

## **Puttalama Urban Council – 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Puttalama Urban Council including the financial statements for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022, Statement of Finance Operation, Statement of Net Assets Changes, Cash Flow Statement and significant accounting policies and other explanatory information was carried out, for the year then ended, under my direction in pursuance of provisions in Article 154 (1) of the constitution of the Democratic Socialist Republic of Sri Lanka and with the provisions of the National Audit Act No. 19 of 2018 read in conjunction with Sub-Section 181 (1) of the Urban Councils Ordinance (Chapter 255). My comments and observations which I consider should be report to parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Puttalama Urban Council as at 31 December 2022, and of its financial performance for the year then ended in accordance with generally accepted accounting practices.

#### **1.2. Basis for Qualified Opinion**

I expressed qualified opinion regarding financial statement on the matters described in paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

#### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in generally accepted accounting practices, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the urban council financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the urban council is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements.

#### **1.4 Audit Scope (Responsibility of the Auditor for the audit of Financial Statements)**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercised professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of its internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following,

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the urban council, and whether such systems, procedures, books, records and other documents are in effective operation,
- Whether the urban council has complied with applicable written law, or other general or special directions issued by the governing body of the urban council
- Whether it has performed according to its powers, functions and duties, and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Report on Other Legal Requirements**

National Audit Act, No. 19 of 2018 include specific provisions for following requirements.

- (a) The financial statements of the urban council presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.

- (b) The financial statements presented includes all the recommendations made by me in the previous year of this report as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

## 1.6 Audit observation on the preparation of Financial Statements

### 1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) 02 lands valued at Rs.1,538,600 were not accounted under fixed assets.	That has been corrected by Journal Voucher No. 92 (2023.01.01) and accounted under Land and Buildings.	Corrective journal entries should be made before the last day of the year for which the financial statements are presented.
(b) The land called Thammanawalawwatta had been under-accounted by Rs.200,000 while accounting under fixed assets.	That has been corrected by Journal Voucher No. 93 (2023.01.01) and accounted under Land and Buildings.	-Do-
(c) Transactions with a total value of Rs.590,398 were not accounted under payable expenditure.	That has been corrected by Journal Voucher No. 94 (2023.01.01) and accounted under creditors.	-Do-
(d) Rs.15,247,164 had not been capitalized of the 10 percent retention amount payable to the contractor during the construction of Alpha marketing complex.	That has been corrected by Journal Voucher No. 96 (2023.01.01)	-Do-
(e) The relevant interest had been under-accounted by Rs.4,500,000 for the loan amount of Rs.200,000,000 taken for the construction of Alpha marketing complex.	That has been corrected in the present.	-Do-
(f) The amount of Rs.1,483,525 incurred to get the electricity connection for the auditorium was not accounted under fixed assets.	That has been corrected by Journal Voucher No. 97 (2023.01.01)	-Do-
(g) In the year under review a baby feeding room and an auditorium	That has been corrected by Journal Voucher No. 99	-Do-

constructed at a cost of (2023.01.01)  
Rs.920,562 had not been  
accounted under fixed assets.

- (h) The stock of fertilizer worth Rs.17,370 had not been accounted on 31<sup>st</sup> December 2022. That the fertilizer stock of Rs.17,370.00 will be accounted in the future. It should be corrected by the journal entries.

### 1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
There was a difference of Rs.2,086,257 in total value between the financial statements and schedules of 06 accounting heads.	That the information regarding the difference between the balances in the account and schedule will be investigated and corrected.	Action should be taken to correct the balances of sub-documents and accounts.

### 1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
06 account balances worth Rs.651,197,614 as on 31 <sup>st</sup> December of the year under review could not be satisfactorily verified in the audit due to not presented of updated fixed assets registers, inventory registers, sub schedules or board of server reports.	The details of fixed asset register were not fully updated at that time and have been updated now.	The updated fixed assets registers, inventory registers, sub schedules or board of server reports should be presented to the audit.

