

**Puttlam Urban Council****Puttlam District****1. Financial Statements****1.1. Presentation of Financial Statements**

The financial statements for the year under review had been presented for audit on 30 March 2015 and the financial statements for the preceding year had been presented on 31 March 2014. The report of the Auditor General for the year under review was issued to the Secretary of the Council on 13 August 2015.

**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 2014 and the financial result of its operations and cash flows for the year then ended.

**1.3. Comments on Financial Statements****1.3.1. Accounting Deficiencies**

The following accounting deficiencies are observed.

- (a) Only the value of Dry Fish Stall amounting to Rs.846,698 had been brought to account, whilst the value of other lands and buildings of the Council had not been computed and brought to account.
- (b) The Gulley Bowser valued at Rs.8,133,480 and the Water Bowser valued at Rs.8,133,480, had not been brought to account under fixed assets.
- (c) The fines on rates and taxes amounting to Rs.668,185, relevant to the fourth quarter of the current year, had not been brought to account.

- (d) A totalling sum of Rs.3,133,698 in respect of construction work for the year 2014, had not been brought to account under revenue debtors.
- (e) The interest on property lease amounting to Rs.70,442, had not been brought to account under other revenue receivable.
- (f) Though the balance in sinking fund at the end of the year under review was Rs.110,165, it had been indicated as Rs.119,338. Therefore the sinking fund account had been overstated by Rs.9,173.
- (g) Though a sum of Rs.634,500 had been paid in respect of supply of electrical equipment during the year under review, it had been debited to the creditors accounts for supply of electrical equipment. Therefore a debit balance had been shown in this account.
- (h) The receipts of rates and taxes in arrears amounting to Rs.7,447,364 had not been debited to the rates and taxes in arrears account. Therefore, the rates and taxes revenue account, and the rates and taxes in arrears account had been overstated by a similar amount.
- (i) The rates and taxes receivable during the year under review, amounting to Rs.10,942,413 had not been brought to account. Therefore, the rates and taxes revenue, and the rates and taxes receivable, had been understated by a similar amount.
- (j) A sum of Rs.293,903 received as discount on rates and taxes had been debited to the rates and taxes account. Therefore, the rates and taxes revenue, of the year under review had been overstated by a similar amount.
- (k) The fines on rates and taxes receivable, amounting to Rs.2,210,852 had been debited to the rates and taxes account. Therefore the revenue from fines on rates and taxes receivable had been understated by a similar amount.
- (l) The payables in respect of 10 works carried out under the provisions of Ceylon Electricity Board, had been brought to account, overstating the amount by Rs.2,554,170.

- (m) A sum of Rs.300,000 had been debited to the revenue deposit account twice, whilst another Rs.360 had been credited to this account erroneously. Therefore, instead of the having a credit balance of Rs.54,640, there had been a debit balance amounting to Rs.244,999.
- (n) A sum of Rs.100,000 which should be credited to the Value Added Tax account and Rs.200,000 which should be credited to the employees' loan account, had been credited to the advances account. Therefore, the advances account had been understated by Rs.300,000.
- (o) A sum of Rs.300,000 which should be debited to the payment of advances account, had been debited to the revenue received in advance account, through Journal Entry 282. Therefore, the revenue received in advance account had been overstated by Rs.300,000.
- (p) The revenue received in advance amounting to Rs.54,640, carrying forward since the year 2012, had been retained in this account till the end of the year under review, without settling.

### **1.3.2. Un-reconciled Control Accounts**

A difference of Rs.1,644,487 was observed between the balances in respect of 04 items of accounts in the financial statements, and the balances according to the subsidiary registers. The differences also observed as at 31 December 2014, between the balances held in 03 current accounts of banks, and the balances in the cash book.

### **1.3.3. Suspense Accounts**

There debit and credit balances in 03 suspense accounts carrying forward in the financial statements for many years, had been adjusted against each other in the year 2012 and shown in the general ledger as one debit balance amounting to Rs.175,949. But this balance as at 31 December 2013, amounting to Rs.190,650 had been shown as deposits under current assets.

### **1.3.4. Accounts Receivable and Payable**

The following matters are observed.

- (a) The value of balances of accounts payable as at 31 December 2014 amounted to Rs.114,911,497, whilst the value of balances of accounts receivable as at the same date

amounted to Rs.144,487,225. Similarly these balances included the balances exceeding a period of 01 year amounting to Rs.83,823,878 and Rs.59,129,658 respectively.

- (b) A sum of Rs.9,532.329, had been payable to the Director General of Pensions as at 31 December 2014, whilst employees' loan advances receivable for more than 11 years as at the same date totalled to Rs.1,814,021. Out of this Rs.176,178 represent the value of loans receivable, from 95 employees in the categories of; dead, retired, vacated posts, and transferred,
- (c) The current assets which had been remained non-moving over a period of 06 years, totalled to Rs.4,365,278

### **1.3.5. Lack of Evidence for Audit**

The assets and liabilities totalling to Rs.168,362,654, could not be examined in detail, due to non-submission of certain information in respect to 12 items of accounts, to the audit.

