

Arachchikattuwa Pradeshiya Sabha
Puttalam District

1 Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2018 had been presented to audit on 28 March 2019 and the Summary Report and the Detailed Management Report of the Auditor General on the financial statement had been issued on 30 May 2019 and 26 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 Arachchikattuwa Pradeshiya Sabha 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 Policies

Audit Observation	Recommendation	Comments of the Accounting Officer
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Even though it had been revealed that the income and expenditure of the Sabha are accounted on accrual basis, industry tax, business tax, trade license income had been accounted on a cash basis.	Should be consistent with disclosed accounting policies.	Even though annual estimates for industry tax, business tax and trade license income had been prepared according to the survey reports. Estimates cannot be prepared 100 per cent accurately since all these 03 taxes are charged to the relevant year and permits are issued. Therefore it is not realistic to classify this revenue as prepayment or receivables on accrued basis.

(b) Accounting Deficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer
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(i) Stamp duty receivable amounted to Rs. 2,458,610 of the Puttalam Land Registry Office for the	Stamp duty receivable should be accounted.	Action will be taken to account in future.

years 2014, 2015 and 2016 had been omitted from the accounts.

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| (ii) | Income of the rental of the motor grader amounting to Rs. 74,000 and one per cent from tax on land plots amounted to Rs. 417,868 aggregated to Rs. 491,868 which had been recovered and accounted as deposit for the previous year had not been credited to the accumulated fund. | Previous year income should be adjusted to the accumulated fund. | Action will be taken to credit to the accumulated fund in preparation of accounts for the year 2019. |
| (iii) | A sum of Rs. 420,000 of Contributions to the Local Government Pension Fund had been omitted from accounts. | All amounts payable should be accounted. | Action will be taken to adjust the relevant arrears in preparation of accounts for the year 2019. |
| (iv) | The value of the Sawsiri Uyana land which was transferred to the Divisional Secretariat to construct a water tower under 5th project of the Asian Development Bank amounting to Rs. 718,440 had not been removed from the accounts. | Lands vested to institution should be removed from Sabha assets. | Action will be taken to remove the amount of land from the accounts in preparation of accounts for the year 2019. |
| (v) | Water project constructed at Wijeyakatupotha had not been accounted valued at Rs. 2,602,241. | Action should be taken to account for Sabha assets. | The retention money of the Wijeyakatupotha Water Project had not been released so far. As this project has been constructed under the supervision of the Water Resources Board and the project will be handed over to the Sabha after the recommendation of this Board. Although the request for the transfer of ownership of this asset made on 06 September 2018, the ownership had not been |

transferred to the Sabha and it is not possible to account.

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| (vi) | Eight 10x10 size cloth tents valued at Rs. 110,800 that are used by the Sabha and rented out had been stated as factory inventory in hand rather than accounted as fixed assets. | Assets currently used by the Sabha should be accounted as fixed assets. | Action will be taken to account the relevant cloth tents as fixed assets in preparation of accounts for the year 2019. |
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1.4 Non-compliances

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

The following non-compliances were observed in the audit.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance	Recommendation	Comments of the Accounting Officer
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(a) Pradeshiya Sabha Act No 15 of 1987 Subsection No 126 (XXVII)	By-laws had not been enacted for welfare facilities for fishermen.	The welfare should be enhanced by promptly enacting of by-laws.	Action will be taken to enact the relevant by-laws in future.
(b) Pradeshiya Sabha (Financial and Administrative) Rules of 1988 (i) Rule No 5 (7)	An internal audit system had not been properly for financial and storage activities.	An internal audit for financial and storage activities should be implemented.	An internal audit for financial and storage activities are being done through the Internal audit plan at once a year, and an internal audit also done by through stores receipts and board of survey.

(ii) Rule No 33	A list of names of defaulters of payments of assessment taxes and a warrant to ban property had not been prepared and submitted to the Property Restraining Officer.	Should be complied with the rules.	Actions will be taken to maintain a register for newly constructing buildings.
(iii) Rule No 165	Accounts had not been maintained for assessment tax, acreages tax, water tax, shop rent, lease rent, court fines, stamp duty, income / assistance, warrant fees, fines and revenue.	Accounts should be maintained for each source of income.	Action will be taken accordingly in preparation of accounts for the year 2019.
(iv) Rule No 218	Board of Survey had not been appointed to inspect all the lands and buildings of the Sabha at least once in year.	Action should be taken to appoint the relevant Board of Survey.	Action will be taken as per instructions given.
(c) Letter of Secretary to the Chief Ministry of North Western Province No 309/අ/අ/05/06 dated 26 February 2012	Environmental permits had not been issued for 67 unfair businesses, 26 dangerous businesses and 39 unfair and dangerous businesses.	Legal action should be taken against not obtaining environmental permits.	By now letters has been sent by informing the industrialists to obtain environmental permits and action will be taken to issue permits for these factories.

