

## **Gampola Urban Council**

### **Kandy District**

#### **1. Financial Statements**

##### **1.1 Presentation of Financial Statements**

Financial Statements for the year under review had been submitted to the Audit on 26 March 2015 while Financial Statements relating to the preceding year had been submitted on 19 March 2014. The Auditor General's Report relating to the year under review was issued to the Secretary of the Council on 28 July 2015.

##### **1.2 Opinion**

In view of the importance of matters referred to in paragraph 1.3 of this report, it was unable for me to get adequate and suitable basis of audit evidence. Therefore I do not express an opinion on these financial statements.

##### **1.3 Comments on Financial Statements**

###### **1.3.1 Accounting Deficiencies**

Following accounting deficiencies are observed.

- (a) The cash balance had been understated in a sum of Rs.7,159,980 in the financial statements
- (b) The sum of Rs.1,659,600 paid on the basis of standing orders on 30 October 2007 had been adjusted in the bank reconciliation statement without being accounted, and due to that, the cash balance as at 31 December of the year under review had been overstated to that extent, while the Creditors balance had been understated to that extent.
- (c) Cheques valued at Rs.1,033,223 dishonored in 44 instances during the period from the year 2004 to 31 December 2014 had been shown in the bank reconciliation without being accounted and due to that, cash balance had been understated to that extent.

###### **1.3.2 Non-reconciled Control Accounts**

While the balance relevant to 02 items of accounts according to control accounts had been Rs.24,425,052, according to schedules, the total of those accounts had been Rs.22,461,191 and non-reconciliation in a sum of Rs.1,963,861 was observed.

### 1.3.3 Accounts Receivable

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While the total value of Accounts Receivable balances as at 31 December 2014 was Rs.21,293,768, out of that the value of account balances that had been outstanding over 01 year was Rs.2,600,995.

### 1.3.4 Accounts Payable

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While the total value of 06 Accounts Payable balances as at 31 December 2014 was Rs.19,087,098, out of that, the value of account balances that had been outstanding over 01 year was Rs.13,638,838.

### 1.3.5 Lack of Evidence for Audit

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While any evidences were not submitted to audit with regard to the sum of Rs.4,094,400 debited and the sum of Rs.543,545 credited as transfers from General Account to other accounts in 04 instances during the period from the year 2004 to 2007, those amounts had been shown as adjustment to the bank reconciliation statement.

### 1.3.6 Non-compliance with Laws, Rules and Regulations

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Following instances of non-compliance with laws, rules, regulations and management decisions were observed.

Reference to laws, rules, regulations and management decisions	Non-compliance
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(a) Establishments Code of the Republic of Sri Lanka ----- Clauses 14.10 and 14.11	Distress Loans and Festival Advances amounting to Rs.179,280 due from 04 officers deceased/ retired and left on transfers had not been recovered.
(b) Financial Regulations of the Republic of Sri Lanka ----- <ol style="list-style-type: none"> <li>i. Financial Regulation 371</li> <li>ii. Financial Regulation 571</li> </ol>	Advances granted in 03 instances amounting to Rs.38,000 had not been settled Time lapsed deposits amounting to Rs.2,003,375 deposited in 185 instances had not been cleared.

## 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 2014 amounted to Rs.34,563,421 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs.19,207,539. Accordingly, an improvement in a sum of Rs.15,355,882 was observed in the financial results.

### 2.2 Analytical Financial Review

Although a sum of Rs.67,763,280 had been received as salary reimbursements during the year under review, a sum of Rs.75,672,304 had been paid as salaries and allowances. Accordingly, it was observed that a sum of Rs.7,909,024 was spent for payment of salaries of the Council employees out of the Council Fund, that amount had taken 11 per cent of the Council recurrent income except salary reimbursements.

### 2.3 Revenue Administration

#### 2.3.1 Performance in Revenue Collection

##### Estimated Revenue, Actual Revenue and Arrears of Revenue

Summarized information as furnished by the Chairman relating to Estimated Revenue, Actual Revenue and Arrears of Revenue for the year under review are shown below.

Item of Revenue	Arrears as at 01.01.2014	Revenue billed during the year	Revenue Collected		Amount not collected out of arrears as at 01.01.2014	Amount not collected out of billing for the year 2014	Total arrears to be collected
			Out of Arrears as at 01.01.2014	Out of Amount billed during the year			
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	35,703,701	31,329,843	10,971,054	15,549,129	24,732,647	15,780,74	40,513,361
License Fees	---	2,455,326	---	2,455,326	---	---	---
Rent (Stalls and Housing)	8,163,271	7,954,456	1,468,058	5,756,173	6,695,213	2,198,283	8,893,496
Others (Council Land Leasing)	497,699	377,946	271,668	227,521	226,031	50,425	376,456

Revenue totaling Rs.49,783,313 was in arrears as at 31 December 2014.

