

Gampola Municipal Council  
Kandy District  
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1. Financial Statements  
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1.1 Presentation of Financial Statements  
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Financial statements for the year 2017 had been submitted to Audit on 29 March 2018 and the report of the Auditor General on the said Financial Statements were sent to the Chairman on 02 July 2018.

1.2 Qualified opinion  
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In my opinion, except for the effects of the matters described in the paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Gampola Pradeshiya Sabha as at 31 December 2017, and of its financial performance for the year then ended in accordance with generally accepted accounting principles.

1.3 Comments on the financial statements  
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1.3.1 Accounting deficiencies  
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The following accounting deficiencies were observed in the audit.

- (a) Although the value of furniture and equipment which had been removed according to the recommendations of the survey report was Rs. 65,044, furniture and equipment had been understated by Rs. 3,192,686 due to a sum of Rs. 3,257,730 being removed from the accounts.
- (b) Although an expenditure of Rs. 1,205,699 had been incurred from provisions of Rs. 2,300,000 made for the construction of Ambuluwawa green path in the previous year, a sum of Rs. 2,300,000, which had not been defaulted, had been accounted as debtors and creditors in the year under review
- (c) The total amount of debtors as at 31 December of the year under review had been overstated by Rs. 314,721 in the financial statements.
- (d) The total amount of creditors as at 31 December of the year under review had been overstated by Rs. 495,046 in the financial statements.
- (e) Lands and buildings had been under-capitalized by a sum of Rs. 2,575,851 as at 31 December of the year under review.
- (f) Although the value of the stores ledger according to journal 51 was Rs. 37,068, it had been shown as Rs. 196,498 in the general ledger.

- (g) Although the credit balance of the cumulative fund account was Rs. 4,086,147, it had been understated by Rs. 58,175 due to that balance being shown as Rs. 4,027,972 in the financial statements.
- (h) Seven deposits valued at Rs. 289,851 as at 31 December of the year under review had been left from the financial statements.
- (i) Three printed items valued at Rs. 10,075 that had been remained in the stores as at 31 December of the year under review had not been included in the final stocks.
- (j) Receivable interest revenue had been overstated by Rs. 102,639 as a result of calculating the annual fixed deposit interest revenue with Rs. 102,639 in excess.

### 1.3.2 Contingent liabilities

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Although 7 court cases which had been filed by the council on various reasons and 5 appeal cases filed by external parties on previous court orders had been hearing at the courts as at the end of the year under review, it had not been revealed in the financial statements.

### 1.3.3 Unreconciled Accounts

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A difference of Rs. 2,713,836 was observed between the balances shown in the financial statements and the balances shown in the supporting documents relating to the total of 2 account balances of Rs. 49,240,508 shown in the financial statements.

### 1.3.4 Receivable and Payable accounts

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#### (a) Receivable accounts

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- (i) The value of 6 receivable account balances as at 31 December of the year under review was Rs. 94,554,363 and out of that, the account balances which had exceeded a period of one year had become Rs. 64,789,879.
- (ii) Actions had not been taken to settle a receivable balance of Rs. 42,063,401 from the Electricity Board.
- (iii) Actions had not been taken to settle the amount given as security deposit for gully dumping amounting to Rs. 25,000 since gully dumping is not being done at present.
- (iv) Actions had not been taken to settle advance payment of Rs. 35,000 which had been given in the year 2011 even in the year under review.

#### (b) Payable Accounts

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- (i) The value of 3 payable account balances as at 31 December of the year under review was Rs. 42,078,560 and out of that, the account balances which had exceeded a period of one year had become Rs. 16,634,642.

- (ii) Actions had not been taken to settle the balance of Rs. 497,132 which should be paid for the bank loan of Asian Development Bank and had been continuously carried forward in the accounts.

1.3.5 Lack of Written evidence for audit.

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 Five transactions valued at Rs. 46,533,202 could not be satisfactorily verified in audit due to not presenting of the necessary information.

