

Gampola Urban Council
Kandy District

1. Financial Statements

Presentation of Financial Statements

The financial statements for the year 2019 were submitted for audit on 28th February 2020 and the Auditor General's summary report on those financial statements has been forwarded to the Chairman on 20th May 2020 and the detailed Management Audit Report on 30th May 2020.

1.2 Qualified Opinion

In my opinion, except for the effect matters described in the basis for the qualified opinion section of this report, Financial statements give a true and fair view of financial position of the Gampola urban council as at 31st December 2019 and its financial performance for the year then ended, in accordance with generally accepted Accounting Principles.

1.3 Basis for the Qualified Opinion

(a) Accounting Deficiencies

	Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
(i)	Industrial debtors had understated by Rs.560,114.	It should be accounted correctly.	It was not recorded in the account by fault.
(ii)	The fixed deposit interest for the year had been overstated by Rs.1,281,978.	It should be accounted correctly.	The interest is calculated according to the interest notice form and further interest due is adjusted in the account.
(iii)	Creditors had overstated by Rs.6,867,214.	It should be accounted correctly.	The correct amount to be accounted for is Rs.4,069,076
(iv)	Store creditors had been understated by Rs.274,669.	It should be accounted correctly.	It is correct according to the store credit registry.
(v)	Land and Building development expenditure Rs. 6,257,896 had not been capitalized.	It should be accounted correctly.	The cost of upgrading the reading room was not Rs. 1,154,909 but Rs. 849,204. The land in front of the council office was not capitalized as it was a decoration.

(vi)	Expenditure on transport links and essential services had been under stated by Rs.500,000 in the Income & Expenditure Account.	It should be accounted correctly.	The mathematical total of transport links and services is Rs. 2,407,921.
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(b) Non-Reconciled Accounts

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
There was a difference of Rs.7,270,065 between the balance of 04 items of account which amounted to Rs.118,321,476 in the financial statements and the balance of source documents.	Accounts should be rectified by reconciling the relevant balances.	The difference will be checked and rectified.

(c) Accounts Receivable and Payable

Audit observation -----	Recommendation -----	Comments of the Accounting officer -----
(i) The value of the account receivable balances for more than one year was Rs.46,394,600.	Action should be taken to recover the receivable balances.	Relevant institutions have been informed.
(ii) The total balance of accounts payable over a period of 1 year was Rs.14,187,288.	Action should be taken to settle the payable balances.	Action will be taken to settle the payable balances.

(d) Lack of Necessary Documentary Evidence for Audit

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
Evidence such as source documents, confirmations of receipt of cash and balance confirmation letters related to 3 items of account valued at Rs. 46,187,768 had not been submitted for audit.	Evidence confirming the account balances in the financial statements should be presented.	The shortcomings pointed out in the audit are accepted.

1.4 Non-Compliance

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

Reference to Laws, Rules, Regulations and Management Decisions	Non-Compliance	Recommendation	Comments of the Accounting Officer
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(a) Section 36 (e) (ii) of the Urban Council Ordinance.	<p>(i) The 2 acre land on which the Athletics and Cricket Club is located had been leased out for Rs. 4,000 per annum from the year 2003 without approval or valuation. 04 private houses had been built on this land without permission and another 6 perches had been sold for Rs. 2,700,000 through deed number 1196.</p> <p>(ii) A portion of land adjacent to the Weegulawatte Sports Ground had been leased out from the year 2007 without an assessment and no action had been taken to sign the lease agreement and assess and levy it in a timely manner.</p>	<p>Rent should be charged by agreed upon with formal approval and assessment.</p> <p>Taxes should be levied by agreed upon formal approval and assessment.</p>	<p>The approval of the council has been obtained to take over this property to the Urban Council under the State Land Acquisition Act.</p> <p>A lease agreement has not been issued for this property yet.</p>
(b) Section 16 (2) of the National Audit Act No. 19 of 2018.	A performance report had not been submitted with the financial statements.	Performance reports should be submitted with the account.	I accept.
(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka 571 (3)	No action had been taken on lapsed deposits amounting to Rs.12,546,665.	Financial regulations should be followed.	Action had been taken to credit the deposits exceeding 2 years to the revenue.

(d) Circulars of the Commissioner of Local Government.

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| (i) Section 1 (V) of Circular No. 2016/03 dated 17th March 2016. | A Key money of Rs.68,571,043 had not been recovered from 105 Public Market stalls owned by the Council. | The Key money should be charged in accordance with the circulars. | Action will be taken after obtaining the approval of the Minister in charge of the subject. |
| (ii) No. 5/2010 dated 24 th November 2010. | An unqualified Public Relations Officer had been appointed and a salary of Rs.119,255 had been paid. | Recruitment should be done as per the circular instructions. | A trustworthy person has been appointed from the applications received; as such qualified officers will not be contesting for this post which is not permanent for a period of 4 years. |

1.5 Unauthorized Transactions with Sufficient Authority

Audit Observation	Recommendation	Comments of the Accounting Officer
The Chairman had participated in the overseas study program at a cost of Rs.539,000 from the Council fund despite the suspension of study tours abroad and the approval had not been provided to cover expenses for a foreign tour out of the Council fund.	There should be formal approval to spend from council funds.	On August 16, 2019, the Secretary to the Governor has directed that arrangements be made to carry out the relevant functions, including the approval of leave. The expenses from the council fund have been borne by the Chairman as other relevant matters were considered as expenses to be borne for that visit.

