

Chiaw Urban Council
Putlam District

1 Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2018 had been presented to audit on 29 March 2019 and the summary report and the Detailed Management Report of the Auditor General on the financial statement had been issued to the Chairman on 30 May 2019 and 25 July 2019 respectively.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion Section of this report, the financial statements give a true and fair view of the financial position of the Chilaw Urban Council as at 31 December 2018 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Basis for Qualified Opinion

(a) Accounting Deficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer
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(i) Furniture and fittings valued at Rs. 200,655 and machines and equipments valued at Rs. 308,207 purchased in year under review had not been capitalized.	Fixed Assets should be capitalized.	Action will be taken to rectify.
(ii) Motor vehicles and cart valued at Rs. 4,243,684, closing stock balance of Rs. 557,321 and trade creditors of Rs.658,961 in financial statements of year under review had been understated	Should be brought to account accurately.	Action will be taken to rectify the understated value of the Motor vehicles and cart, closing stock balance and trade creditors.
(iii) Receivable interest income for saving deposits of National Savings Bank valued Rs.493,245 had not been accounted.	Should be brought to account accurately.	Action will be taken to rectify the error that has been accounted as receivable interest income.
(iv) Seven fixed assets items valued at Rs. 237,525 purchased in the previous years, shows as an stock in hand in the accounts.	Should be brought to account accurately.	Since these assets are still in the warehouse, will make necessary adjustments after those were released.

(b) **Non – reconciled Accounts**
Audit Observation

Recommendation

Comments of the Accounting Officer

 There was an understand balance of Rs. 51,603,490 in 16 items between balances with schedules / subsidiary books and the financial statements.

 Action should be taken to correct the accounts.

 It is found at the examining of the documents that there balances are coming from several years and will be corrected in the preparation of 2019 accounts.

(c) **Accounts Receivable and Payable**
Audit Observation

Recommendation

Comments of the Accounting Officer

 (i) The pre – paid amounting to Rs. 8,871,877 brought forward from several years and various deposits amounting to Rs.73, 940 had not been settled.

 Action should be taken to recover the receivables immediately.

 This is due to the un-reconciliation of-comparison documents for several years, are the necessary actions will be taken to investigate this matter and settle the balance.

(ii) Action had not been taken to settle the outstanding balance of creditors amounting to Rs. 18,991,395 up to 2017.

Action should be taken to settle the outstanding balances.

This is due to un-reconciliation of documents, for several years and necessary action will be taken to look into the matter and settle the credit balance.

(d) **Lack of documentary Evidence for Audit**
Audit Observation

Recommendation

Comments of the Accounting Officer

 The evidences had not been presented to audit for 08 items totaling Rs.309,869,100.

 Schedules must be provided with the final accounts.

 Still, detailed schedules of fixed asset balances have not been submitted with the final account. The schedule for these balances will be submitted as soon as possible.

1.4 Non-compliances

Non-compliance with Laws, Rules, Regulations and Management Decisions

The instances of non-compliance with laws, rules, regulations and management decisions are given below.

Reference to Laws, Rules, Regulations and Management Decisions -----	Non-compliance -----	Recommendation -----	Comments of the Accounting Officer -----
Ordinance of the Urban Councils			
(a) Section 170	Action had not been taken about arrears of rate of taxes and arrears of rent for over one year.	Immediate action should be taken to recover the arrears amount.	According to the warrant given by the Secretary to 1660 assessed properties which have been in arrears for more than one year, a red notice has been issued and a sum of Rs.4,840,947 had been earned.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.			
(i) Section 571	Action had not been taken to make necessary adjustments or take to income relating to expired deposits included in the deposit balance.	Action should be taken as per Financial Regulation.	No comments.
(ii) Section 371(2)	Even though the advance paid should be settled as soon as possible after completion of the work there were unsettled balances	Action should be taken to settle the advances promptly	No comments.

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 2018 amounted to Rs.16,885,243 as compared with the revenue over recurrent expenditure of the preceding year amounting to Rs.40,382,877.

2.2 Financial Administration

2.2.1 Non – Performing Bank Accounts

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) The Bank has not been calculated interest for the year 2018 as the balance in the Savings Bank due to amount of Rs. 493,245 of account No. 100070323659 was inactive for a number of years.	Interest should be calculated and accounted and appropriate action should be taken regarding the balance of the account.	Action has been taken to settle the balance.
(b) The information has not submitted to the audit of 02 current account balances remaining 763 and 3397 maintained in the People's Bank amounting to by Rs. 1,244 and Rs. 246,86 respectively.	The information of the account balances should be submitted.	Action will be taken to settle the balances.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Billed Revenue, Collected Revenue and the Arrears of Revenue

The information relating to the estimated revenue, billed revenue, collected revenue and the arrears of revenue, furnished for the year under review and for the preceding year appears below.

