

**Chilaw Nagara Sabha
Puttalam District**

1. Financial Statements

1.1 Presenting Financial Statements

The Financial Statements for the year 2019 were submitted for audit on 27 February 2020 and the Auditor General's summary report on those financial statements was sent to the Chairman on 30 June 2020 and the detailed management report on 11 August 2020.

1.2 Qualified Opinion

Except for the implications of the facts described in the Foundation section for the Qualified Opinion of this report I am of the view that the financial statements, as well as the financial position of the Chilaw Nagara Sabha as at 31 December 2019 and It is my opinion that its financial performance reflects a true and fair position in accordance with generally accepted accounting principles.

1.3 Basis for the Qualified Opinion

(a) Accounting Deficiencies

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
(i) The value of machinery and equipment for the year under review had been decreased by Rs.11,387,107 as stated in the financial statements.	Should be done accounting accurately.	I kindly inform you that arrangements are being made to update the Registration of Fixed Assets on 31.12.2020.
(ii) Cars and carts for the year under review had been increased by Rs.6,519,296 in the financial statements.	Should be done accounting accurately.	I kindly inform you that arrangements are being made to update the Registration of Fixed Assets to 31.12.2020
(iii) The furniture and fittings of the year under review had been increased by Rs.3,408,135 in the financial statements.	Should be done accounting accurately.	I kindly inform you that arrangements are being made to update the Register of Fixed Assets on 31.12.2020.

(b) Unmatched Accounts

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
According to the Schedules /Utility Books submitted for 14 Accounting Subjects, the total difference between the balances and the balances in terms of financial statements was Rs.45,009,474.	Action should be taken to correct the documents and take them into account.	I will take steps to correct it in the preparation of 2020 accounts as it is a balance that has been in place for many years during the audit.

(c) Accounts Receivable and Payable

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
(i) No action had been taken to settle the outstanding balance of Rs. 8,871,877 and the deposits of Rs. 73,940 which had been brought forward for several years.	Action should be taken to recover the account balances due expeditiously.	I kindly inform you that by 31.12.2020, the information required for the final account will be found and corrected along with the evidence.
(ii)The total balance of accounts payable at the end of the year under review was Rs. 39,962,029 and out of this, no action had been taken to settle the creditors' balances amounting to Rs. 31,086,616 pertaining to previous years.	Action should be taken to settle the account balances payable expeditiously.	I kindly inform you that we will find and correct the information required for the final account by 31.12.2020.

(d) Lack of written evidence required for audit

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
Due to non-submission of required information regarding 07 account subjects, valued Rs. 281,209,417 could not be examined satisfactorily in the audit.	Schedules should be submitted with final accounts.	I kindly inform that schedules related to these balances will be submitted.

1.4 Non-compliance

1.4.1 Non-compliance with laws, rules, regulations, and management decisions

The following are the instances of non-compliance with laws, rules, regulations.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance	Recommendation	Comment of the Accounting Officer
<p>(A) <u>Urban Council Ordinance</u> Section 170</p>	<p>Not acted in accordance with the provisions of the Act with respect to rate taxes and arrears of rent amounting to Rs.60,186,065 which had been in arrears for more than one year.</p>	<p>Action should be taken to recover the arrears expeditiously.</p>	<p>Rs.4,829,589 has been recovered from the movable property ban and Rs.729,280 has been recovered from the previous arrears by providing mobile service and action has been taken against non-payers after receiving the new assessment for arrears.</p>
<p>B) <u>Financial Regulations of the Democratic Socialist Republic of Sri Lanka</u> Section 571</p> <p><u>Amendment to the Local Government Service Pension Order 1975 and the Government Gazette Extraordinary Gazette No. 320/8 of 07 June 1978</u></p>	<p>Not dealt with the overdue deposits of Rs.2,963,943 included in the deposit balance.</p>	<p>Financial Regulations must be followed.</p>	<p>I kindly inform you that the information required for the final account will be found and corrected by 31.12.2020.</p>
<p>Section 36 of the Local Government Pension Regulations</p>	<p>The pension contributions of Rs.9,021,520 which were to be</p>	<p>Relevant contributions should be paid expeditiously.</p>	<p>Relevant information (retirement information) was forwarded to the</p>

paid monthly by the Sabha had not been paid.

relevant Divisional Secretariats and as there no information has been received about 23 of the 71 persons mentioned in the list as at 06 February 2020, I kindly inform you that further action will be taken after obtaining a written confirmation from the relevant Divisional Secretariats.

