

## **Gampola Urban Council - 2022**

-----

### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Gampola Urban Council for the year ended 31 December 2022 comprising the balance sheet as at 31 December 2022 and the income and expenditure account, and other explanatory information, including a summary of significant accounting policies, was carried out 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 Sub-section 181 (1) of the Urban Council Ordinance (Cap.255) and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the 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 2022, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

#### **1.2 Basis for Qualified Opinion**

Based on the matters described in Paragraph 1.6 of this report, I express a qualified opinion on the financial statements.

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 this 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 Practices, 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 Sub-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 to be prepared.

#### **1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 the 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 the Urban Council 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

Special provisions are included in the National Audit Act, No. 19 of 2018 with respect to the following requirements.

- Financial statements of the Urban Council are consistent with the preceding year as required by Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- The recommendations made by me in the preceding year in accordance with Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018, are included in the financial statements presented.

## 1.6 Audit Observations on the Preparation of Financial Statements

### 1.6.1 Accounting Policies

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
Nine court cases that had not been concluded as at the trial balance date were not disclosed in the financial statements.	Action will be taken to include information in the ensuing year.	This should be disclosed in the financial statements.

### 1.6.2 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) Retention money of Rs.1,185,087 related to 06 occasions, stamp duty of Rs.91,576, and tender deposits of Rs.41,500 pertaining to the year under review had not been accounted for.	Corrections will be made in due course.	Accuracy should be ensured in the accounting process.
(b) Machinery and equipment worth Rs.118,150 purchased during the year under review had not been accounted for.	-Do-	-Do-
(c) A steel cupboard purchased at a cost of Rs.44,240 during the year under review had been accounted for thrice, resulting in an overstatement of Rs. 88,480.	-Do-	-Do-

### 1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comment of the Council	Recommendation
(a) When comparing balances related to 04 items of account stated in the financial statements with the relevant schedule, there was a difference of Rs.44,808,405.	Action will be taken to ascertain the difference and make relevant corrections.	Account balances should be corrected.
(b) When comparing the total value of 03 items of account as at the end of the preceding year with the opening balance of the year under review, there was a difference of Rs.26,270,746	Action will be taken to ascertain the difference and make relevant corrections.	Account balances should be corrected.

### 1.7 Non-compliance

#### Non-compliance with laws, rules, regulations and management decisions

Instances of non-compliance with laws, rules, regulations and management decisions are as follows.

Reference to laws, rules, and regulations	Non-compliance	Comment of the Council	Recommendation
(a) Section 164 of Urban Council Ordinance (Cap.255)	The arrears of management fees of the Inn belonging to the Council related to the period 2019-2021 had not been recovered.	The matters regarding the non-payment of arrears will be referred to the District Committee.	Action should be taken in accordance with the provisions of the Act.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka. F.R. 571 (3)	Seventeen lapsed deposits related to the period 2016-2020 had not been disposed of.	Action will be taken to settle it in the future.	Action should be taken in accordance with the Financial Regulations.
(c) Section 5 of Circular No. 2016/3 dated 17 March 2016 of the Commissioner of Local Government, Central Province.	Without being assessed the stall rent of 177 stalls of 06 market complexes, rents had been levied based on the assessment dated 02 October 2007.	Action will be taken to recover the rent after the receipt of the new assessment.	Stalls should be assessed and rent should be recovered accordingly.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the revenue of the Sabha in excess of the recurrent expenditure amounted to Rs. 68,793,142 as at 31 December 2022 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs. 73,847,288.

### 2.2 Revenue Administration

#### 2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue, and Outstanding Revenue

According to the information submitted by the Chairman, the particulars on the estimated revenue, billed revenue, collected revenue and outstanding revenue relating to the year under review and the preceding year, are as follows.