Source of Revenue	Estimated Revenue	2018			2017			Total Arrears as at 31 December
		Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
	'000	'000	'000	'000	'000	'000	'000	'000
Rates and Taxes	22,384	22,966	22,770	37,198	22,508	22,483	11,089	37,002
Lease Rent	16,467	16,535	12,369	34,716	42,400	36,307	14,988	30,550
Licence Fees	1,000	1,244	1,235	9	1,831	1,722	941	781
Other Revenue	47,031	40,225	28,656	70,674	27,317	25,536	619	59,105
Total	86,882	80,970	65,030	142,597	94,056	86,048	27,637	127,438

- ❖ The collected revenue includes collection of the billed revenue for the year under review and collection from arrears revenue of past years.

2.3.2 Performance of Revenue Collection

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>-----</p> <p>Overall, performance of revenue collection is poor. Even though the rate and taxes had been computerized but the income registers had not been prepared concurrently and inability to obtain a copy of the year under review, the accuracy of bill assessments, receipts and arrears were not confirmed.</p>	<p>-----</p> <p>The registers should be updated and should be introduced the method for take the copies of data.</p>	<p>-----</p> <p>It was collected 49.19% of the total Revenue. Nearly Rs. 20 million crores have to be recovered from Wella area. There are no movable properties and not given deed rights for immovable properties in these areas to restrain properties to take legal action for collect the arrears of assessments. That region is a Tsunami Risk Zone. Since there are no deeds, and collection of assessments in those areas have become very problematic.</p>

2.3.3 Rates and Taxes

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>-----</p> <p>The arrears of rate and tax as at 01 January 2018 was Rs.37,002,095 and the billed amount for the year under review was Rs.22,966,000. The amount recovered during the year was Rs. 22,770,434. The total arrears at the end of the year under review was Rs.37,197,660</p>	<p>-----</p> <p>Action should be taken to recover arrears of rate and tax immediately.</p>	<p>-----</p> <p>Action will be taken to recover the assessments other than Tsunami Risk Zone.</p>

2.3.4 Rent

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>-----</p> <p>(a) Arrears as at the beginning of the year under review amounted to Rs. 30,550,274. During the year the billed amounted to Rs.16,534,675 and the total amount to be recovered was Rs.47,084,949 out of that only Rs. 12,368,058 had been recovered.</p>	<p>-----</p> <p>Action should be taken to recover arrears revenue immediately.</p>	<p>-----</p> <p>Letters have been send and notified to pay shop rent arrears for this year under review and legal action is being taken for taxpayers who are not paying rent for a the long run.</p>
<p>(b) The Council had failed to implement a shop rent revision based on the 2013 assessment and the shop rent arrears</p>	<p>Action should be taken to recover shop rent arrears immediately.</p>	<p>The Shop rent revision was implemented based on assessment in 2013. The shop</p>

at the end of the year under review was Rs.34,716,058.

owners and the Assistant Commissioner of Local Government held a meeting at the Chilaw Urban Council on March 11 and 12, 2019, because told that the rent could not be paid due to the rent amount was high and the stalls were built by themselves Expect to recovered the arrears of rent on the decision taken at that meeting.

2.3.5 Stamp Duty

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>Even though there was a balance of Rs.71,590,235 as at the end of the year under review, according to the registers there was a balance of Rs.11,888,728 and Rs.1,256,169 for the years 2015 and 2016 respectively.</p>	<p>Action should be taken to recover the stamp duty immediately.</p>	<p>We have not received stamp duty schedules for the years 2016,2017,2018 so far and inform that a hypothetical figure had been accounted for this year.</p>

3. Operating Review

3.1 Performance

The matters revealed in respect of the activities that should be carried out by the Council such as regularize and control over the matters of public health, public utility services, public roads and comfort, facilities and wellbeing of the people under Section 4 of the Urban Council Ordinance are given below.

(a) By - Laws

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>Three By-Laws presented to the Provincial Council in 2015 had not been gazetted as at 31st December 2018 and 04 by-laws had not been passed in respect of the year 2018.</p>	<p>Action should be taken to enact by-laws.</p>	<p>The By – laws of the year 2015 were not implemented Minister in charge not published in the gazette. Action will be taken to find out the legality to impose the by-laws of the year 2018.</p>

(b) Annual Action Plan

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>(i) When examining the progress of the 2018 Action Plan, it was found 15 programs with an</p>	<p>Action should be taken to accomplished the projects as per the plan.</p>	<p>Four creditors programs to community development section amounting to Rs 176,830 had been</p>

estimated cost of Rs.865,000 of the community development section had not been accomplished during the year.

- (ii) According to the progress report of the industry sector, the physical progress of 14 industries valued of Rs.2,516,146 was at 10 per cent level and the physical progress of the industries of which estimated value of Rs1,980,500 was in the range of 25 to 50 per cent.

implemented in the year 2019 and 05 programs not been accomplished and cost of 4 programs have been incurred by the respective affiliated institutions.

