

Kandy Municipal 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 01 April 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 Members of the Municipal Council including the Mayor of the Council on 16 January 2015.

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 Kandy Municipal Council as at 31 December 2013 and the financial result of its operations for the year then ended.

1.3. Comments on Financial Statements

1.3.1. Accounting Deficiencies

The following accounting deficiencies are observed.

- (a) A sum of Rs.343,100, which should be brought to account as income of the year under review, had been shown in the deposits account.
- (b) Though a sum of Rs.27,176,619 had been brought to account as stamp fees in arrears as at 31 December of the year under review, Rs.60,192,216 had been received as stamp fees income for the year 2014. Therefore an under provision of Rs.33,015,597 was observed.

- (c) The sum of Rs.89,758 receivable as at 31 December of the year under review, with respect to the Hewaheta bypass road development work, which was completed in the year 2013, had not been brought to account as debtors.
- (d) The interest income amounting Rs.82,685 received during the year, for the fixed deposit of World Heritage City Project, had not been brought to account as income and had been shown as excess credit in the bank reconciliation till August 2014.
- (e) The value of books in the main library and 06 library branches had not been assessed and brought to account under fixed assets.
- (f) Action had not been taken to identify the cost and write-off the auctioned Lorry from the accounts.
- (g) The value of 14 items of assets, destroyed and auctioned on 29 December 2013, had not been indicated and these assets had not been written off from the accounts.

1.3.2. Un-reconciled Control Accounts

The balance of employees loans according to the control account was Rs.152,764,208, whilst the total balances according to the schedules had been Rs.152,878,103. Therefore a difference of Rs.113,895 was observed.

1.3.3. Accounts Receivable and Payable

a) Accounts Receivable

The total value of balances of account receivable as at 31 December 2013 amounted to Rs.394,189,861, and out of this, total account balances exceeding 1 year, was Rs.250,407,515. Out of this, the balance further receivable as at 31 December 2014 was Rs.249,108,609.

b) Accounts Payable

The value of total balances of accounts payable as at 31 December 2013 amounted to Rs.401,922,347, and out of this, Rs.368,950,820 represents expenditure creditors and of this, total account balances over one year amounted to Rs.107,092,516. Out of this amount, Rs.54,538,146 was further payable even as at 31 December 2014.

1.3.4. Non-compliance with Laws, Rules and Regulations

The following instances of non-compliance with laws, rules and regulations are observed.

**Reference to Laws, Rules
and Regulations**

Non-compliance

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|---|---|
| <p>(a) Municipal Council
Ordinance Section 289 (2)</p> | <p>It had been mentioned that any directive promulgated is not valid until it is approved by the Parliament and the approval is published in the Gazette notification. But according to the Central Province Chief Minister's Secretary's Letter No. CPC/CMS/01/06/01/4-4, Allowances for Council and Committee Meetings amounting to Rs.964,500 had been paid to the members of the Council, with respect to the period from 17 February 2013 to 31 December 2013.</p> |
| <p>(b) Financial Regulations of
the Republic of Sri Lanka</p> | |
| <p>(i) F.R. 396 (d)</p> | <p>Though cheques, totalling to a value of Rs.158,186 relevant to 02 bank accounts had been issued, action had not been taken with respect to the cheques not presented for payments.</p> |
| <p>(ii) F.R. 756 and 757</p> | <p>i The goods verification relevant to the year 2013 had not been completed even till November 2014.</p> <p>ii During the verification of goods in the year 2013, the library books owned by the Council had not been verified.</p> |

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.229,972,207, as compared with the excess of revenue over recurrent expenditure amounting Rs.192,632,737 for the preceding year. Therefore the financial result had been improved by Rs.37,339,470.

2.2. **Analytical Financial Review**

The surplus for the year under review had been decreased by Rs.64,026,039 as compared with the surplus for the preceding year. The main cause for this had been the increase of equipment and capital expenditure by 112% in the year 2013, in comparison to the year 2012.

2.3. **Working Capital Management**

The ratio between total current assets and current liabilities was 2:1. Further, 38% of the total current assets amounting to Rs.604 million had been revenue debtors, whilst the cash balance was 12%. Further 48% of the total current liabilities amounting to Rs.215 million had been works and sundry creditors.

