

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 28 March 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 Mayor of the Council on 10 December 2014.

1.2 Opinion

In my opinion, except for the effects of the matters referred to in Paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Kurunegala Municipal Council as at 31 December 2013 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following observations are made.

- (a.) A sum of Rs.2,703,747 receivable to the Council in respect of 07 works under Maga Neguma Rural Road Development Programme had not been accounted under capital debtors and a sum of Rs.886,985 received in respect of another 03 works had not been accounted under capital revenue.
- (b.) The sum of Rs.51,126,456 payable to the Local Government Pension Fund by the Council as at end of the year under review had not been accounted under creditors.
- (c.) The accuracy of the arrears of vehicle parking charges amounting to Rs.6,762,000 recoverable from a private company during the year 2006 had not been get confirmed and brought to account.

- (d.) Key-money amounting to Rs.415,891 received for the ensuing years in respect of 05 stalls of the upper floor of the Kurunegala Bus Stand during the year under review and the interest of Rs.143,198 there on had not been brought to account as receipts in advance. Further the above sum of Rs.559,089 had been deducted from the stall rent in arrears as at end of the year and as such the capital receipt debtors had been understated by a similar amount.
- (e.) A sum of Rs.28,861 receivable for 09 semi-permanent stalls and rent in arrears amounting to Rs.142,082 receivable for 04 stalls of the upper floor of the New Bus Stand as per the Register of Stall Rent had not been brought to account.
- (f.) Although the stamp fees debtors receivable as at end of the year under review amounted to Rs.5,070,465; it had been shown in the financial statements as Rs.546,998 and as such, revenue debtors had been understated by Rs.4,523,467.
- (g.) Lease income in arrears amounting to Rs.5,230,880 confirmed as per corresponding documents relating to the lease of cleaning of the Bus Stand had not been brought to account.
- (h.) Bus Stand Key-money amounting to Rs.606,897 received in respect of ensuing years had been brought to account as revenue for the year under review. The tractor and trailer valued at Rs.1,459,300 received by the Council as donations during the year 2012 had been brought to account as capital receipts and capital expenditure of the year under review.

1.3.2 Contingent Liabilities

Contributions payable to the Local Government Pension Fund had not been promptly paid and therefore, the balance payable to the said Fund as at end of the year under review amounted to Rs.51,126,456.

1.3.3 Unreconciled Control Accounts

Differences amounting to Rs.24,219,747 were observed between the accounts and the respective registers under receipts relating to the year under review, billings and the closing balance with regard to 18 items of accounts.

1.3.4 Accounts Receivable and Payable

The following observations are made.

- (a.) The balances of accounts receivable as at 31 December 2013 amounted to Rs.90,920,365 and of this; age analysis had not been submitted in respect of Rs.83,504,069.

- (b.) The balances of accounts payable as at 31 December 2013 amounted to rs.107,375,407 and of this; Rs.37,816,297 was over one year.

1.3.5 Lack of Evidence for Audit

Transactions totaling Rs.162,969,938 could not be checked in detail due to non-submission of required information to audit.

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.89,067,127 as compared with the excess of revenue over recurrent expenditure amounting to Rs.66,330,174 for the preceding year showing an improvement of financial result by Rs.22,736,953. When the capital aid amounting to Rs.5,250,235 and the capital expenditure amounting to Rs.64,965,055 are adjusted to the financial result the excess for the year amounted to Rs.29,352,307.

2.2 Analytical Financial Review

The following observations are made.

- (a.) Expenses of Rs.159,384,751 being 38% of the total recurrent expenditure of Rs.421,792,280 of the Council for the year under review represented non-generated income such as court fines, stamp fees, salary reimbursements etc. Similarly, the capital revenue of Rs.5,250,235 which consists of Key-money and donations and the money received from other institutions on sources such as Gama Neguma, Maga Neguma etc. for the development works of the area of the Council had not been brought to account.

- (b.) The total recurrent expenditure relating to the year under review amounted to Rs.332,725,153 and 49% of this amounting to Rs.161,846,100 represents personal emoluments of which 58% equivalent to Rs.94,403,086 had been received from the Commissioner of Local Government as salary reimbursements. Further, the capital expenditure amounted to Rs.64,965,055 and 41% of this amounting to Rs.26,457,126 had been spent from the Council funds for development works. The balance 59% equivalent to Rs.38,507,929 had been spent for acquisition and improving of fixed assets. The development works carried out from the provisions made under Gama Neguma and Maga Neguma had not been identified and accounted as capital expenditure.

2.3 Working Capital Management

The following observations are made.

- (a.) There was a balance of Rs.1,087,803 in 07 savings accounts relating to projects as at end of the year under review either due to completion or idling of the relevant projects.

- (b.) Employees' loan balances outstanding as at end of the year under review amounted to Rs.837,131 and of this, balances amounting to Rs.334,468 had been outstanding for over 03 years.

2.4 Revenue Administration

2.4.1 Rates and Taxes

Income from rates amounting to Rs.45,068,061 had been billed for the year under review in respect of 13320 units of rates and of this there were arrears of Rs.23,081,050 equivalent to 51%. A sum of Rs.1,207,816 of the above had been recovered by 30 July 2014 and arrears amounting to Rs.21,873,234 had remained outstanding further.

