

Puttalm Urban Council

Puttalm District

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1. Financial Statements

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1.1 Presentation of Financial Statements

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The financial statements for the year 2016 had been presented to Audit on 31 March 2017, whilst the financial statements for the preceding year had been presented to Audit on 31 March 2016. The report of the Auditor General for the year 2016 had been submitted to the Secretary of the Council on 31 August 2017.

1.2 Qualified Opinion

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In view of the importance of matters referred to in paragraph 1.3 of this report, my opinion is that the financial statements give a true and fair view of the financial position of the Puttalam Urban Council as at 31 December 2016, and its financial performance for the year then ended in accordance with generally accepted Accounting Standards.

1.3 Comments on Financial Statements

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1.3.1 Accounting Deficiencies

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The following matters were observed.

- (a.) The value of lands and buildings had not been shown in the financial statements.
- (b.) The allowances for salary reimbursement amounting to Rs. 32,403,641 receivable from the Commissioner of North Western Provincial Council had not been brought to accounts.
- (c.) A sum of Rs. 470,852 receivable from the Department of Local Government, North Western Province, under the Province Specific Development Grants, had not been brought to accounts.
- (d.) The interest of Rs. 354,275 payable to Local Loan Development Fund, had not been brought to accounts.
- (e.) No provision had been made in the financial statements for audit fees relating to the year under review.

1.3.2 Unreconciled Control Accounts

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The following matters were observed.

- (a.) According to the financial statements, the balance of stock in hand amounted to Rs. 22,336,988, whereas the balance amounted to Rs. 2,869,145 in accordance with subsidiary documents, thus indicating a difference of Rs. 19,467,843.
- (b.) According to the financial statements, the loan balance of the Local Loan Development Fund amounted to Rs. 25,818,406, but according to the Letter of the confirmation of balances, the said balance amounted to Rs. 29,878,258, thus indicating a difference of Rs. 4,059,852.

### 1.3.3 Accounts Receivable and Payable

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The value of the account balances payable totaled Rs. 120,734,338 as at 31 December 2016, whilst the value of account balances receivable as at that date, amounted to Rs. 204,952,915. The total of the account balances that remained payable and receivable therefrom for more than 3 years, amounted to Rs. 40,913,569 and Rs. 154,135,121 respectively.

### 1.3.4 Lack of Evidence for Audit

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The evidence for the verification of balances of assets and liabilities totalling Rs. 218,736,894 relating to 09 Items of Accounts, had not been made available to Audit.

### 1.3.5 Non-compliances with Laws, Rules, Regulations, and Management Decisions

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The following non-compliances were observed.

Reference to Laws, Rules, Regulations, and Management Decisions	Non-compliance
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(a.) Urban Councils Ordinance Section 177 (2).	A summary of accounts of the annual financial statements, had not been published in the Gazette to be referenced by the public.
(b.) Financial Regulations of the Democratic Socialist Republic of Sri Lanka. Financial Regulation 571.	Action had not been taken either to credit to the revenue or release the repayable deposits out of the deposits totalling Rs. 40,913,567.

## 2. Financial Review

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### 2.1 Financial Results

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According to the financial statements presented, the revenue of the Urban Council in excess of the recurrent expenditure, amounted to Rs. 19,894,172 for the year ended 31 December 2016, whereas the revenue of the preceding year in excess of the recurrent expenditure, amounted to Rs. 15,240,776.

### 2.2 Analytical Financial Review

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The improvement of the financial result by Rs. 4,653,396 had mainly been attributable to the increase in the generated revenue.

## 2.3 Revenue Administration

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### 2.3.1 Performance in the Collection of Revenue

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The following matters were observed.

- (a.) Of the revenue estimated for the year under review amounting to Rs. 164 million, a sum of Rs. 62 million had been collected.
- (b.) Of the revenue in arrears amounting to Rs. 93,736,390 at the commencement of the year under review, only a sum of Rs. 12,782,707 had been recovered, and the overall arrears amounted to Rs. 118,849,573 by the end of the year under review.

### 2.3.2 Rates

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The amount recoverable from 122 units of rates, totaled Rs. 16,247,202 as at 31 December 2016.

### 2.3.3 Lease Rents

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Due to failure in verifying a sum of Rs. 19,453,493 that remained unrecoverable over many years relating to leasing out of properties belonging to the Urban Council, the recovery thereof remained doubtful.

### 2.3.4 Stamp Fees

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Stamp fees amounting to Rs. 15,057,456 had remained receivable from the Chief Secretary of the Province by the end of the year under review.

## 3. Operating Review

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### 3.1 Performance

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The following matters were observed.

- (a.) The Puttalam Urban Council had failed to carry out 16 works with an estimated value of Rs. 445,900,000 proposed to be executed in the year 2016.
- (b.) The actual expense incurred on 04 development projects with an estimated expense of Rs. 59,100,000, amounted to Rs. 18,948,612, but the physical and financial progress expected therefrom, could not be achieved.

### 3.2 Management Inefficiencies

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The following matters were observed.

- (a.) Action had not been taken to pay the balance and the interest totalling Rs. 943,684 payable with respect to the loans obtained from Local Loans and Development Fund for 02 development projects in the years 2003 and 2004.
- (b.) The sum totalling Rs. 7,190,822 paid by the Urban Council during the period from 30 December 2004 up to December 2016 as loan and interest installments with respect to the loan amounting to Rs. 27,835,510 obtained from the Local Loans and Development Fund, had not been deducted from the loans and interest payable.

### 3.3 Idle / Under-utilized Assets

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Six assets belonging to the Urban Council valued at Rs. 4,234,130 had remained idle / under-utilized over many years.

### 3.4 Solid Waste Management

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Of the 15 tractor loads of waste being generated daily within the city limits, about 04 tractor loads were made use of for manufacturing compost fertilizer, whilst the remaining 11 tractor loads were being disposed of at an open land.

### 3.5 Human Resource Management

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The following matters were observed.

- (a.) There had been 82 excessive employees in the wake of permanent appointments made in accordance with Public Administration Circular, No. 25/2014, dated 12 November 2014, and a sum of Rs. 32,214,466 had remained receivable from the Commissioner of Local Government (North Western Province) for their salaries and allowances.
- (b.) Salaries totalling Rs. 8,533,759 had been paid to 28 casual or substitute employees from the Sabha Fund in the year, whilst another 10 persons had been employed even without issuing a letter of appointment.
- (c.) Employees had been deployed at the health and road divisions without preparing pre-programmes / estimates.

## 4. Accountability and Good Governance

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### 4.1 Establishment of the Audit and Management Committees

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According to Letter, No. ව/ප්‍රාලේ/05/03/විගණන කමිටු, of the Chief Secretary of the North Western Province, dated 05 October 2010, meetings of the Audit and Management Committee had not been held.

## 4.2 Internal Audit

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 No internal audits had adequately been carried out at the Urban Council.

## 5. Systems and Controls

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 Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Urban Council through my audit queries from time to time. Special attention is needed in respect of the following areas of control.

	System -----	Observation -----
(a.)	Internal Audit	An internal audit had not been carried out adequately.
(b.)	Control of Debtors and Creditors	Control Accounts had not been prepared for creditors and debtors.
(c.)	Revenue Administration	A proper methodology had not been formulated for the recovery of revenue in arrears.
(d.)	Waste Management	The Urban Council had not taken measures to avert negative impact on the environment likely to be caused as 73 per cent of the waste being generated daily had been disposed of at an open ground.
(e.)	Control of Assets	A proper methodology had not been implemented relating to the safety of lands and building belonging to the Urban Council.