

Kuliyapitiya Urban 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 3 March 2016 while Financial Statements relating to the preceding year had been submitted on 08 April 2015. The Auditor General's Report relating to the year under review was sent to the Secretary of the Council on 07 September 2016.

1.2 Qualified 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 Kuliyapitiya Urban Council as at 31 December 2015 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 Policies

Following observations are made.

- (a) Accounting for only 50 percent of Entertainment Tax of cinema halls had been the accounting policy.
- (b) Accounting policy with regard to identification of non-current assets had not been disclosed.

1.3.2 Accounting Deficiencies

Following accounting deficiencies are observed.

- (a) Court Fines Receivable amounting to Rs. 213,500 as at 31 December 2015 had not been accounted.
- (b) Although the accounting policy for valuation of stocks is to be based on the purchase price, ledger balance of Rs. 23,815,788 as at 31 December 2015 had been accounted.

- (c) Although the ledger account balance had been overstated in a sum of Rs. 18,597,358 more than the physical balance as at the end of the preceding year, action had not been taken to rectify that.
- (d) The service charge revenue of the Pallapitiya Crematorium for the last quarter of the year under review amounting to Rs. 456,000 had been accounted under Refundable Deposits, without being identified as revenue.
- (e) Although a sum of Rs. 124,198 being 50 percent of the profit of the Pallapitiya Crematorium for the last quarter of the year under review should be paid to the Kuliypitiya Pradeshiya Sabha, that value had not been accounted under creditors.
- (f) Rates amounting to Rs. 190,910 for the year 2016 received during the year 2015 had been shown deducted from the balance of Rates Receivable as at 31 December 2015, without being accounted under Liabilities.
- (g) The balance of Warrant Charges relevant to recovery of Rates had been accounted under Rates and Taxes Revenue without being accounted under Warrant Charges and Fines.

1.3.3 Non-reconciled Control Accounts

 Non-reconciliations amounting to Rs. 9,575,024 were revealed between the balances relevant to 03 items of accounts and the balances in the corresponding registers relevant to those at the end of the year under review.

1.3.4 Accounts Receivable

 The value of balances of Accounts Receivable as at 31 December 2015 was Rs. 19,266,727. Although age analysis relevant to Rs. 15,924,811 out of that amount were submitted to audit, age analysis relevant to balances amounting to Rs. 3,341,916 were not submitted. While the value of balances outstanding which had exceed 03 years amounted to Rs. 2,232,160, action had not been taken recover those even as at the end of the year under review.

1.3. Accounts Payable

 The value of balances of Accounts Payable as at 31 December 2015 was Rs. 35,044,117. Although age analysis relevant to Rs. 24,595,784 were submitted to audit, out of that amount, age analysis relevant to balances amounting to Rs. 10,448,334 were not submitted. Action had not been taken even as at the end of the year under review to settle balances amounting to Rs.9,930,567, which remained unsettled exceeding 03 years, out of the balances for which age analysis were submitted.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2015 had been Rs.23,770,479 as compared with the corresponding excess of revenue over recurrent expenditure amounted to Rs. 14,886,643 in the preceding year indicating an improvement of Rs.8,883,836 in the financial results. When capital grants amounting to Rs. 6,275,496 and capital expenditure amounting to Rs. 25,970,471 are adjusted to this operating result, financial result relevant to the year under review had become a surplus of Rs. 4,075,504.

2.2 Analytical financial Review

Following matters are observed.

- (a) Variations relevant to actual revenue and expenditure between the year under review and the preceding year are shown below.

