

Kurunegala Municipal Council
Kurunegala District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Audit on 31 March 2015 while Financial Statements relating to the preceding year had been submitted on 28 March 2014. The Auditor General's Report relating to the year under review was sent to the Mayor including Members of the Municipal Council on 27 July 2015.

1.2 Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Kurunegala Municipal Council as at 31 December 2014 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

Following accounting deficiencies are observed.

- (a) Although the amount relevant to the Local Government Pension Contribution relevant to the year under review was Rs. 1,801,558, only the sum of Rs. 1,501,298 paid during the year under review had been accounted as expenditure for the year. Due to that, expenditure for the year had been understated in a sum of Rs. 300,260. Similarly, the arrears money amounting to Rs. 51,570,385 payable to this fund as at 31 December 2014 had not been accounted as Creditors.

- (b) Rent Receivable as at 31 December 2014 amounting to Rs 275,000 for leasing out Vehara Trading Complex "A" Section had not been accounted as Revenue in arrears. Due to that, Revenue for the year and Revenue Debtors had been understated to that extent.

- (c) A sum of Rs. 2,844,905 received from other institutions for development activities of the area had been credited to the Capital Revenue Account as Capital Revenue for the year and through Journal Entry No. 02 that amount had been debited to the same account as refund of revenue. Due to that Capital Revenue for the year had been understated to that extent.
- (d) A sum of Rs. 4,710,946 paid in respect of development activities of the area had been debited to the Capital Expenditure account as expenditure for the year and through Journal Entry No. 02 that amount had been credited to the same account as refund of expenditure. Due to that expenditure for the year had been understated to that extent.

1.3.2 Contingent Liabilities

The Contribution Balance Payable to the Pension Fund on behalf of the employees retired after serving the Municipal Council as at the end of the year under review had been Rs.51,570,385.

1.3.3 Non-reconciled Control Accounts

Non- reconciliations in a sum of Rs. 5,456,668 were observed between the account and relevant registers relating to 02 items of accounts under final balances of the year under review.

1.3.4 Accounts Receivable and Payable

(a) Accounts Receivable

- (i) The value of Accounts Receivable as at 31 December 2014 was Rs.110,933,832. Out of that, a sum of Rs. 27,649,700, approximately 25 per cent, were balances brought forward over a period of more than three years. Age analyses relevant to Water Revenue in Arrears amounting to 43,635,169 were not made available.

(ii) Out of the Revenue Debtors balance of Rs. 102,182,017, approximately 43 per cent of that had been Water Supply Debtors amounting to Rs.43,635,169, while approximately 29 per cent had been Rates Debtors amounting to Rs. 29,573,450.

(b) Accounts Payable

The value of Accounts Payable as at 31 December 2014 was Rs. 122,183,348. Out of that, a sum of Rs. 13,336,598, approximately 11 per cent, were balances brought forward over a period of more than three years.

1.3.5 Lack of Evidence for Audit

A detailed examination could not be made with regard to 03 items of accounts totaling Rs.9,655,176 due to non-submission of required information to audit.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure for the year ended 31 December 2014 amounted to Rs. 85,019,489 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs.89,067,127. Accordingly there had been a decline of Rs. 4,047,638 in the financial results. When Capital Grants of Rs.15,367,541 and Capital Expenditure of Rs.88,272,731 are adjusted to this financial result, the financial results relevant to the year had become a surplus of Rs.12,114,299.

2.2 Analytical Financial Review

Following matters are observed.

(a) Out of the total Recurrent Revenue of Rs.447,444,975 relevant to the year under review, a sum of Rs. 167,697,054 as 37 per cent approximately, were revenue not falling under a nature generated in the Council such as Court fines, Stamp Fees and Salary Reimbursements.

