

## Puttalam Municipal Council - 2023

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The audit of the operational activities of the Puttalam Municipal Council for the year then ended 31 December 2023 under my direction in pursuance of provisions in Article 154 (1) of the constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Municipal Council Ordinance (chapter 252) and the provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to parliament appear in this report.

### 1.2 Management's and Controlling Parties' Responsibility for the Presentation of Financial Statements

According to the Section 16(1) of the National Audit Act No. 19 of 2018, every audited entity should maintain proper books and records of its income, expenditure, assets and liabilities so as to be able to prepare annual and periodic financial statements in relation to that entity. In terms of the Section 16(2) of the said Act, the accounting officer shall submit to the Auditor General the annual financial statements in respect of each audited entity together with the annual performance reports of those entities within such period as may be prescribed by Rules. In terms of the Section 38(1) (d) of the said Act, the accounting officer should ensure that the annual reports and other financial statements are prepared within the required time, and in addition, the accounting officer should ensure that the annual reports relating to the entity being audited are submitted to Parliament.

### 1.3 Incorporation of Puttalam Municipal Council and submission of financial statements

By the Extraordinary Gazette No. 2296/05 dated 06 September 2022, the Minister of Local Government and Provincial Councils dissolved the Puttalam urberrnl Council with effect from 19 March 2023 and incorporated the Puttalam Municipal Council from 20 March 2023 and the terms of the members on that date was given as the effective date. However as per the Section 09 of the Municipal Council Ordinance, even though the prescribed number of members has not been elected, the council should be considered as having been established on that date. Even so, as per Section 170 (1) of the Municipal Council Ordinance, without appointing a Municipal Commissioner, administrative activities were continued under the name of Puttalam Municipal Council. Furthermore, the financial statements to be submitted by the Municipal Council on 31 December 2023 had not been prepared and submitted to the audit up to the date of this report.

### 1.4 Non-compliances

#### 1.4.1 The non-compliance with the Laws, Rules, Regulation and Management Decisions

Instances of Non-compliance with Laws, Rules, Regulation and Management Decisions are shown below.

Reference to Laws, Rules, Regulation	Non – Compliance	Comment of the Secretary	Recommendation
The financial Regulation 104(1) of the Democratic Socialist Republic of Sri Lanka	No investigation had been conducted to determine the damage to the cab that was involved in an accident on 01 January 2021 and to determine responsibility.	The appropriate action will be taken in the future.	Actions should be taken in accordance with the provisions of the Financial Regulations.

## 2. Operational Review

### 2.1 Management Inefficiencies

Audit Observation	Comment of the Secretary	Recommendation
(a) Although the Puttalam Municipal Council was legally established on 20 March 2023, however a Municipal Commissioner had not been appointed for it.	Although the Puttalam Municipal Council has been legally established, it is not functioning as a Municipal Council as other human and physical resource requirements have not been met.	Since it has been legally incorporated as a Municipal Council, the necessary action should be taken to operate as a Municipal Council promptly.
(b) A contract was signed on 10 June 2015 to construct a shopping mall with 176-shops in 540 days and at a cost of Rs. 337,750,000 and the agreement was re-entered again on 03 August 2017. At the request of the contractor, the contract agreement was revised again from 10 October 2019 for a further 540 days and at a cost of Rs. 437,500,000. The funds required for the construction of the mall were planned to be raised by collecting key money from the proposed buyers of the shops, however by November 2023, the full key money payment had not been collected from 155 buyers and the relevant amount had been collected only from 21 buyers. Although consultancy services had been obtained for the construction and the amount paid for it was Rs. 22,463,610, the construction had not been completed for about 6 years and as of 30 November 2023, the physical progress of the construction was at about 60 percent. The amount spent on the construction until then was Rs. 512,805,987 and the contractor had also had to pay a late payment interest of Rs. 3,558,259 due to the delay in paying the bills as scheduled.	Since the General Council has now been dissolved, based on the last decision taken by the Council, the existing Memorandum of Understanding with the stalls that have paid less than 1/3 of the total previous value has been cancelled and tenders have been called again.	Action should be taken to provide the benefits of the shopping mall to the general public as soon as possible.
(c) The construction of a 74-shop complex began on 19 December 2022, and the funds required for this were collected from the key money collected from the buyers who selected 29 shops by tendering them, and from Rs.1,800,000 collected from the new shops provided to 45 people who lost their shops during the removal of the old shopping complex, the total amount expected to be collected	Preparations are underway to complete the remaining construction work of the project by issuing tenders under the approval of the Commissioner of Local Government	Action should be taken to construct the shopping mall and provide the benefits to the public as soon as possible.