Revenue Source of Revenue -----	Revenue			Expenditure Item -----	Expenditure		
	2015 ----- Rs.000	2014 ----- Rs.000	Variance ----- Rs.000		2015 ----- Rs.000	2014 ----- Rs.000	Variance ----- Rs.000
(i) Generated Revenue	60,165	53,443	6,722	Personal Emoluments	73,782	55,834	17,948
(ii) Others Sub total	<u>60,805</u>	<u>49,086</u>	<u>11,719</u>	Others	<u>23,418</u>	<u>31,808</u>	<u>(8,390)</u>
	120,970	102,529	18,441	Sub total Capital	97,200	87,642	9,558
(iii) Capital Grant	6,276	2,268	4,008	Expenditure	25,971	18,256	7,715
Grand Total	-----	-----	-----	Grand Total	-----	-----	-----
	127,246	104,797	22,449		123,171	105,898	17,273
Operating Result	=====	=====	=====	Surplus / Deficit	=====	=====	=====
	23,770	14,887	8,883		4,075	(1,101)	5,176

- (b) Out of the total Recurrent Revenue of Rs.120,969,979 relevant to the year under review, a sum of Rs. 60,804,636 or 50 per cent were revenue not falling under a nature generated in the Council such as Court Fines, Stamp Fees and Salary Reimbursements, while it had been 79 per cent when compared with that for the year 2014. Similarly, entire Capital Revenue of Rs.6,275,496 had been funds provided through other institutions for development works in the area of authority of the Sabha.

- (c) Out of the total Recurrent Expenditure of Rs.97,199,300 relevant to the year under review, a sum of Rs. 73,781,563 or 76 per cent was expenditure for Personnel Emoluments. Out of that, a sum of Rs. 52,284,221 or 71 per cent had been provided by the Commissioner of Local Government as salary reimbursements while that value had been accounted under Revenue Grants.

2.3 Revenue Administration

2.3.1 Performance in Revenue Collection

Estimated Revenue, Actual Revenue and Arrears of Revenue relevant to the year under review and the preceding year were as shown below.

Item of Revenue	2015			2014		
	Estimated	Actual	Accumulated Arrears as at 31 December	Estimated	Actual	Accumulated Arrears as at 31 December
(i) Rates and Taxes	14,044	16,468	9,601	15,791	11,803	10,477
(ii) Lease Rent						
(iii) License Fees	11,897	12,824	1,011	10,981	12,261	231
(iv) Other Revenue	15,079	13,104	--	13,541	13,553	--
Total	64,502	78,574	8,569	62,215	55,723	14,160
	105,522	120,970	19,181	102,528	93,346	24,868

2.3.2 Revenue Billed and Arrears of Revenue

Particulars are shown below.

Item of Revenue			Collections of Revenue			Balance of	Arrears 31/12/2015		
Item of Revenue	Balance as at 01.01.2015	Billings during the year	Total	Collection From arrears	Collection from Revenue Billed	- total	Out of Arrears as at 01.01.2015	Out of Billing	Total Arrears as at 31.12.2015
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs. 000	Rs.000	Rs.000
Rates and Taxes	10,477	16,468	26,945	6,370	10,974	17,344,	4,107	5,494	9,601
Lease Rent	231	8,463	8,694	231	7,452	7,683	--	1,011	1,011
License Fees	---	13,104	13,104	--	13,104	13,104	--	--	---
Other Revenue	14,160	78,574	92,734	--	--	67,714	--	--	25,020
Total	24,868	116,609	141,477	6,601	31,530	105,845	4,107	6,505	35,632

2.3.3 Rates

Following matters are observed.

- (a) Although Certificates of Conformity had been issued for Stalls Nos. 36 to 63 and Nos. 01 to 66 of the Gema Trade Complex on 27 September 2014, according to the requests made to obtain Certificates of Conformity for stalls Nos. 36 to 56 in the ground floor and stalls Nos. 61 to 63 in the first floor, action had not been taken to obtain the assessed values and recover Rates even up to June 2016.
- (b) Although there were balances of Rates in arrears as more than 02 years and less than 03 years amounting to Rs. 4,908,463, more than 03 years and less than 04 years amounting to Rs. 1,460,917 and more than 05 years amounting to Rs. 962,152 as at 31 December 2015, the amount recovered had been only Rs. 3,794,038 even as at 31 March 2016.

2.3.4 Lease Rent

Following matters are observed.