At present, the physical progress of 11 industries is 100% and 10% progress of four industries and 25% of one industry

**(c) Solid Waste Management
Audit Observation**

Recommendation

Comments of the Accounting Officer

Action are being taken to dispose of 18 tons of garbage generated within the limits of the Urban Council area to an open site and composting work has been not started since there is no compost yard. 105 workers and 10 tractors were deployed to dispose of garbage within the city limits and salaries and vehicle maintenance costs was Rs.48 million rupees per year.

The Council should initiate a formal program on solid waste management.

In five occasions, lands were found to start compost projects but there were failed due to public protest. Action will be taken to find a land from another area.

**(d) Sustainable Development Goals
Audit Observation**

Recommendation

Comments of the Accounting Officer

The followings were observed in the preparation of achieving the goals and objectives to be achieved in terms to the United Nations "Sustainable Development Agenda 2030".

- (i) The Council had identified 08 Sustainable Development Goals and planned to implement a number of activities to achieve those goals.
- (ii) During the year under review, 05 expected objectives were achieved

Action should be taken to achieve the Sustainable Development Objectives and Goals.

Although 05 expected objectives have been achieved should be

No comments.

No comments

and the progress was between 50 per cent and 99 per cent. achieved the up to hundred per cent progress.

3.2 Management Inefficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) Even though the sum of Rs. 2,951,449 had been paid for the supply and installation of 21 air conditioners in January and February 2018 for the municipal office premises, due to the inadequate electricity capacity to operate those machines the machines were out of use and the warranty period was also over.	Action should be taken to fulfill the requirement early.	Because of the electricity capacity installed in the municipal premises is not sufficient to work of air conditioners, the action had been taken to install the power transformer having sufficient capacity
(b) A Procurement Notice was published in newspapers in December 2018 for the purpose of achieving 05 works, but 03 of them were not implemented and abandoned.	Should be cover the all work areas at the Procurement.	No comments
(c) The stock valued at Rs. 33,570 in the general stock in the financial statements of the year under review available was not physically.	Appropriate action should be taken regarding the stocks not in the stores.	No comments
(d) Value Added Tax (VAT) payable to the Inland Revenue Department at the end of the year under review amounting to Rs.1,002,778 had been overpaid on monthly and quarterly basis.	Action should be taken to recover or to settle the overpayment.	Kindly inform that the action will be taken to set off excess paid Value Added Tax amount of Rs. 1,002,778 for next years after inquire from the Department Inland Revenue.

3.3 Human Resource Management

Vacancies and Excess of cadre

Audit Observation	Recommendation	Comments of the Accounting Officer
The post of Secretary to the Council has been vacant for many years and a secondary grade development officer has been appointed to act. There were 46 vacancies in the secondary sector out of the total number of employees.	Action should be taken to fill the vacancies promptly.	Thirty six vacancies of the secondary sector are in the fire department cadre. Requests for recruitment have been made.

3.4 Procurement

Audit Observation	Recommendation	Comments of the Accounting Officer
No procurement plan had been prepared for the year under review.	A procurement plan for the year should be prepared.	By mistake, the procurement plan for 2018 could not be prepared and the procurement plan for 2019 has been prepared.

3.5 Idle and Underutilized Assets

Audit Observation	Recommendation	Comments of the Accounting Officer
There were 08 fixed assets valued at Rs. 301,845 which were purchased in 2014 and 2017 and not issued and the warrantee period of these assets had also been expired.	The assets should be purchased as per the requirement and should be utilized for the purpose.	04 items have already been issued and 02 items have been reserved as donation. The existing items are kept in the warehouse for use later and will be issued when needed.

3.5.2 Annual Board of Survey of Goods/Stock

Audit Observation	Recommendation	Comments of the Accounting Officer
According to the Board of Survey carried out for the year under review, there were 31 shortages of goods and 04 items of assets obtained to the Ayurvedic center had been documented without value.	Action should be done for shortages in accordance with the Financial Regulations.	Necessary actions have been taken to recover the value of the items from the responsible officers.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Recommendation	Comments of the Accounting Officer
The 100 per cent savings in estimated allocation for 75 budgeted items in the year under review.	Should be made estimates accurate.	Savings in estimated allocations of 19 budget items in under program 1 during the year under review and inquire and answer for this as soon as possible.

4.2 Internal Audit

Audit Observation ----- -----	Recommendation ----- -----	Comments of the Accounting Officer ----- -----
<p>Sufficient internal audits have not been carried out in the institution and internal audit reports for the year under review have not been submitted to the Auditor General.</p>	<p>Internal audit reports should be submitted to the Auditor General.</p>	<p>Internal audit had been conducted according to the Internal Audit Plan for 2018, but there are some shortcomings in the Internal Audit and it is inform that the internal audit will be carried out in the year 2019.</p>