

**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 31 March 2016 and the financial statements for the preceding year had been presented on 31 March 2015. The report of the Auditor General for the year under review was issued to the Secretary of the Council on 20 July 2016.

1.2 **Qualified Opinion**

Except for the effects on the financial statements of the matters referred to in Paragraph 1.3 of this reports, 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 2015.

1.3 **Comments on Financial Statements**

1.3.1 **Accounting Deficiencies**

The following deficiencies are observed.

- (a) Only the value of a trade centre of Rs.846,698 owned by the Urban Council had been brought to account. However the value of other lands and buildings and the value of three motor vehicles and 03 tractors, total value of which being Rs.27,498,520 had neither been assessed nor brought to account under Fixed Assets.
- (b) Salaries of Rs.836,318 receivable had not been brought to account under reimburse debtors while a sum of Rs.3,831,190 receivable for "Pilisaru" project had been duplicated under debtors account.
- (c) Revenue from stall rent had been overstated in accounts by Rs.1632 while 675 kg of compost fertilizer valued at Rs.166,350 had not been brought to account under stock in hand.

1.3.2 **Unreconciled Control Accounts**

According to financial statements applicable to 02 items of accounts the balance amounted to Rs.25,573,831 whereas in supportive document it had been amounted to 24,419,556. Accordingly with regard to this balance a variance of Rs.1,154,275 was observed.

### 1.3.3 Accounts receivable and payable

The following matters are observed.

- (a) The value of balances payable as at 31 December 2015 had been Rs.155,959,333, while the value of account balances receivable as at the same date amounted to Rs.182,762,694. Accordingly the total of account balances payable and receivable over one year amounted to Rs.95,843,969 and Rs.151,789,156 respectively.
- (b) |As pension contribution had not been paid for number of years, a sum of Rs.9,829,692 had to be paid to the Director General of Pension as at 31 December 2015.
- (c) The total of the employee staff loan advance recoverable as at 31 December 2015 amounted to Rs.1,889,098 for various reasons, of which value of balance recoverable from 95 employees over a period of 12 years amounted to Rs.176,928.

### 1.3.4 Lack of Evidence for Audit

Account balances amounting to Rs.217,285,661 could not be verify satisfactorily at the audit due to non submission of information required for auditing.

### 1.3.5 Non compliance with Laws, Rules and Regulations

Action had not been taken to settle 27 Adhoc Sub Imprests amounted to Rs. 1,099,407 made available during the period from 2001-2004 and 2013-2015 as per FR 371 and to take suitable action with regard to expired deposits of Rs.6,736,170 as per FR 571 of the Republic of Sri Lanka.

## 2. Financial Review

### 2.1 Financial Result

According to financial statements presented, the excess of recurrent expenditure over income for the year ended 31 December 2015 amounted to Rs.15,240,776 as compared with the excess of the recurrent expenditure over income for the preceding year amounted to Rs. 41,642,916.

### 2.2 Analytical Financial Review

Budgeted and actual expenditure of the Council during the year under review along with relevant variance are as follows:

<u>Item of Expenditure</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
	Rs.'000	Rs.'000	Rs.'000
<u>Recurrent Expenditure</u>			
Personal Emoluments	48,650	85,047	(36,397)
Other	<u>38,359</u>	<u>24,676</u>	<u>13,683</u>
Sub Total	87,009	109,723	(22,714)
Capital Expenditure	<u>431,025</u>	<u>11,670</u>	<u>419,355</u>
Grand Total	<u><u>518,034</u></u>	<u><u>121,393</u></u>	<u><u>396,641</u></u>

Rs.419,355 or 97% of the capital expenditure had not been spent during the year under review.

## 2.3 Revenue Administration

### 2.3.1 Performance in Revenue Collection.

Following observations are made.

- (a) Information on estimated revenue, actual revenue and revenue in arrears submitted by the Council relating to the year under review are as follows:

Item of Revenue	Estimated	Actual	Accumulated arrears as at 31 Dec.
	Rs.'000	Rs.'000	Rs.'000
(a) Rates & Taxes	16,734	16,983	76,359
(b) Lease Rent	32,657	26,301	1,089
(c) Licence fees	912	742	-
(d) Other Revenue	339,050	17,507	28,258

Total of the cumulated arrears of 4 items of revenue at the end of the preceding year and estimated revenue of the year under review amounted to Rs.469,952,882 while the actual revenue of the year under review amounted to Rs.61,532,047. Accordingly performance in revenue collection had been at the lower level of 13%.

- (b) Progress of the recovery of revenue in arrears and billed revenue by the Council during the year under review are as follows.

Item of revenue	Revenue in arrears as at 01.01.2015	Recovery from arrears of arrears	Progress of recovery for year	Billed Revenue revenue	Recovery from billed recovery	Progress of
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
a) Rates & Acreage						
Taxes	57,424	3,347	06	4,226	2,594	61
b) Rent	20,820	1,870	09	39,692	12,589	32
c) License Fees	-	-	-	1,662	537	32
d) Other Revenue	-	-	-	11,650	16,870	145

### 2.3.2 Rates & Taxes

The following observations are made.