### **1.3.6. Non-compliance with Laws, Rules and Regulations**

The instances of non-compliance with laws, rules and regulations, disclosed during the sample audit examination are indicated below

- (a) According to the Section 177 (2) of the Urban Council Act, a summary of the certified statement of accounts should be published in the Gazette, before the 01 March of the ensuing year, for the information of the general public, but this had not been carried out.
- (b) According to the North Western Province Financial Rule 51.2, the officer in charge of collecting the charges and taxes receivable by the Council, should ensure that no revenue would be in arrears, in an inappropriate manner. But the revenue in arrears as at 31 December 2014 had shown a high value of 86 million.
- (c) Proper action had not been taken, as stipulated in North Western Province Chief Secretary's Circular No. 5/3/ Finance Circular /2010 dated 13 May 2010, in respect of lapsed deposits payable amounting to Rs.6,736,170.

## 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 2014 amounted to Rs.41,642,916, as compared with the excess of revenue over recurrent expenditure amounting Rs.9,402,624 for the preceding year. In the year under review and in the preceding year; the capital aid had been Rs.85,215,939 and Rs.15,993,110 respectively; and the capital expenditure had been Rs.106,249,980 and Rs.22,610,598 respectively. When these amounts are considered, there had been, a surplus of Rs.20,608,875 in the year under review, and a surplus of Rs.2,785,136 in the preceding year. Therefore, in comparison to the preceding year, the financial result in the year under review had been improved by Rs.17,823,739.

### 2.2. Revenue Administration

#### 2.2.1. Performance on Revenue Collection

The information submitted by the Chairman, with respect to the Estimated Revenue, Actual Revenue and Revenue in Arrears relevant to the year under review, and the preceding are indicated below.

	Item of Revenue	2014			2013		
		Estimated	Actual	Cumulative	Estimated	Actual	Cumulative
				Arrears			Arrears
				as at 31-Dec			as at 31-Dec
		<b>Rs.000,</b>	<b>Rs.000,</b>	<b>Rs.000,</b>	<b>Rs.000,</b>	<b>Rs.000,</b>	<b>Rs.000,</b>
(a)	Rates and Taxes	15,894	4,852	57,424	16,536	4,538	53,929
(b)	Lease Rent	32,770	30,399	19,613	29,862	28,681	22,153
(c)	Licence Fees	1,268	492	3,563	1,185	822	3,564
(d)	Other Revenue	14,050	37,462	-	15,550	18,451	(2,584)

#### 2.2.2. Analytical Financial Review

- (a) Out of the estimated capital expenditure, Rs.432,159,072 had not been spent during the year under review, and it was 80% as a percentage.

(b) The accumulated arrears as at the end of the preceding year and the estimated revenue for the year under review, in respect of 04 items of revenue, totalled to Rs.161,255,641, whilst the actual revenue during the year under review amounted to Rs.73,206,835. Therefore the performance in revenue collection had been at a low level of 45%.

### **2.2.3. Stamp Fees**

The value of total stamp fees receivable from the Chief Secretary amounted to Rs.7,900,350, and out of this, stamp fees amounting to Rs.4,003,869 had been received, whilst further revenue of Rs.3,896,481 had been receivable from stamp fees.

### **2.2.4. Rates and Taxes**

The rates and taxes billed for the year amounted to Rs.15,794,734, and arrears brought forward as at the beginning of the year under review amounted to Rs.53,929,423. Out of the rates and taxes billed during the year under review, Rs.4,852,322 had been collected, whilst amount collected out of the arrears, had been Rs.7,447,365. Therefore, the percentage of revenue collection out of the billed amount was 30%, whilst the percentage of revenue collection out of the arrears was only around 14%.

## **3. Operating Review**

### **3.1. Performance Evaluation**

The following are observed.

- a) 10 works valued at Rs.5,775,000, proposed to undertake in the year 2014 had not been implement.
- b) The Council had not made an adequate contribution in the implementation of 07 development projects valued at Rs.520,000,000. The actual expenditure incurred for the estimated works amounted to Rs.6 million. Therefore, the contribution made by the Council in this aspect had been only 1%.

### **3.2. Management Inefficiencies**

The following are observed.

- (a) The loan instalments amounting to Rs.943,682 and interest amounting to Rs.440,629, in respect of loans obtained for two development projects in the years 2003 and 2004, had been in arrears.
- (b) Though 09 firemen should be employed in the approved cadre, this had not been done. Therefore, the fire-truck had been idle for number of years.
- (c) Adequate internal audit had not been carried out in the Council.
- (d) Though the Council should have held 04 Audit and Management Committee meetings during the year under review, this had not been done.
- (e) There were vacancies for 02 posts in the Executive Grade, 21 posts in the Secondary Grade, whilst an excess of 65 posts were in the Primary Grade.
- (f) The surcharges amounting to Rs.286,938 had been imposed on the Council for not making the contribution to the Employees' Pension Fund and Employees' Trust Fund on due dates, incurring losses to the Council continuously.

### **3.3. Idle and Underutilized Physical Resources**

The value of 06 items of assets valued at Rs.4,234,130 and an old building for which the value had not been computed, had been idle and underutilized for number of years.

### **4. Systems and Controls**

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

- (a) Accounting
- (b) Internal Control
- (c) Financial Control
- (d) Revenue Administration
- (e) Assets Management
- (f) Debtors and Creditors Control