## 1.7 Non- Compliances

### 1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Non-compliances with Laws, Rules, Regulations and Management decisions as follows.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) F R 104(3)	A preliminary report had not been submitted regarding the loss of Rs.2,255,975 due to the fire of the warehouse on 31 <sup>st</sup> December 2018.	That a reminder letter has been sent for the second time on 25.04.2023 asking them to carry out investigations related to submitting a complete	Financial regulations should be followed.

			report.	
(ii)	FR 110	Although the damage and loss register should be recorded regarding loss and damage, but this loss had not been recorded.	It will be recorded in the damage register after conducting the relevant investigation and assessing correctly the value of the damage.	-Do-
(b)	Government Procurement Guidelines			
(i)	Section 3.4	While purchasing goods, a quotation should be take and purchases should be made on that. But Rs.395,000 valued tailor had been purchased on verbal instruction.	That payment had been made on the after presented to the General Assembly.	Government Procurement Guidelines should be followed.
(ii)	Section 8.9.1(b)	Although a formal contract agreement should be written and signed for services exceeding Rs.500,000 no such agreement was made for supply of rental services.	The legal proceedings are being carried out at present.	-Do-

## 1.7.2 Non-compliance with Tax Requirements

### Audit Observation

There was a debit balance of Rs.3,090,905 in the Value Added Tax account on 31<sup>st</sup> December 2022 which could no longer be set off as the Municipal Council had been exempted from Value Added Tax since 01<sup>st</sup> of January 2020.

### Comments of the Council

Will deal with in the future.

### Recommendation

The recommendations of the Inland revenue department should be followed.

## 2. Financial Review

### 2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the council for the year ended 31 December 2022 amounted to Rs.28,817,185 as compared with the excess of revenue over recurrent expenditure amounted to Rs.5,098,968 in the preceding year.

### 2.2 Revenue Administration

#### 2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

According to the information presented by the Chairman the Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Revenue sources	2022				2021			
	Estimated revenue (Rs)	Billed revenue (Rs)	Collected revenue (Rs)	Total arrears as at 31 <sup>st</sup> December (Rs)	Estimated revenue (Rs)	Billed revenue (Rs)	Collected revenue (Rs)	Total arrears as at 31 <sup>st</sup> December (Rs)
	000'	000'	000'	000'	000'	000'	000'	000'
<b>Rates income</b>	18,144	23,279	6,736	102,120	18,435	22,589	6,373	98,559
<b>Rent income</b>	102,520	58,561	30,611	22,004	52,669	39,444	30,624	12,365
<b>License Fees</b>	2,944	1,259	1,259	-	1,600	653	653	-
<b>Other Revenue</b>	30,191	19,313	19,313	-	3,700	14,009	14,009	-
<b>Total</b>	153,799	102,412	57,919	124,124	76,404	76,695	51,659	110,924

## 2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the council	Recommendation
<b>(a) Assessment Tax</b>		
(i) Rs.6,735,549 had been collected during the year under review out of Rs.23,279,069 billed for assessment and tax for the year under review, which was a low value of 29 percent from the billed amount.	That the assessment collection done without put the pressure to public the collection of assessment shows a figure of 29% of the billed income.	The income should be collected within the year billed in the year.
(ii) The only Rs.11,656,213 had been collected during the year under review from the opening arrears of the year under review in assessment and tax value were Rs.98,559,138 and so it was 12 percent low value from the outstanding value at the beginning of the year.	The action have been taken to collect these arrears immediately from deploy officers in the field, to conduct mobile services and to implement programs to prohibited the properties also.	The arrears income should be collected immediately.
(iii) The Municipal Council had lost a large amount of income due to the they had been charged a low assessed value without issuing compliance certificates after obtaining assessment valuation for the buildings that had been approved in the years 2018, 2019, 2020 and 2021.	That recovery of this amount in a problem due to delay in sending the reports by the valuation department.	Action should be taken to raise the revenue by obtaining valuation for approved building applications.
(iv) The assessment was being collected in 2022 based on the assessment tax valuation of the year 2016.	That the valuation department has informed that it will start the new assessment tax valuation.	Action should be taken to increase the revenue from new valuation of assessment.

**(b) Rent**

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|------|--|---|---|
| (i)  | Rs.30,610,604 had been collected during the year under review out of Rs.58,560,820 billed for stall rent and rent for the year under review, which was 52 percent from the billed amount.                                | That the necessary actions are taken to collect the stall rent.   | The income billed in the year should be collected within the year itself. |
| (ii) | Rs.5,049,244 was collected during the year out of Rs.12,364,899 in arrears of rent and lease income at the beginning of the year under review, which is 41 percent of the arrears value from the beginning of that year. | That the arrears of rent have been collected through letters and programs like going to the field to inform and seal the shops. | The arrears income should be collected immediately.                       |

