

Puttalam Nagara Sabha

Puttalam District

1. Financial Statements

1.1 Presentation of financial statements

The Financial Statements for the year 2019 were submitted for audit on 28th 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 qualitative opinion of this report I am of the view that the financial statements, as well as the financial position of the Puttalam 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
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(i) The salary reimbursements of Rs. 72,000 for the month of December of the year under review had not been accounted for.	Receivable balances should be accounting accurately.	I will consider the accuracy of this and act to correct it.
(ii) The value of 67 assets owned by the Sabha had not been considered.	The assets own to the Sabha should be assessing and accounting.	Once the ownership of the assets is legally received, I will assess the value and act to account for it.
(iii)The amount of Rs. 584,000 to be paid for the year under review for the preparation of the bus stand name board had been	Assets should be accounting accurately.	Correction had been made by Journal Voucher No. 680 dated 01.01.2020.

accounted under the creditors but had not been accounted for under the assets.

(iv) Rs. 3,217,601 which had exceeded the stamp duty bill amount for the year 2018 should have been adjusted to the Cumulative Fund Account, but the stamp duty deficit had been reduced by that amount due to the entry in the stamp duty account.

Stamp duty should be accounting accurately.

I will act to adjust the stamp duty of Rs. 3,217,601 in the relevant accounts.

(v) The amount of Rs. 588,777 which could not be proved as creditors, the credit value of the statement of financial condition had been undervalued as the supply credit had been miscalculated as a negative balance.

Should be accounting accurately.

I will consider the relevant payments and act to correct them in the future.

(vi) Although the Sabha has been exempted from Value Added Tax from 01 January 2020, the accounts show a non-refundable tax of Rs. 3,516,397 on the value-added tax paid to a contractor.

Should be done accounting accurately.

I will go to the Tax Legal Division of the Inland Revenue Department to discuss and take further action regarding the recovery of this amount.

(vii) The amount of tax amounting to Rs.3,516,397 mentioned in (vi) above which had been accounted for as a deductible balance was shown as a negative balance under the deposits payable in the Financial Statement.

Should be done accounting accurately.

I will act to rectify the above value added tax after reaching a definite decision regarding the tax.

(viii) There was a difference of Rs.22,570 between the Employees Security Deposit Account and the Employees Security Investment Account as at 31 December of the year under review.

Should be done accounting correctly.

I will correct the relevant errors and correct the difference between the balance of the accounts.

(ix) The amount of Rs.55, 081 paid to casual workers had been deducted from the income tax due tax on undeveloped lands and the relevant expenses and income had been deducted from that amount.

Income and expenditure for the period should be properly adjusted to the accounts.

Casual allowance payment of Rs. 55,081 (expenses) for casual workers has been recorded in the tax account (income) levied on undeveloped lands. I will keep an account to prevent such mistakes in the future.

(x) A ledger account for the profit balance of Rs. 173,168,385 up to the end of the year under the long-term liabilities of the Financial Statement was not submitted for audit. After balancing the profit for the year under review with the profit margin at the beginning of the year, the balance should have been 173,622,615, but there was a difference of Rs. 454,230 between these balances.

The software should to be configured to have a ledger account for each account item.

Although a ledger account could be obtained from the software for each balance of the financial statement, the software could not obtain an account for its balance as profit / loss.

(xi) Although the tender revenue due at Alpha Trade Complex as at 31 December of the year under review was stated in the financial statements as Rs. 96,271,601, out of which Rs. 57,757,000 was tender revenue for the previous years. Accordingly, the revenue for the year under review had been overstated by that value.

Income related to the year should be correctly identified and accounted for.

I am enclosing the relevant information regarding the value of Rs. 96,271,601 stated in the financial statements as the tender revenue due from Alpha Trade Complex on 31.12.2019.

(xii) The value due to the Contractor at the end of the year under review for the construction of the Alpha Trade Complex was not considered.	Creditors for the period should be identified and accounted for.	I will act to correct it before preparing the final accounts for the year 2020.
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(B) Unreconciled Accounts

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
The total unreconciling between the balances as per the schedules / utility books submitted on a subject of account and the balances as per the financial statements was Rs.171, 707.	The employee guarantee account and the employee guarantee investment account need to be corrected.	I will act to correct this error in the preparation of final accounts for the year 2020.