### **2.3.2 Rates**

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- i. While there was a balance of Rates in arrears amounting Rs.35,703,701 at the beginning of the year under review, billings during the year had been Rs.31,329,843. Percentage of recovery during the year had been 50 per cent and accordingly, there was a balance of arrears amounting to Rs.40,513,361 as at 31 December 2014.
- ii. While action in terms of Section 170 of the Urban Councils Ordinance had not been taken to recover Rates in arrears, acceding to sample audit checks, 797 properties in arrears exceeding Rs.10,000 per unit were revealed.

### **2.3.3 Lease Rent**

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- i. Action had not been taken to recover Stalls and House Rent amounting to Rs.8,893,496 due to be recovered as at 31 December 2014.
- ii. While Rent amounting to Rs.6,671,250 was outstanding to be recovered as at 31 December of the year under review from 209 trade stalls in the market complex constructed during the year 2000 in a land belongs to the Railway Department, due to non-recovery of rent in terms of the agreement, a sum of Rs.3,627,234 was payable by the Council on account of lease of land to the Railway Department as at 31 December of the year under review.
- iii. Assessment of rent had not been made once in 05 year as per directions given in the Circular No. 1980/46 dated 31 December 1980 of the Commissioner of Local Government, with regard to the stalls belong to the Council.

### **2.3.4 Court Fines and Stamp Fees**

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Court Fines amounting to Rs.928,358 and Stamp Fees amounting to Rs.4,000,000 were receivable from the Chief Secretary to the Provincial Council and other authorities as at 31 December 2014.

### **2.3.5 Other Charges**

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- (a) Latrine Charges

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Out of the total sum of Rs.1,292,166 being Public Latrine Charges in arrears amounting to Rs.387,759 as at 01 January 2014 and the sum of Rs.904,407 as the amount for the year under review, any amount had not been recovered as at 31 December 2014.

(b) Revenue from Renting out the Town Hall  
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Town Hall had been rented out contrary to the decisions taken by the Council and due to that, revenue amounting to Rs.154,000 had been lost.

**2.3.6 Publicity Advertisements Boards Charges**  
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While a formal survey had not been carried out with regard to Publicity Advertisements Boards, according to audit sample checks, a charge of Rs.342,050 was due to be recovered on the present basis of recovery followed by the Council.

**3. Operating Review**  
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**3.1 Human Resources Management**  
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Following matters are observed.

- (a) While there were 20 vacancies of preliminary level at the beginning of the year under review, 79 casual employees had been engaged for that and a sum of Rs.11,296,710 had been paid as salaries from the Council Fund.
- (b) Although casual employees engaged had been more than the number of vacancies, a sum of Rs.2,774,953 had been paid as overtime.

**3.2 Un-authorized Constructions**  
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According to the register maintained by the Council with regard to un-authorized constructions, 99 un-authorized constructions had been recorded during the year 2014. Although all of these constructions had been inspected and notices had been sent, any legal step had not been taken except in 07 instances.

**3.3 Transactions of Contentious Nature**  
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A sum of Rs.215,000 had been spent for modification of a house situated in a property not belongs to the Council and where an individual who was not an employee of the Council was residing. In addition to this, a sum of Rs.5,280 as electricity bills and a sum of Rs.1,554 as water bills had been paid out of the Council Fund.

**3.4 Idle / Under-utilized Assets**  
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It was observed that 03 items of assets valued at Rs.630,220 had remaine idle and under-utilized during a period between 3 to 6 years, as at the end of the year under review.

### **3.5 Environmental Permits**

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Permits had not been issued to business enterprises liable to obtain permits according to the Extra Ordinary Gazette Notification No. 1533/16 dated 25 January 2008, issued by the Minister of Environmental and Natural Resources under Section 23 (a) of the National Environmental Act No. 47 of 1980.

### **3.6 Solid Waste Management**

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- i. While waste are buried under the ground without being carrying out waste management, an expenditure of Rs.831,938 had been incurred for the Backhoe Machine alone during the year 2014.
- ii. Two Bio Gas Units constructed during the year 2012 having spent a sum of Rs.1,107,514 under the grants of the National Solid Waste Management Centre in the Gampola Public Market Ground and the Hospital Ground had been defunct as at the end of the year under review.

## **4. Accountability and Good Governance**

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### **4.1 Procurements Plan**

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A Procurement Plan had not been prepared for the year under review by the Council.

### **4.2 Budgetary Control**

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It was observed according to the budget prepared for the year under review, that the budget had not been made use of as an effective tool of management as there were variations from 15 per cent to 657 per cent in 06 items of revenue and variations from 14 per cent to 85 per cent in 08 items of expenditure, when the estimated revenue and expenditure are compared with the actual revenue and expenditure.

### **4.3 Audit and Management Committees**

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Audit and Management Committees had not been conducted during the year under review by the Council.

#### **4.4 Internal Audit**

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An adequate internal audit in terms of Financial Regulation 153 of the Republic of Sri Lanka and the Circular No. DMA/2009/01 dated 09 June 2009 of the Management Audit Department had not been carried out in the Council during the year under review.

#### **5. Systems and Controls**

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Special attention of the council is needed in the following areas of controls.

- (a) Accounting
- (b) Budgetary Control
- (c) Revenue Administration
- (d) Human Resources Management
- (e) Solid Waste Management.