

Gampaha Municipal Council  
Gampana District  
-----

01. Financial Statements  
-----

1:1 Presentation of Financial Statements  
-----

The financial statements for the year under review had been presented on 30 March 2011 and the financial statements for the preceding year had been presented on 31 March 2010.

1:2 Opinion  
-----

In view of my comments and observations included in this report. I am unable to express an opinion on the financial statements of the Gampaha Municipal Council for the year ended 31 December 2010 presented for audit.

1:3 Comments on Financial Statements  
-----

1:3:1 Accounting Deficiencies  
-----

- (a) Reimbursement of members' allowances receivable for the year under review amounting to Rs.232,000 had not been brought to account.
- (b) The part payments amounting to Rs.6,801,638 made for the construction of the Gampaha Fish Market and Shopping Complex had been brought to account as prepayments instead of being charged to the Capital Expenditure Account and the Work-in-Progress Account.
- (c) The rent of Rs.500,000 paid monthly for the Garbage Exchange Centre had been brought to account as prepayments.
- (d) Action had not been taken to account for the balance sum of Rs.14,249,906 remaining for refund out of the Provincial Council financial aid amounting to Rs.26,314,636 received for the year 2009.
- (e) Provision had not been made in the accounts for the audit fees amounting to Rs.487,261 payable in respect of the years 2006, 2007 and 2008.

- (f) The closing stock computed according to the verification of goods as at 31 December 2010 amounted to Rs.2,190,753 and the balance of the Stock Account amounted to Rs.2,186,635. Thus a difference of Rs.4,118, was observed.
- (g) Even though the balances of the Fixed Assets Accounts totalled Rs.56,029,440 the balance of the Revenue Contribution to Capital Outlay Account amounted to Rs.53,926,993. Thus a difference of Rs.2,102,447 was observed.
- (h) Fixed assets valued at Rs.77,110 purchased in the year under review had not been brought to account.
- (i) Even though a sum of Rs.4,517,740 received for 23 Provincial Council Projects implemented in the year 2010 had been credited to the Provincial Council Aid Receivable Account, the balance of the Provincial Council Aid outstanding as at 31 December 2010 had been understated by that amount as bills had not been raised in the year.
- (j) Even the prepayments receivable/ payable should have been shown separately in the financial statements, the net balance after setting off Rs.1,605,160 against prepayment receivable amounting to Rs.32,095,783 had been shown. The balances of the Schedule of Prepayments totalled Rs.32,089,383.
- (k) Stores goods valued at Rs.480,511 recorded in the stock books had not been brought to account.
- (l) Stores goods valued at Rs.17,942 brought to account had not been recorded in the stock books.
- (m) The interest on staff security of Rs.13,500 invested had not been computed and brought to account.

1:3:2 Unreconciled Control Accounts

-----  
The arrears of business tax according to the account as at 31 December 2010 amounted to Rs.1,091,988 whereas according to the schedules presented, the balance of tax in arrears amounted to Rs.747,750.

1:3:3 Accounts Payable  
-----

The balances of creditors accounts older than 01 year as at 31 December 2010 amounted to Rs.98,152,749.

1:3:4 Lack of Evidence for Audit  
-----

Non-submission of Information to Audit  
-----

Transactions totalling Rs.102,309,709 could not be satisfactorily vouched in audit due to non-submission of required information to audit.

1:3.5 Non-compliance with Laws, Rules and Regulations  
-----

Non-compliances with the provisions in the following laws, rules and regulations and management decisions were observed during the course of audit.