1.3.6 Non- Compliance

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 Non-compliances with Laws, Rules Regulations and Management Decisions

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 Instances of non-compliance with Laws, Rules Regulations and Management Decisions are mentioned below.

|     | <b>Reference to Laws, Rules Regulations and Management Decisions</b>  | <b>Amount</b> | <b>Non-Compliance</b>  |
|-----|---|---------------|--|
|     | -----   | -----         | -----  |
|     |   | <b>Rs.</b>    |  |
| (a) | Section 36 (e) of the Municipal Council Ordinance, 1988   | -             | The prior approval of the Minister in charge had not been obtained when leasing the lands that belong to the Council for the constructions of Lawyer's office complex, CTB bus stand and shopping mall and the shopping complex located above the Gampola railway line which belong to the Council.                          |
| (b) | Environmental Act No. 53 of 2000 and No. 56 of 1988 mentioned in the Extraordinary Gazette dated 25 January 2008.   | -             | Actions had not been taken to issue permits for 131 institutions in the Council jurisdiction which should obtain environmental permits   |
| (c) | Section 3.5 of the Government Land Management Circular of the Secretary to the President, No. R / D / 1/4/5/43 dated 3 February 2010 and Section 36 (e) (ii) of the Urban Council Act | -             | Although the government has absolute ownership of the lands vested in a transfer order or otherwise, the authorities of the Gampola Municipal Council had taken action to dispose of the land on the decisions of the council, even though the local authorities have no authority to dispose of such land to a third party. |
| (d) | Circular of Local Government Commissioner dated 17 March 2016 dated 2016/03   |               |  |

|                      |            |   |
|----------------------|------------|---|
| (i) Paragraph 01     | 96,226,998 | Key money had not been recovered from the stalls which had been tendered in the year 2016 and in the first instance, due to not recovering the initial tender money of stalls complex of the public fair.                                   |
| (ii) Paragraph (04)  | -          | Although the stalls from number 70 to 80 of the public shopping complex had been tendered, they had been closed without carrying out business affairs, and billing had not been done to recover rentals.                                    |
| (iii) Section 04 (1) | -          | Although a delay charges should be recovered for outstanding stall rentals, the said instructions had not been followed due to the delay in stall rentals.  |
| (iv) Paragraph 10    |            | Although key money and a higher rental had been charged by carrying out inter-leasing the stalls to various people by the lessees, the rentals that should be paid to the council had not been paid.  |
| (v) Paragraph 12     |            | Although the appearance of the stalls could not be changed by the lessee without approval, the stall no 06 with two floors of the pedestrian shopping complex had been using as a single floor by removing the stairway to the upper floor. |

## 2. Financial Review

### 2.1 Financial Result

According to the financial statements presented, the revenue that exceeded the recurrent expenditure was Rs. 26,726,508 for the year ended on 31 December 2017 and the correspondent revenue that exceeded the recurrent expenditure in the previous year was Rs. 52,092,129.

### 2.2 Financial Control

- (a) Actions had not been taken to take money instead of 02 dishonored cheques valued at Rs. 569,500 that belongs to a period from 5 years up to 12 years.
- (b) Advances had been given to the guard who had been placed as the custodian of the Sampath Piyasa Center to purchase scrap material in the year 2017.

## 2.3 Revenue Administration

### 2.3.1 Estimated Revenue, Billed Revenue, Collected Revenue and Outstanding Revenue -----

Details of Estimated Revenue, Billed Revenue, Collected Revenue and Outstanding Revenue for the year under review and the previous year are given below.

| Source of Revenue | 2017              |                   |                   |                                     | 2016              |                   |                   |                                     |
|-------------------|-------------------|-------------------|-------------------|-------------------------------------|-------------------|-------------------|-------------------|-------------------------------------|
|                   | Estimated Revenue | Billed Revenue    | Collected Revenue | Total Outstanding as at 31 December | Estimated Revenue | Billed Revenue    | Collected Revenue | Total Outstanding as at 31 December |
|                   | Rs.               | Rs.               | Rs.               | Rs.                                 | Rs.               | Rs.               | Rs.               | Rs.                                 |
| Rates and Taxes   | 3,190,000         | 63,788,716        | 30,823,412        | 49,005,556                          | 31,800,000        | 31,220,467        | 35,750,114        | 46,721,088                          |
| Rentals           | 9,209,000         | 10,971,699        | 8,052,966         | 13,748,091                          | 13,355,000        | 8,336,018         | 7,024,221         | 10,829,358                          |
| License fees      | 550,000           | 2,959,154         | 2,959,154         | -                                   | 2,775,000         | 2,668,976         | 2,668,976         | -                                   |
| Other revenue     | 36,248,457        | 9,064,551         | 29,697,547        | 3,032,358                           | 51,498,457        | 48,693,104        | 33,479,598        | 15,315,505                          |
|                   | <u>49,197,457</u> | <u>86,784,120</u> | <u>71,533,079</u> | <u>65,786,005</u>                   | <u>99,428,457</u> | <u>90,918,565</u> | <u>78,922,909</u> | <u>72,865,951</u>                   |

