

Puttalam Urban Council

Puttalam District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 11 September 2013 and the financial statements for the preceding year had been presented on 31 June 2012. The report of the Auditor General for the year under review was issued to the Chairman of the Council on 28 November 2013.

1.2 Opinion

In view of the comments and observations appearing in my report, I do not express an opinion on the financial statements of the Puttalam Urban Council for the year ended 31 December 2012 presented for audit.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

(a.) Omissions from the Financial Statements

Value of land and buildings owned by the Urban Council, the generator of 14.8K.V capacity received as donations and other machines and 919 library books valued at Rs.72,420 had been omitted from the accounts.

(b.) Overstatements and Understatements in the Financial Statements

The estimate of stamp fees receivable, the opening balance of the licence fees receivable account, the opening balance of the revenue debtors account, the opening balance of the expenditure creditors' account, the opening balance of the Value Added Tax account and the opening balance of the accumulated fund respectively had been overstated in the accounts by Rs.564,250; Rs.713,033; Rs.1,488,989; Rs.310,433; Rs.430,000 and Rs.1,456,052.

1.3.2 Lack of Evidence for Audit

Transactions totaling Rs.83,816,438 could not be satisfactorily vouched in audit due to non-submission of the required information to audit.

1.3.3 Unreconciled Control Accounts

The total of the balances of 05 items of accounts amounted to Rs.53,161,800 and according to the registers, the total of the balances amounted to Rs.37,883,657 thus indicating a difference of Rs.15,278,143.

1.3.4 Accounts Payable

The total of the balances of accounts payable as at 31 December 2012 amounted to Rs.65,823,688 and of this, the balances over 01 year amounted to Rs.51,067,569.

2. Financial and Operating 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 2012 amounted to Rs.3,804,547 as compared with the excess of revenue over recurrent expenditure amounting to Rs.9,204,986 for the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information on the estimated revenue, actual revenue and arrears of revenue in respect of the year under review as presented by the Chairman is shown below.

<u>Source of Revenue</u>	<u>Estimated</u>	<u>Actual</u>	<u>Cumulative Arrears as at 31 December</u>
	Rs.'000	Rs.'000	Rs.'000
(i.) Rates and Taxes	79,035	18,026	61,009
(ii.) Lease Rent	47,269	24,608	22,661
(iii.) Licence Fees	4,881	968	3,913

(iv.) Other Revenue	44,776	12,407	32,369
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2.2.2 Stamp Fees

Stamp fees receivable as at 31 December 2012 from the Registrar General amounted to Rs.4,000,000.

2.2.3 Stall Rent

Rent amounting to Rs.9,989,350 due from 23 stalls at the Puttalam Bus Stand remained unrecovered for over a number of years.

2.3 Identified Losses

- (a.) The Council had suffered a loss due to misplacement of 13 G.I. pipes and 300 cement blocks valued at Rs.39,750 stored in the General Stores.
- (b.) 156 books at the Puttalam Public Library owned by the Urban Council had been lost and 53 books had not been returned by the readers and the value of those books amounted to Rs.28,959. Of this; a sum of Rs.10,373 had been recovered from the relevant library employees and the balance sum of Rs.18,586 had become a loss to the council.

2.4 Idle and Underutilized Physical Resources

The H.C.M 99 Hand Tractor valued at Rs.250,000 and the Canter bearing No.47-2853, the value of which had not been estimated had been lying idle and underutilized for over 12 years and 01 year respectively.

2.5 Assets Management

(a.) Employees Loans Recoverable

The total of the employees loans recoverable as at 31 December 2012 amounted to Rs.1,643,975, Of this, loan balances amounting to Rs.183,154 due from 79 employees deceased, retired, vacated posts and transferred had remained outstanding for over 10 years.

(b.) Accounts Receivable

The balances of accounts receivable as at 31 December 2012 amounted to Rs.119,954,352 and the total of the balances over 01 year amounted to Rs.107,086,469

(c.) Unsettled Advances

Advances amounting to Rs.544,838 given from the Council funds to 18 persons to incur expenditure on various activities of the Council from 2001 to 2007 had not been settled.

(d.) Non-moving Current Assets

Five current assets valued at Rs.4,365,278 remained non-moving for over 05 years as at 31 December 2012.

2.6 Operating Inefficiencies

The following observations are made.

- (a.) The Urban Council had paid a penalty of Rs.21,681 during the year under review due to retaining the Nation Building Tax collected for the year 2003; without being remitted to the Commissioner of Inland Revenue on due date.
- (b.) The Council had not taken action in terms of North Western Province Financial Rule 120.1.2 to recover money for 07 dishonoured cheques valued at Rs.539,886 issued during 2004 and 2006.
- (c.) The value of the cheque No.236195 dated 24 November 2010 amounting to Rs.249,357 had not been taken to revenue in terms of North Western Province Financial Rule No.283 eventhough 06 months had lapsed.
- (d.) Action had not been taken in respect of lapsed returnable deposits amounting to Rs.23,558,286 in terms of the Circular No.5/3 Finance Circular 2010 dated 13 May 2010 of the Chief Secretary of Wayamba.
- (e.) Goods and Services Tax amounting to Rs.1,209,068 recovered since a number of years had been retained, without being remitted to the Commissioner General of Inland Revenue in terms of the provisions of Goods and Services Tax Act No.34 of 1996.

- (f.) There was a long delay in re-payment of installments on loans obtained from the Local Loans and Development Fund for the period of the Urban Council.
- (g.) The Urban Council was liable to pay a compensation of Rs.249,356.62 on a compensation case filed by 02 employees of the Council in 2006 against their dismissals and non-payment of salaries. The Council had suspended the payment and the said employees had filed a case against this at Puttalam Supreme Courts and it was not finalised as at 31 December 2012. Therefore there was a contingent liability on the Council, but this had not been disclosed in the financial statements.

2.7 Internal Audit

An adequate internal audit had not been carried out at the institution.

3. Systems and Controls

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

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