

## Puttalama Urban Council

### Puttalama District

#### 1. Financial Statements

##### 1.1 Presentation of Financial Statements

The financial statements for the year 2017 had been presented to the Audit on 29 March 2018, and the report of the Auditor General relating to those financial statements had been submitted to the Chairman on 30 October 2018.

##### 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 Puttalam Urban Council as at 31 December 2017 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

The following matters were observed.

- a) The loan balance payable to the Local Loan Development Fund as at the end of the year under review, had been overstated by a sum of Rs. 231,962.
- b) The Rates relating to the year under review had been understated by a sum of Rs. 24,999 in the financial statements.
- c) The sum of Rs. 3,366,011 received in the year 2017 to develop 04 roads under the improvement of infrastructure of the local authorities in the year 2016, had been brought to accounts as capital grants of the year under review instead of being credited to the debtor account.
- d) The stock of compost fertilizer worth Rs. 679,050 produced in the year under review and the sales income had been brought to accounts as capital income.
- e) The Rates amounting to Rs. 1,334,313 received in the year under review with respect to the ensuing year, had not been brought to accounts as the receipts received in advance.
- f) The lands and buildings worth Rs. 1,095,695 belonging to the Sabha had not been brought to accounts.

- g) The value of Rs. 73,400 with respect to 04 items of fixed assets purchased in the year under review, had not been capitalized.
- h) Audit fees amounting to Rs. 350,000 payable for the year 2016, had been overstated in the accounts.
- i) The value of the crew cab received as a donation in the year 2015 amounting to Rs. 3,223,220, had been accounted twice in the year under review in the Accumulated Fund and the creditor suppliers.
- j) Allocations for pension amounting to Rs. 288,672 for the year under review, had been debited to the Accumulated Fund.
- k) The advance amounting to Rs. 350,000 received with respect to a trade stall of the Sabha given on rent, had been credited to the Accumulated Fund.
- l) The value of the 4 wheel tractor received as a donation in the year 2014, had not been brought to accounts.
- m) The values of machines and equipment received as donations in the year under review, had not been computed and shown in the accounts.

### 1.3.2 Unreconciled Accounts

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The following matters were observed.

- a) A difference of Rs. 289,958 in the employee loan balance existed between the financial statements and the schedule.
- b) A difference of Rs. 31,680,218 existed as at the end of the year under review between the fixed assets worth Rs. 92,859,282 and the Revenue Contribution to Capital Input Account amounting to Rs. 61,179,064.

### 1.3.3 Accounts Receivable and Payable

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#### a) Accounts Receivable

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Of the sum amounting to Rs. 254,999,174 receivable as at 31 December of the year under review, a sum of Rs. 168,622,810 continued to exist over a period of 03 years, and a sum of Rs. 18,580,150 therefrom remained as unidentified advances.

#### b) Accounts Payable

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Of the balances totalling Rs. 108,608,450 payable as at 31 December of the year under review, a sum of Rs. 83,660,640 continued to exist over a period of 03 years.

#### 1.3.4 Lack of Evidence for Audit

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As the required information had not been made available, 12 items of account totalling Rs. 267,196,598 could not be satisfactorily examined in audit.

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

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The instances of non-compliances with Laws, Rules, Regulations, and Management Decisions are as follows.

Reference to Laws, Rules Regulations and Management Decisions	Value	Non-compliance
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	Rs.	
a) Urban Councils Ordinance (Cap 255).		
(i) Section 33		Documents verifying the ownership of properties belonging to the Sabha, had not been made available.
(ii.) Section 178 (1) (2)		Only a draft budget had been presented for the year under review.
(iii.) Section 181 (1)	44,040,433	The Sabha had not paid the audit fees since the year 1999.
b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.		
(i.) Financial Regulation 565 (3) (4), and (5)	50,758,520	The deposit ledger balances of the preceding years had not been brought forward. Monthly deposit summaries had not been prepared on the Form General 71.
(ii.) Financial Regulation 571 (2)	23,885,055	Action had not been taken on the deposits older than 02 years as at 31 December of the year under review.