- (a) Fifty four stalls in the market complex had been given on the basis of long terms lease since the year 1983. Action had been taken to obtain fresh assessment and recover taxes on 25 February 2015, as any assessment had not been made after the first assessment made during the year 1983. Payment of Rates had been refused by the lease holders as the new assessment amounts to a large sum when compared with the charges existed previously, Accordingly, there was an arrears sum of Rs. 768,758 as at 31 December 2015.
- (b) While the Stall No. 117/28/1/1 and Stall No. 117/21/1/3 in the first floor and the ground covered with net in the ground floor of the Bus Stand had been provided to Passenger Transport Authority free of charges, the Council had decided on 29 October 2013 to recover a sum of Rs.4,000 from the Stall No. 117/28 /1/1 and a sum of Rs. 2,000 from the Stall No. 117/28/1/3. Any amount had not been recovered.

2.3.5 License Fees

The Council had not identified the number of telephone transmission towers erected in the area of authority and recovered Annual Trade License Fees according to the companies provided with communication facilities.

2.3.6 Court Fines

Court Fines amounting to Rs. 300,000 and Stamp Fees amounting to Rs. 9,229,339 were receivable from the Chief Secretary to the Provincial Council at the end of the year under review.

3. Operating Review

3.1 Management Inefficiencies

Folloing matters are obsered.

- (a) Although a computer program was in operaion for accounting rent revenue, having incurred expenditure amounting to Rs. 80,000 during the year 2012, it had not been possible to obtain adequate information acording to the requiements of the Council and audit. Action too had not been taken to improve that program.
- (b) While the Room No.64 in extent of 630 square feet in third floor of the Urban Council.s Shopping Complex had been given on 26 December 1999 on the basis of a monthly rent to the Shakthi Community Board to conduct a body building center, only the charge of Rs.3,300 had been recovered up to now, without monthly rent being revised in terms of condition 02 in the agreement.
- (c) Before deducting the Government contribution from the relevant employee who obtained property loans, Government contribution valued at Rs.408,637 relevant to one year of 04 employees had been paid on 09 March 2015 and Government contribution valued at Rs. 36,391 relevant to 09 months of one employee had been paid on 24 June 2015.
- (d) While Luxmiepura Housing Scheme had been implemented under 02 stages by the Council, it been shown that a sum of Rs. 7,617,412 was spent for the first stge. However, the second stage in operation during 2011 - 2012 had been stopped half way. According to census duing the year 2012, persons not serving in the Council were residing in 12 houses out of 61 houses. While necessary coure of action had not been taken in this regard, a Register of Entitlement too had not been maintained.
- (e) While 09 plots of lands had been apportioned according to the allotment plan of the Kahatagahamula Land, out of that only 05 blocks as 05, 06, 07, 08 and 09 belonged to the area of authority of the Council. therefore the planning Committee had recommended on 11 May 2015 to approve the plan, subject to one percent (1%) tax. Any amount had not been recovered in terms of Section 165 c (i) of the Urban Councils Ordinance.

3.2 Solid Wastes Management

Following matters are observed.

- (a) Although a machine was purchased having paid a sum of Rs. 1,349,000 on 10 September 2015 for bailing polythyne, it had not been possible to obtain income by sale, due to non-planning marketing work properly.
- (b) While about 09 tons of garbage is collected daily at the Solid Wastes Center, out of that 07 tons are utilized for making compost fertilizer. While a sum of Rs. 9,590 had been earned by sale of balance 02 tons of polythyne during the first half of the year 2015, polythyne bailed using the machine had been distributed free of charge from September 2015 resulting loss of that revenue.

04. Good Governance and Accountability

4.1 Annual Procurement Plan

An Annual Procurement Plan had not been prepared.

4.2 Assets Management

4.2.1 Idle and Under-utilized Assets

Stalls No. 02 and 03 of the Public Market remained idle, since 15 July 2014 even up to July 2015 due to lack of proposed development plan.

05 Systems and Controls

Special attention is needed in the following areas of controls.

- (a) Accounting
- (b) Revenue Administration
- (c) Solid Wastes Management.