

Gampola Urban Council - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Gampola Urban Council including the financial statements for the year ended 31 December 2020 comprising the Statement of financial position as at 31 December 2020, Income and Expenditure Account, Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, 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 Provisions of the National Audit Act No.19 of 2018 and Sub-Section 181 (1) of the Urban Councils Ordinance (Chapter 255). 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 Gampola 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 (SLAuSs). 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's 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 (Responsibility of the Auditor 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 exercised professional judgment and maintain professional scepticism 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, procedures, 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 Report on Other Legal Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- Financial Statements of the Urban council as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018 recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
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(a) Rs.4,392,462 that was spent to develop 07 assets of the Council was not capitalized during the year under review.	Action will be taken to capitalize.	Correction should be done when making financial statements for the next year.
(b) There was an arrears of Rs.3,132,240 for the meat stalls of public market according to the document and it was shown as an arrears of Rs.1,592,944 by understating Rs.1,539,296.	This difference is due to showing by understating deposit of 25 percent from meat stall tender.	Correction should be done when making financial statements for the next year.

1.6.2 Contingent Liabilities

Audit Observation	Comments of the Council	Recommendation
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Although there were 11 court cases that were filed by the Council due to different reasons as at the end of the year under review, it only shown as 04 court cases in the financial statements.	Action will be taken to correct it.	Correction should be done when making financial statements for the next year.

1.6.3 Un reconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
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There was a difference of Rs.3,384,428 between the balances of 03 accounts which amounted to Rs.48,016,464 in the financial statements and the balance of source documents.	Adjustments will be done by journal entries.	Correction should be done when making financial statements for the next year.

1.7 Non - compliances

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

Occasions of Non – compliances to rules, regulations and management decisions are as follows.

Refer to Laws, Rules, Regulations and management decisions	Audit Observation	Comments of the Council	Recommendation
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Financial Regulations Code of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulations 189 and 486	Action has not been taken according to the financial regulations as at 31 December 2020 even though Rs.563,753 cheques has been dishonored that was received relevant to other income by 28 parties from the year 2004 to year 2010.	Instructions was given for officers to take further steps in that regard.	Action should be taken according to the financial regulations.
(ii) Financial regulations 571 (2)	Action was not taken according to the financial regulations relating to 35 deposit balances worth Rs.1,005,827 that has exceeded 2 years.	Action will be taken to credit lapsed deposit to the revenue.	Action should be taken according to the financial regulations.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, excess of revenue over recurrent expenditure of the Council For the year ended 31st December 2020, amounted to Rs.60,198,035 as compared with the corresponding amount in excess of revenue over recurrent expenditure for the preceding year amounted to Rs.58,787,580.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
(a) Rates and Taxes		
(i) Only Rs.7,883,058 was collected from arrears Rs.50,185,347 which was at the beginning of the year under review, it was a 16 percent value of the total arrears. Rs.15,561,714 which was 49 percent of total bill had been collected from Rs.31,659,572 bills during the year under review, the total arrears rates was Rs.50,400,143 as at 31 December of the year under review.	Actions had been taken from June 2021 to collect the arrears rates by recruiting property prohibiting assistants on commission basis from calling tenders.	Actions should be taken to collect the arrears income without delay.
(ii) A balance of Rs.2,701,423 rates had been due from 14 government institutions since 1 to 11 years as at 31 December 2020.	Letters with detail reports had been sent to the relevant 14 institutions to collect the arrears rates that is to be collected from government institutions.	Actions should be taken to collect the arrears income without delay.
(iii) Arrears rent of Rs.84,000 should be collected for 21 months from the Gampola Athletic and Cricket Sport Society as at 31 December 2020.	Arrears has not been paid and actions are been taken to acquired the ownership.	Actions should be taken to collect the arrears income without delay.
(iv) Only Rs.883,993 from arrears tax income Rs.2,735,517 which was to be collected as at 31 December 2019 and only Rs.1,201,804 from the tax income Rs.2,031,354 which was billed for year under review had been collected and further Rs.829,550 tax income should be collected.	Written notice is sent to collect that amount and part of the arrears was collected.	Actions should be taken to collect the arrears income without delay.

(v) Amount of Rs.2,201,020 is due when renting the rest house of the Urban Council from July 2019 to 31 December 2020.	Action has been taken to sent reminders because requests was made to extend the time to pay this arrears and that time also has end.	Actions should be taken to collect the arrears income without delay.
(b) Stalls Rent -----		
(i) Rs.3,052,609 from the stalls in the public market, Rs.299,163 from the lawyer office complex and the arrears rent of Rs.11,075,578 from the shopping complex situated above the Gampola railway from the year 2005 to 31 December 2020 should be collected.	Written notices were made to collect the arrears.	Action should be taken to collect the arrears income without delay.
(ii) Arrears of Rs.9,633,050 was there from the C.T.B. Bus stand shopping complex and Rs.2,807,321 was due for the Council from 07 public market owned by the Council as at 31 December 2020.	Written notices were made to collect the arrears.	Action should be taken to collect the arrears income without delay.
(c) Other Revenue -----		
(i) Actions were not taken to collect Rs.531,450 from 12 notice boards in the boundary of Urban Council, Rs.46,000 arrears lottery stall tax income and Rs.266,223 from telephone transmission towers.	Actions are taken to collect the arrears.	Action should be taken to collect the arrears income without delay.
(ii) Action were not taken to collect the arrears of Rs.3,961,202 relevant to previous year and other years from the arrears trishaws stand payment of Rs.6,052,850 as at 31 December 2020.	A trishaws survey is happening. Action will be taken to collect the arrears after the survey.	Action should be taken to collect the arrears income without delay.
(d) Court fines and Stamp Duties -----		
Rs.316,007 of court fines and Rs.19,751,000 of stamp duties were receivable from the Chief Secretariat Office of Provincial Council and other institutions.	Action will be taken to collect the arrears income.	Action should be taken to collect the arrears income without delay.

