

Puttalam Urban Council Sabha - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Puttalam Urban Council Sabha for the year 31 December 2020 comprising the statement of financial position as at 31 December 2020, statement of financial operations and the statement of changes in net assets for the year then ended and significant accounting policies and other explanatory information was carried out, under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Sub-section 181(1) of the Urban Council Ordinance (Chapter 255) and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Puttalam Urban Council as at 31 December 2020, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Urban Council financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Urban Council is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements.

1.4 **Audit Scope (Responsibilities of Auditors for the Audit of Financial Statements)**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of its internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Urban Council and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Urban Council has complied with applicable written law, or other general or special directions issued by the governing body of the Urban Council.
- Whether it has performed according to its powers, functions and duties and
- Whether the resources of the Urban Council had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Other Legal Requirements relating to Reports

Special provision with regard to the following were included in the National Audit Act No. 19 of 2018.

- (a) The financial statements of the Urban Council were similar to the previous year as per the requirement pointed out in Section 6(1)(d)(III) of the National Audit Act No. 19 of 2018.
- (b) Recommendations made by me during the previous year were included in the financial statements presented in terms of requirements pointed out in Section 6(I) (d) (IV) of the National Audit Act No. 19 of 2018.

1.6 Audit Observations relating to Preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) Action had not been taken to make comparison for receipts and provision for debtors relating to the value of other debtors of Rs.70,710,468 as at 31 December 2020 and make adjustment in the accounts by identifying over or under provision for debtors.	Necessary information are being checked for making adjustment relating to the value of debtors prior to year 2018. Request were made from the Commissioner of Local Government and the Chief Secretary relating to reimbursement of salary. It was informed that the above amount will be released immediately after receiving the financial provision and I will take action to report you thereafter.	Action should be taken to bring to the account correctly.
(b) There was a difference of Rs.36,108 between the employee's security deposit account and employee's security investment account as at 31 December of the year under review.	I will take action to identify the difference correctly and make adjustments in the final accounts 2021.	Action should be taken to bring to the account correctly.

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| (c) | According to the accounts as at 31 December 2020, the value of stocks (Stationeries, street lamps, equipment etc.) was Rs.20,192,385 and stocks had not been physically counted and adjusted in the accounts. | I will take action from next year to physically count and make adjustments in the accounts | Action should be taken to count the stocks physically and bring to account. |
| (d) | The stock loss of stocks amounting to Rs.2,433,668 destroyed by fire on 31 December 2018 at the stores belonging to the Urban Council, had not been identified and brought to account. | Action will be taken to bring the loss of stocks destroyed, to the accounts while preparing the final accounts for the year 2021. | Disclosures should be made in the accounts and the stock loss should be identified and brought to account. |
| (e) | Necessary adjustments had not been made in the accounts by identifying the value of under and over provision for creditors (difference between provision for creditors and actual payment) included in the value of Rs.31,091,243 relating to the previous year and the year prior to the previous year out of the value of other expenditure creditors as at 31 December 2020. | Information are being received and I will take action to make adjustments while preparing the final accounts for the year 2021. | Action should be taken to bring to the accounts correctly. |
| (f) | According to the Register of Fixed Assets, the value of 26 items of buildings and constructions had not been assessed and brought to account. | Requests were made to the Department of Surveyor for making assessment of properties. | Prompt action should be taken to assess and bring to the account. |
| (g) | Disclosures had not been made in the financial statements for 03 court cases for which legal action was taken by the Urban Council and a sum of Rs.542,000 had been spent for these 03 court cases. | Action will be taken to disclose information in this regard while preparing final accounts for the year 2021. | Disclosures relating to court cases should be made in the financial statements. |

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| <p>(h) A sum of Rs.203,778,441 paid to the Consultancy Company and the contractor relating to the construction of Elfa business complex had not been capitalized. Similarly, Key moneys received during the year 2019 and 2020 amounting to Rs. 98,271,601 and Rs.11,050,000 respectively for reservation of stalls at the business complex had been identified and brought to the account as income in the year in which the cash received without identifying as income for each year in accordance with the procedure for identification of income.</p> | <p>I will take action to capitalize the expenditure which were not capitalized. It hope to discuss at the meeting of the Audit Management Committee and to obtain solution with regard to cash received and receivable and I will take action to bring to the account other deficiencies correctly while preparing the financial statements from the year 2021.</p> | <p>Income and expenditure for the year should be correctly identified and brought to account. Further, agreements consisting of all the conditions should be entered into.</p> |
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1.6.2 Unreconciled Control Account or Records