### 2.3.2 performance of Revenue collection -----

The following observations are made

- A receivable revenue to the council had been lost due to not taking actions to recover key money in time when leasing the stalls that belong to the council.
- The assets that belongs to the council had been leased without a valuation or following the tender procedure.

### 2.3.3 Rates and Taxes -----

The following observations are made.

- Although there was an outstanding balance of Rs. 42,126,439 at the beginning of the year under review, out of that, only a sum of Rs. 10,716,237 had been recovered. Out of the annual billing of Rs. 31,570,400 only a sum of Rs. 7,585,975 had been recovered within the year and it was a lower value as 24 per cent out of the total billing. The outstanding rate tax balances as at 31 December of the year under review was Rs. 44,965,309.
- Actions had not been taken according to section 170 of the Municipal Ordinance to recover outstanding rates that had been brought forward for many years.

#### 2.3.4 Rentals

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The following observations are made

- (a) Out of the outstanding stall rent as at the beginning of the year under review of Rs. 10,829,358, only a sum of Rs. 1,586,798 had been recovered within the year. It was 14 per cent of the total outstanding. The outstanding stall rent balance as at 31 December of the year under review was Rs. 11,610,704 and there were a sum of Rs. 9,242,560 which belongs to a period of 1 to 5 years.
- (b) There was a monthly lease rental outstanding balance of Rs. 304,589 from the Lawyer's office complex.

#### 2.3.5 Other revenue

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- (a) Rest house charges

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The outstanding rest house charges as at 31 December of the year under review was Rs. 856,950 and there was a sum of Rs. 24,607 which had been continued from a year ago.

- (b) Public Toilet Charges

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The balance of Public toilet charges which had been brought forward from several years was Rs. 1,375,457 and actions had not been taken to settle the said balance.

#### 2.3.6 Court fines and Stamp fees

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The receivable stamp fees as at 31 December of the year under review from the Chief Secretary of the Provincial Council and other authorities was Rs. 30,549,410.

### 3. Operational Review

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#### 3.1 Performance

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According to the section 3 of Municipality Council ordinance, the following matters were revealed relating to formulation and regulating public health, public utility service and roads and wellbeing of the people, convenience and welfare which should be fully filled by the Council.

- (a) By laws

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Although by laws should be imposed to carry out 15 main activities according to section 157 of the Municipal Ordinance, by laws had been imposed only on 07 activities even up to 31 December 2017.

(b) Action Plan

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An annual action plan had not been prepared regarding 4 activities that should be carried out by the council according to the imposed by laws.

(c) Lack of provisions

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According to the prepared action plan, provisions had been allocated by the annual budget for only 29 activities out of 38 activities which should be carried out by the council resulting 9 activities to be unable to be carried out.

(d) Non- reaching of the expected output level

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Although a sum of Rs. 2,000,000,000 had been spent to accomplish the activities shown in the action plan, the expected output level had not been reached. The details are mentioned below.

| Activity                                    | Value of the completed amount | Observations  |
|---|-------------------------------|---|
| -----                                       | -----                         | -----   |
|   | Rs.                           |   |
| Construction of the Public market building. | 2,000,000,000                 | Although it had been planned to construct a three-story public market building and two floors had been constructed, the said two floors had remained underutilized due to the deficiencies of the plan. Although 13 years had passed after the construction of this building, actions had not been taken to construct the upper floor and Concrete blocks had been erupted and rainwater leakage from those locations had occurred. |

(e) Not reaching the expected outcome

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Although the expected output level had been achieved by spending Rs. 2,001,374,926 for the construction of the Public Market, the expected outcome had not been achieved. Details are given below.

| Activity                               | Amount spend up to 31 December 2017 | Observations   |
|--|-------------------------------------|--|
| -----                                  | -----                               | -----  |
|  | Rs.                                 |  |
| Leasing of stalls of the Public market | 2,001,374,926                       | One hundred and two stalls of the public market which had been leased by tendering had remained closed without carrying out business and the closed stalls had been used for various misconducts. And also, stalls from No 112 to 134 had remained |

closed without taking actions to lease.

