

Puttlam Urban Council

Puttlam District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial statements for the year under review had been presented to audit on 31 March 2014 and the financial statements for the preceding year had been presented on 12 March 2013. The report of the Auditor General for the year under review was sent to the Chairman on 11 December 2014.

1.2 Opinion

Except for the effects on the financial statements of the matters referred to in Paragraph 1.3 of this report, I am of opinion that the financial statements have been prepared in accordance with the Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Puttlam Urban Council as at 31 December 2013 and the financial results of its operations and cash flows for the year then ended.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following observations are made.

- (a.) The new Dry Fish Market constructed out of the Council funds during the year under review at a value of Rs.846,698 had not been brought to account as fixed assets.
- (b.) The sum of Rs.4,274,898 including salaries amounting to Rs.1,947,510 payable for the month of December 2013 had not been brought to account as accrued expenses.
- (c.) Annual interest in respect of 02 savings accounts maintained at the National Savings Bank had not been computed and brought to account.
- (d.) Contributions amounting to Rs.398,357 payable to the Director General of Pensions for the year under review had not been brought to account as pensions payable.
- (e.) Capital aid amounting to Rs.4,532,779 receivable from various institutions during the year had been omitted from the financial statements.
- (f.) Revenue amounting to Rs.54,640 received during the preceding year in respect of the year under review had not been brought to account as revenue for the year and as such,

the excess for the year had been understated and the revenue received in advance had been overstated by a similar amount.

- (g.) An expenditure of Rs.53,000 incurred for purchase of repair parts for the tractor had been shown as current assets and therefore current assets had been overstated and the expenditure for the year had been understated by a similar amount.
- (h.) An expenditure of Rs.66,500 for the Bacho Machine had been shown as investments and therefore, expenditure for the year had been understated and the current assets had been overstated by a similar amount.
- (i.) Interest amounting to Rs.9,447 received for the 02 savings accounts maintained at the National Savings Bank had not been brought to accounts and as such revenue for the year and the balances of the relevant bank accounts had been understated by a similar amount.
- (j.) Fines amounting to Rs.2,339,311 recoverable on rates and taxes of the year had not been brought to account and due to this, the revenue for the year and the rates and taxes receivable had been understated by a similar amount.
- (k.) A sum of Rs.950,000 transferred between two bank current accounts and an advance of Rs.360 paid had been credited to the revenue received in advance account and therefore, the said account had been overstated by Rs.950,360.
- (l.) A provision had not been made during 2012 in respect of Value Added Tax amounting to Rs.884,643 paid during the year under review for the 4th quarter of 2012. However, this amount had been debited to the Value Added Tax account payable for the year under review and due to this, the said account had been understated by Rs.884,643.
- (m.) Nation Building Tax amounting to Rs.49,242 paid during the year under review for December 2012 had been debited to the Nation Building Tax payable account. But, this had not been treated as an amount payable as Nation Building Tax during the preceding year and as such, current liabilities had been understated by Rs.49,242.

1.3.2 Unreconciled Control Accounts

According to the financial statements, the total of 09 items of accounts amounted to Rs.154,041,692 and according to the subsidiary registers the total of the relevant balances amounted to Rs.122,538,652. Therefore, an unreconciled balance of Rs.42,772,670 was observed.

1.3.3 Suspense Accounts

The debit and credit balances of 03 suspense accounts brought forward in the financial statements for over a number of years had been adjusted with each other during the preceding year and shown as a debit balance of Rs.175,949 and as at 31 December 2013 it had been shown under current assets as a deposit made by the Council. Although this had been pointed out in the reports of the Auditor General continuously, action had not been taken to settle this.

1.3.4 Accounts Receivable

The value of balances of accounts receivable as at 31 December 2013 was Rs.122,802,484 and of this, balances over 01 year amounted to Rs.107,153,354.

1.3.5 Accounts Payable

The value of balances of accounts payable as at 31 December 2013 was Rs.73,923,885 and of this, balances remained unsettled for over 01 year amounted to Rs.57,665,039.

1.3.6 Lack of Evidence for Audit

Transactions totalling rs.107,299,033 could not be satisfactorily vouched in audit due to non-submission of required information to audit.

