

**Kuliyapitiya Urban 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 27 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 Chairman of the Council on 30 September 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 Kuliyapitiya Urban Council as at 31 December 2013 and its financial performance and cash flows 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 accounting deficiencies were observed.

- (a.) There was a provision of Rs.83,175 under creditor as at beginning of the year under review for the preparation of a geographical data base relating to the area under the Council. The respective payment amounted to Rs.300,000 and the sum of Rs.216,825 not provided had not been accounted as adjustments relating to the preceding year. Instead, a sum of Rs.165,290 had been accounted as entertainment expenses and a sum of Rs.51,535 had been accounted as other Departments' payments of the year.

- (b.) Industry expenses amounting to Rs.345,517 relating to the year under review had not been brought to account and due to this, the capital expenditure for the year under review and the creditors as at end of the year had been understated in the accounts by Rs.345,517.
- (c.) Capital aid amounting to Rs.7,948,153 brought to account for the year under review included a sum of Rs.2,669,440 for the year 2014 too and therefore, the capital revenue relating to the year and capital aid debtors as at end of the year had been overstated in the accounts by a similar amount
- (d.) The library books as at end of the year under review had been understated by Rs.312,629 and the stock in hand had been overstated in the accounts by Rs.13,342,079.
- (e.) Rates and Taxes amounting to Rs.261,982 received during the year under review in respect of the years to come had not been brought to account as revenue received in advance. Instead, it had been deducted from the revenue debtors receivable as at of the year under review.
- (f.) Stall rent amounting to Rs.632,500 receivable as at end of the year under review had not been brought to account under revenue and debtors. Further, stall rent debtors amounting to Rs.880,000 receivable since 2014 onwards had not been disclosed in the notes to the accounts.
- (g.) Fixed deposit amounting to Rs.1,779,497 as at end of the year under review and the interest of Rs.198,390 there on had not been brought to account. The fixed deposit amounting to Rs.8,069,261 and the interest of Rs.994,499 thereon had been brought to account twice.

- (h.) Salary expenses amounting to Rs.26,728,039 relating to the year under review had been shown in the financial statements as Rs.27,301,154 overstating Rs.573,115. Rates and taxes income relating to the year under review amounted to Rs.8,923,285 and this included the tax of 1% amounting to Rs.455,000 received in respect of approving block-out of lands.

### **1.3.2 Contingent Liabilities**

The Council had not paid the contributions payable to the Local Government Pensions Fund promptly in respect of the retired employees of the Council and as such the balance payable to the said Fund as at end of the year under review amounted to Rs.7,092,202. The Council was not aware for which employees the monthly instalment of Rs.21,451 is paid to the above Fund.

### **1.3.3 Unreconciled Control Accounts**

There were differences amounting to Rs.14,622,175 between the amounts shown in the accounts and the respective registers relating to 02 items of accounts shown under the balances as at end of the year under review.

### **1.3.4 Accounts Receivable an Payable**

- (a.) The value of the balances of accounts receivable as at 31 December 2013 was Rs.20,345,322 and of this, a sum of Rs.2,900,829 related to periods of 1-3 years.
- (b.) The value of the balances of accounts payable as at 31 December 2013 was Rs.50,354,354 and of this, a sum of Rs.9,034,034 related to a period over 03 years.

### **1.3.5 Lack of Evidence for Audit**

Transactions totaling Rs.93,352,833 could not be examined 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.16,402,197 as compared with the excess of revenue over recurrent expenditure amounting to Rs.19,942,442 for the preceding year indicating a deterioration in the financial results by Rs.3,540,245. The excess relating to the year under review had decreased to Rs.12,953,454 after adjusting the capital aid amounting to Rs.7,948,153 and capital expenditure amounting to Rs.11,396,896 to this financial result.

### **2.2 Analytical Financial Review**

The following observations are made.

- (a.) A sum of Rs.41,366,352 representing to 45% of the total recurrent revenue of Rs.90,967,289 of the Council for the year under review consists of revenue not generated by the Council such as stamp fees, salary reimbursements etc. The entire capital revenue of Rs.7,948,153 consists of money received from other institutions under the provisions of Gama Neguma, Maga Neguma etc. for development activities of the area under the Council.
- (b.) The total recurrent expenditure relating to the year under review amounted to Rs.74,568,091 and 63% of this equivalent to Rs.46,986,449 was personal emoluments. Of this, 58% equivalent to Rs.27,301,154 had been received from the Commissioner of Local Government as salary reimbursements and had been accounted under other revenue.

## **2.3 Revenue Administration**

### **2.3.1 Performance of Revenue Collection**

According to Section 170 of the Urban Council Ordinance, rates and taxes and acre tax can be collected at field on delegation of authority as relevant. It could not be ascertained instances where a proper delegation of authority given as per the Urban Council Ordinance for collection of revenue such as Trade Licence fees, stall rent and water charges at field.

### **2.3.2 Rates and Taxes**

Arrears of rates and taxes as at end of the year under review amounted to Rs.6,572,377 and it was 83% of the annual billing of Rs.7,861,983. Final notices had been issued only for 745 out of 4028 units of rates available within the area of the Council

### **2.3.3 Stall Rent**

The Council had not taken proper action to recover the stall rent income totaling Rs.573,068 due to the Council for the year under review.

### **2.3.4 Water Charges**

The following observations are made.

- (a.) The Council had purified and distributed about 25,000 units of water monthly, among 1750 water consumers. But, there was no methodical procedure to identify separately the number of units of water consumed by each consumer and the number of units used for public consumption.
- (b.) The arrears of water charges as at end of the year under review amounted to Rs.2,671,805 and 327 water consumers had not paid any money during the period January to July 2013. Further, a fixed monthly charge of Rs.100 had been billed for 310 water consumers and water supply of 86 consumers had been disconnected. There was a long outstanding balance of arrears amounting to Rs.91,690 relating to Police Quarters, Kuliypitiya.

### **2.3.5 Entertainment Tax**

Entertainment tax amounting to Rs.919,482 was in arrears in respect of 02 Cinema halls available within the area of the Council.

## **3. Operating Review**

### **3.1 Performance Evaluation**

Four works valued at Rs.1,300,000 planned to be carried out by the Council during the year under review had not been implemented.

### **3.2 Management Inefficiencies**

The following observations are made.

- (a.) The Council had approved 196 building applications during the period 2008 to 2013 and conformity certificates had not been obtained for 181 places. Further, the Council had not taken any action on non-obtaining time extensions for building licence and occupation of those buildings without obtaining confirmation certificates. The Council also had not laid any procedure for the recovery of conformity certificate charges and charges for delay.
- (b.) The Council had not appeared for a case filed against the Council and the case had been proceeded ex-parte and it had been ordered to pay a sum of Rs.500,000 to the complainant. The Council had appealed to the Supreme Court against this and a sum of Rs.55,800 had been paid as lawyers charges during the year under review.
- (c.) A case filed by a private party during 2006 against the Council in respect of construction of a waste water drain in the Meegahakotuwa area is being proceeded even as at end of the year under review.
- (d.) A land of the Subarathie Para, Nawa Gamgoda Project owned by the Council had been assessed at Rs.362,000 and leased out on pre-payment basis; but, it could not be ascertained whether a list of lessees, a register of money received and amount due, information on the relevant files and the details of title deeds issued are available in the Council. However, it was indicated in the income and expenditure

account that a sum of Rs.226,845 had been recovered during the year under review in this regard.

**4. Systems and Controls**

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

- (a.) Accounting
- (b.) Revenue Administration
- (c.) Financial Control
- (d.) Budgetary Control