3. Operational Review

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Section 4 of the Urban Councils Ordinance are shown below.

Solid Waste Management

Audit Observation	Comments of the Council	Recommendation
Rs.2,076,000 for waste and Rs.2,056,215 for fuel has been spent from July 2019 to move the decaying waste to Dambulla waste project because of not making a proper system to manage the 20 tons waste which is collected to Council area on a daily basis.	About 10 tons of decaying waste which is collected to Gampola Urban Council area on a daily basis is send to Digampathana waste yard of Dambulla Municipal Council. This expense has to be done regularly because there is no land to dispose the waste.	Proper programme should be made to manage the solid waste.

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) An arrears of Rs.68,571,043 was due as at 31 December 2020 because of allowing to pay 25 percent and the balance in 48 equal installments as per the decision taken by the Special Committee regarding key money from public market and not acting according to Section V of circular No. 2016/3 dated 17th March 2016 of Central Province, Commissioner of Local Government.	Action will be taken to key money after the approval is given from the Governor for committee recommendation to collect in 48 installments.	Action should be taken to rent the stalls according to the circular.
(b) The key money of Rs.6,000,750 had not still been collected even though 4 years has gone since the stall was given to rent by the letter dated 4 th April 2016 from the Urban Council Secretariat to pay 25 percent of the tender amount and the balance in 5 year for the 152 stall of the public market, not acting according to the section V of circular No.2016/3 dated 17 th March 2016 of Commissioner of Local Government.	Advice was given to revenue examiners to take future action relating to this matter.	Action should be taken to collect the money due without delay according to the circular.

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| (c) | Account balances of Rs.4,278,418 exceeded one year from the 2 receivable accounts valued Rs.4,512,918 as at 31 December the year under review. | It is directed to take future actions regarding to receivable balances. | Action should be taken to collect without delay. |
| (d) | Accounts balances of Rs.5,287,932 exceeded one year from the 3 payable accounts valued Rs.16,089,534 as at 31 December the year under review. | That amount cannot be paid as our institution did not receive funds for development projects payables. | Action should be taken to settle without delay. |

3.2 Operational Inefficiencies

----- Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) Over 100 stalls of the public market were closed down without engaging in business activities and stalls were used for misconducts, even though Rs.2,002,742,936 had been spent to built the public market. 53 stalls were closed down without giving them for rent.	Action will be taken to bill that amount and collect it after the lockdown restrictions are over. Action will be taken to call tenders for remaining stalls.	Action should be taken to get the expected benefits from utilizing the assets of the Council in an effective and efficient manner.
(b) The usage was given to Udapalatha divisional secretariat of the 30.44 perches land consists of 4 official quarters which was proposed to build the entrance road to Gampola Court and even though the value of that land is estimated to be Rs.32,000,000 according to the letter No. KD/LE/1550 dated 05 April 2018 the money was not received even until 15 January 2021.	Discussion was done in the provincial coordination committee relating to this matter held on 19 February 2021.	The needed actions should be taken to collect the money which is receivable to the Council.
(c) Land belonging to the Council was given to rent on 03 occasions without the prior approval of the minister.	Action will be taken to get the approval of the incharge of the subject minister.	Action should be taken according to section 36 (e) II of the 1988 urban council ordinance.
(d) Rent Income is not received from 114 parts of land belonging to council and, updated files for rent contracts for these lands were not there and actions were not taken to collect the rent income by identifying and valuating the land belonging to the council.	Assets of the council is identified by a survey and measuring had started.	Action should be taken to make a proper programme to get income by renting after identifying correctly the assets of the council.

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| (e) | Valuation was not done after the year 2008 for the stalls of market complex eventhough the rent should be valued in once in 05 years. | Rent contracts are done according to new valuation reports. | Actions should be taken to value the rent once in 5 years. |
| (f) | Rent was paid according to the value decided by the lease holders for 42 stalls of shopping complex built in C.T.B. Bus stand. | Eventhough it was shown in audit reports continuously it was unable to correct it. Actions are been taken to correct the errors as to the actions taken now. | Actions should be taken to lease the stalls according to a proper plan also to collect the rent. |

3.3 Idle or Underutilized Property, Plant and Equipment

Audit Observation -----	Comments of the council -----	Recommendation -----
(a) At the end of the year under review 7 types of assets valued at Rs.1,601,220 were inactive.	It is directed to get valuation reports to auction off vehicles and action will be take to take decision about 03 garbage grinding machines and a cement brick machine.	Assets should be utilized effectively.
(b) 2 storeys have been constructed by spending Rs.2,000,000,000 after planning to construct a public market building with 3 storeys and due to weaknesses in planning even those 2 storeys were under utilized. Action has not been taken to contract the upper storey even it has been spent 13 years after constructing this building and rain water leakages were there from places that the concrete was cracked.	It has been proposed to repair this building under the “Gama Smaga Pilisadarak” done under 2021 year concept of the president and it is directed to estimate and for further actions.	Actions should be taken to make proper plans to utilize the assets and safeguard the assets of the council.