below.

Source of Revenue	2017				2016			
	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	160,900	167,197	162,305	85,347	146,100	154,229	159,745	80,455
(ii) Lease Rent	80,630	71,123	67,977	16,139	96,513	76,284	68,580	12,994
(iii) Licence Fees	14,705	15,914	15,914	-	10,705	10,520	10,520	-
(iv) Other Revenue	413,147	336,470	268,771	99,540	402,163	295,100	292,174	31,842
<b>Total</b>	<b>669,382</b>	<b>590,704</b>	<b>514,967</b>	<b>201,026</b>	<b>655,481</b>	<b>536,133</b>	<b>531,019</b>	<b>125,291</b>

Note:

The arrears of receipts relating to the preceding years also included in the revenue collected in the years 2016 and 2017.

### 2.3.2 Performance in Collection of Revenue

A sum of Rs.515 million had been recovered from the billed revenue of Rs.590 million for the year under review and from the arrears of revenue of Rs.125 million for the preceding years. The arrears of revenue as at 31 December of the preceding year amounting to Rs.125 million had increased up to Rs.201 million by the end of the year under review.

### 2.3.3 Rates and Taxes

The following matters were observed.

- The billed revenue of 12 assessment units in 12 assessment divisions amounted to Rs.77,512,545. Out of the arrears of revenue amounting to Rs.44,155,880 as at the end of the year under review, a sum of Rs.33,094,423 had remained as arrears of revenue for over a period of 01 year.
- The balance of arrears of 19 water consumers whose arrears over Rs.100,000 had been Rs.4,544,660 out of the arrears of water revenue amounting to Rs.37,964,657 as at the end of the year under review.

#### **2.3.4 Lease Rent**

-----

The following matters were observed.

- (a) A sum of Rs.4,892,646 had remained as arrears as at the end of the year under review due to recovery of lottery huts rent and tourist rent was slow.
- (b) Trade stall rent amounting to Rs.706,500 and service charges amounting to Rs.360,845 had been in arrear from 57 trade stalls in the Kurunegala new shopping complex.
- (c) Arrears of rent amounting to Rs.1,160,581 and advance payment money amounting to Rs.355,880 had to be recovered from 62 trade stalls of the Kurunegala Bus stand as at the end of the year under review.
- (d) Lease rent amounting to Rs.6,105,427 had to be recovered from Rajapihilla and Ranthaliya Rest houses as at the end of the year under review.
- (e) Sums of Rs.70,000 and Rs.1,614,650 had to be recovered as rent from sub way shopping complex and public market and other trade stalls respectively as at the end of the year under review.

#### **2.3.5 Other Revenue**

-----

The following matters were observed.

- (a) Delay charges for tourist rent and lotteries hut rent amounting to Rs.489,265 had to be recovered.
- (b) Charges of Rs.185,750 had to be recovered as at the end of the year under review.

#### **2.3.6 Court Fines and Stamp Fees**

-----

Sums of Rs.2,915,202 and Rs.77,729,187 had to be recovered as court fines and stamp fees respectively as at the end of the year under review from the Provincial Chief Secretary.

### **3. Operating Review**

-----

#### **3.1 Performance**

-----

The matters revealed on the execution of activities to be carried out by the Council in respect of regularize and control over the matters such as public health, public utility services and public roads and comfort, facility and well- being of the people under Section 4 of the Municipal Council Ordinance are given below.

**(a) By-laws**

-----

The Municipal Council had embraced 53 by-laws imposed by the Extra-ordinary Gazette No.541/17 of the Democratic Socialist Republic of Sri Lanka dated 20 January 1989 in respect of by-laws to execute 32 main functions under Section 272 of the Municipal Council Ordinance and 01 by-law imposed by the Extra-ordinary Gazette of the Democratic Socialist Republic of Sri Lanka No.1933/40 dated 25 September 2015 and the Council had imposed 07 by-laws.

**(b) Activities Abandoned**

-----

Sixty six works budgeted for the year 2017 amounting to Rs.68,450,000 had not been executed.