Source of Revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	30,050,000	32,818,035	33,679,146	61,338,062	30,000,000	32,744,600	28,279,792	62,199,173
(ii) Rents	25,895,000	24,894,465	31,399,143	85,091,101	24,595,000	18,256,184	11,470,945	91,595,779
(iii) License Fees	5,150,000	4,179,517	4,283,422	1,237,412	4,450,000	3,465,176	2,546,113	1,341,317
(iv) Other Revenue	50,000,000	49,384,242	39,847,868	49,740,237	51,500,000	38,705,614	36,988,288	40,203,864
	111,095,000	111,276,259	109,209,579	197,406,812	110,545,000	93,171,574	79,285,138	195,340,133

#### 2.2.2 Performance in the Collection of Revenue

Audit Observation	Comment of the Council	Recommendation
<p>(a) <b>Rates and Taxes</b></p> <p>The balance of the rates in arrears as at the end of the year under review was Rs. 61,338,062 and the rates due from 1,549 rating units with the arrears exceeding Rs.10,000 totalled Rs. 36,652,736.</p>	<p>Action will be taken to recover the arrears by seizing the properties.</p>	<p>Arrears of revenue should be recovered.</p>

**(b) Stall Rents**

- |      |  |  |  |
|------|--|--|--|
| (i)  | The balance of stall rents in arrears as at the end of the year under review amounted to Rs. 76,914,939 and the value of arrears exceeding 100,000 related to 18 cases totalled Rs. 9,005,039.                                   | This has been referred to the Department of Valuation for revision and action will be taken to issue a Sealing order in relation to the arrears of stall rent. | Outstanding stall rents should be recovered.         |
| (ii) | Ninety-one stalls of the public market complex had not been tendered and out of the 105 stalls, which had been given following the tender procedure, 78 stalls had been offered for businesses without entering into agreements. | Action will be taken to follow the tender procedure after the receipt of new assessment.   | Revenue should be collected by tendering the stalls. |

**2.2.3 Court Fines and Stamp Duty**

The stamp duty that remained receivable from the Chief Secretary of the Provincial Council and the other authorities as at 31 December of the year under review amounted to Rs. 39,460,000.	That amount has not been received as yet.	Stamp duty pertaining to the year should be recovered.
---	---	--

**3. Operating Review**

**3.1 Execution of duties entrusted by the Act**

The following matters were observed with respect to the execution of duties charged with the Council through Section 04 of the Urban Council Ordinance , being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) Despite having the ability to hand over the daily collected wastes to the Kundasale organic fertilizer yard, wastes had been provided to the Dambulla Digampathana waste centre situated about 82 k.m. distance. A sum of Rs.3,125,133 had been spent as transport expenses during the year under review for this purpose.	Increasing in the quantity of waste collection and difficulties regarding transportation in the Kundasale area.	Transport costs should be minimized.

- (b) There was no proper arrangement put in place for the collection or disposal of the un-degradable waste collected in the Council area and disposal had been carried out in a manner that caused damage to the environment.
- Decision has been taken to collect the un-degradable waste.
- A proper methodology should be followed.

### 3.2 Management Inefficiencies

	Audit Observation	Comment of the Council	Recommendation
(a)	Four receivable account balances as at 31 December of the year under review totalled Rs. 17,473,100 of which the balances related to the period from 01 to 05 years totalled Rs. 12,073,861 and the balances that continued to exist for more than 05 years totalled Rs. 3,849,644.	Action will be taken to write off and recover the balances.	Receivable balances should be recovered.
(b)	Two payable account balances as at 31 December of the year under review totalled Rs. 49,825,195 of which the balances related to the period from 01 to 05 years totalled Rs. 3,786,706, while the balances that continued to exist for more than a period of 05 years totalled Rs. 4,330,196.	Action will be taken to settle the balances in the future.	Payable balances should be settled.
(c)	Action had not been taken to settle an advance balance of Rs. 225,000 that continued to exist since the year 2011.	Action will be taken to settle the balance after the receipt of the final decision of the investigation and the relevant approval.	Advances should be settled.
(d)	Action had not been taken to settle 28 cheques worth Rs. 563,753 that had become dishonoured after their issuance during the period from 2004 to 2010.	Action will be taken to recover the money in the future.	Action should be taken to settle them.
(e)	No valuation reports and other legal instruments had been presented for lands and buildings worth Rs. 6,832,225,558 existed as at the end of the year under review.	Action will be taken to value the assets	Valuation reports should be obtained and legal instruments should be submitted.
(f)	Although a tractor had been accounted for under the motor vehicle and carts, no action had been taken to look into the tractor worth Rs. 225,000 which was not physically available.	There is no these type of tractor for the time being.	Action should be taken to correctly identify the assets belonging to the Council.