(C) Accounts Receivable and Payable

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
(i) The total of 04 account balances due to the Sabha as at 31 December 2019 was Rs. 335,967,462 out of which the balance due over 03 years was Rs. 107,270,511. Also, according to the other debtor's schedule on that day, the recovery of Rs. 21,590,806 due from before 2009 was uncertain.	Receivables should be recovered promptly.	These arrears have been shown in the final accounts for many years and corrections are being made due to errors in the computer software used and the identified arrears are being collected
(ii) The total of two account balances payable as at 31 December 2019 was Rs. 76,844,905 out of which the value due over 03 years was Rs. 42,176,641.	Further debt balance needs to be settled.	Payments to the Director of Pensions and the Auditor General will be made in monthly instalments by Bank Standing Orders, and I will consider the balance to be paid and rectify it through the final accounts in 2019.

(D) Lack of Written Evidence Required for Audit

Audit Observation	Recommendation	Comment of the Accounting Officer
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Due to non-submission of required information, 09 account subjects amounting to Rs. 189,673,215 could not be examined satisfactorily during the audit.	Action should be taken to submit the relevant evidence to the audit.	I will submit the necessary audit evidence in the future.

1.4 Non-compliance

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

The following discrepancies were observed during the audit.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance	Recommendation	Comment of the Accounting Officer
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<u>(A) Urban Council Ordinance (Authority 255)</u>			
(i) Section 33	Documents confirming the ownership of certain properties owned by the Sabha had not been submitted.	Documents confirming property ownership should be maintained.	14 plots of land have been included in the register of fixed assets and the Divisional Secretary has been requested to transfer all the remaining assets after conducting proper surveys.
(ii) Section 177 (2) A	Summary of Accounts in the Annual Financial Statement had not been published in the Government Gazette for public information.	Act in accordance with the provisions of the Municipal Council Ordinance.	I will work for that in the future.

(B) Establishment Code
of the Democratic
Socialist Republic of
Sri Lanka

Section 10.1 of Chapter VIII	1/20 Allowance Rs. 41,749 had been paid for 1/20 Allowance during the year under review for non-entitled Technical Officers.	Allowances should pay according to the Establishments Code.	According to the letter issued by the Secretary to the Ministry of Local Government and Provincial Councils No. EI / 7/1/7/17 dated 30.03.2000, the Technical Officer has been employed.
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(C) Financial
Regulations of the
Socialist Republic of
Sri Lanka

(i) Financial Regulations 565 (3) (4) and (5)	The balance of the deposit ledgers of the previous year had not been advanced and the monthly deposit summary statements had not been submitted to the Auditor General.	Should act in according to the Financial Regulations.	I will work to correct it in the future.
(ii) Financial Regulations 571 (2)	As at 31 December of the year under review, a sum of Rs. 2,716,226 had been maintained in deposit accounts for more than 03 years.	Should act in according to the Financial Regulations.	I will calculate the information accurately and act to correct it in the year 2020.
Financial Regulations (iii) 1647 (a), (b)	Newly installed spare parts for motor repairs and disassembled spare parts were not documented by the material storage credit bill.	Should act in according to the Financial Regulations	I kindly inform you that it will be documented and submitted for audit in the future.

(D) 2006 Procurement Guidelines Code

No. 8.9.1 (a)	(i) Tractor No. 49-9915 had been repaired at a cost of Rs. 618,700 but no formal agreement had been signed for it.	Should comply with the 2006 Procurement Guidelines.	I kindly inform you that such mistakes will not happen in the future.
(ii) 8.9.1 (b)	Rs. 6,334,052 had been paid during the year under review without signing a formal agreement in obtaining vehicles on rental basis.	A formal contract should be signed.	I report that vehicles are rented on official requirements.

2. Financial Review

2.1 Financial- Outcomes

The revenue over recurrent expenditure of the Sabha for the year ended 31 December 2019 was Rs. 145,727,308 and accordingly, the revenue over the recurrent expenditure of the previous year was Rs. 40,213,251.