(d) Establishment Code of the Democratic Socialist Republic of Sri Lanka

(i) Paragraph 1.6 of Chapter XXIV	Loan amounting to Rs. 129,760 of 39 transferred officers/ employees had not been settled in 11 years.	The outstanding employees' loan balance should be recovered by researching guarantors' information.	There is no any information about the employee loans prior to 2008 and have sent letters to whom having personal files in record room, but no response. It is reported that some of them have died, some have relocated, some have gone abroad, but these loan amount cannot be recovered due to there is no definite information about them.
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2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2018 amounted to Rs. 10,090,303 as compared with the revenue over recurrent expenditure of the preceding year amounting to Rs. 11,054,473.

2.2 Revenue Administration

2.2.1 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	Year 2018				Year 2017			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total arrears as at 31 December
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Rates and Taxes	7,059	7,085	6,834	10,945	3,562	6,365	4,293	10,744
Lease Rent	4,856	7,609	9,838	2,492	5,133	8,327	8,587	4,738
License Fees	1,135	1,185	1,209	-	1,170	1,554	1,554	-
Other Revenue	49,048	49,048	26,329	54,226	48,367	47,515	53,100	35,640
Total	62,098	64,927	44,210	67,663	58,232	63,761	67,534	51,122

- ❖ The Collected Revenue includes the collections made to Billed Revenue for the year under review and the collections from arrears of past years.

2.2.2 Revenue Collection Performance

Audit Observation	Recommendation	Comments of the Accounting Officer
In the year under review, Rs. 6,834,000 had been collected from rates and tax revenue, which was 38 per cent of the revenue to be collected. The rental income collected was Rs. 9,838,000, which was 80 per cent of the revenue, to be collected. Rs. 26,329,000 had been collected from other revenue which was 31 per cent of the amount to be collected.	Revenue should be collected according to law.	There was no comment.

2.2.3 Rates and Taxes

Audit Observation	Recommendation	Comments of the Accounting Officer
According to the financial statements presented, rates and taxes in arrears of the Sabha at the end of the year under review amounted to	Action should be taken to recover the revenue properly.	Two days of each week have been set for collection of arrears and action will be taken to collect arrears by restraining properties.

Rs. 9,865,197. Out of these arrears, collection within the year under review was Rs. 2,479,649 which was 41% of the collected amount. Further, the total amount collected during the year under review from the arrears in previous year was Rs. 3,314,180.

2.2.4 Business tax

Audit Observation	Recommendation	Comments of the Accounting Officer
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Estimated and billed income for the year under review was Rs. 600,000. The recovery was Rs. 1,028,280. Accordingly, a deficit estimate had been prepared.	Annual estimates should be realistic.	Although it was a deficit billing in the year 2018, action will be taken to rectify in the year 2019,

2.2.5 Business Licenses

Audit Observation	Recommendation	Comments of the Accounting Officer
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The estimated amount for the year under review was Rs. 500,000 that includes 1% tax of Rs. 200,000 receivables from an institution registered in the Tourist Board. Although Rs. 300,000 was billed as the estimated amount, the recovered amount was Rs. 283,574. During the year under review, there were 415 trade license applications received and the number of licenses issued was 290. Accordingly, the unaccounted arrears of license revenue was approximately Rs. 125,000.	Action should be taken to examine the applications received but that were not issued certificates.	Income was less due to some of the applications sent to the Office of the Medical Officer of Health (MOH) for approvals have not received back and some of applications have not been approved.

2.2.6 Lease Rent

Audit Observation	Recommendation	Comments of the Accounting Officer
----- The billed lease rent for the year under review was Rs. 6,612,368 and the total revenue collected was Rs. 8,431,085. The total lease rent receivable at the end of the year under review was Rs. 2,168,681.	----- Legal action should be taken regarding the arrears in lease rent.	----- Tender tax amount related to past years had been shown under the heading of property ownership leasing arrears.

2.2.7 Court Fines and Stamp Duties

Audit Observation	Recommendation	Comments of the Accounting Officer
----- As at 31 December, a sum of Rs. 7,367,599 as court fines and Rs. 36,066,067 as stamp duty had to be recovered from the Chief Secretary of the Provincial Council.	----- Action should be taken to recover.	----- More than half of the revenue has already been recovered and action will be taken to recover the balance immediately.

3. Operating Review**3.1 Performance**

The matters revealed in respect of execution of activities that should be executed under section 3 of the Pradeshiya Sabha Act such as regularize and control over the matters of public health, public utility services and public roads and the comfort, facilities and wellbeing of the people are given below.