2. Financial Review

2.1. Financial Results

According to the financial statements submitted, the revenue exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2019 was Rs. 20,953,270 and corresponding to the revenue exceeding recurrent expenditure of the previous year was Rs.16, 885,243.

2.2 Financial control

2.2.1 Non-performing bank accounts

Audit Observation	Recommendation	Comments of the Accounting Officer
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The balance of Rs.24,686 and Rs.1,242 of two non-performing currently inactive current accounts by people's bank were not submitted for audit.	Information on relevant account balances should be submitted.	I kindly inform you that by 31.12.2020, the information required for the final account will be found and corrected.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Billed Revenue, Accumulated Revenue and Deficit Revenue

Following is the information on the estimated revenue, billing revenue, accumulated revenue and arrears submitted by the Nagara sabha for the year under review and for the previous year.

<u>Source of Income</u>	<u>Estimated Income</u>	<u>Billed Income</u>	<u>Income Collected</u>	<u>Deficit as at 31 December</u>	<u>Estimated Income</u>	<u>Billed Income</u>	<u>Income Collected</u>	<u>Deficit as at 31 December</u>
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Rates and Tax	23,116	23,018	19,348	40,868	22,384	22,966	22,770	37,198
Rent	57,756	41,295	38,729	37,282	16,467	16,534	12,369	34,716
License and Certificate	2,121	1,866	1,875	-	1,000	1,244	1,235	9
Other Income	16,651	12,012	13,702	68,984	47,031	40,225	28,655	70,674
	99,644	78,191	73,654	147,134	86,882	80,969	65,029	142,597

* Collected income includes income collected from billed income for the year and income collected from arrears.

2.3.2 Revenue Collection Performance

<u>Audit Observation</u>	<u>Recommendation</u>	<u>Comment of the Accounting Officer</u>
The total billed income for the year under review was Rs78,191,551 during the year and Rs.73,653,992 had been collected from the billed income and the total deficit on 01 January 2019. Accordingly, the progress of total revenue collection during the year was about 33 percent.	Action should be taken to recover the arrears expeditiously.	The rates income due from Chilaw Wella area was not collected, no stamp duty of Rs.10,000,000 was charged for the year and out of the bill rental income of Rs.18,648,350, only Rs.12,194,582 was collected for the year.

2.3.3 Rent

<u>Audit Observation</u>	<u>Recommendation</u>	<u>Comment of the Accounting Officer</u>
The Sabha had failed to revise the shop rent after 2013 and the outstanding shop rent at the end of the year under review was Rs. 37,282,256.	Action should be taken to recover the arrears of shop rent expeditiously.	The Commissioner of Local Government, North Western Province has written to recommend that the land be rented for a period of 20 years from the date of

issuance of the original agreement and that both land rent and shop rent be levied after that period of 20 years and Accordingly, I kindly inform you that after the assessment is done and a new assessment is given, action will be taken to recover the arrears.

3. Operational Review

3.1 Performance

Following are the facts revealed under Section 4 of the Urban Council Ordinance regarding the regulation and control of matters relating to public health, public utility services and public roads, and the performance of the duties of the Council which were to be performed by the wellbeing, convenience and welfare of the people.

(a) By-laws

Audit Observation	Recommendation	Comments of the Accounting Officer
Although three by-laws submitted to the Provincial Council in 2015 were approved by the Minister in charge of the subject, they were not published in the Gazette.	Action should be taken to imposed by-laws.	The by-laws of 2019 have been submitted to the Hon. General Assembly and approval has been obtained for that. Work is currently underway to translate those by-laws. I will also work with the Local Government Forum to prepare and approve the by-laws by 2020.

(B) Annual Action Plan

Audit Observation	Recommendation	Comments of the Accounting Officer
According to the action plan for 2019, 11 programs with an estimated value of Rs.8,285,000 had not been completed during the year.	Action should be taken to expedite the relevant projects as per the plan.	Due to the situation in the country due to the attack on Easter, the programs could not be held that year, due to the severe water shortage, the

programs were not held and the relevant expenses were borne by the community Boards so the funds received for the projects remain.