**3. Operational Review**

**3.1 Management Inefficiencies**

**Audit Observation**

**Comments of the Council**

**Recommendation**

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|---|---|--|---|
| (a)   | The necessary actions had not been taken regarding the shortages of 114 commodity items and surpluses of 76 commodity items in relation to the board of survey 2021.  | That the scrap goods will be settled after the auction.                                | The recommendations of board of survey report should be followed.                       |
| (b)   | Thibas software worth Rs.1,050,000 was purchased from Science Land Software Company and the voucher worth Rs.175,000 paid for this software had not been presented to audit. Also, the stores software and payroll software was remained inactive for about 09 years without using from 05 <sup>th</sup> of October 2022. | Currently entering data for use the stores software and payroll software.              | The action should be taken to use the stores software and payroll software immediately. |
| <b>(c) Construction of Alfa Marketing Complex</b> |   |  |   |
| (i)   | Although the value of key money to be received to the council on the sale of all shops is 717 million rupees, the council had been collected only 253 million rupees value it almost 03 years have passed since the implementation of the project which was 35 percent of the total value.                                | That the collection of key money process is quick by signing the awareness agreements. | The key money collection process should be quick.                                       |
| (ii)  | According to the 12 tender conditions related to the lease of stalls after the completion of the work on the ground floor   | The agreement had been cancelled with the shop owners who did not pay                  | The tender conditions should be followed.   |

up to the roof level, the entire key money should have been paid and by November 2020 the work on the ground floor up to the roof level had been completed. At the end of October 2022 almost 03 years had passed since the project started, but 100 percent of the bid value related to the ground floor had been paid for only 11 shops from the 62 shops. within the due period and re-tender activities are been prepared of those shops.

- (iii) An awareness agreement should be signed within 07 days from the date of commencement of the foundations as per the tender conditions 13. But even though the foundation work had been completed when February 2020, the awareness agreement was signed in August 2022 and due to the non-action of the responsible officers for signing the agreements for more than 02 years, the people who obtained the shop rooms without informing the council were given to others at higher values. The situation such as providing an opportunity to make a profit through sales, Situations such as transfers of ownership during share payments, inability to terminate contracts by the council due to breach of contract conditions and taking the legal action for non-payment of arrears were problematic. An key money of 300.7 million rupees has been collected. Necessary action are being taken to collect the remaining amount immediately. The tender conditions should be followed.

### 3.2 Operational Inefficiencies

#### Audit Observation

The council had failed to confirm the physical ownership of 39 lands of 469 acres, 06 roods, 09 perches, which had been received by 09 plans from a standing order to the Puttalama Municipal Council and all these lands had been occupied by unauthorized residents in time to time. Also, the ownership of 51 plots of land used by the Municipal Council belonged to the Land Reform Council/ Mahaweli Authority or any other body and had not been taken over.

#### Comments of the Council

That is being taken over.

#### Recommendation

The action should be taken to ensure the ownership of the land immediately.

### 3.3 Human Resource Management

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) It was observed that 79 employees belonging to the Executive, Tertiary, Secondary and Primary grades of the council are vacant and 93 employees belonging to the secondary and primary grades are excess.	That there was an excess in the primary grade posts as the public service was carried out by employing employees in the position of health workers and laborers.	Action should be taken to fill vacancies and approve the excess posts.
(b) 05 employees were recruited to the municipal council on the basis of paying 30 percent from the income earned to collect various incomes of the council. Those employees had been paid such commissions since the day they were hired and in the year 2022 only Rs.1,010,883 had been paid. However, the Council did not have a date of recruitment or approval for the recruitment of these employees and no formal appointment letter was given to these employees.	Since this decision was taken before the 14th session of the Assembly, and relevant information in this regard is being searching from the records room.	Relevant documents should be presented.
(c) Action had not been taken to recover a loan balance of Rs.179,694 due from 94 retired employees.	That a letter had been submitted to the Commissioner of Local Government for approval to cut off the Rs.179,694.	The action should be taken to collected the receivable loan balances immediately.

## 4. Accountability and Good Governance

### 4.1 Annual Action Plan

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
An amount of Rs.3,875,600 had been spent to fulfill 10 different tasks mentioned in the action plan, but the expected level of completion had not been achieved.	The main reason for unable to achieving the expected level of completion was the economic crisis that started last year.	The programs mentioned in the action plan should be completed as expected.

### 4.2 Budget Control

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
Due to non-preparation of realistic and accurate estimates Rs.298,329,764 had been provided for 79 expenditure items had been remained completely.	That the money allocation has been remained due to the economic crisis in the country due to the oil crisis in the year 2022.	Activities should be properly estimated and budget control activities should be carried out.

### 4.3 Sustainable Developments goals

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
08 activities identified to achieve sustainable development goals were not fully implemented.	The reason for unable to complete 08 activities was the fuel crisis that occurred at that time and the unlimited price changes in the country.	Actions should be taken to achieve the identified goals.