(a) By - Laws

Audit Observation	Recommendation	Comments of the Accounting Officer
----- Under Section 126 of the Pradeshiya Sabha act, 17 by-laws had been enacted by the act. The followings were observed.	-----	-----
(i) In accordance with g,h,i,j in (ix) under Section 126 of the Pradeshiya Sabha Act, by-laws had not been enacted to	By-laws should be enacted.	Action will be taken accordance with the approved by-laws.

manage and control public health and prosperity.

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| (ii) By-laws had not been enacted under Section 126 xi (e) to protect the socially valued "Kurulu" sanctuary in the area of the Pradeshiya Sabha. | By-laws should be enacted soon. | Action will be taken to enact the relevant by-laws in the future. |
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(b) Action Plan

Audit Observation	Recommendation	Comments of the Accounting Officer
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The Sabha had been prepared a development plan for the year under review and action had not been taken to evaluate the progress and identify the weaknesses.	Action should be taken to check the progress and to develop programs by identifying weaknesses.	Programs have been implemented in accordance with the Annual Development Plan and the physical progress of the programs has been shown in the relevant file and the financial progress has been prepared in accordance with the monthly financial progress report. Accordingly, Action will be taken to prepare the progress at a single report.

(c) Solid Waste Management

Audit Observation	Recommendation	Comments of the Accounting Officer
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About one ton of garbage was collected by using three tractors per day and a pit in a land in the area had been filled with this garbage and time to time covered by soil. The following are observed.		
(i) Although it was planned to start compost projects in the year under review, the Sabha does not have a suitable land for garbage disposal	Action should be taken to start a compost project under solid waste management.	Facing difficulties due to lack of suitable land for disposal of garbage in the Arachchikattuwa Pradeshiya Sabha area. Attempt made to construct a compost yard at

Manakeriyawatta Rajakadaluwa land, it was not provided due to protest by local residents.

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| (ii) | As garbage in disposed without classified the environmental impact of disposing non-decaying material with the disposal of garbage collected by the Sabha had not been taken into account. | The waste should be classified and recycled them. | Although plastic waste has been collected in 2018, it was necessary to be baled. But since Sabha did not have a baler, it could not be sent to the recycling institutions. Action will be taken to get a baler from Chilaw Municipal Council in 2019 and then hand over to recycling institutions. |
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3.2 Management Inefficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer
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(i) According to the Annual Development Plan presented to the audit, there are 1136 business places, business license revenue for the year under review had been collected from only 295 places that is only 26 per cent.	Business places should be identified separately.	According to the Annual Development Plan, 1136 includes not only business premises required to get licenses but also include all premises requested to get industry taxes, business taxes and licensing.
(ii) Sufficient action had not been taken to charge the annual increasing taxes, like stamp duty and rates and taxes which are not being calculated for a long time, acreage tax, shop rentals and court fines.	Legal action should be taken to recover the arrears.	Required legal action and other programs are taken to recover the outstanding revenue.
(iii) It is necessary to come to an agreement for all leasehold properties, but lease agreements had not	Should be entered in to formal lease agreements.	Actions are being to enter lease agreements for the shops mentioned.

been entered with the four leased outlets in the Anawilanduwa area.

3.3 Human Resources Management

Audit Observation	Recommendation	Comments of the Accounting Officer
----- The approved cadre of the Sabha was 87 and the actual number of employees was 75 and there were six vacancies in the secondary grade and six vacancies in the primary grade.	----- Action should be taken to fill the vacancies and to approve the excess carder.	----- Submitted for approval to fill 02 existing posts.

3.4 Assets Management

3.4.1 Assets not Recorded

Audit Observation	Recommendation	Comments of the Accounting Officer
----- Three plots of land valued at Rs. 7,675,400 vested by the Sabha, a weekly fair meat shop valued at Rs 1,584,816 and four constructions valued at Rs. 13,322,294 had not been included to Fixed Assets Register.	----- Fixed assets register should be kept up to date.	----- Action will be taken to include 3 plots of land and the weekly meat shop to the fixed assets register in the coming year.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Recommendation	Comments of the Accounting Officer
----- According to the budget prepared, the entire provisions totalling Rs. 3,381,252 relating to 54 objects in the year under review had been saved. More than 20 per cent of the provisions had been saved relating to 49 objects. Further, the budget for capital inflows had not been prepared.	----- Estimates should be prepared in realistically.	----- Laying pipelines for the Wijekatupotha Water Project were listed as creditors and provisions had not been recovered. The development activities were not carried out as the relevant lands had not taken over for development of playgrounds and cemeteries, Allocation were saved due to

the requirements of repairing tube wells were not arisen and the sponsorship from various institutions were received for these activities.

**4.2 Internal Audit
Audit Observation**

An internal audit had not been carried out for the financial and operational activities of the Sabha for the year under review.

Recommendation

Internal audit should be strengthened.

Comments of the Accounting Officer

The Internal Audit Unit has been introduced and it is conducting audit inspections.