

Kurunegala Municipal Council

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Kurunegala District  
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01. Financial Statements

1:1 Presentation of Financial Statements

Financial statements of the year under review had been presented to audit 30 March 2011 and the financial statements for the preceding year had been presented for the audit on 31 March 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 Kurunegala Municipal 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 Kurunegala Municipal Council as at 31 December 2010 and the financial results of its operations for the year than ended.

1:3 Comments on Financial Statements

1:3:1 Accounting Deficiencies

(a) In accounting for the stock of stores amounting to Rs.31,637,495 as at the end of the year under review, the stocks had not been valued by conducting a Board of Survey of the stocks as at the end of the year under review. Instead, the balance arrived at after adjusting the receipts of stores and issues of stores to the opening balance of the ledger account had been brought to account.

(b) Prior year adjustments of debits and credits amounting to Rs.3,398,826 and Rs.103,725,470 respectively had been made to the financial statements in the year under review. As such the financial result of Rs.32,603,922 for the preceding year had been revised to Rs.132,930,566 due to such adjustments.

- (c) The arrears of Rest House charges as at the end of the year under review amounted to Rs.1,530,781. Even though that amount remains over long periods without being recovered due to the problems in the recovery of the Rest House rents, it had not been disclosed by way of a Note to the financial statements.

1:3:2 Unreconciled Control Accounts

The balances of 11 items of accounts according to the Control Accounts totalled Rs.13,135,154 whereas those balances according to the subsidiary registers/ records totalled Rs.12,179,909.

1:3:3 Accounts Payable

The value of the balances of accounts payable older than 01 year as at 31 December 2010 amounted to Rs.65,036,228.

1:3:4 Lack of Evidence for Audit

(a) Unanswered Audit Queries

Replies to 02 audit queries had not been furnished even by 30 June 2011.

(b) Non-submission of Information to Audit

Transactions totalling Rs.67,464,341 could not be satisfactorily vouched in audit due to the non-submission of information required for 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 Municipal Council for the year ended 31 December 2010 amounted to Rs.55,573,017 as compared with the corresponding excess of revenue over the recurrent expenditure for the preceding year amounting to Rs.47,934,097.

## 2:2 Financial Control

- (a) There were 54 cheques valued at Rs.750,512 deposited in 03 Bank Accounts remaining without being realized.
- (b) Action in terms of Financial Regulations had not been taken on 15 dishonred cheques valued t Rs.626,836 relating to 03 Bank Accounts.
- (c) The unidentified debits and credits made to a Bank Account amounted to Rs.34,076 and Rs.380,368 respectively.

## 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 Mayor is given below.

Item if Revenue	Estimated	2010		Cumulative Arrears as at 31 December	2009		Cumulative Arrears as at 31 December
		Actual	Actual		Estimated	Actual	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
(i) Rates and Taxes	29,500	34,451	20,495	29,100	34,070	13,826	
(ii) Lease Rents	43,949	48,768	2,404	44,602	45,174	5,278	
(iii) Licence Fees	3,700	4,005	278	6,170	4,424	705	
(iv) Other Revenue	88,615	66,249	64,611	87,753	59,873	63,419	
<b>Total</b>	<b>165,764</b>	<b>153,473</b>	<b>87,788</b>	<b>167,625</b>	<b>143,541</b>	<b>83,228</b>	

### 2:3:2 Courts Fines

Fines amounting to Rs.1,698,309 recovered by a Magistrate's Court under various Ordinances up to 31 December 2010 remained receivable by the Council.

2:3:3 Stamp Fees

Stamp fees amounting to Rs.15,523,467 remained receivable as at 31 December 2010 from the Registrar General.

2:3:4 Meat Stalls and Fish Stalls Rents

- (i) Court cases had been filed in the year 2006 for the recovery of arrears of rent on 04 meat stalls of the Central Market and a meat stall at Theliyagonna in respect of the year 2005 amounting to Rs.1,021,736. Even though the cases had been called on 37 occasions, the cases had not been finalized even up to the end of the year under review. Filing of a Court case for the recovery of a arrears of rent amounting to Rs.303,928 due from the lessees of 02 meat stalls of the Central Market for the year 2006 had been delayed up to 08 July 2010.
- (ii) The Bid Notice for leasing out of 13 Meat and Fish Stalls of the Council for the year under review had not been published in the Gazette or a newspaper. Those had been advertized only within the area of authority of the Council. As such, 04 assets with rental value of Rs.489,060 only had been leased out for the year under review.

2:3:5 Water Rates

- (i) Arrears of water rates amounting to Rs.145,692 remained as at 31 December 2010 from 17 consumers of the water source at Thempana which supplies water to the water consumers within the Council limits. Even though the supply of water to 09 consumes had been disconnected from time to time in the years 2008 to 2010 arrears of water rates amounting to Rs.89,938 relating to those consumers remained even up to the end of the year under review.
- (ii) Arrears balance of water rates amounting to Rs.35,618,047 representing 48 per cent of the annual billing for water rates existed. Arrears balance of Rs.3,460,126 remained as at the end of July of the year under review due from 75 of the consumers billed under business places. Water had been supplied to those consumers until the accumulation of arrears up to Rs.3 million.

2:3:6 Trade Stall Rents

Out of 33 Trade Stalls at the Kurunegala Bus Stand leased out on key money basis, key money amounting to Rs.284,015 relating to installments ranging from 3 to 45 and arrears of rent amounting to Rs.371,895 relating to installments ranging from 3 to 45 remained as at the end of the year under review.