### 3.3 Idle or Underutilized Property, Plant and Equipment

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) Three vehicles worth Rs. 9,041,373 and 04 trailers worth Rs. 613,800 existed as at the end of the year under review remained idle and underutilized for over a period from 01 to 07 years.	Action will be taken to auction and repair these items in the future.	Action should be taken to dispose of or repair those items.
(b) Although plans had been drawn to construct the Gampola Public Market with three stories using the loan of Rs. .96,366,315 obtained from the Local Loan and Development Fund in the year 2005, only 02 floors had been constructed consisting of 197 stalls. Nearly 100 stalls of the aforementioned stalls had been closed over a period of 17 years without carrying out business activities.	This matter has been referred to the valuer and action will be taken to give them on tenders in the future.	Revenue should be earned by tendering stalls.

### 3.4 Assets Management

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
Action had not been taken to take over the ownership of the Bobcat machine belonging to the Central Environmental Authority which is currently used by the Council.	Any relevant document is not available with the Council.	Action should be taken to take over the machine by ascertaining facts.

### 3.5 Irregular Transactions

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) Land of the Council that is located in Vigulawatta has been leased to the Gampola athletic club for a period of 30 years from 28 April 2003, the lessee had sold a part of that land to another party without permission of the Urban Council.	The advice from the Commissioner of Local Government will be sought for further action.	The security and the right of the properties owned by the Council should be ensured.



- |     |   |   |  |
|-----|---|---|--|
| (b) | The shopping complex at the Gampola bus stand had been leased to a private party for a period of 30 years from 10 January 2001 and the said lessee had constructed 42 stalls without permission and obtained water and electricity at his cost. Similarly, a lease rent of Rs. 4,513,416 had also not been recovered during the period from 10 January 2001 up to the end of the year under review. | Further action will be taken after the receipt of valuation.    | Unauthorized constructions should be removed and the arrears of revenue should be recovered following legal actions. |
| (c) | The shopping complex on the Jayarathna Mawatha had been leased to a private company and stall rents of Rs. 10,482,882 had not been recovered as at the end of the year under review.  | The court has been informed of this matter through the lawyers. | Arrears of rents should be recovered.  |

### 3.6 Human Resource Management

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
<b>(a) Cadre vacancies and excesses</b>		
(i) When comparing the approved cadre and the actual cadre, there were 64 vacancies in 21 positions.	The Office of the Commissioner of Local Government has been informed.	Vacancies should be filled.
(ii) Thirteen health and road labourers recruited in terms of Public Administration Circular No.25/2014 dated 24 November 2014 had been deployed for office activities.	Labourers have been employed in this manner over a number of years.	Duties related to the position should be assigned.
<b>(b) Employees Loan</b>		
Loan balance totalling Rs. 2,529,760 due from 41 officers and employees who were retired, transferred and those who vacated the service during the period from 2010 to 2022 had not been recovered.	A part of the total loan has been recovered.	Loan balances should be recovered.

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

##### **4.1 Budgetary Control**

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
When comparing the estimated income and expenditure of the budget prepared for the year under review with the actuals, variations ranging from 52 per cent to 100 per cent were observed relating to 36 items of income, while variations ranging from 35 per cent to 98 per cent were observed in relation to 23 items of expenditure. Accordingly, the budget had not been made use of as an effective instrument in control.	The budget will be prepared so as to minimize the variations in the future.	The budget should be prepared with due regards in keeping with the necessities.

##### **4.2 Internal Audit**

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
Since the Internal Auditor had been assigned with the duties on other subjects in addition to the auditing, it had not been possible to perform the audit activities independently and productively.	A certain amount of additional duties has now been removed.	Internal audit duty activities alone should be assigned.

##### **4.3 Sustainable Development Goals**

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
Despite being identified the sustainable development goals and targets by the Council, indicators had not been identified to achieve them and evaluate progress.	Action will be taken to achieve the goals and targets and to evaluate progress in the future.	Goals and targets should be identified and implemented.