

Kurunegala Municipal Council

Kurunegala District

1. Financial Statements

1:1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 29 March 2012 and the financial statements for the preceding year had been presented on 31 March 2011. The report of the Auditor General for the year under review was issued to the Mayor of the Council on 12 September 2012.

1:2 Opinion

So far as appears from my examination and to the best of information and according to the explanation given to me, I am of opinion that the Kurunegala Municipal Council had maintained proper accounting records for the year ended 31 December 2011 and except for the effects on the financial statements of the matters referred to in my report forwarded to the Mayor, 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 2011 and the financial results of its operations for the year then ended.

1:3 Comments on Financial Statements

1:3:1 Accounting Deficiencies

- (a) The value of lands and buildings had not been disclosed in the accounts presented. The stocks as at end of the year under review had been brought to account at the value of Rs.31,623,325 shown in the ledger account considering as one balance, without being identified separately as water, electricity, field etc. Although a verification of goods had been carried out, the stock had not been computed accordingly and the closing balance of Rs.31,623,325 in the ledger account itself had been brought to account.

- (b) A sum of Rs.2,276,827 had been received during the year under review for, industries under Jathika Saviya, Gama Neguma and decentralized funds and the respective payments also had been made. But, the said capital received and the capital expenditure incurred had not been disclosed in the financial statements for the year under review.
- (c) Although rest house charges amounting to Rs.1,639,905 had been receivable from the Urban Development Authority as at end of the year under review, it had not been disclosed in the financial statements.
- (d) Pensions contributions amounting to Rs.50,432,107 payable to the Local Government Pensions Fund by the Council as at end of the year under review had not been disclosed in the accounts.

1:3:2 Lack of Evidence for Audit

-----  
Non-submission of Information for Audit  
-----

Transactions totalling Rs.188,033,634 could not be satisfactorily vouched in audit due to the non-submission of required information to audit.

2. Financial and Operating 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 2011 amounted to Rs.57,621,426 as compared with the excess of revenue over recurrent expenditure amounting to Rs.55,573,017 for the preceding year.

## 2:2 Financial Control

-----

The following deficiencies in financial control were observed.

- (a) Advances amounting to Rs.1,414,048 obtained by the Engineering Division from 2005 to the year under review had not been settled even up to the end of the year under review.
- (b) There were cheques valued at Rs.234,139 deposited but not realized in relation to 03 bank accounts, unidentified debits amounting to Rs.32,338 in relation to one bank account and unidentified credits amounting to Rs.417,592 in relation to 03 bank accounts. Further, action had not been taken in terms of the Financial Regulations in respect of 15 dishonoured cheques valued at Rs.681,292 in relation to 03 bank accounts.
- (c) The balance of miscellaneous deposits amounting to Rs.24,972,348 as at the end of the year under review included a sum of Rs.10,227,547 existed for over a number of years in respect of 07 instances which had not been settled, even though they had been identified.

## 2:3 Revenue Administration

-----

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

-----

Information on estimated revenue, actual revenue and arrears of revenue in respect of the year under review as presented by the Mayor is shown below

Item of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
-----	-----	-----	-----
	Rs.'000	Rs.'000	Rs.'000
(i) Rates and Taxes	34,932	32,456	18,949
(ii) Sale of Water	31,625	74,250	38,843
(iii) Lease Rent	49,083	47,640	2,205
(iv) Licence Fees	5,812	5,747	56
(v) Other Revenue	231,228	173,023	23,975

### 2:3:2 Court Fines and Stamp Fees

-----  
Money receivable as at 31 December 2011 from the Chief Secretary of the Provincial Council and other authorities are shown below.

	Rs.
(i) Court Fines	363,567
(ii) Stamp Fees	12,523,467

### 2:3:3 Rates

-----  
A sum about Rs.33 million had been billed as rates and taxes relation to the year under review, and the balance of rates and taxes outstanding as at end of the year under review amounted to Rs.18,949,371. The following matters were observed in this connection.