(C) Solid Waste Management

Audit Observation	Recommendation	Comments of the Accounting Officer
The total amount of garbage generated within the urban limits was about 18 tons being dumped in open spaces open and composting had not commenced as there was no compost yard.	A formal program on solid waste management needs to be initiated.	It is expected to purchase a suitable land and construct a compost yard considering the environmental suitability, feasibility and adjustments of the assessment reports of the land proposed to construct a compost yard.

(D) Sustainable Development Goals

Audit Observation	Recommendation	Comments of the Accounting Officer
The Sabha had identified targets for 22 Sustainable Development Goals and planned to implement a number of activities to achieve those goals and objectives, twenty one objectives were fulfilled during the year under review.	Action should be taken to achieve sustainable development goals and objectives.	The Pre-Child Development Authority has carried out child abuse and child abuse prevention programs and is only showing physical progress.

3.2 Management Inefficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) A surcharge of Rs.103,842 had been paid for the late submission of half yearly reports to the Employees' Trust Fund in 2003 and 2004 and the surcharge had not been recovered from the responsible officers.	Surcharge money should be recovered from the relevant officials expeditiously.	The responsible officer has been informed in writing to pay the surcharge amount of Rs.994 for the first half year report of 2013. The Local Government Commissioner has been informed in writing to investigate to identify the

officers who performed this duty in the years 2003 and 2004.

(b) In January and February 2018, 21 air conditioners purchased at a cost of Rs.2,951,449 had expired without being installed due to insufficient power capacity to operate them.

Action should be taken to fulfill the electricity necessity as soon as possible.

There will be a need for a transformer to get electricity to operate the air conditioners. Several air conditioners have been used and estimates have been received from the Electricity Board for the installation of the transformer and allocations have been reserved in the 2020 budget.

(c) An additional value added tax (VAT) amount of Rs. 1,002,778 had been paid to the Inland Revenue Department at the end of the year 2018 and action had not been taken to refund that amount.

Action should be taken to refund the overpaid amount.

Revised Value Added Tax Report has been submitted to the Department of Inland Revenue on 05-09-2019. Documents provided by the Inland Revenue Department to recover Rs.639,982 for the two quarters of that year have been completed and returned on 2019-11-13.

3.3. Human Resource Management

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>The post of Secretary of the Sabha had been vacant for many years and a Second-Grade Development Officer had been appointed to the post. In addition, there were 36 vacancies in the secondary sector fire brigade.</p>	<p>Relevant vacancies should be filled expeditiously.</p>	<p>The post of Secretary of the Sabha is a Grade 111/11 post in the Sri Lanka Administrative Service and has been vacant for many years. This post was maintained under the Acting Secretaries and I kindly inform you that by now a Second-Grade Development Officer has been appointed to perform the duties of the post of Secretary.</p>

3.4 Inactive and Underutilized Assets

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
Eight items of electricity worth Rs.43,488 which were not released for a long time were in stock and no action had been taken regarding those items.	Assets should be purchased as needed and action should be taken to deploy for the relevant purpose expeditiously.	With the advent of modern technology and the achieve of sustainable development goals, the use of LED bulbs as a solution to the energy crisis has greatly reduced the use of these devices.

4. Accountability and Good Governance

4.1 Budgetary Control

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
The total allocation of Rs.3,462,000 for 84 budget items during the year under review was fully saved.	Budget estimates need to be realistic.	The Local Government Urban Council Budget is prepared as a Project Budget. Therefore, allocations are made annually for the Heads of Expenditure relevant to the projects.

4.2 Internal audit

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
Important areas such as asset management, revenue generation and public service performance, including buildings, were left out of the internal audit due to a lack of focus on formulating an internal audit plan to cover all areas.	An internal audit should be conducted to cover all the business of the Sabha.	Internal audit has been done as per the internal audit plan for the year 2019. However, I kindly inform you that necessary steps will be taken to audit the areas that have not been subjected to internal audit as much as possible by the year 2020 and to strengthen the internal audit committees.