2:3:7 Rates

Arrears of rates amounting to Rs.20,495,420 representing 46 per cent of the bills raised up to the year under review existed.

2:3:8 Lease of Assets

The Council had failed to lease out 09 assets with minimum bids amounting to Rs.1,662,480 for the year under review. Those assets had not been leased out in the years 2007, 2008 and 2009 as well and the rental value of those assets at the minimum bid amounted to Rs.3,899,280. A field inspection carried out in August 2010 revealed about 13 places where meat and fish were sold within the area of authority of the Council without obtaining the trading rights.

2:3:9 Three Wheeler Stand Fees

According to the Council Resolution No. 2005 (45) dated 30 August 2006 it had been decided to charge a registration fee of Rs.1,000 and a monthly fee of Rs.300 from the three wheelers parked in the authorized Three Wheeler Stands in the Council Limits. That had not been properly implemented in the year under review and a daily fee of Rs.20 only had been recovered. The Mayor informed me on 09 December 2010 that it is difficult to recover monthly fees and recoveries are instead made on daily basis.

2:4 Expenditure Structure

The budgeted and the actual expenditure of the Sabha 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	156,636	138,215	18,421	157,036	130,442	26,594
Others	144,505	123,889	20,616	445,034	120,533	324,501
Sub-total	301,141	262,104	39,037	602,070	250,975	351,095
Capital Expenditure	142,970	46,978	95,992	147,545	35,310	112,235
Grand Total	444,111	309,082	135,029	749,615	286,285	463,330

## 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 had been as given below.

Grades of Employees	Approved	Actual
Staff Grades	09	09
Secondary Grades	87	73
Primary Grades	347	312
Other (Casual, Temporary)	--	177

### 2:5:2 Vacancies in Posts

According to the approved cadre of the Council there are 02 posts of Revenue Overseers and 05 posts of Revenue Inspectors while there were only 02 permanent Revenue Overseers in the year under review. Three Revenue Inspectors from other Divisions had been attached on temporary basis for the vacancies. The 03 officers attached to the posts of Revenue Inspectors temporarily had not furnished security in terms of Circular No. 1997/9 dated 01 September 1997 of the Commissioner of Local Government while the security of Rs.3,000 relating to their substantive posts only had been obtained.

2:6 Assets Management

2:6:1 Accounts Receivable

The value of the balances of accounts receivable as at 31 December 2010 amounted to Rs.98,158,979 and the value of balances older than 01 year totalled Rs.64,692,286.

2:6:2 Staff Loans Recoverable

The balances of staff loans and advances recoverable as at 31 December 2010 totalled Rs.2,016,339 and the balances of accounts older than 01 year totalled Rs.869,876.

2:6:3 Non – moving Current Assets

According to the ledger account, a balance stock of electrical goods amounting to Rs.303,530 existed since the year 2008.

2:6:4 Assets not Surveyed

The value of assets not supported by physical verification / Board of Survey Reports and computed at the book values as at 31 December 2010 amounted to Rs.146,665,585.

2:7 Transactions of Contentious Nature

A reconciliation of the number of units of water purchased by the Kurunegala Municipal Council from the National Water Supply and Drainage Board and the number of units of water billed under the consumers of water revealed a difference of 900,000 units of water or 40 per cent. This bulk units of water as compared with the cost, amounted to Rs.14,283,000 approximately. In furnishing his explanations on 02 December 2010 and 26 April 2011 the Municipal Commissioner stated that the discrepancy was due to the breached water pipes and non – billing of water used from common taps and that consumed by the Council. An unidentified balance of bulk water bills amounting to Rs.589,890 brought down from the year 2009 existed.

2:8 Operating Inefficiencies

The water source at Thempana had been continuously supplying about 7,500 units of water monthly to 789 consumers on 03 roads within the limits of the Kurunegala Municipal Council. As the water available in the Thempana reservoir is not adequate to make such supply continuously, those consumers had been supplied with water in such instances from the water purchased from the National Water Supply and Drainage Board. The Municipal Council had failed to

separately identify the periods of such supply, the number of units of water used for that purpose, etc.

2:9 Compost Barrels Production Project

- (a) The Council had received provisions amounting to Rs.1,707,385 under 03 institutions during the period from the year 2007 to 2009 for the Compost Barrels Production Project implemented by the Council. Books had not been maintained in a manner to separately identify the productions under each source from which the provisions were received, barrels distributed and the balance. According to the physical inspection carried out on 06 October 2010, there were 151 barrels and it was not possible to separately identify the source of funds with which the barrels were produced. The number of barrels distributed under the 03 sources had been 923 and as such the production of 1030 barrels was ascertained. There was no production under this project from the beginning of the year 2009. The building constructed for this purpose in the year 2007 at a cost of Rs.100,000 and the barrel moulds purchased for Rs.8,340 had been idling from the year 2009. The balance stock of undistributed barrels as at the end of the year under review amounted to 151.
- (b) A stock of 600 compost barrels costing Rs.2,200 per unit had been purchased in the year 2009 from the Pilisaru Project of the Central Environmental Authority at the 50 per cent concessionary prices. Out of those 192 barrels remained without being distributed up to the end of the year under review. A field inspection carried out on 06 October 2010 revealed that out of the barrel boards so obtained about 10 had been destroyed beyond use. The average cost of a barrel produced by the Council amounted to Rs.1,500 while the cost of a barrel obtained from that Project amounted to about Rs.2,200. In view of the breakage of barrel boards and the identification of the use of 1/8 inch thick iron rods for the construction revealed that those barrels were of a lesser quality than those produced by the Council.

2:10 Internal Audit

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

03. Systems and Controls

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

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