

Kuliyapitiya Urban Council

Kurunegala District

1. Financial Statements

1:1 Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 11 April 2011 and the financial statements for the preceding year had been presented for the audit on 05 May 2010.

1:2 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Kuliyapitiya Urban Council had maintained proper accounting records for the year ended 31 December 2010 and 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 Kuliyapitiya Urban Council as at 31 December 2010 and the financial results of its operation for the year then ended.

1:3 Comments on Financial Statements

1:3:1 Accounting Deficiencies

(a) According to the Registers of Fixed Assets, the purchases of machinery and equipment in the year under review amounted to Rs.436,964, whereas according to Journal Entry No. 2 a sum of Rs.3,072,904 had been posted to the Revenue Contributions to Capital Outlay Account as purchase of machinery and equipment in the year under review.

(b) Even though sum of Rs.3,472,356 had been capitalized by Journal Entry No. 3 as the purchase of motor vehicles and carts during the year under review, there were no purchases of motor vehicles and carts during the

year under review. The purchases of motor vehicles and carts relating to preceding years not capitalized amounted to Rs.272,190 only.

1:3:2 Unreconciled Control Accounts

The balances of Deposits Accounts according to the Control Accounts totalled Rs.20,512,152 whereas the balances of those accounts according to the subsidiary registers / records totalled Rs.24,018,031.

1:3:3 Unexplained Differences

An unexplained balance of Rs.149,496 existed in the Pension Fund Account..

1:3:4 Accounts Payable

The value of balance of the accounts payable older than 01 year as at 31 December 2010 amounted to Rs.10,630,542.

1:3:5 Lack of Evidence for Audit

Non – submission of Information to Audit

Three transactions totalling Rs.10,905,608 could not be satisfactorily vouched in audit due to the non – submission of schedules and age analysis to audit.

2 Financial and Operating Review

2:1 Financial Result

According to the financial statements presented, the excess of revenue over the recurrent expenditure of the Council for the year ended 31 December 2010 amounted to Rs. 16,312,842 as compared with the corresponding excess of revenue over the recurrent expenditure amounting to Rs.15,874,920 for the preceding year.

2:2 Financial Control

The following observations are made.

- (a) Even though the advances obtained should be settled immediately after the completion of the purpose in terms of Financial Regulation 371, advances amounting to Rs.64,970 granted in 03 instances in the year under review and the preceding year had been settled after delays ranging from 11 to 21 months.
- (b) A balance of Rs.35,277 out of the festival and special advances granted to the casual employees who are no more in services and remaining outstanding from the year 2001 had not been settled even during the year under review.
- (c) Action in terms of Financial Regulation 396 had not been taken on 03 cheques valued at Rs.3,195 issued from 02 Bank Accounts and remaining unrepresented for over 06 months.
- (d) A cheque valued at Rs.1,007 deposited to the Bank Account on staff loans remained without being realized.

2:3 Revenue Administration

2:3:1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information on the estimated revenue, the actual revenue and the arrears of revenue for the year under review and the preceding year presented by the Chairman is given below.

| Item of Revenue | <u>2010</u> | | | <u>2009</u> | | |
|---------------------|-------------|---------|--------------------------------------|-------------|---------|--------------------------------------|
| | Estimated | Actual | Cumulative Arrears as at 31 December | Estimated | Actual | Cumulative Arrears as at 31 December |
| | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 |
| (i) Rates and Taxes | 14,380 | 12,947 | 10,019 | 10,509 | 11,819 | 7,790 |
| (ii) Lease Rents | 8,863 | 6,947 | 2,314 | 8,139 | 9,765 | 4,206 |
| (iii) Licence Fees | 11,432 | 11,639 | 122 | 8,171 | 9,121 | 329 |
| (iv) Other Revenue | 43,363 | 9,155 | 8,608 | 37,402 | 37,099 | 11,833 |

| | | | | | | |
|-------|--------|--------|--------|--------|--------|--------|
| Total | 78,038 | 40,710 | 21,063 | 64,221 | 67,804 | 24,158 |
|-------|--------|--------|--------|--------|--------|--------|

2:3:3 Stamp Fees

Stamp fees amounting to Rs.7,819,882 remained receivable as at 31 December 2010 from the Registrar General.

2:3:3 Entertainment Tax

As the reimbursement of Entertainment Tax had been stopped with effect from 31 May 2006 in terms of the letter No. LG/MA/13 dated 01 October 2007 of the Commissioner of Local Government, the Council had taken action to recover the full 20 per cent Entertainment Tax from the cinemas. As the cinema owners refused to pay, they had been requested to pay the tax at 10 per cent. But the Cinema owner had refused to pay and in accordance with the Notification published in the Gazette dated 28 January 2010, the Council had billed for Entertainment Tax at 20 per cent of the value of the tickets. As such the Outstanding Entertainment Tax Revenue due from two cinemas as at the end of the year under review amounted to Rs.1,441,342.

2:3:4 Trade Stall Rents

As the Council had failed to recover the arrears of rent from the trade stalls of the Council in terms of the conditions of the lease agreements, a balance of outstanding lease rents relating to 58 trade stalls amounting to Rs.1,026,967 for periods ranging from 04 to 26 months existed.

