

Gampaha Municipal Council - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Gampaha Municipal Council including the financial statements for the year ended 31 December 2020 comprising the statement of assets and liabilities as at 31 December 2020, comprehensive income statement, statement of changes in equity, 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 the Section 219 of the Municipal Councils Ordinance (Chapter 252). 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 financial statements give a true and fair view of the financial position of the Gampaha Municipal Council as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities .

1.2. Basis for Qualified Opinion

I express qualified opinion based 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 Sri Lanka Public Sector Accounting Standards, 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 Municipal Council's financial reporting process.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Municipal 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 Municipal Council, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Municipal Council has complied with applicable written law, or other general or special directions issued by the governing body of the Municipal Council;
- Whether it has performed according to its powers, functions and duties; and

- Whether the resources of the Municipal 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

National Audit Act, No. 19 of 2018 include specific provisions for following requirements.

- (a) The financial statements of the Municipal Council presented is consistent with the preceding year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The following recommendations which I made on financial statements for the preceding year had not been implemented as per the requirement of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.1 (b), (d), (e), (g), (h), (k), (l), (m), (n), (q), (r), (s), (t), (u), (w), (x)

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local Authorities

| Reference to the Relevant Standard | Non- compliance | Comments of the Council | Recommendation |
|------------------------------------|--|---|---|
| 6.3 | Although the lands and buildings should be separately identified and accounted for, it had not been so done. | It is informed that the actions will be taken to identify lands / buildings separately and account for. | Actions should be taken in terms of the Accounting Standards. |

1.6.2 Accounting Deficiencies

| Audit Observation | Comments of the Council | Recommendation |
|---|---|--|
| (a) Although it had been classified as 14 types of assets under non-current asset code No. 2100 as per the Circular No. LGD/09/2019 (1) dated 27 August 2020 of the Commissioner of Local Government (MPC), the | It is accepted that 14 items have been categorized only as 9. Actions will be taken to classify fire protection suits, fittings, computer software and machinery in the year 2021 . | Actions should be taken in terms of Circulars. |

Council had classified property, plant and equipment only under 09 items.

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| <p>(b) Even though the contribution from the government for the non-recurrent expenditure amounting to Rs.66,965,713 should be credited to the capital grant account, the value had been overstated by the same amount due to credited to the revenue.</p> | <p>It is accepted that depreciation provision has not been made in 2020 for the contribution from the government for the expenditure. It is informed that since the concession has been granted for the year 2020 for not to adjust the depreciation as per the new accounting system, it has not been so done.</p> | <p>The depreciation value should be accurately identified and accounted for.</p> |
| <p>(c) Even though a sum of Rs.73,664,850 should have been credited to the accumulated fund account as per the journal entry Nos. 46, 49, 57, 64 and 67 as a result of failure to adjust that value to the accumulated fund account in the statement of changes in equity, the surplus which should have been Rs.33,425,546 as at 31 December had been stated as a deficit of Rs.40,239,304.</p> | <p>Answers will be given by looking into furthermore.</p> | <p>Journal entries should be accounted for accurately.</p> |
| <p>(d) A value write off advance account had not been opened in the ledger and the writing offs had been transferred to the other expenses account as per the information submitted to the audit. The value write off amounting to Rs.23,710,952 had been accounted for the other expenses account as an expenditure made in cash.</p> | <p>Accept. A value write off advance account will be opened and maintained in future.</p> | <p>A value write off advance account should be maintained.</p> |

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| (e) | Although the balance of the plant and machinery account as at 31 December 2019 was Rs.29,645,329 the balance in the office equipment account as at the date was Rs.4,680,665 and it had been indicated as the opening balance of the plant and machinery account. | Accept. This is an error occurred at the instance of computerizing. | Account balances should be brought to accounts accurately. |
| (f) | Even though there was no opening balance in the container and equipment account for the year under review the opening balance of the plant and machinery account amounting to Rs.29,645,329 had been indicated as the opening balance of the containers and equipment account. | Accept. This is an error occurred at the instance of computerizing. | Account balances should be brought to accounts accurately. |
| (g) | Because of the balance of rates receivable amounting to Rs.59,310,442 as at the end of the year under review had been stated as Rs.60,019,840 in the final account, the final account had been overstated by Rs.709,398. | A sum of Rs.709,398 has been overstated when entering the balance of rates receivable at the Yakkala sub office as at 31/12/2020 into the journal. The above error will be corrected under the correction of opening balances 2021. | Arrangements should be made to enter the balance in the ledger to the final account accurately. |
| (h) | Although the total in the Note for revenue from non-exchange transactions was Rs.117,383,709 as a result of accounting for as Rs.117,317,361 under current assets in the financial statement, the current assets had been understated in the accounts by Rs.66,348. | Accept. As a result of the amount of Rs.66,348.75 which is the value of the house rent receivables in the Note 16 pertaining to the dues from the exchange transactions in the final financial statement has not been entered into the total due to a computer error, this problem has arisen. | Understating in accounts should be corrected. |