2. Financial Review

2.1 Financial Results

According to the financial statement presented, excess of revenue over recurrent expenditure of the Council for the year ended 31st December 2019 amounted to Rs. 58,787,580, as compared with the corresponding amount in excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 77,971,316.

2.2 Financial Control

Audit Observation	Recommendation	Comments of the Accounting Officer
Rs.563,753 worth of dishonored cheques had not been settled.	Action should be taken to settle the dishonored cheques.	Action is being taken on the dishonored cheques.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Billed Revenue, Collected Revenue and Revenue in Arrears

The details of Estimated Revenue, Billed Revenue, Collected Revenue and Revenue in for reviewed year and preceding year are as follows.

Source of Revenue	2019				2018			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total arrears as at 31 st December	Estimated Revenue	Billed Revenue	Collected Revenue	Total arrears as at 31 st December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and taxes	29,800,000	31,940,119	21,769,387	50,185,346	29,800,000	31,936,586	30,616,461	45,014,756
(ii) Rent	12,075,000	14,116,511	14,324,067	18,711,237	12,000,000	13,505,481	9,180,131	18,745,201
(iii) License fees	2,500,000	2,669,343	2,671,343	38,000	2,600,000	2,824,831	2,784,831	40,000
(iv) Other income	33,750,000	44,110,635	30,675,431	22,220,139	48,140,000	12,570,838	29,968,107	93,566,930
	<u>78,125,000</u>	<u>92,836,608</u>	<u>69,440,228</u>	<u>91,154,722</u>	<u>92,540,000</u>	<u>60,837,736</u>	<u>72,549,530</u>	<u>157,366,887</u>

2.3.2 Rates and Taxes

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) An assesment of Rs. 2,840,813 had been due from 12 government institutions since 1 to 10 years.	Assessments should be charged annually.	I accept.
(b) An annual rent of Rs.2,568,117 from 26 lessees had not been charged and rent had not been revised once in five years.	The assessment should be charged annually and revised every five years.	I accept.
(c) No action had been taken to collect garbage tax on business premises in the Urban Council area by adopting the by-laws passed.	Action should be taken to embrace the by-laws and collect garbage taxes.	I accept.

2.3.3 Rent

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
(a) A rent of Rs.10,458,328 had not been charged for the period from 2005 to 2019 from the shopping complex constructed above the Gampola Railway Line.	This money should be recovered immediately and in a timely manner.	Case have been filed for the property and money will be charged based on those decisions.
(b) In the shopping complex near Gampola bus stand, Rs.2,411,746 had not been recovered, due for the Urban council as 1/3 of assessed value as per the agreement.	Action should be taken to recover the arrears.	Action is being taken with assistance of a lawyer and instruction has been received to recover the arrears.
(c) No action had been taken to recover the monthly rent arrears of Rs.287,113 from the Attorney General's office complex.	Action should be taken to recover the arrears.	The officers have been given the responsibility to recover the arrears of rent.

2.3.4 License Fee

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
In the year 2019, a license fee of Rs.75,000 had not been charged from 70 business premises.	Business premises tax and license fees should be collected at the beginning of the year after a formal survey.	I accept.

2.3.5 Other Income

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
(a) Rest House Fees ----- No rest house fees were charged during the year under review and the outstanding hotel fee balance was Rs.708,949.	Action should be taken to recover arrears.	I accept.
(b) Public Toilet Charges ----- The balance of public toilet charges which had not been settled for several years was Rs.789,022.	Action should be taken to charge the relevant fees.	I accept.

2.3.6 Court Fine and Stamp Duties

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
The court fines receivables were Rs.1,989,709 and the stamp duty was Rs.12,500,000.	Action should be taken to bring the relevant money to the council.	I accept.

3. Operational Review

3.1 Performance

Following matters were revealed with regard to duties to be fulfilled by the Council as per the Section 4 of Urban council ordinance, in relating to regulation and control of all the matters relating to public health, public utility services and public highways, comfort, convenience and welfare of the people.

(a) By-Laws

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
Under Section 157 of the Urban Councils Ordinance, by-laws had to be enacted to fulfill 15 main matters but by-laws had been enacted for only 7 matters .	The Council should enact revenue-generating by-laws to generate revenue.	I accept.

(b) Failure to Obtain the Expected Output Level

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
Two floors had been constructed at a cost of Rs. 2,002,742,936 of the three-storied public market were planned to be constructed. 13 years had passed, but no action had been taken to build the upper floor, and the concrete sections had exploded, causing rainwater to seep out of those places.	Action should be taken to achieve the expected output level.	There is a plan to build a roof in upstairs.