1.3.7 Employees' Loans Receivable

Employees' Loan balances recoverable as at 31 December 2013 was Rs.1,899,436 and of this, loan balances recoverable from 80employees who had deceased, retired, vacated their services and transferred amounted to Rs.183,036. These loan balances were outstanding for over 10 years and no attempt had been made to recover these loan balances.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2013 amounted to Rs.9,402,624 as compared with the excess of revenue over recurrent expenditure amounting to Rs.3,804,547 for the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information on the estimated revenue, actual revenue and arrears of revenue relating to the year under review as presented by the Chairman is shown below.

	Item of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
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		Rs.'000	Rs.' 000	Rs. '000
(i)	Rates and Taxes	16,536	4,538	53,929
(ii)	Lease Rent	29,862	28,681	22,153
(iii)	Licence Fees	1,185	822	3,564
(iv)	Other Revenue	15,550	18,451	(2,584)

2.2.2 Revenue in Arrears

The total of cumulative arrears as at beginning of the year under review and the estimated revenue relating to 04 items of accounts amounted to Rs.183,085,000 and the actual revenue of the year under review amounted to Rs.52,492,000. Therefore, the levee of performance of revenue collection was low representing 29%.

2.2.3 Stamp Fees

Stamp fees receivable from the Registrar General as at 31 December 2013 amounted to Rs.919,000 and it was the estimated value from July to December 2013.

2.4 Surcharges

Following observations are made.

- (a.) A sum of Rs.3,500 is being recovered monthly from the members' allowances of the Chairman in respect of surcharges amounting to Rs.124,800 levied against the Chairman and the Secretary on 30 June 2004 by the Auditor General and the recoveries had not been completed even as at end of the year under review.
- (b.) Surcharges will be levied to the Council in due course against the persons responsible in respect of surcharges amounting to Rs.360,150 paid to the Employees Provident Fund by the Council.

2.5 Operational Inefficiencies

Rates billed for the year amounted to Rs.16,536,296 and the arrears brought forward as at beginning of the year under review from the previous years amounted to Rs.62,664,824. Out of the rates billed during the year under review, a sum of Rs.4,537,925 had been recovered and out of the arrears, only a sum of Rs.5,730,469 had been recovered. Accordingly, the progress of the recovery of billed revenue was 27% and the progress of the recovery of arrears was 10% only.

2.6 Management Inefficiencies

Arrears of Long Term Loan Installments

Installments and interest had not been duly paid in respect of loans obtained by the Council from Local Loans and Development Fund during 2003 and 2004 for various development projects. As such loan installments amounting to Rs.5,217,429 had been in arrears as at end of the year under review.

2.7 Idle and Underutilized Assets

The Hand Tractor HCM 99 valued at Rs.250,000; fire engine valued at Rs.2,104,397 and the Water Motor valued at Rs.65,000 owned by the Council had been lying idle and underutilized for over 13 years, 02 years and 05 years respectively.

2.8 Identified Losses and Damages

The following observations are made.

- (a.) Surcharges amounting to Rs.14,935 levied due to non-payment of contributions payable to the Employees Provident Fund in respect of an employee of the Council during the period 1985 to 1996 had been paid by the Council.

- (b.) Action had not been taken to get settle 18 advances amounting to Rs.544,838 paid for various activities during the period 2001 to 2007 resulting a loss to the Council fund.

2.9 Surcharges of the Employees Trust Fund

Surcharges amounting to Rs.343,215 had been paid to the Employees Trust Fund by the Council in instalments during 2009 and 2010 due to non-recovery of contributions from the employees and non-payment of contributions to the Employees Trust Fund during the period March 1981 to December 1999. In this connection I have informed to the Council by my audit query No.NW/PT/A/03/Put.U.C/2011/46 to identify and report the officers responsible for this loss. However the Council had failed to submit a specific reply.

3. Systems and Controls

Special attention of the Council is needed in respect of the following areas of systems and controls.

- (a.) Accounting
- (b.) Internal Audit
- (c.) Control over Debtors and Creditors
- (d.) Revenue Administration
- (e.) Assets Management