2. Financial Review

2.1 Financial Results

The surplus of the Council as per the financial statements submitted for the year ended 31 December 2020 was Rs.132,650,873 and the deficit for the preceding year was Rs.216,488,567.

2.2 Financial Control

Audit Observation

Any gift or donation award considering as a representative of the Local Government Institution on an officer to the Mayor, Deputy Mayor or any other Member, Municipal Commissioner or any other officer of the Municipal Council should be considered and act as a gift made to the Municipal Council in terms of Section 25 of Chapter 1 of Gazette No.2155/6 dated 24 December 2019 and such donations should be credited to the Municipal Council Fund under Section 185 of the Municipal Council Ordinance. Nevertheless, a bank account in the name of the Mayor's Fund of a State Bank had been maintained by donations received to the Mayor and the total value of Rs.1,028,743 had been credited to the account on 09 occasions during the 06 months from July to December 2020 and there were a payments totalled to Rs.1,016,425 on 29 occasions. Receipts, bills, payment vouchers or any other acceptable documents were not produced in connection with these transactions.

Comments of the Council

The Mayor's Fund can be defined as a method of obtaining money which is not given to the Council Fund on the appreciation and the trust exists in Mayor's social works. It is pointed out that all the expenses of the Mayor's Fund have been borne by cheques only. All the revenues receive under Section 185 of the Municipal Council Ordinance and all the expenditures incurred under Section 188 have been made under the Fund of the Council. Relevant receipts, bill payment vouchers pertaining to this could not be obtained as the Mayor's Office was closed due to the Covid epidemic.

Recommendation

Actions should be taken in terms of Section 185 of the Municipal Councils Ordinance.

2.3 Revenue Administration

2.3.1 Rates and Taxes

| Audit Observation | Comments of the Council | Recommendation |
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| (a) Rates and taxes valued at Rs.62,346,436 had to be recovered as at 31 December of the year under review as per the age analysis report submitted and actions had not been taken to recover the arrears of balance for one year amounting to Rs.7,701,937, Rs.7,771,270 in between 01 and 03 years, Rs. 20,206,589 in between 3 to 5 years, and a sum of Rs.26,666,641 in between 5 to 10 years out of that. | In the face of the Covid epidemic in the year 2020, field revenue collection had remained inactive. Similarly, Tax defaulters had to be given tax exemptions instead of taking actions. Actions will be taken to give priority to the recovery of arrears with high arrears period also as per these arrears age analysis indications. Further, the actions also will be taken to write off those arrears of income by exposing the reasons for the failure of recovering arrears. | Actions should be taken to collect the rates and taxes. |
| (b) Although the rate balance receivable as per the financial statement was Rs.60,019,840, since it was Rs.59,310,442 as per the schedule, a difference of Rs.709,398 was observed. | A difference of Rs.709,398 is indicated because of an error occurred in entering the rate balance receivable on 31/12/2020 to the journal, I will make sure to correct the above error under the opening Balance corrections in 2021. Accordingly, it is indicated by this that the accurate balance in the rate receivable account as at 31/12/2021 is Rs.59,310,442. | The balance in schedule and the balance in financial statement should be reconciled. |

2.3.2 Entertainment Taxes

Audit Observation

There was an entertainment tax valued at Rs.5,067,942 to be recovered from 5 cinema halls as at 31 December of the year under review and out of that, an arrears of Rs.4,793,162 was due to be recovered from the Public Cinema Hall.

Comments of the Council

Actions will be taken action to recover the arrears as soon as the cinema halls open. Due to the institution has not taken actions to in accordance with the judgment of the case of the Public Cinema Hall the case has been referred to the Municipal Legal Officer for updating.

Recommendation

Actions should be taken to recover the arrears of taxes.