2.2 Revenue Administration

2.2.1 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 Urban Council for the year under review and for the preceding year.

<u>Source of Revenue</u>	<u>Year 2019</u>				<u>Year 2018</u>			<u>Total Deficit a sat 31 December</u>
	<u>Estimated Income</u>	<u>Billed Income</u>	<u>Collected Income</u>	<u>Total Deficit as at 31 December</u>	<u>Estimated Income</u>	<u>Billed Income</u>	<u>Collected Income</u>	
	Rs.000	Rs.000	Rs .000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Rates and Tax	25,533	23,933	23,043	106,478	26,056	23,933	12,930	106,308
Rentals	11,276	13,456	16,112	30,193	38,014	17,433	34,389	32,021
Licence Certificates	1,220	870	870	-	1,001	899	899	-
Other Income	612,448	-	146,189	-	410,974	-	188,753	-
	650,477	38,259	186,214	136,671	476,045	42,265	236,971	138,329

Revenue collected during the year under review also includes receipts from arrears for the previous year.

2.2.2 Submission of information

Audit Observation	Recommendation	Comments of the Accounting Officer
The above table has been prepared based on the information submitted by the Sabha for audit on revenue administration and there were errors in that information.	Accurate information should be submitted for audit.	I report that such an error will not occur in the future.

2.2.3 Revenue collection performance

Audit Observation	Recommendation	Comments of the Accounting Officer
The overall revenue collection and reporting of the Sabha, including arrears and recovery of debtors' balances, was poor.	Revenue collection should be done efficiently and reporting should be accurate.	I report that this is due to the long-running shortage of responsible officers.

2.2.4 Rates and Taxes

Audit Observation	Recommendation	Comments of the Accounting Officer
Out of the Rates tax amount of Rs. 23,933,142 billed for the year under review, only Rs. 7,203,257 had been collected during the year. It was 30 percent of the amount billed and at the end of the year under review the total rate tax arrears of the Sabha was Rs. 106,477,668.	Action should be taken to recover the billed income during the year.	There are also many rates that are included annually without being charged for a long period of time within that rates amount and have been referred to the Hon. Governor for approval to be deducted.

2.2.5 Rent

Audit Observation	Recommendation	Comments of the Accounting Officer
The collection of outstanding arrears of rent arrears was	Action should be taken to recover the arrears of shop rent	These arrears are coming from before 2009 and, although

uncertain and as at 31 December of the year under review, the balance over the three years was Rs. 9,246,996. expeditiously.

shown in the final accounts, no documents can be found to confirm the information.

2.2.6 Other Income

Audit Observation

The amount of Rs.1,029,527 as tender revenue, Rs.729,185 as court fines and Rs.3,143,500 as daily market fees as per the other income schedule in arrears, which had been in arrears for more than three years and no action had been taken to recover.

Recommendation

Action should be taken to recover other income in arrears expeditiously.

Comments of the Accounting Officer

No documents were found to deal with the tender revenue. A letter has been sent to the relevant institutions requesting a description of the court fines to be paid for the preparation of the final accounts. I will complete the recovery in the future.

2.2.7 Court fines and stamp duty

Audit Observation

The stamp duty due from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2019 was Rs. 4,095,572 and no action had been taken to identify and recover the amount of court fines due to the Sabha.

Recommendation

Further court fines and stamp duty should be levied accordingly.

Comments of the Accounting Officer

A letter has been sent to the relevant institutions to provide details regarding the court fines to be received.

3. Operational Review

3.1 Performance

The 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 functions of the Sabha which were the well-being, convenience and welfare of the people

(A) By-laws

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
Under Article 157 of the Urban Council Ordinance, by-laws were to be imposed to fulfil 15 key provisions, but by 31 December 2019, by-laws had not been imposed.	By-laws should be imposed to maximize social welfare	Action have been taken to impose 06 by-laws required by the Nagara Sabha.