(f) Delays in performing Activities

Delays in performing the following activities were observed.

| Activity  | Estimated cost | Date started | Expenditure as at 31 December 2017 | Reasons for delay   |
|---|----------------|--------------|------------------------------------|---|
| -----   | -----          | -----        | -----                              | -----   |
|   | Rs.            |              | Rs.                                |   |
| Concreting small roads and drains of Kudamake Urban Council Minor Workers Village | 1,000,000      | 2017.12.15   | 387,691                            | <ul style="list-style-type: none"> <li>• Heavy rain</li> <li>• Severe uncleanliness of the location</li> <li>• Construction material of the work site being carried away by various people</li> </ul> |

(g) Solid waste management

The following observations are made.

- (i) A formal program to manage the collected garbage in the council jurisdiction of around 20 tons on a daily basis had not been prepared. A sum of Rs. 2,278,650 had been spent as garbage charges in order to send garbage to compost yards of Kundasale Pradeshiya Sabha and Kandy Municipal Council in the year 2017.
- (ii) The project “Sampath Piyasa” had been started incurring a sum of Rs. 3,325,195 without an approved project report, and non-biodegradable garbage had been purchased and stored by this project. Although non-biodegradable garbage of 17808 kg had been purchased in the year 2017, a stock of 10210 kg had been collected in the center due to actions not being taken to sell.

(h) Environmental Issues

In the previous years, dumping of garbage and covering by laying soil had been done by time to time in the Ambuluwawa biodiversity complex. Due to a landslide occurring in this location in the year 2016 the people who had been affected had lodged a complaint with the Human Rights Commission demanding a compensation of nearly Rs. 3,433,500. Accordingly, the collected garbage of the area had been dumped in a manner that harms the environment without recycling.

(i) Sustainable Development Goals

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Actions had not been taken by the council to identify and achieve sustainable development goals and to identify indicators to measure the progress.

3.2 Human Resources Management

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(a) Vacancies and Excesses of Staff

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- (i) There were 12 excesses and 32 vacancies when inspecting the approved and actual staff.
  - (ii) Although according to the approved number of employees in the health sector the number of minor administrators was 3, 7 had been employed and in addition to that 8 employees of the Health Labor Service had been assigned to minor administrative posts and a sum of Rs.1,670,832 had been paid as salaries and wages for the year 2017. A sufficient duty to be carried out in the duty time had not been assigned to these employees.
  - (iii) Although the approved office assistant posts were 06, 10 people had been appointed and in addition to that, 7 employees bearing road and health labour posts had been retained in the office.

(b) Staff Loans

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- (i) Loan installments of Rs. 361,485 which had been recovered from officers who came in by transfers had been retained in the accounts for a period longer than a year without taking actions to send them to relevant institutions.
  - (ii) Actions had not been taken to recover the balance of outstanding staff loans amounting to Rs. 467,870 relating to 23 officers which had been remained non-recovering for a period of 01 to 17 years.

3.3 Operational Inefficiencies

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The following observations are made.

- (a) Five stalls of the public market that belongs to the council had been leased for 10 years on long term lease basis deviating the tender procedure. Due to allowing to pay key money in 60 installments without recovering at once, although 5 years had passed as at 19 January 2018 after leasing, Key money of Rs. 4,140,521 and stall rent of Rs. 468,000 according to the new valuation had not been recovered.
- (b) Although it had been agreed that a 1/3 of the full valuation of the shopping complex near CTB bus station, should be recovered to the council, due to the rent not being recovered as per the agreement, a sum of Rs. 1,114,747 had remained to be recovered as at 31 December of the year under review.