- (a) Recovery of Rates and Taxes should be done in terms of sections 252, 255 and 256 of the Municipal Council Ordinance to be read with sections 170(1) and (2) of the Urban Council

Ordinance. However in instances where Distress licence is not issued for recovery of rates and taxes in arrears as per computerized programme of the Urban Council, surcharges are added automatically for each unit at the end of a quarter, a large amount in arrears are shown due to addition of surcharges.

- (b) Rates and Taxes in arrears amounting to Rs.3,858,138 were due to recover from 122 properties belonging to two Mosques in Puttlam town which had not been exempted from recovery of rates & taxes.
- (c) Rates and taxes in arrears being brought forward from the beginning of the year amounted Rs.57,424,471 while billed amount had been Rs. 16,720,594. The recovery of the year had been Rs. 11,026,981 while Rs.63,118,084 remained in arrears which being 85% of the amount in arrears.

### 2.3.3 Lease Rent

Rent in arrears amounting to Rs.89,329 had not been paid by lessees of two meat selling stalls of the super market complex. However action had not been taken against them as per lease agreement.

### 2.3.4 Stamp Fees

Stamp fees in arrears as at 01 January 2015 amounted to Rs.4,047,325. Accordingly with the stamp fee income of Rs.5,985,784 receivable during the year under review the total value receivable amounted to Rs.10,033,109 of which the stamp fees of Rs.2,903,597 had been received during the year under review while the amount receivable by the end of the year amounted to Rs.7,129,512.

## 2.4 Human Resources Management

### Approved and Actual Cadre

Following observations are made.

- (a) As per Public Administration Circular No.25/2014 dated 12 November 2014, 87 employees had been given permanent appointments, while 87 remained in excess. However salaries and allowances of these employees had not been reimbursed by Dept. of Local Government. Therefore Rs.27,537,784 had been paid through Provincial Council Fund in 2015.
- (b) Even after granting permanent appointment to 87 employees, Rs.8,498,223 had been paid as salaries to 36 casual and substitute employees .
- (c) Excess personnel had been employed on daily paid basis in health and road sectors in adhoc manner without pre arrangement/ preparation of estimates.

### 3. Operating Review

#### 3.1 Performance Evaluation

The following matters are observed

- (a) The Urban Council had failed to establish 06 industries the cost of which amounted Rs.13,800,000 proposed to be undertaken during 2015.
- (b) The actual cost of 12 development projects, the estimated expenditure of which amounted to Rs.416,100,000, had been Rs.20,020,412. However the Council had not made sufficient contribution for same .

#### 3.2 Management Inefficiencies

The following observations are made.

- (a) The monthly installments and interest in respect of the loan obtained from the Local Credit and Development Fund for implementing development projects in 2003 and 2004 had not been paid as scheduled. Accordingly total loan installments in arrears amounted to Rs.322,721 while the loan interest in arrears was Rs.399,161.
- (b) Although 09 firemen should be in the approved cadre, instead of them casual labourers had been employed & two of them had retired. Although the remaining 07 employees had been in the service as at 31 December 2015, they couldn't be gainfully employed due to fire extinguishing vehicle had been out of order for several years.
- (c) Although an internal auditor had been appointed as per letter No.03/16/ Audit & Management dated 03 September 2012 Commissioner of Local Government (North-West) sufficient internal auditing had not been performed within the institution.
- (d) Although 04 Audit and Management Committee meetings should have been held during the year under review this requirement had not been adhered to.

#### 3.3 Identified Losses

Although one year had been elapsed since the accident of the vehicle bearing No.NWPF-7982 , Sri Lanka Insurance /corporation had not taken action to pay compensation. Due to rejection of the payment of compensation and inability of the council to get it repaired and used, a loss amounting to Rs.7,900,000 was incurred by the Institution.

#### 3.4. Solid Waste Management

A loss amounting to Rs.2,626,550 is shown with regard to the compost project in 2015. Accordingly the responsible officers of the Council had neither taken action to implement the project as a profitable venture, nor undertaken any marketing promotion. Sufficient information with regard to operating of the project had not been submitted for auditing.

4. Good Governance and Accountability

4.1 Idle and Under Utilized Assets

Water Motor and 05 vehicles, the value of which amounted to Rs.4,234,130 were remained idle and under utilized.

4.2 Board of Survey

Authorities had not taken action to implement recommendations included in the Board of Survey report, 2014. Accordingly the main objective of carrying out a Board of Survey had not been fulfilled resulting in increasing the number of unsolved problems every year.

4.3 Irregular use of Assets not transferred

Although the Urban Council had made requests on several occasions to the Divisional Secretary, Puttlam to obtain Transfer Orders to establish the clear ownership of lands owned by the Urban Council. Due to delay of this process, the Council was unable to undertake urban development activities efficiently and effectively.

5. Systems and Controls.

- (a) Internal Auditing
- (b) Accounting
- (c) Debtors & Creditors Control
- (d) Revenue Administration
- (e) Assets Management