**(c) Solid Waste Management**

-----

The following matters were observed.

- (i) About 44,500 kilograms of waste is being collected by the Waste Management Centre daily, and 27,255 kilograms of fertilizer had been produced by using 436,080 kilograms of waste in the year under review.
- (ii) A large rock of waste which had not categorized as bio degradable waste and solid waste had remained in the waste centre of Sundarapola resulting an environmental disaster.
- (iii) It was revealed at the physical examination carried out on 19 July 2018 that the detergents and the sanitation equipment had not been given to the employees who were deployed in the solid waste management activities in the year under review.

**(d) Environmental Problems**

-----

Spill canal way and other drainage systems as well in the urban area limits had remained as un-cleaned position due to blocking of waste and plastic bottles, but the attention of the Council had not been paid thereon.

**(e) Sustainable Development Goals**

-----

The Council had aware in respect of 2030 Agenda on Sustainable Development Goals and the Council had operated the programmes such as providing widows and orphans allowances with the objective to get rid of poverty, implementing Women Welfare promotion programmes and community development programmes for self-employment.

### **3.2 Management Inefficiencies**

-----

The following matters were observed.

- (a) Action had not been taken to settle salary advances amounting to Rs.749,389 and food allowances amounting to Rs.1,245,414 shown in the financial statements for over a number of years.
- (b) Copies of the receipts of vehicle parking fees were not made available and as the relevant details had not been mentioned in the counterfoils of receipts it was not ensured the accuracy of charges recovering as per category of vehicles.
- (c) If economic rent is charged for the Government quarters, a new assessment should be obtained from the Department of Valuation and to recover economic rent accordingly, in terms of instructions of the Finance Commission Circular No.FC/2/2005 dated 15 July 2004. Nevertheless, the rental had been charged from all Government quarters on the basis of an assessment made dated 21 February 2000.

### **3.3 Human Resources Management**

-----

#### **(a) Vacancies and Excesses of the Cadre**

-----

- (i) The vacancies of 04, 02, 35 and 71 had existed in the posts of Senior Level, Tertiary Level, Secondary Level and Primary Level respectively and 10 excesses had existed in 3 posts of Primary Level of the Municipal Council as at the end of the year under review. Further, 05 persons as pre-school teachers and 17 persons for 03 posts of primary level had been deployed in the service on contract basis, 35 casual employees had been deployed for 05 posts of primary level.
- (ii) Even though, 34 employees at least required per day for the work of Waste Management Centre, it was revealed at spot examination carried out on 19 July 2018, that 14 employees only had been deployed in the service.

#### **(b) Staff Loans**

-----

A sum of Rs.1,518,729 had to be recovered from 30 employees who transferred out retired and deceased.

### **3.4 Operating Inefficiencies**

-----

The following matters were observed.

- (a) The execution of requests for fixing water meters had delayed for over a period of several years.



- (b) Without being ensured the relevant minimum qualifications, the Rajaphilla Rest House had been rented out for a period of 10 years from 15 October 2015. Nevertheless, the businesses had not been commenced even by 10 November 2016 and the lease rent (with taxes and fines) amounting to Rs.8,474,084 had not been paid and as such the agreement had been cancelled. But the respective properties could not be vested to the Sabha due to law suits had been instituted in the courts relating to that.
- (c) The charges had not been recovered from 07 shops and office complexes situated in the Municipal Council area in terms of Sub-section 11 (vi) of the Extra Ordinary Gazette Notification dated 25 September 2015.

### **3.5 Assets Management**

-----

#### **3.5.1 Assets not Recorded**

-----

Even though, in terms of Section III 15(2) of Extra-ordinary Gazette No.541/17 of Democratic Socialist Republic of Sri Lanka dated 20 January 1989, each officer in charge should maintain the registers so as to indicate adequate details in respect of motor vehicles and machinery and tools and materials in the offices and buildings which kept in their Department or under their control, the values had not been mentioned in those registers maintained by the Council.