2.4. **Revenue Administration**

2.4.1. **Performance on Revenue Collection**

Estimated Revenue, Actual Revenue and Revenue in Arrears

The information with respect to Estimated Revenue, Actual Revenue and Revenue in Arrears submitted in respect to the year under review, are indicated below.

Item of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
	Rs.'000	Rs.'000	Rs.'000
(i) Rates and Taxes	647,471	618,730	114,087
(ii) Lease Rent	64,371	23,780	63,298
(iii) Licence Fees	31,257	32,062	220
(iv) Other Income	109,373	225,473	396,644

2.4.2. Transmission Towers Charges

The following matters are observed.

- (i) 53 Transmission Towers had been constructed without obtaining the approval and development licences, as stipulated in the the Gazette Extra Ordinary Notification No. 1597/8 dated 17 April 2009 of the Republic of Sri Lanka, and action had not been taken even as at 09 March 2012, to authorise the towers after obtaining the charges for unauthorised construction. Therefore the Council had deprived of over Rs.1,180,000.
- (ii) Action had not been taken to collect business taxes, as stipulated in the Circular No. 2014/04 dated 18 June 2014, issued by the Commissioner of Local Government in the Central Provincial Council, for the period from the year of installation of transmission tower to the end of the year under review. Therefore the Council had deprived of approximately over Rs.5,000,000.
- (iii) Though the Gazette Notification No. 1785 dated 16 November 2012 of the Republic of Sri Lanka, stipulates that the directives with respect to the collection of business licences for transmission towers should be published by Gazette, this had not been carried out.
- (iv) Action had not been taken to collect the charges, as stipulated in the Gazette Notifications No.1682 dated 26 November 2010, No. 1731 dated 04 November 2011 and No. 1785 dated 16 November 2012 of the Republic of Sri Lanka, with respect to the allocation of space for transmission towers. Therefore the Council had deprived of over Rs.960,000 during last 03 years.

2.4.3. Environment Licence Fees

The environmental licences had not been issued, as stipulated in the Gazette Extra Ordinary Notification No. 1533/16 dated 25 January 2008, issued in accordance with the National Environmental Act No. 47 of 1980, as amended by Acts No. 56 of 1988 and 53 of 2000, for 193 business organizations within the authority of the Council, Therefore the Council had deprived a sum of Rs.1,428,200.

2.4.4. Hording Charges

Action had not been taken to collect the fees, amounting to Rs.1,748,683, as stipulated in the Gazette Notification No. 1785 dated 16 November 2012 of the Republic of Sri Lanka, with respect to the 181 hoardings, displayed within the area under the authority of the Council.

3. Operating Review

3.1. Management Inefficiencies

The schedules with respect to; 105 units of lands and buildings valued at Rs.41,443,200; and the furniture and installations, machines and equipment, motor cars and carts, totalling to a value of Rs.325,920,737; had not been prepared even as at the end of the year under review.

3.2. Operating Inefficiencies

The following matters are observed.

- (a) The interest on property loans amounting to Rs.7,946,021 had been shown under payments in advance, in the balance sheet as at the end of the year under review, and action had not been taken to reimburse this amount for a period of 02 years.
- (b) Loan balances amounting to Rs.266,795, had been due from 07 employees, deceased and retired during the period from 2004 to 2012, and action had not been taken to recover this even as at the end of the year under review.
- (c) Loans amounting to Rs.9,500 and Rs.535,311, had been due from 03 employees who had vacated service before the year 2012, and 08 employees who had been interdicted, respectively, and action had not been taken to recover this even as at the end of the year under review.
- (d) 12 dishonoured cheques amounting to Rs.160,696 had been brought forward in accounts for a period ranging from 02-05 years, without recovering or taking suitable action.

- (e) A sum of Rs.6,316,390 had been directly received by the bank in 103 instances with respect to 02 bank accounts; and Rs.56,331 had been paid in 12 instances through standing orders. These transactions had been shown in the bank reconciliation till May 2014, without identifying and taking action to settle.
- (f) Though banked in 02 bank accounts; there had been unrealised amount of Rs.3,256,190, with respect 116 instances of credit receipts; and depositing cheques and cash less than the correct amount' and action had not been taken regarding this to find out the reasons and take necessary actions.

4. 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) Debtors and Creditors Control