2.3.3 Trade Stalls Rent

Audit Observation

The value of arrears stall rent at the end of the year under review was Rs.36,218,243 and it was observed that a sum of Rs.13,352,139, Rs.7,323,722, Rs.3,686,205 and Rs.11,856,177 had to be recovered for the period less than 1 year, in between 1 to 3 years, 3 to 5 years and 5 to 10 years respectively.

Comments of the Council

In the face of the Covid epidemic in the year 2020, field revenue collection remained inactive. Similarly, instead of taking actions against the tax defaulters, it had to give tax exemptions. But even under these circumstances, actions were taken in the year 2021 to recover rent that has not been paid for a long time for various reasons and the Council was able to collect more than Rs.11 Million in revenue from this item by that at one time.

Recommendation

Actions should be taken to recover the arrears of stall rent .

2.3.4 Other Revenues

Vehicle Parking Fees

Audit Observation

Actions had not been taken to recover Rs.1,641,456 due from 5 parking premises as at the end of the year under review.

Comments of the Council

This balance has arisen due to the defaulting of tender fees. Arrangements were made to recover the charges

Recommendation

Actions should be taken to collect the arrears of income.

deploying Council employees acquiring the premises from the tenderers in the relevant year. These pending files have been currently sent to the Municipal Law Division for legal actions.

3. Operating Review

3.1 Performance

The matters observed in respect of executing of functions that should have been performed by the Council such as regulation and control, wellbeing of the public, facility and welfare regarding the matters public health, public utility services and public roads under Section 04 of the Municipal Council Ordinance are as follows.

Solid Waste Management

Audit Observation

A sum of Rs.29,127,000 had been paid to a land owner for the disposal of garbage to a private land in the year 2020 and it was observed that the garbage had been piled up in the manner of exposure to the environment and harmful to health as per the physical test check carried out on 07 September 2020 on the garbage disposal site and it was also observed that an Environmental Protection License had not been obtained for the garbage landfill and the Council had not acted in accordance with the order given by the Gampaha High Court to the Public Health Inspector of the Council to be vigilant and to report on the hygiene of the garbage landfill site.

Comments of the Council

The garbage of the Gampaha Municipal Council was dumped at the Kerawalapitiya garbage yard in the year 2019 and as per the instructions of the Hon. Governor, obtaining a Council decision in accordance with the instructions of the letter No.LGD/03/02/4/27 dated 02/08/2019 of the Commissioner of Local Government, the disposal of the garbage to a private land was done. A compost production machine has been installed at this place. Instructions have been given to implement it. Since the relevant license were not obtained it was informed to get the license within 03 months for that and to submit a copy of it to us.

Recommendation

Garbage disposers should be selected by following proper tender procedures for the purpose of garbage disposal and actions should be taken to pay and dispose of the garbage regularly. Further, obtaining a license for the landfill site and enforcing court orders also should be carried out.

3.2 Examination on Recruitment

Audit Observation

A number of 37 work/ field workers and 22 health workers had been recruited based on Public Administration Circular No. 29/2019 and 18 September 2019. Although it had mentioned in Public Administration Circular 25/2014 dated 12 November 2014 that the staff should be updated reporting to the Director General of Management Services after granting the relevant appointments, as a result of number of staff was not being updated, a sum of Rs.11,608,800 had been paid from the Council Fund as salaries for the year 2020 for the 28 who had been recruited exceeding the number of vacancies that existed on that day.

Comments of the Council

The number of work - site labourers and health labourers by 31 December 2020 was 38. A large number of staff is required for an essential number of duties such as removal and burial of garbage daily at corona and quarantine centres, carrying out disinfection activities with the increasing number of corona cases daily within the Municipal limits, conducting daily PCR testing and antigen testing, vaccination, activation of Covid Awareness Corps.

Recommendation

Actions should be taken in accordance with the Circular.

3.3 Improper Transactions

Audit Observation

Despite the fact that the required number of tea packets had been provided by a private institution for the total number of low income earners included in the register provided by the Gampaha Divisional Secretariat for the distribution to the public during the curfew period due to the Covid 19 epidemic, the Municipal Council had paid Rs.540,000 for the purchase of 6,000 packets of tea, Rs.215,000 for the purchase of 1000 packets of Deweni Betha and 1000 packets of biscuits which were not included in the distributed dry ratio bag and it was observed that even though the Council had purchased 5,774 kilograms of vegetables to distribute among low-income earners, only 4,014 kilograms had been issued to the Members of the Council.

Comments of the Council

Actions will be taken to answer in future.

Recommendation

Actions should be taken to recover the loss occurred to the Council from those who are responsible.