#### **3.5.2 Assets not Transferred**

-----

Action had not been taken to transfer the motor car which received to the Council on 03 July 2013 from the office of the Chief Secretary.

#### **3.5.3 Idle/ Under-utilized Assets**

-----

Ten motor vehicles belonging to the Council had remained idle due to decaying of those vehicles and 09 official quarters had remained unutilized.

#### **3.5.4 Annual Boards of Survey – Goods/ Inventory**

-----

The Boards of Survey reports relating to the year 2017 had not been furnished to the Auditor General even by 18 June 2018.

### **3.6 Procurements**

-----

#### **3.6.1 Procurement Plan**

-----

A Procurement Plan had not been prepared in terms of Section 4.2.1 of the Procurement Guidelines.

### **3.6.2 Supplies and Services**

-----

The following matters were observed.

- (a) Without being submitting specifications in terms of Procurement Guidelines 5.6.1 (a) and (d), of Procurement Guidelines 1075 units of S-lon type 07 production items using for water lines and accessories had been purchased for Rs.985,750.
- (b) Without being authorized to repeat orders in exceptional circumstances in terms of Guideline 3.6.1 of the Procurement Guidelines orders of 100 water metres ½” amounting to Rs.325,000 had been re-ordered and purchased.
- (c) As per the bin cards of the stores, 292 water meters had been issued in the year under review but 247 water metres only had been fixed, thus a difference of 45 water metres was shown.
- (d) Two water tanks and 11 water tanks of 1000 litres and 500 litres respectively had been purchased for Rs.75,929. While the reasons for rejecting the lowest price with warranty period of 10 years had not been indicated.

### **3.6.3 Contract Administration**

-----

Even though, the repairs of the old crematorium in the public cemetery should have been done by a contractor of C9 category registered in the Institute of Construction Training and Development, the Technical Evaluation Committee had decided to award the tender to a contractor who had not mentioned the category.

## **4. Accountability and Good Governance**

-----

### **4.1 Presentation of Financial Statements**

-----

The financial statements for the year under review had been presented to audit only on 11 May 2018.

### **4.2 Budgetary Control**

-----

The following matters were observed.

- (a) Significant variances ranging from 12 per cent to 89 per cent were observed between the budgeted and the actual figures of 05 items of revenue and 05 items of expenditure in the year under review.
- (b) Two roads which was not budgeted in the year under review had been reconstructed for a sum of Rs.4,600,000.

### 4.3 Internal Audit

-----  
An Internal Audit Unit had not been established in terms of Section 13 of part III of the Extraordinary Gazette No.541/17 of Democratic Socialist Republic of Sri Lanka dated 20 January 1989.

### 5. Systems and Controls

-----  
Deficiencies revealed during the course of audit were brought to the notice of the Council from time to time. Special attention is needed in respect of the following areas of control.

<b>System</b>	<b>Deficiency</b>
-----	-----
(a) Accounting	(i) Failure to account the fixed assets accurately. (ii) Incorrectly shown the balances of advances. (iii) Failure to account current assets/ liabilities properly. (iv) Failure to account non-current liabilities. (v) Accounting of deposit balances incorrectly. (vi) Understatements of revenue.
(b) Revenue Control	Action not taken to recover receivables.
(c) Fixed Assets Control	(i) Assets not recorded. (ii) Security of assets not ensured. (iii) Action not taken for vesting of assets  (iv) Action not taken in respect of idle/ under -utilized assets. (v) Non-conducting of annual Boards of Survey goods/ inventory
(d) Procurements	(i) Action not taken in accordance with Procurement Guidelines. (ii) Non-preparation of a Procurement Plan.
(e) Budgetary Control	(i) Adequate variances shown between the estimated and actual revenue. (ii) Non-execution of budgeted works.
(f) Staff Administration	(i) Non-filling of vacancies. (ii) Action not taken to recovery of arrears of employees loans.
(g) Debtors/ Creditors Control	(i) Non-preparation of schedules (ii) Non-preparation of age analysis.