2.4.2 Water Charges

Water charges billed for the year amounted to Rs.84,329,924 and there was an arrears amounting to Rs.42,518,584 as at end of the year under review. Accounting to an audit test check carried out, it was observed that there were arrears totalling Rs.2,731,711 relating to 55 water consumers of whom the arrears were between Rs.50,000- Rs.100,000 and arrears amounting to Rs.16,271,803 relating to 31 water consumers of whom the arrears were over Rs.100,000. Further, there was a sum of Rs.3,824,306 in arrears billed under the name of Municipal Commissioner in respect of 03 consumer numbers and a sum of Rs.10,618,524 under the name of Kurunegala Teaching Hospital in respect of consumer number 5163.

2.4.3 Stall Rent

There were arrears amounting to Rs.1,412,438 which includes rent and charges for delay in respect of 51 stalls of Kurunegala New Bus Stand and arrears of Rs.2,431,146 relating to key-money and the interest thereon. Of this Rs.2,126,961 represents arrears relating to 14 stalls for periods ranging 06 to 78 months.

2.4.4 Court Fines and Stamp Fees

Court Fines and stamp fees receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2013 amounted to Rs.462,375 and Rs.30,339,894 respectively.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

- (a.) A rent income of Rs.18.9 million had been billed annually for the New Shopping Complex consists of 196 stalls. However a sum of Rs.15.7 million approximately had been spent for expenditure on electricity, service charges and the salaries of the Keeper and therefore, an adequate additional income had not been incurred from this. Further, about 80% of this expenditure (Rs.15 million) had been incurred on electricity. Water had been provided to the water tanks of upper floors by pumping and separate water meters had not been fixed to identify the quantity of water pumped and water distributed by water tanks.
- (b.) The Rajapihilla Rest House at Kurunegala had been renovated and tenders had been called for renting out 02 parts of 11,138 square feet and 1,741 square feet. The tenderers had refused to enter into agreements due to various defects in construction and as such it had failed to rent out the Rest House.
- (c.) The Council had approved 535 building applications during the period 2008 to 2010; but, only 202 conformity certificates had been issued. The Council had not taken any action in respect of non-obtaining time extensions for 333 applications. However, if all the constructions had been completed the Council might have deprived of an income of Rs.66,600 for non-issuing conformity certificates and if all the constructions had not been completed, the Council might have deprived of an income of Rs.169,600 for non-obtaining time extensions for licence.
- (d.) The Asia Technical Institute had granted a sum of Rs.1,000,000 (U.S.D 10,000) in March 2011 for commencement of a suitable project to convert Kurunegala as at City of less carbon density and of this a sum of Rs.100,000 had been spent for preparation of project report after 02 years. The balance sum of Rs.900,000 had been spent for a foreign tour to Thailand in February 2013. However, a report prepared based on the experiences and criteria gathered through the foreign tour or a work plan prepared for converting Kurunegala as a city of less carbon density could not be traced.

3.2 Irregular Transactions

- (a.) A comparison of prices approved by the Council for purchase of building materials for the years 2012 and 2013 and the prices of the District Pricing Committee Reports relating to the above goods revealed that an overpayment of Rs.391,159 had been made for building materials such as sand, metal and ABC, supplied to the Council.

- (b.) Lease rent amounting to Rs.5,230,880 and water charges amounting to Rs.3,360,880 had been due as at 30 July 2014 from the private institution which had obtained the contract for cleaning the Kurunegala Bus Stand since year 2008 and according to the file No.MED/WC/C2/22 maintained by the Engineering Division, only the arrears of lease rent as at end of the year under review had been indicated.

3.3 Implementation of Projects

Floor preparation and covering had been done, on 10% of the Wahara Shopping Complex constructed during 2012 at a cost of Rs.40 million under Asian Development Bank credit facilities. A portion to the extent of 3,500 square feet, the minimum monthly rent of which was Rs.150,000 that had been completed had not been rented even by end of the year under review. The C.W.E. had obtained a portion to the extent of 7,320 square feet of the ground floor of the completed building at a minimum monthly rent of Rs.250,000 and the vehicle park of this building had to be given to the above institution for stores facilities. Further, a sum of Rs.2,372,755 had been spent from the Council Fund during 2012 for a roof and laying floor tiles for an area of 2,500 square feet in front of the building facing the main road and the relevant construction works had to be removed due to the widening of the road. Currently, there were cracks in few places of the building and the beadings of the glass frames of the portion not rented out had been loosen at certain places.

4. Accountability and Good Governance

4.1 Budgetary Control

Six welfare works valued at Rs.6,850,000 and 09 capital works valued at Rs.265,800,000 planned to be carried out by the Council during the year under review had not been implemented due to difficulties in providing physical and financial resources.

4.2 Water Charges of the Consumer No.5163 (Kurunegala Teaching Hospital) relating to the period June 2007 to June 2008 had been computed less by Rs.5,229,822 due to defects in meter readings as pointed out by the Audit Report 2011 and the arrears arisen due to this computation error had not been settled even by the end of the year under review.

5. Systems and Controls

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

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