## 2. Financial Review

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### 2.1 Financial Result

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According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 67,221,862 for the year ended 31 December

2017 as compared with the revenue in excess of the recurrent expenditure amounting to Rs. 19,894,172 for the preceding year.

## 2.2 Revenue Administration

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### 2.2.1 Estimated Revenue, Billed Revenue, , Collected Revenue, and Outstanding Revenue

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- a) Information relating to the estimated revenue, billed revenue, and collected revenue for the year under review is as follows.

Source of Revenue	Estimated Revenue	2017			Total Arrears as at 31 December	2016		
		Billed Revenue	Collected Revenue	Estimated Revenue		Billed Revenue	Collected Revenue	Total Arrears as at 31 December
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
(i) Rates and Taxes	24,733	24,185	7,949	95,561	21,486	24,288	7,053	87,831
(ii) Lease Rents	55,017	39,048	36,254	30,896	29,426	38,063	31,524	31,412
(iii) License Fees	910	1,032	1,032	-	2,050	917	917	-
(iv) Other Revenue	91,628	112,592	76,504	150,438	122,042	76,124	68,515	85,710

Note: the revenue collected out of the revenue billed for the year under review includes the revenue collected with respect to the revenue that remained in arrears in the preceding years.

### 2.2.2 Performance in Collecting Revenue

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A sum totalling Rs. 121,739,000 comprising the revenue amounting to Rs. 176,857,000 billed for the year under review, and the revenue for the preceding years amounting to Rs. 204,953,000, had been collected in the year under review. The revenue that remained in arrears as at the end of the preceding year amounting to Rs. 204,953,000, had become Rs. 276,895,000 by the end of the year under review.

### 2.2.3 Rates and Taxes

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A total of Rs. 112,016,000 comprising the opening balance of the year under review and the amounts billed for the year, should have been recovered though, only a sum of Rs. 7,949,000 had been recovered within the year. As a sum of Rs. 95,560,708 had remained outstanding as at the end of the year under review, the collection of revenue remained weak.

### 2.2.4 Lease Rents

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As the detailed information on a sum of Rs. 19,453,493 that remained recoverable even before the year 2009 relating to the properties belonging to the Sabha given on lease, was not verified through the documents of the Sabha, the recovery thereof remained doubtful.

### 2.2.5 License Fees

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It was revealed in the examination on the register of license fees and the field survey report compiled in the year 2017 on the locations of trade licenses that a sum of Rs. 365,000 had not been billed with respect to 197 business premises.

### 2.2.6 Other Income

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The Sabha had not taken action to conduct a survey on the hoardings fixed in the division of the urban council and prepare a register of hoardings thereby recovering the fees in arrears.

### 2.2.7 Stamp Fees

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A sum of Rs. 2,998,207 remained recoverable for the period 2013 – 2017 from the stamp fees totalling Rs. 17,806,505 recoverable from the Chief Secretary of the Provincial Council as at 31 December 2017.

## 3. Operating Review

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### 3.1 Performance

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Matters revealed in the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people in terms of Section 4 of the Urban Council Ordinance, are as follows.

a) Bylaws

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Bylaws should have been made with respect to 15 matters in terms of Section 157 of the Urban Council Ordinance. However, no bylaws had been made up to 31 December 2017; instead, the bylaws made by the provincial council had been adopted by the Sabha.

b) Action Plan

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An annual Action Plan had not been prepared in respect of 17 activities that should have been executed as per the bylaw being followed by the Sabha.

c) Failure Achieve the Expected Level of Output

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Even though provision amounting to Rs. 11,915,000 had been allocated in order to carry out 18 miscellaneous activities stated in the development plan, the expected level of output had not been achieved.

d) Solid Waste Management

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The following matters were observed.

- (i.) Salaries totalling Rs. 38 lakh had been paid annually to the 10 employees of the waste management center. Only 04 of the 17 tractor loads being collected daily, had been sent to the waste management center. The rest of the waste was being disposed of at an open ground near the compost yard.
- (ii.) Waste had not been collected after being sorted or separated within the division of the Sabha. Sorting of waste was being done by the laborers at the compost yard.

e) Sustainable development goals

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Under the Sustainable Development Agenda 2030, the Sabha had identified the goals and objectives such as, alleviation of poverty, environmental protection programmes, empowering the disabled, and reconciliation among communities. Even though the parties interested in sustainable development goals and achieving the targets had been identified, a methodology to apprise them had not been implemented.