Audit Observations	Comments of the Council	Recommendation
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<p>There was a difference of Rs.508,761 between the value according to the financial statements and the value according to the schedules.</p>	<p>I will take action to find the fact for the difference as per schedule and rectify it.</p>	<p>Action should be taken to bring to the account correctly.</p>

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation	Comments of the Council	Recommendation
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<p>Thirteen items of accounts aggregating Rs.121,442,913 could not be satisfactory checked in audit due to non-submission of necessary information.</p>	<p>I will take action to obtain the required documents and reports from the officers and submit to you.</p>	<p>Documentary evidence confirming the account balances shown in the financial statements should be submitted for audit.</p>

2. Financial Review

2.1 Financial Results

According to the financial statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2020 amounted to Rs.12,322,452 as compared with the excess of revenue over recurrent expenditure of the previous year amounted to Rs.145,727,308.

2.2 Revenue Administration

2.2.1 Performance of the Collection of Revenue

Audit Observations	Comments of the Council	Recommendation
(a) Rates and Taxes		
A sum of Rs.15,764,000 had to be recovered out of the amount of rates and taxes billed for the year under review. Similarly, total amount of arrears of rates and taxes as at the end of the year under review was Rs.91,841,929. Further, less value is being recovered for approved buildings for the period from 2018 to 2020 without making revision for rates and taxes annually.	Even though all the difficulties were intervened, a sum of Rs.7,109,000 was collected. It was unable to collect the arrears income as limited officers were deployed in the service and performed duties. Further, after making assessment for buildings by the Department of Valuation and obtaining the above value, I will recover the relevant value.	Arrears of rates and taxes should be recovered promptly based on the correct assessment.
(b) Other Income		
According to the Schedule of arrears of other income, sums aggregating Rs.12,242,103 consisting of stamp fees of Rs.2,154,128 , stall rent of Rs.5,429,663 , tender income of Rs.1,029,527 , court fines of Rs.729,185 and daily market fees of Rs.2,899,600 , had remained arrears for a period of more than 03 years and action had not been taken to recover it.	I inform you that the amount of arrears of stamp fee is not an amount receivable by the Council. Several programmes were organized during the whole previous period and action taken to recover the arrears of stall rent and I will take action in future to minimize the remaining arrears balance. I inform you that action will be taken	Documents should be maintained correctly and in an updated manner. Action should be taken to expedite the recovery of arrears of other income.

furthermore to find out the documents of the tender income in order to make necessary write off or to take necessary legal action for recoveries.

Court fines were not received by the Council and I will take action in future to remove this amount after obtaining necessary approval. There was a difficulty to find out the documents relating to arrears of daily market fee that was shown in the accounts for long period of time. However, I will take action further to find out those documents.

3. Operating Review

Matters observed with regard to fulfilling regulation and administration of facts relating to public health, public utility services and public road, with the protection comfort, convenience and welfare of the people, by the Council under Section 3 of the Urban council Ordinance, are shown below.

3.1 Management Inefficiencies

Audit Observations -----	Comments of the Council -----	Recommendation -----
Action had not been taken to settle the advances amounting to Rs.223,656 that was given as special advance and remained for more than 15 years.	A proposal was submitted to the general meeting to write off this advance and I hope to take relevant action in future as per its decision.	Outstanding advances should be recovered promptly.

3.2 Transaction of Contentious Nature

Audit Observations	Comments of the Council	Recommendation
<p>Since the Council has been exempted from the Value Added Tax with effect from 01 January 2020, action had not been taken to settle by obtaining instructions from the Department of Inland Revenue relating to the debit balance of Rs.7,365,831 remained at the Value Added Tax Account as at 31 December 2020 that could not be set off so far.</p>	<p>I will take necessary further action after discussing the matters pointed out in the letter sent by the Department of Inland Revenue on 28 April 2021.</p>	<p>Necessary settlement should be made by obtaining instructions of the Department of Inland Revenue.</p>

3.3 Assets Management

Audit Observations	Comments of the Council	Recommendation
<p>The Urban Development Authority had constructed a building for canteen on a land belonging to the Urban Council and the Urban Council had spent a sum of Rs.863,051 to construct a tower for water tank of the canteen. Documentary evidence not submitted for audit to prove that action had been taken to take over that building by the Urban Council and this building had remained idle up to the date of audit. Similarly, the constructed water tank had also remained idle.</p>	<p>Action will be taken in near future to take over that canteen building and the land on which it situated, to the Puttalam Municipal Council. Similarly, I will take action to accomplish that activity by installing the water tank.</p>	<p>The relevant building should be taken over by the Council and it should be efficiently utilized for income earning activities.</p>