(c) Solid Waste Management

Audit Observation	Recommendation	Comments of the Accounting Officer
There was not long-term formal plan for solid waste management.	Action should be taken to formulate a long-term plan for solid waste management.	I accept.

(d) Sustainable Development Goals

Audit Observation	Recommendation	Comments of the Accounting Officer
Sustainable Development Goals had not been adequately identified, and have not been adequately addressed.	Sustainable Development Goals should be identified and action should be taken to achieve them.	No comments.

3.2 Management Inefficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) A key money of Rs.540,011 had not been charged on 5 stalls provided for fish trade in the public market.	The key money should be charged in accordance with the circular.	The amount due is around Rs.540,011.
(b) Although shop rent should be assessed every 05 years, shop rent in the malls owned by the Council had not been assessed after the year 2008.	Shop rent assessment should be done in a timely manner.	Action will be taken in the future to assess.
(c) There were no files relating to the lease of 114 plots of land owned by the council and no action had been taken to assess the undeveloped value of those lands and to collect the rent.	Council lands should be assessed and action should be taken to obtain revenue.	a survey has been done and the agreement has been entered into and the arrears will be recovered and reported.
(d) The principal amount due for 9 plots of land owned by the Council on the assessment made in the years 2015, 2017 and 2018 Rs.9,512,000 had not been recovered.	Action should be taken to recover land tax.	A document on arrears will be prepared and handed over to the Revenue Inspectors and the money will be recovered and reported to the Audit.

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| (e) | No action had been taken to assess 82 plots of leased land as at 31 st December 2019 and a very low monthly rent had been levied on the decisions of the council. | Land leasing methodology should be followed and action should be taken to lease it. | A document on arrears will be prepared and handed over to the Revenue Inspectors and the money will be recovered and reported to the Audit. |
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3.3 Human Resource Management

Audit Observation	Recommendation	Comments of the Accounting Officer	
(a)	There were 3 employee excess and 50 vacancies.	Care should be given not to create excess and to fill vacancies.	The Local Government Commissioner has been informed about the vacancies.
(b)	Rs.963,294 employee loan balance had not been recovered from 15 officers.	Action should be taken to settle employee loans.	action will be taken to recover.

3.4 Operational Inefficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer	
(a)	Public toilets belonging to the Council had been leased out to a laborer working in the Council without tendering and leasing out.	Action should be taken to tender and lease out.	All the toilets will be formally tendered after the completion of the construction work.
(b)	In approving building plans, the plans were approved without considering the recommendations of the Planning Committee.	Plans should be approved on the recommendations of the Planning Committee.	Since they have been paying rates for a long time, the permission had given for the construction of buildings without damaging other parties through office records.
(c)	Assessment tax had been levied in 2019 on the assessment value of 2008 as well.	Assessment tax should be assessed every 5 years.	It has been sent for assessment.
(d)	The 10 year contract period of 15 Lawyer Offices had expired but had not been properly assessed and tendered and leased out.	Action should be taken to assess properly and tender.	It had been sent to get an assessment. It is reported that the construction was done at the expense of the lawyers.

3.5 Asset Management

3.5.1 Failure to Register Assets

Audit Observation	Recommendation	Comments of the Accounting Officer
No action had been taken to survey and document the lands owned by the council.	Action should be taken to protect the lands.	Action will be taken to update the asset registry.

3.5.2 Failure to Obtain Income due from Assets

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) Room 126, Public Market, was assessed for Rs. 1,000,000 key money but had not been leased as at 02 October 2019. The shop was used as a warehouse by merchants in nearby shops.	Revenue should be earned by leasing the shops owned by the Council.	Those who have illegally loaded goods will be removed and sealed.
(b) 36 stalls in the public market were closed without leasing and 102 stalls were closed without doing business.	Action should be taken to lease shops.	I accept.

3.5.3 Idle and Underutilized Assets

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) At the end of the year under review, 7 types of assets valued at Rs.1,601,220 were inactive and underutilized.	Idle assets should be auctioned off.	Further action will be taken in this regard.
(b) 49 tires purchased for the year 2013 at a cost of Rs. 903,453 had been stored unused.	Care should be taken not to accumulate unnecessary stocks.	With the advent of compactors for garbage transportation, the use of pre-existing tractors has been reduced and tires have been left in storage.

3.5.4 Annual Board of Survey

Audit Observation

The Tractor, Lorry and Galley, which were scheduled to be auctioned at the 2018 board of survey, had not been auctioned off.

Recommendation

Recommendations of Board of survey should be Implemented.

Comments of the Accounting Officer

Action will be taken in future.

3.6 Informal Transactions

Audit Observation

A sum of Rs. 450,000 was collected by using the letterheads of the Urban Council and the staff and resources of the Urban Council for the Urban Council Chairmen's Conference held on September 21, 2019.

Recommendation

Such collection of money is contrary to Section 158 of the Urban Council Ordinance.

Comments of the Accounting Officer

Sponsorship was requested to make the event a success this is not an informal fundraiser.