(B) Annual Action Plan

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
(i) Although an action plan (called development plan) has been prepared for the year under review for the functions to be performed by the Sabha, it did not comply with paragraph 04 of Government Finance Circular No. PED / RED / 01/04/04/2014/1 dated 17 February 2014.	The action plan should be prepared as shown in the relevant circular.	I will act to prepare an action plan for the coming year in accordance with paragraph 04 of the Finance Circular No. PED / RED / 01/04/2014/1.
(ii) Number of 04 tasks which had been allocated by the Annual Budget of the Sabha had not been included in the action plan.	All the activities allocated by the annual budget should be included in the action plan.	I would like to mention that an action plan has been prepared for activities other than property prohibition, property valuation and issuance of valuation reports, vehicle park management, pet and garden maintenance.

(C) Solid Waste Management

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
Out of the 16 tons of garbage generated daily within the Puttalam Nagara Sabha area of	Care should be taken to utilize the maximum amount of waste collected daily for recycling.	This project is being carried out by the Central City Sabha on a number of large practical issues.

25.24 sq. Km, 4 tons was being diverted for the production of organic manure and the rest was being dumped in an open space near the compost yard. No environmental permit had been obtained for the land and no by-laws had been imposed for waste disposal and management.

The area where the compost yard is located is depopulated and it is very difficult to get water for that yard. Under this condition, it is not possible to produce a large quantity of organic manure.

(D) Sustainable Development Goals

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
<p>The Nagara Sabha was aware of the “Sustainable Development Agenda 2030” and identified four objectives under the review year as poverty alleviation, reconciliation between the various races, environmental protection and gender equality and allocated Rs. 1,525,000 had been allocated. Information on the progress of achieving those targets during the year under review was not submitted to the audit.</p>	<p>Action Should be taken to achieve the Sustainable Development Goals.</p>	<p>Three programs were implemented during the year under review under the identified 04 Sustainable Development Goals.</p>

3.2 Management Inefficiencies

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
<p><u>(A) Obtaining Vehicle Services on Rent basis</u></p> <p>During the year under review, the Urban Council had rented 20 vehicles and paid Rs. 6,334,652 and expense had exceeded the budget allocation. At the beginning of the year, only one company was registered to hire vehicles and there was no written evidence that procurement</p>	<p>Formal procurement system should be followed when renting a vehicle.</p>	<p>For the year 2019, only one institution has been registered with the Sabha under the vehicle rental basis. We agreed to provide services to us at a cost of Rs. 35 per 01 km from a company registered in the year 2015. Accordingly, we sought the assistance of that institution in this regard. I report that a proper system of vehicle</p>

was done. Also, the officers did not follow a specific procedure for requesting vehicles.

application is currently in operation.

(B) Payment of commissions to arrears collection officers

Four officers had been recruited on contract basis to collect the arrears in 2018 and 2019 and the appointments had not been approved by the Sabha. According to Circular No. 08 of Circular No. 1984/19 and 20 November 1984, a commission of 7.5 per cent was payable on revenue collection but on the contrary a commission of Rs. 632,025 was paid at 10 per cent each.

Recruitment of employees and payment of commissions should be done as per the relevant rules.

Although 04 posts of Revenue Inspectors have been approved for the, Sabha but because of the service representing only one revenue inspector 255 Municipal Ordinance 36 (a) the persons appointed to a 10% commission to outstanding rates tax basis with a commission action has been taken to pay by the Chairman.

(C) Payment of overtime allowances

Number of 36 employees of the Puttalam Nagara Sabha were paid over Rs. 200,000 a month in overtime but no fingerprint was recorded and overtime record was not maintained.

A fingerprint machine should be installed for staff reporting to work in the workplace, and overtime records should be maintained.

With showing by the audit, the General Meeting on 18.06.2020 approved the purchase of a fingerprint machine for the work site. Accordingly, I report that this problem will be solved by purchasing a fingerprint machine for the work yard in the future.

(D) Payment of surcharges

The surcharge of Rs. 10,780 imposed on a Urban Council employee for non-payment of contributions to the Employees Provident Fund had not been recovered from the responsible officials.

Surcharges paid from the Sabha fund should be recovered from the responsible officials.

Arrangements have been made to find out the information regarding the officer in charge of the subject at that time and recover the relevant amount.