| Reference to Laws, Rules, Regulations and Management Decisions<br>----- | Non-compliance<br>-----   |
|---|---|
| (a) Section 266(a) of a Municipal Councils Ordinance                    | Works prepayments amounting to Rs.335,395 receivable by the Council had been written off without the approval of the Minister.  |
| (b) Establishments Code of the Republic of Sri Lanka<br>-----           |   |
| (i) Section 4 of Chapter xxiv   | Even though the loan balances recoverable from officers retired, deceased or transferred should be recovered from the pension gratuity, death gratuity or the sureties, loan balances amounting to Rs.617,589 remained irrecoverable due to the failure to take action accordingly. |
| (ii) Section 4.6 of Chapter xxiv  | Advice of the Attorney General had not been obtained for the write off of irrecoverable staff loans amounting to Rs.11,830 from   |



|       |                 |         |         |        |         |         |        |
|-------|-----------------|---------|---------|--------|---------|---------|--------|
| (i)   | Rates and Taxes | 43,251  | 29,546  | 13,705 | 44,448  | 26,457  | 17,991 |
| (ii)  | Rents           | 20,055  | 3,033   | 17,023 | 29,607  | 13,590  | 16,017 |
| (iii) | Licence Fees    | 3,493   | 3,185   | 308    | 3,448   | 2,882   | 567    |
| (iv)  | Other Revenue   | 209,151 | 157,666 | 51,484 | 247,010 | 159,735 | 87,274 |

As such the following differences were revealed between the revenue as at 31 December according to the financial statements for the year and the preceding year and the arrears of revenue presented by the Mayor.

|                                | <u>2010</u>                      |   |            | <u>2009</u>                      |   |            |
|--------------------------------|----------------------------------|---|------------|----------------------------------|---|------------|
|                                | According to Financial Statement | According to Information furnished by the Mayor | Difference | According to Financial Statement | According to Information furnished by the Mayor | Difference |
|                                | Rs.'000                          | Rs.'000   | Rs.'000    | Rs.'000                          | Rs.'000   | Rs.'000    |
| (i) Arrears of Rates and taxes | 12,379                           | 13,705  | (1,326)    | 16,388                           | 17,991  | (1,603)    |
| (ii) Arrears of Other Revenue  | 88,598                           | 68,815  | 19,783     | 105,944                          | 103,858   | 2,086      |

#### 2:4 Expenditure Structure

The budgeted and the actual expenditure of the Council for the year under review and the preceding year together with the variance are given below.

| Item of Expenditure   | 2010                       |                          |                            | 2009                       |                          |                            |
|-----------------------|----------------------------|--------------------------|----------------------------|----------------------------|--------------------------|----------------------------|
|                       | <u>Budgeted</u><br>Rs.'000 | <u>Actual</u><br>Rs.'000 | <u>Variance</u><br>Rs.'000 | <u>Budgeted</u><br>Rs.'000 | <u>Actual</u><br>Rs.'000 | <u>Variance</u><br>Rs.'000 |
| Recurrent Expenditure |                            |                          |                            |                            |                          |                            |
| Personal Emoluments   | 71,253                     | 73,022                   | (1,769)                    | 67,363                     | 71,711                   | (4,348)                    |
| Others                | 62,452                     | 54,834                   | 7,618                      | 66,537                     | 48,427                   | 18,110                     |
| Sub-total             | 133,705                    | 127,856                  | 5,849                      | 133,900                    | 120,138                  | 13,762                     |
| Capital Expenditure   | 11,213                     | 48,460                   | (37,247)                   | 293,091                    | 102,490                  | 190,601                    |

|             |         |         |          |         |         |         |
|-------------|---------|---------|----------|---------|---------|---------|
| Grand Total | 144,918 | 176,316 | (31,398) | 426,991 | 222,628 | 204,363 |
|             | =====   | =====   | =====    | =====   | =====   | =====   |

2:5 Human Resources Management

-----  
Approved and Actual Cadre  
-----

Information on the approved and the actual cadre of the Council as at 31 December 2010 is given below.

| Category of Posts | Approved | Actual |                          |
|-------------------|----------|--------|--------------------------|
| -----             | -----    | -----  |                          |
| Staff             | 07       | 06     | (Municipal               |
| Secondary         | 113      | 104    | Commissioner and         |
| Primary           | 200      | 158    | Municipal Secretary      |
| Others            | --       | 09     | serve on contract basis) |
|                   | -----    | -----  |                          |
| Total             | 320      | 277    |                          |
|                   | ====     | ====   |                          |

2:6 Assets Management

-----  
2:6:1 Idle and Underutilised Physical Resources  
-----

- (a) Action had not been taken to make enquires and confirm the balance of the dormant Bank Account amounting to Rs.370,091 brought forward over a number of years or to transfer the money to another account.
- (b) The Sustainable Bank Account with a balance amounting to Rs.602,144 had not been in operation from the July 2009 and action had not been taken to operate the account or transfer it to another account.