- (a) Rates and taxes amounting to Rs.1,247,457 had been billed for 47 institutions under Government property in relation to the year under review, and of these institutions rates and taxes ranging to Rs.2,828,408 was outstanding for over periods ranging 02-08 years in respect of 14 institutions as at end of the year under review.
- (b) According to a sample check carried out in respect of 05 Divisions revealed that; a sum of Rs.1,214,414 had been outstanding for periods ranging for over 10 years in respect of 473 properties for which bills had been issued an amount of Rs.853,226 had been outstanding for periods ranging 5 to 10 years in respect of 262 properties billed, and an amount of Rs.1,352,098 had been outstanding for periods ranging 5 to 1 years in respect of 488 properties billed resulting in Rs.3,419 bills outstanding. Although bills are being settled in respect of 152 properties, there was an outstanding amount totalling Rs.853,571 due for periods ranging 2 to 7 years.
- (c) The annual average outstanding rates and taxes of the Council amounted to about Rs.18 million. 05 Council employees had been assigned to recover the dues on the basis of 3% commission and 03 employees had been recruited on a range of 8% to 12% commission in respect of 12 Divisions. Only the total amount outstanding had been mentioned in the

outstanding lists given to recover the dues and there were deficiencies in the process of recovery such as non-mentioning the amount due for a quarter and period outstanding; unable to separately identify the amount recovered on each outstanding list. non-handing over the outstanding lists at the end of the warrant period; non-supervision of the progress of the each outstanding list; non-use of double sided carbon papers for respective receipt books, delay in 2 to 9 days in handing over the cash collected; non-handing over of cash collected within a specific period at one instance.

- (d) The bills issued in respect of payment of rates at the office is valid only for the date of issue. But it is not mentioned on the bill and therefore, instances were observed where payments had been made after the date of issue of the bill. Also there were instances where the computer entry relating to the receipts unpaid as such had not been cancelled. The register containing the details of unpaid bills had not been properly maintained. The daily receipts return prepared by the Rates Division and the daily receipts register prepared by the Bank had not been supervised daily and regularly. The above deficiencies existed in the system.

#### 2:3:4 Water Charges

-----

- (a) A sum of about Rs.78 million had been billed as water charges for the year under review and the water charges outstanding as at end of the year under review amounted to Rs.38,343,592. The following matters were observed in this connection.
- (b) There had been a problem in the recovery of outstanding water charges amounting to Rs.2,169,641 billed by the Council up to end of the year under review for the toilet of the Puttalam Road and the water charges amounting to Rs.316,086 billed up to the end of the year under review in respect of water used by a private company for the constructions near by the bus stand due to non-entering into agreements properly.
- (c) Water charges (including Value Added Tax) had been computed less by Rs.5,229,822 relating to the period June 2007 to June 2008 due to an error in meter reading in respect of the Water Consumer No. 5163 (Kurunegala Hospital). The outstanding balance had not been recovered even as at tend of the year under review.

- (d) There was an outstanding balance of Rs.14,154,775 for the year under review in respect of 408 water consumers under business category in the Division No. 26 B, and 116 water consumers had not settled a single bill within periods 03 months to 01 year. Supplies to a total No. of 63 consumers had been disconnected as at end of the year under review and of this, the balances due from 34 consumers amounted to Rs.1,219,468.

#### 2:3:5 Lease Rent

-----

The following observations are made.

- (a) There was an outstanding lease rent amounting to Rs.51,471 for years 2010 and 2011 as at end of the year under review in respect of the land and building given to a sports association on the basis of recovering ground rent, and charges for the delay also had not been recovered on this outstanding balance.
- (b) According to the lease rent signed in year 2005 by the Council in respect of a lease of a canteen at the 3<sup>rd</sup> floor of the Bus Stand Shopping Complex; a rent fixed by the Council should be paid in case the vehicle park is used for part private vehicles. But, such charges had not been recovered from 2005 to May 2008. Although a monthly ground rent of Rs.15,000 including Value Added Tax had been charged from May 2008, there was no Council decision or an agreement and there was an outstanding balance of Rs.285,000 being 19 installments as at end of the year under review.
- (c) “Ranthaliya” and “Rajapihilla” rest houses situated in the area under the control of Kurunegala Municipal Council had been vested to the Urban Development Authority by the Gazette Extra-ordinary No. 105/3 dated 09 September 1980. According to the agreement, the management fees charged from the Council by the Urban Development Authority had been increased ex-parte from 10% to 30%. Further, rent amounting to Rs.1,086,111 had been due for “Ranthaliya” (New) rest house from 1999 to the end of the year under review and rent amounting to Rs.916,650 had been due to the Sabha from the “Rajapihilla” (Old) rest house.