was Rs.195,220,644. Only 25 of the 29 shops tendered had been sold, while only 4 of the 45 shops that were to be sold to those who lost their shops had been sold. As at November 2023, the total sales value collected was only Rs.42,915,000, leaving a further Rs.152,305,644 in sales. Due to poor recovery of previous funds and failure to sell the shops as planned, the construction work of the shopping complex was continuously delayed, and as at November 2023, the physical progress of the construction was at a low level of 11 percent.

## 2.2 Operational Inefficiencies

Audit Observation	Comment of the Secretary	Recommendation
(a) The fish shops belonging to the Puttalam Municipal Council had been leased and later relocated, and a rent of Rs.900 each had been charged for 36 shops, and there was no information as to when it was charged. The shops had been allowed to trade without entering into an agreement, and the monthly electricity bills of the shops, which were operated with freezers, had been paid by the Council. The value of the electricity bills paid for the 9-month period from February to October 2023 under inspection was Rs.1,381,054, and the rental income collected from the 36 shops for this period was only Rs.291,600. The Council had paid Rs.1,089,454 for the electricity costs of the fish shops in excess of the rental income collected.	Preparations are underway to update files and prepare agreements for temporary shops.	Tenders should be held and formal agreements should be entered to lease out shop spaces and attention should be placed on increasing income.
(b) Although assessment tax revisions are required to be made every 5 years, assessment tax was being levied based on the assessment made in the year of 2015 in the Municipal Council area.	The building will be referred to the Valuation Department for valuation purposes.	Assessment taxes should be revised and fees levied in a timely manner.
(c) There was a receivable balance of Rs.179,694 from 95 retired employees as at 31 December 2023.	The loan balance has been sent to the Commissioner of Local Government for approval to write off the balance.	Action should be taken to recover outstanding employee loan balances.

## 2.3 Assets Management

### Audit Observation

### Comment of the Secretary

### Recommendation

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| (a) | The legal ownership of 50 assets such as lands with buildings owned by the council, playgrounds, community halls, weekly fairs, libraries, children's parks, and clinic centers, which are enjoyed, managed and maintained by the council, had not been acquired by the Council. | Requests have been made to take over the legal ownership of all government-owned lands enjoyed by the Puttalam Municipal Council. | Action should be taken to acquire the assets.                      |
| (b) | The action had not been taken up to 24 November 2023, regarding the shortage of 157 items revealed in the board of Survey.   | If there are shortages, action will be taken to surcharge.  | Stock shortages should be identified and appropriate action taken. |

## 2.4 Human Resources Management

### Audit Observation

### Comment of the Secretary

### Recommendation

There were 33 vacancies in secondary grade posts and 50 vacancies in primary grade posts in the approved staff as at 31 December of the year under review,.

Due to vacancies, the work of the Municipal Council is being carried out by employing casual workers.

Staffing requirements should be reviewed periodically.

## 3. Accountability and Good Governance

### 3.1 Internal Audit

#### Audit Observation

#### Comment of the Secretary

#### Recommendation

Although Section 40 of the National Audit Act No. 19 of 2018 and Section 133(1) of the F.R. that internal audit should be carried out as a process that supports the improvement of the operational processes of the entities and its performance, the Council's internal audit had only conducted inspections such as the tender process for leasing property, receipts of cash, payments and banking and had issued only 02 audit quarries for the year 2023.

Will try to pay more attention to this matter in the future.

An adequate internal audit should be carried out to cover all activities of the institution.

### 3.2 Sustainable Development Goals

<b>Audit Observation</b>	<b>Comment of the Secretary</b>	<b>Recommendation</b>
The Council had identified targets for 06 Sustainable Development Goals for the year under review, in order to achieve the goals and targets to be achieved for the 2030 Agenda for Sustainable Development, but only one of them had been implemented.	Six sustainable development goals were identified for the year under review, however due to the extraordinary situation in the country and the Corona pandemic, only one of the six goals identified was achieved.	Action should be taken to achieve sustainable development goals.