

Kadugannawa Urban Council

Kandy District

1. Financial Statements

1.1. Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 25 March 2014 and the financial statements for the preceding year had been presented on 25 March 2013. The report of the Auditor General for the year under review was issued to the Chairman of the Council on 09 December 2014.

1.2. Opinion

Except for the effects on the financial statements of the matters referred to in Paragraph 1.3 of this report, I am of opinion that the financial statements have been prepared in accordance with the Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Kadugannawa Urban Council as at 31 December 2013 and the financial result of its operations and cash flows for the year then ended.

1.3. Comments on Financial Statements

1.3.1. Non-compliance with the Accounting Standards

The value of 21 blocks of land and 17 buildings owned by the Urban Council had not been entered in the registers and brought to account.

1.3.2. Un-reconciled Control Accounts

According to the control account, the balance relevant to one item of account was Rs.5,575,136, whilst the balance according to the schedules was Rs.5,530,120. Therefore a difference of Rs.45,016 existed.

1.3.3. **Accounts Receivable and Payable**

a) **Accounts Receivable**

The value of balances of accounts receivable as at 31 December 2013 amounted to Rs.6,757,742 and out of this, total accounts balance exceeding 1 year, had been Rs.612,026.

b) **Accounts Payable**

The total balances of 10 accounts payable over a period of 01 year as at 31 December 2013 amounted to Rs.2,289,409 and out of this, Rs.180,548 represents the total balances of 02 accounts exceeding 3 year.

1.3.4. **Non-compliance with Laws, Rules and Regulations**

The following instances of non-compliance are observed.

Reference to Laws, Rules and Regulations

Non-compliance

Section 127 e (1) of Urban Council Ordinance No. 255

Notice had been given to remove 05 Mahogany trees of 40-75 feet in height, which are dangerous to a residence within the authority of the Council. Though 04 years had passed since the notice, these trees had not been removed.

F.R. 571 of Financial Regulations of the Republic of Sri Lanka

Action had not been taken in accordance with the Financial Regulations, in respect of 68 deposits of over 02 years, amounting Rs.257,912.

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.9,744,810, as compared with the excess of revenue over recurrent expenditure amounting Rs.11,380,695 for the preceding year. Therefore the financial result had been decreased by Rs.1,635,885.

2.2. Analytical Financial Review

The surplus for the year under review had been decreased by Rs.7,114,194 as compared with the surplus for the preceding year. The main causes for this had been the decrease in 03 items of income, and the increase in 03 items of expenditure.

2.3. Working Capital Management

The working capital ratio in the year under review was 1.36:1, and the ratio in the preceding year was 1.77:1. Therefore it was observed that the working capital was not in a superior level which should prevail in an Urban Council. Further, 35% of the total current assets amounting to Rs.11 million had been works and sundry debtors, whilst 86% of total current liabilities amounting to Rs.20 million had been works and sundry creditors.

2.4. Revenue Administration

a) Rates and Taxes

The rates and taxes income in arrears at the beginning of the year under review amounted to Rs.3,510,665, whilst the balance at the end of the year, had been increased to Rs.4,887,754.

b) Stall Rent

The following matters are observed.

- (i) The stall rent income in arrears due as at the end of the year under review amounted to Rs.102,970, and out of this, the balance remained unrecovered for a long period amounted to Rs.68,770.
- (ii) The Council had not taken proper action to recover the rent in arrears, amounting to Rs.252,856, due from Kadugannawa Sathi Pola, since 2008.
- (iii) Stalls owned by the Council had been sub-leased violating the agreements.

c) **Court Fines and Stamp Fees**

The court fines amounting to Rs.211,399 and stamp fees amounting to Rs.943,550 had been receivable as at 31 December 2013, from the Central Provincial Council.

d) **Hording Charges**

Hording charges totalling Rs.194,500, had not been collected from 47 permanent hordings, located within the area under the authority of the Council, in accordance with the provisions in the Gazette Notification No. 1788 dated 07 December 2012, of the Republic of Sri Lanka.

e) **Environment Licences**

The environmental licences had not been issued to 15 business organizations, which should have been issued with environmental licences, in accordance with the Gazette Extra Ordinary Notification No. 1533/16 dated 25 January 2008, published in accordance with the National Environmental Act No. 47 of 1980, as amended by Acts No. 56 of 1988 and 58 of 2000. Therefore the Council had deprived of a sum of Rs.110,000,

3. **Operating Review**

3.1. **Management Inefficiencies**

The following matters are observed.

- (a) The Council had not taken proper action to recover the loans in arrears, amounting to Rs.935,503 due from 16 employees, who had been transferred out.
- (b) During the goods verification of the year under review, a shortage of 65 units with respect to 16 items, and an excess of 23 units with respect to 11 items, had been revealed.
- (c) Though the Council had received funds amounting to Rs.22,344,033 as capital expenditure for 104 works, only 85 works valued at Rs.8,744,900 had been completed.

4. Accountability and Good Governance

4.1. Corporate Plan

A corporate plan had not been prepared by the Council in the year under review

4.2 Audit and Management Committees

Audit and Management Committees had not been held during the year under review.

4.3 Internal Audit

Adequate internal audit had not been carried by the Council during the year under review.

5. Systems and Controls

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

- a) Accounting
- b) Revenue Administration
- c) Debtors and Creditors Control
- d) Contract Administration