2:3:6 Entertainment Tax

- 
- (a) Although the Maligapitiya Stadium owned by the Council had been given for 09 Musical shows and Carnivals during the year under review, it could not be ascertained whether Entertainment Tax had been recovered from them.
  - (b) There are 04 Cinema Halls within the area of control of the Municipal Council and the Council had stamped for Entertainment Tax on the entrance tickets printed and submitted by the owner of the Cinema Halls. The following matters were observed in this connection.
    - (i) There were 30 instances where entrance tickets of the Cinema Halls, had been stamped for periods 2 months to 22 months requirements at a time.
    - (ii) According to the daily entertainment tax reports submitted by three Cinema Halls in 15 instances for the period January to September 2011 it could not be ensured through the Register of Stamping Entrance Tickets of the Council whether the 31,428 tickets issued had been stamped.
    - (iii) Entrance tickets had not been stamped in serial order and therefore, it could not be ensured whether 10098 Box entrance tickets in respect of one Cinema Hall had been stamped.

2:3:7 Recovery of Conformity Charges for Business Buildings

-----

According to the Gazette Notification No. 1597/8 dated 17 April 2009 published by the Urban Development Authority, a charge of Rs.50 per day of delay should be charged for settle in, use or utilize any construction without the certificate of conformity. But a sum of Rs.497,800 that could have been charged on 21 buildings within the area of control of the Council for which the certificate of conformity had not been obtained during 2003 to 2010 had not been recovered. Further, according to the Council Conclusion No. 5(1) dated 19 December 2005, the building application should be renewed by paying an annual fee of Rs.200 from the date of approving the building application up to obtaining the certificate of conformity. But, the building applications had not been so renewed continuously in respect of 138 business places and if the procedure properly

followed the Council could have earned an income of Rs.114,800. The Municipal Commissioner informed me on 06 August 20102 that action will be taken to properly recover this money.

#### 2:3:8 Miscellaneous Income

-----

In relation to collection of miscellaneous income made by the Council, tickets valued at Rs.16 million had been issued to 16 traffic wormed and money collectors of the bus stands. The following deficiencies were observed in relation to the procedures; the No. of books handing over the money collector had not been recorded in the Register of Issuing Counterfoil Books enable to identify separately each persons transactions; the progress of handing over the money collections and charges by them had not been supervised by another officer regularly; handing over of money by the money collectors had been delayed for 02 to 05 days.

#### 2:4 Human Resources Management

-----

Although the approved cadre under the posts of Labourer, Watchers, Drivers was 255, only 236 had been employed in these posts as at end of the year under review, whilst 157 had been employed under substitute basis as at end of the year under review and they are paid from the Council Fund.

#### 2:5 Contract Administration

-----

Files had not been maintained including the estimates of materials, procurement of materials, issue of materials, return of materials, Check Roll returns, completion reports according to the instruction of the Circular No. 2007/3 Technical dated 01 June 2007 issued by the Commissioner of Local Government – North Western in respect of 17 jobs done by the Council on direct labour method, the estimated value of which was Rs.1,375,000.

Further, the feasibility reports, material analysis, estimates of materials, Check Roll returns, transport expenses analysis, financial examinations/ measurement report had not been included even in files maintained in respect of 14 jobs.



## 2:6 Operating Inefficiencies

-----

The following observations are made.

- (a) The outstanding staff loan balance of Rs.383,847 as at end of the year under review included a loan balance of Rs.254,318 relating to an officer died in year 2007 and the Council had not get settle this balance even as at end of the year under review. The loan balance of Rs.95,120 relating to 02 officers left the services had remained unrecovered since year 2007.
- (b) Although a register of land and buildings had been maintained, it had not been updated and a verification of land and buildings had not been carried out regularly. Further, assets (except land and buildings) of which the value as per ledger accounts was Rs.120,691,050 had been verified for the year under review, those assets had not been valued as per the Board of Survey Reports.
- (c) Contributions payable to the Local Government Pensions Fund by the Council in respect of the employee retired from the Council service had not been properly paid by the Council up to May 2011. Therefore, the balance payable to the said Fund amounted to Rs.50,432,107.
- (d) There were drainage system of about 35 k.m.; a cemetery and 02 Children's Parks owned by the Council and the maintenance cost incurred for those during the year under review could not be identified separately.
- (e) A corporate plan had not been prepared for the Council.

## 2:7 Internal Audit

-----

An adequate internal audit had not been carried out under the Internal Audit Programme.

3. Systems and Controls

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

- (a) Accounting
- (b) Financial Control
- (c) Revenue Administration
- (d) Assets Management
- (e) Contract Administration
- (f) Issue of Building Applications and Certificate of Conformity
- (g) Procurement Management
- (h) Staff Management
- (i) Vehicle Utilization