### 3.2 Management Inefficiencies

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The following matters were observed.

- a) Contrary to the lease agreement relating to 02 trade stalls of the Sabha located on the main road of Colombo – Puttalam, the lessee had constructed a 03 storey building with the ground floor by encroaching the area reserved for the road as

well. However, the Sabha had not taken action in accordance with the agreement and Section 84 (1) ( Cap. 255) of the Urban Council Ordinance.

- b) Properties valued at Rs. 3,668,606 belonging to a coir manufacture project had been vested in the Sabha on 03 June 2014 by the Ministry of Economic Development. The Sabha had not taken action to earn any income whatsoever from those properties, nor had any methodology been followed with respect to the security of the said properties. Hence, 06 electric motors of the machines had been stolen by the thieves.
- c) Even though there had been a staff of 130 employees in the **Works and Health Division** of the Sabha, time recoding machines had not been installed to verify their arrival and exit.

### 3.3 Human Resource Management

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#### a) Vacancies and Excess Employees

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Vacancies of two, 32, three, and 01 had existed in the executive, secondary, tertiary, and primary posts of the Sabha respectively as at 31 December of the year under review. An excess of 04 posts not belonging to the permanent cadre, existed.

#### b) Employee Loans

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Action had not been taken to identify the parties and recover the balance of Rs. 227,613 receivable from transferred or retired.

### 3.4 Assets Management

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#### 3.4.1 Failure to Inventorize the Assets

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Information relating to 02 Cabs, 02 tractors, backhoe loader, gully bowser, water bowser, and the bowser trailer, had not been recorded in the Register of Fixed Assets.

#### 3.4.2 Assets not Acquired

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The ownership of 04 vehicles received from the Ministry of Public Administration and the Ministry of Provincial Councils and Local Governments, had not been taken over by the Sabha.

### 3.5 Procurement

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#### 3.5.1 Procurement Plan

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The Sabha had not prepared a Procurement Plan in terms of Section 4.2.1 of the Government Procurement Guidelines 2006.

#### 3.5.2 Contract Administration

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The following matters were observed.

- a) A sum totalling Rs. 148,334 had been overpaid with respect to 05 items of work in the payment report for the first stage of the construction of compost project building.
- b) Although payments had been paid for a length of 122.5 meters in applying concrete for the Hameen Road, Puttalama, the actual length was only 119.9 meters, thus an overpayment of Rs. 28,650 had been made.
- c) Concrete had been applied on Lane 03, Police Rd, Puttalama less a length of 02 meters. Hence, a sum of Rs. 29,690 had been overpaid.
- d) As the work of constructing the canal along the Lane 06 of outer circular road had been unsatisfactory, the payment of Rs. 345,650 had been retained. Even though a work supervisor and 02 technical officers had been employed in the Sabha, no supervision whatsoever had been made on this work.

### 4. Accountability and Good Governance

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#### 4.1 Budgetary Control

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The total provision of Rs. 11,095,000 relating to 38 Items of Expenditure for the year under review, had either been saved in full or transferred to other Items of Expenditure.

#### 4.2 Audit and Management Committees

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The Sabha had not conducted meetings of the Audit and Management Committee for the year 2017.



5. Systems and Controls

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Deficiencies observed during the course of audit were brought to the notice of the Sabha from time to time. Special attention is needed in respect of the following areas of control.

System -----	Deficiency -----
a) Control of Debtors / Creditors	(i.) Failure to take action on the unidentified old loan balances. (ii.) Failure to maintain Control Accounts.
b) Control of Assets	(i.) Failure to maintain the Register of Fixed Assets. (ii.) Failure to account some of the assets. (iii.) Failure to take action adequately in regard to the security.
c) Staff Management	(i.) Failure to fill vacancies. (ii.) Failure to take action on the employee loan balances.
d) Control of Revenue	Inefficiency in collecting Rates, and stall rents.