(E) Payment of attorney's fees

Attorney-at-Law fees of Rs. 207,000 had been paid for examining case NO,1390/L regarding land namely 'Kahaneer Poor Thottam' 01

Necessary action should be taken to ascertain the ownership of the lands owned by the council and evidence should be presented that the lawyer appeared in the case

The decision was taken in favour of the complainant as the Sabha did not have sufficient evidence to prove that the ownership of the land in question belonged to the

acre 02 rood 33 perches large land in Puttlam Senedikuruppu village in Puttalam. The judgment was pronounced to the detriment of the Nagara Sabha because there was no evidence to prove the ownership of the land and it was decided that the plaintiff should pay the court fees. Further, only a copy of the lawyer's personal diary was submitted as evidence to pay Rs.192,000 as attorney's fees for 60 days, including 48 days for appearing in court and 12 days for hearing the case.

on the relevant dates.

Sabha. The Sabha has sought information from the Puttalam District Court to confirm the trial date, but has not yet received a reply.

3.3 Human Resource Management

Audit Observation

Recommendation

Comments of the Accounting Officer

(A) Vacancies and redundancies

The executive post of the Sabha had been vacant for several years and the secondary posts were half-vacant from the approved size. 77 workers and employees who had not been given formal appointment letters in excess of the approved number of employees in the primary posts were being recruited, their salaries were being paid, and no action had been taken to get those posts approved.

Action should be taken to fill the vacancies duly and to approve the posts without approval.

The Local Government Commissioner and the Chief Secretary have been informed about the vacancies and the approval of surplus posts.

(B) Employee loans

Out of 77 retired, transferred and leave out employees, a debt balance of Rs. 196,320 was due for more than 03 years.

Formal action should be taken to recover the outstanding employee loan balance.

As no information can be found about the employee loan balance that has been in existence for many years, the Sabha has taken a decision to

remove the balance from the documents and sought the approval of the Commissioner of Local Government, but it has not been approved yet.

(C) Employee Security

Deposit

Security Deposit of Rs. 42,698 charged from 31 persons in 2008, 2016 and 2019 had not been invested.

Employee security deposit money should be invested.

I am taking further action in this regard.

3.4 Inactive / Underutilized Assets

Audit Observation

Recommendation

Comments of the Accounting Officer

The total value of Rs. 1,126,203 was for a four-wheel tractor, a roller coaster, a two-wheel tractor and three motorcycles which were idle for 5 to 7 years.

Efforts should be made to make the most of the assets.

On the recommendation of the Local Government Technical Engineer, the tractor numbered 37-8589, the motorcycle numbered 156-7580, the motorcycle numbered HY 8815 and the land master numbered HL-M99 are on sale and the road roller bearing number RR-99 is on display as antiques, the council has also decided to do so.

3.5 Procurement

3.5.1 Procurement Plan

Audit Observation

Recommendation

Comments of the Accounting Officer

According to Section 4.2.1 of the Government Procurement Guidelines, a procurement plan had not been prepared.

A procurement plan should be prepared annually.

I will make arrangements in the future.

4. Accountability and good governance

4.1 Budgetary control

Audit Observation	Recommendation	Comments of the Accounting Officer
The total estimate allocation of Rs.77,095,000 for 31 expense subjects in the year under review had not been spent for the welfare and maintenance of the activities of the Nagara Sabha area.	The work allocated by the annual budget should be done during the year.	Allocations for the purchase of vehicles, which are the financial orders issued by the Central Government, remained unallocated, and the provision for the purchase of lands remained pending due to non-receipt of relevant approvals and assessment reports. I report that the remaining provisions were left out due to the inability to plan and implement the proposed programs due to the extremist conflicts in the country.

4.2 Internal Audit

Audit Observation	Recommendation	Comments of the Accounting Officer
An internal audit plan had not been prepared for the year under review, and In January 2019, only the payment voucher checking was conducted as an internal audit.	An internal audit plan should be prepared and acted upon to improve the operational process of the institution and enhance its performance.	An internal audit plan had not been prepared for the year 2019. Instructions and guidelines required to carry out internal audit activities in a systematic manner from the year 2020 I report that action will be taken to deliver to that section.