- (c) Although rental of the stalls that belong to the council should be assessed once in 5 years, due to the stalls in the public market being last evaluated in 2008, a huge receivable revenue had lost to the council.
- (d) It had been allowed to use the upper flow of the Pedestrian Market Shopping Complex to the lessee who had leased the ground floor with no payment of lease.
- (e) A sum of Rs. 378,000 had been lost to the council fund when leasing 21 lawyer's offices located in a building and a land that belongs to the council for a rental of Rs. 500 in the year 2006 and for a monthly rental of Rs. 750 after deciding to recover a rental of Rs. 1,000 from 24 November 2011 onwards based on a general assembly decision without carrying out a rental estimation. Although the 10-year agreement duration had been expired on 30 January 2016 regarding 15 lawyer's offices, actions had not been taken to renew the agreements.
- (f) Key money of Rs. 6,914,102 which should be recovered from 19 lessees and annual lease rentals of Rs. 1,776,059.50 which should be recovered from 112 lessees had not been recovered as at 31 December of the year under review regarding leasing of lands which belong to the council. Actions had not been taken either to revise the lease amount once in 5 years or to revise the lease amount by increasing the valued lease amount by 50 per cent within the council jurisdiction.
- (g) A sum of Rs. 13,139,179 had remained to be recovered as at 31 December of the year under review due to the monthly rental of the public market stalls not being recovered in a formal manner by the council.
- (h) A stall rental of Rs. 9,193,568 had remained to be recovered from the year 2005 to 2017 from the shopping complex constructed above the gampola Railway line.
- (i) .Although council properties should be assessed once in a 5 years, rate taxes had been recovered in the year 2017 according to the assesment of the year 2008. Even though the jurisdiction had been vastly developed from the year 2008 up to present, a receivable income had been lost due to non-renewal of rate taxes by evaluating properties.

### 3.4 Assets Management

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#### 3.4.1 Inactive/underutilized assets

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Six items of assets valued at Rs. 3,835,220 had remained idle and underutilized as at the end of the year under review.

### 3.5 Procurement

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#### 3.5.1 Procurement Plan

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Although a capital expenditure of Rs. 16,492,573 had been incurred by the Council in the year under review, a procurement plan had not been prepared.

#### 4. Accountability and Good governance

##### 4.1 Budgetary Control

In the year under review, due to a significant variation between budgeted and actual income and expenditure being observed even after the transfer of provisions, it was observed that the budget had not been made use of as an effective management control and the observations are given below.

- (a) No expense had been incurred from provisions of Rs. 10,950,000 which had been allocated for 20 work items.
- (b) A variation of the range from 14 per cent up to 97 per cent had existed between net provision and actual expenditure regarding 34 expenditure items.
- (c) No income had been earned from 11 revenue items at the estimated value of Rs. 24,260,000 .
- (d) A variation of the range from 14 per cent up to 98 per cent had existed between estimated revenue and actual revenue regarding 13 revenue items.

##### 4.2 Internal Audit

Although an audit plan had been prepared for the year under review, the time periods in which the auditing to be carried out covering all the sections had not been mentioned. Even though 11 audit reports had been issued within the year, the audit had not been carried out as to be covered all the sections of the council.

##### 4.3 Audit and Management Committees

Although an audit and management committee had been established according to the letter No. CPC / CLG / 1/9/1/4 of the Commissioner of Local Government of Central Province dated 08 August 2014, only 2 committee meetings had been held in the year under review.

#### 5. Systems and Control

The deficiencies observed in the audit had been brought to the attention of the council from time to time and special attention should be given to the following areas of control.

##### **System**

##### **Deficiency**

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|------------------|--|
| (a) Fixed Assets | (i) Not surveying lands and buildings.<br>(ii) Leasing of lands with no formal approval          |
| (b) Accounting   | (i) Not identifying all the assets which belong to the council and not taking them into accounts |

- (ii) The final stock not being taken into accounts accurately
  - (iii) Receivable revenue not being taken into accounts accurately.
- (c) Finance and Banking
  - (i) Not taking actions regarding unrealized cheques.
- (d) Vehicle Control
  - (i) Not disposing the vehicles which had been from running.
  - (ii) Not taking actions according to Financial Regulations regarding vehicle damages.
- (e) Revenue Control
  - (i) Not implementing the valuation of rental for the stalls.
  - (ii) Not valuating rate taxes timely.
  - (iii) Actions not being taken to recover outstanding revenue.
- (f) Debtors and creditors
  - (i) Not taking actions to recover debtor balances.
  - (ii) Not taking actions to settle creditor balances.
  - (iii) Not obtaining debtor confirmations.