- (b) Out of the total Capital Revenue of Rs.15,367,541, a sum of Rs. 8,747,168 as 57 per cent approximately were receipts of Pre-payments Money and Donations while the balance Rs. 6,620,372 as 43 per cent approximately had been the money received for development activities of the area through other institutions.
- (c) Out of the total Recurrent Expenditure of Rs.362,425,455 relevant to the year under review, a sum of Rs. 181,656,716 as 50 per cent approximately was expenditure for Personnel Emoluments. Out of that, a sum of Rs. 120,589,479 as 66 per cent approximately, had been provided by the Commissioner of Local Government as salary reimbursements while that value had been accounted under Revenue Head 10-3-71.
- (d) The entire value of Capital Expenditure amounting to Rs. 88,272,731 was consist of expenditure incurred out the Council Fund for acquisition of Fixed Assets The Works performed out of provisions received from other institutions had not been identified and accounted as Capital Expenditure.

2.3 Bank Accounts

Un-identified Receipts in 26 instances amounting to Rs. 749,340 and a sum of Rs. 57,724 being un-realized receipts in 14 instances remaining over a period of more than a year were observed relevant to 03 bank accounts as at May 2015.

2.4 Revenue Administration

2.4.1 Rates

While a Rates Revenue of Rs.59,804,833 had been billed relevant to 14,022 Rates Units in 12 divisions for the year under review, out of that a sum of Rs.29,573,950 as 49 per cent approximately was in arrears. A sum of Rs.2,952,659 relevant to 14 Government Properties was included in that.

2.4.2 Water Revenue

While Annual Water Billing had been Rs. 77,354,677, there was a sum of Rs. 43,635,169 as 56 per cent approximately in arrears as at the end of the year under review. A value of Internal Billing amounting to Rs. 10,044,280 and value of Rs. 16,111,125 being free water supplied to schools were included in that.

2.4.3 Stall Rent

There had been a sum of Rs. 14,850 as stalls rent in arrears relevant to 4 stalls in the Kurunegala New Shopping Complex and a sum of Rs. 3,430 as arrears Service Charges by June 2015. Similarly, Stalls Rent in arrears relevant to 11 stalls in Kurunegala New Bus stand, Lump Sum Payment (Key Money) and interest amounted to Rs. 1,457,047.

3. Operating Review

3.1 Operational Inefficiencies

Following weaknesses are observed.

- (a) Although relevant materials had been provided to the Urban Development Authority having incurred an expenditure amounting to Rs. 4,203,925 by the Council according to Chief Secretary's Letter No. NWP/CS/P/220/2013 dated 26 November 2013 for the Kurunegala City Development Project, money provided relevant to that had not been obtained from the Urban Development Authority even up to the end of the year under review. Although it had been agreed to provide provisions amounting to Rs. 600,000 to the Council from the Commissioner of Local Government to cover the expenditure of the this Project, it had not been possible to obtain those funds as well due to inability in forwarding relevant bills and documents.

- (b) At the sample check carried out it was revealed that, obtaining no-pay leave of the watchers and labor employees of the Municipal Council was at a very high rate and that reporting those leave to the Accounts Section by the relevant sections takes an unusual delay. Similarly, it was revealed that recovery of no-pay is made in additional number of installments based on the basic salary.
- (c) While the approved cadre of the Council relevant to the year under review had been 539, number of permanent employees was 574. While there were 65 vacancies, surplus number of employees had been 100. In addition to that 79 employees had been engaged in service on casual and substitute basis as at the end of the year under review.
- (d) An additional expenditure amounting to Rs. 439,290 had to be paid out of the Council Fund as employer's contribution and surcharge on court orders, due to non-payment of contributions to the Employees Provident Fund by the Council, relevant to two employees of the Council.

4. Accountability and Good Governance

4.1 Budgetary Control

An expenditure amounting to Rs. 4,781,219 not estimated through the Budget relevant to the year under review had been incurred under item of expenditure for Grants, Contribution and Subsidies during 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.) Revenue Administration
- (c.) Assets Management