

## **Kegalle Urban Council**

### **Kegalle District**

#### **1. Financial Statements**

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

The financial statements for the year under review had been presented to audit on 26 March 2014 and the financial statements for the preceding year had been presented on 28 March 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Council on 25 August 2014.

##### **1.2 Opinion**

In my opinion except for the effects on the financial statements of the matters referred to in Paragraph 1.3 of this report, the financial statements have been prepared in accordance with Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Kegalle Urban Council as at 31 December 2013 and the financial results of its operations for the year then ended.

##### **1.3 Comments on Financial Statements**

###### **1.3.1 Accountancy Policies**

The accounting policies followed by the Council had not been disclosed with the financial statements presented to audit.

###### **1.3.2 Accounting Deficiencies**

- (a.) Land and buildings valued at Rs.445,141,678 at the date of the balance sheet included 150 stalls of the weekly fair of which the cost was Rs.30,000,000 and these stalls had been demolished and removed in January 2014. But, effect to the assets on the above had not been disclosed in the financial statements.
- (b.) Value Added Tax, Stamp Tax and Nation Building Tax payable to the Department of Inland Revenue for the year under review aggregated Rs.601,329. But, this had been shown as Rs.3,836,538 indicating an overstatement of Rs.3,235,209. Therefore, liabilities in the balance sheet had been overstated by a similar amount.
- (c.) According to the Register of Lease of Property; the value of 06 items of property and 83 items of land and buildings had not been computed and brought to account. Therefore, fixed assets had not been accurately shown in the balance sheet.
- (d.) The value of 507 library books donated by the Asia Foundation during the year under review had not been computed and brought to account. Therefore, the actual value of the fixed assets had not been disclosed in the balance sheet.

- (e.) 07 items of motor vehicles valued at Rs.964,975 shown in the Register of Fixed Assets had not been brought to account and therefore, fixed assets had been understated by a similar amount.
- (f.) Stamp fees in arrears amounting to Rs.2,486,842 and court fines in arrears amounting to Rs.519,375 had not been brought to account.
- (g.) Seven vehicles including 06 vehicles under the Chef Secretary of the Sabaragamuwa Province and a vehicle owned by the Central Environment Authority valued at Rs.7,325,000 that had not been vested with the Sabha had been shown under fixed assets and as such, fixed assets had been overstated by a similar amount.
- (h.) A dishonoured cheques valued at Rs.55,653 had been inappropriately shown in the financial statements under payments in advance.

### **1.3.3 Unreconciled Control Accounts**

The total of the balances of 03 items of accounts as per financial statements amounted to Rs.41,363,129 and the total of the balances as per subsidiary registers/ records amounted to Rs.30,709,204 thus indicating a difference of Rs.10,653,925.

### **1.3.4 Accounts Receivable and Payable**

The total of the balances of accounts receivable and payable for over 01 year as at 31 December 2013 amounted to Rs.244,905 and Rs.43,472,473 respectively.

### **1.3.5 Non-compliance with Laws, Rules and Regulations**

Action had not been taken in terms of Circular No.118 dated 11 October 2004 and Paragraph 4.5 and 4.6 of Chapter XXIV of the Establishments Code to recover loan balances amounting to Rs.182,324 from 16 employees went on transfer and left the service.

### **1.3.6 Unauthorized Transactions**

A sum of Rs.5,111,597 had been adjusted to the accounts by 05 journal entries without proper authority in order to tally the balances of assets schedules and the balances of goods surveyed, while preparing the financial statements for the year 2011. However, action had not been taken to rectify this while preparing the accounts for the year under review.

## **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 2013 amounted to Rs.49,050,076 as compared with the excess of revenue over recurrent expenditure

amounting to Rs.23,342,929 for the preceding year and as such an improvement of Rs.25,707,147 was observed.

## 2.2 **Analytical Financial Review**

Increase of other revenue and the decrease of expenditure on repairs and maintenance of capital assets during the year under review when compared with the preceding year had mainly contributed to the improvement of the financial result.

## 2.3 **Revenue Administration**

### 2.3.1 **Performance of Collection of Revenue**

Information on the estimated revenue actual revenue and the arrears of revenue relating to the year under review as presented by the Chairman is shown below.

<b>Source of Revenue</b>	<b>Estimated</b>	<b>Actual</b>	<b>Cumulative arrears as at 31 December</b>
-----	-----	-----	-----
	Rs '000	Rs '000	Rs '000
(i) Rates and Taxes	9,985	10,533	548
(ii) Lease Rent	33,876	34,246	370
(iii) Licence Fees	860	1,330	470
(iv) Other Revenue	66,546	81,044	14,498

### 2.3.2 **Stamp Fees**

Action had not been taken to recover stamp fees amounting to Rs.2,486,842 receivable from the Registrar General as at 31 December 2013.

### 2.3.3 **Transmission Towers**

Action had not been taken to issue development permits for construction of 06 transmission towers and licence fees of Rs.130,000 had not been recovered, Action had not been taken in terms of the provisions of the Gazette Extra-ordinary No.1597/8 dated 17April 2009 to recover conformity charges amounting to Rs.36,000 relating to 11 transmission towers.

### 2.3.4 **Recovery of Revenue**

Out of the revenue in arrears amounting to Rs.26,813,155 recoverable during the year under review, only a sum of Rs.4,447,013 had been recovered. It was a very low percentage such as 17% of the revenue in arrears. Therefore, it was observed that adequate action had not been taken to recover revenue in arrears.

**3. Operating Review**

**3.1 Idle/ Underutilized Assets**

A sample audit check revealed idle and underutilized physical resources totaling Rs.897,500.

**3.2 Contract Administration**

A physical audit examination carried out on 27 February 2014 in respect of making sattering under Item of Work No.06 of the measurement report on laying inter lock for the road from the Mirihella by-road up to North Circular Road revealed that an overpayment of Rs.12,626 had been made for 15.03 square meters not completed.

**4. Systems and Controls**

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

- (a.) Debtors Control
- (b.) Stock Control
- (c.) Assets Management