2:3:5 Water Rates

(1) The water meter readings had not been taken in a manner to facilitate the computing of the volume of water purified by the water purification plant and the volume of water distributed. In addition, the Council had not separately identified or analyzed the number of units of water purified, and the units billed to the consumers and the volume of water used from the 19 common water taps of the Council. A test check of the settlement of the water bills of the Council revealed that a similar number of units had been billed monthly to 24 customers. Nevertheless, no action had been taken to

investigate the reasons for charging such fixed rates and to take necessary steps.

- (ii) According to the Register of Water Billing as at 31 December 2009, the arrears of water rates due from defaulters of settlement of water bills for periods ranging from 06 to 18 months amounted to Rs.1,329,001.
- (iii) The Council had disconnected water supply from time to time. Water rates amounting to Rs.70,117 relating to 17 consumers for periods prior to 01 January 2009 remained outstanding even up to the end of the year under review.

2:3:6 Advertising Hoarding Charges

Arrears of advertising hoarding charges revenue amounting to Rs.15,932 relating to the years prior to the year 2003 remained outstanding.

2:3:7 Rates

The arrears of rates as at the end of the year under review amounted to Rs.6,544,680 and as compared with the preceding years, indicted a gradual increase. A sum of Rs.578,280 had been recovered in the year under review under 12 Revenue Promotion Programme implemented for the recovery of arrears. Nevertheless, according to an audit test check, there were 23 rate payers in 07 wards with arrears exceeding Rs.20,000 each while there were 51 rate payers in two wards with arrears ranging over 03 to 17 quarters. Action in terms of Section 170(2) of the Urban Councils Ordinance had not been taken for the recovery of those arrears.

2:4 Expenditure Structure

The budgeted and the actual expenditure for the year under review and the preceding year together with the variance are given below.

| Item of Expenditure | 2010 | | | 2009 | | |
|------------------------------|----------|---------|----------|----------|---------|----------|
| | Budgeted | Actual | Variance | Budgeted | Actual | Variance |
| | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 | Rs.'000 |
| <u>Recurrent Expenditure</u> | | | | | | |
| Personal Emoluments | 44,296 | 37,329 | 6,967 | 42,331 | 34,971 | 7,360 |
| Others | 23,824 | 19,928 | 3,896 | 19,778 | 16,658 | 3,120 |
| Sub-total | 68,120 | 57,257 | 10,863 | 62,109 | 51,629 | 10,480 |
| Capital Expenditure | 19,265 | 17,908 | 1,357 | 45,607 | 25,460 | 20,147 |
| Grand Total | 87,385 | 75,165 | 12,220 | 107,716 | 77,089 | 30,627 |

2:5 Human Resources Management

Approved and Actual Cadre

Information on the approved and the actual cadre of the Council as at 31 December 2010 is given below.

| Grade of Employees | Approved | Actual |
|--------------------------|----------|--------|
| Executive Grades | 04 | 03 |
| Secondary Grades | 26 | 21 |
| Primary Grades | 85 | 70 |
| Other (Casual Temporary) | -- | 78 |

2:6 Assets Management

2:6:1 Accounts Receivable

The value of balances of accounts receivable as at 31 December 2010 amounted to Rs.22,259,882 and the balances of accounts older than 01 year totalled Rs.14,455,866.

2:6:2 Staff Loans Recoverable

The outstanding balances older than 01 as at 31 December 2010 totalled Rs.27,138.

2:6:3 Assets not Surveyed

The value of stocks of stores not supported by Board of Survey Reports and computed on the book values as at 31 December 2010 amounted to Rs.13,280,902.

2:7 Transactions of Contentious Nature

The Council had procured the services of 05 Health Assistants for carrying out water meter reading and the recovery of water rates. A process in place` for the direct recovery of water rates from the consumers was observed and they were paid a commission of 10 per cent by the Council. Accordingly those 05 assistants had been paid a commission of Rs.106,140 under this process during the year 2010. Even though the Council approval had been granted for the process the approval of the Commissioner of Local Government had not been received.

2:8 Operating Inefficiencies

The pensionary contributions payable to the Local Government Service Pension Fund on behalf of the employees of the Council who had retired from service had not been paid by the Council regularly and as such the balance payable to that Fund by the end of the year under review amounted to Rs.6,043,886. Even though the Fund had charged a sum of Rs.31,581 as the monthly installment, the particulars of the employees relating to that amount had not been notified to the Council.

2:9 Performance

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- (a) The entire provision of Rs.936,000 made in the annual budget for 32 Recurrent Objects had been saved without being utilized for the intended activities.
 - (b) Even though provision amounting to Rs.6,041,000 had been made in the budget for 15 Welfare and sundry programmes for the year under review only a sum of Rs.1,903,448 had been utilized.

- (c) In addition to the provision of Rs.500,000 made in the budget for the Object No.52517 for carrying out repairs to the Public Market the application for obtaining supplementary provision of Rs.1.8 million under the Object No.52517(2) had stated the Accumulated Fund as the source of funding without specifically indicating the source of funds.
- (d) Even though provision amounting to Rs.13,325,500 had been made in the year under review for 50 capital projects, those projects had not been implemented in the year under review.

2:8 Internal Audit

An adequate internal audit of the institution had not been carried out.

3. Systems and Controls

Special attention is drawn to the following areas of systems and controls.

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