2:6:2 Accounts Receivable

-----  
The value of the balances of the Accounts Receivable as at 31 December 2010 amounted to Rs.32,095,783 and the balances older than 01 year totalled Rs.31,689,383.

2:6:3 Staff Loans Recoverable

-----  
The balances of staff loans and advances recoverable as at 31 December 2010 totalled Rs.15,037,564 and the balances of accounts which remained without being recovered for more than 01 year totalled Rs.588,692.

2:6:4 Non-moving Current Assets

-----  
The value of assets which remained non-moving for more than 01 year as at 31 December 2010 amounted to Rs.126,730.

2:7 Irregular Transactions

(a) Purchase of 04 Computers and Accessories for Rs.530,400

- 
- (i) According to Section 2.8.1(b) of the Government Procurement Guidelines the technical evaluation should have been done by a Technical Evaluation Committee consisting a subject specialist and at least out member who is sufficiency knowledgeable on Procurement Procedure. Nevertheless, contrary to that provision, the technical evaluation had been assigned to a person said to be a Private Computer Consultant.
  - (ii) The Procurement Committee had not approved the technical specifications prepared by the Private Computer Consultant as in conformity with the requirements of the Council.

(b) Land taken on Lease for Maintenance of a Garbage Exchange Centre

-----  
An extent of one acre from a land called Dambuwatta at Dadagamuwa, Veyangoda had been taken on lease on 21 September 2010 to maintain a Garbage Exchange Centre on the basis of payment of Rs.100,000 per month and a sum of Rs.700,000 had been paid to an individual in that connection.

The following observations are made in this connection.

- (i) The Procurement Procedure for the transaction had not been followed in terms of Section 229(1) of the Municipal Councils Ordinance.
- (ii) A sum of Rs.300,000 had been paid for the three months June, July and August immediately prior to 21 September 2010 on which the lease agreement for the Garbage Exchange Centre was signed.
- (iii) The land selected as the Garbage Exchange Centre is situated in the area of authority of the Attanagalla Pradeshiya Sabha and the permission for dumping garbage of the Gampaha Municipal Council in that place had not been obtained from the Attanagalla Pradeshiya Sabha.

- (iv) The approval for dumping garbage in that place had not been obtained from the Central Environmental Authority and the Medical Officer of Health.
- (v) Even though clause 6 of the Lease Agreement required electric lamps to be installed at the allocated land, it had not been so done.
- (vi) According to clause 11 of the agreement lease rent should be determined on the assessment by the Chief Government Valuer, and the monthly assessed lease rent according to the assessment by the Chief Government Valuer amounted to Rs.30,000. The lessor had been paid at Rs.100,000 per month based on the recommendation of the Finance Committee dated 21 December 2010 on the approval of the Council granted at the Council meeting held on 05 January 2011.
- (vii) An extent of one acre had not been allocated to the Municipal Council in accordance with clause 7 of the agreement signed with the lessor. Instead of dumping garbage on the specified block of land, the ground used by the Gampaha Pradeshiya Sabha had been used for dumping garbage.
- (viii) According to clause 9 of the Lease Agreement, no person should be allowed sorting of garbage in the dumping ground. Nevertheless, the site inspection carried out on 24 February 2011 revealed that items such as bottles, plastic and glass in the garbage had been sorted.
- (ix) The last dumping of garbage on this land by the Attanagalla Pradeshiya Sabha had been done in the year 2010. The physical inspection revealed that the Gampaha Pradeshiya Sabha was also making the last garbage in that place in the year 2011. Without considering the possibility of ending garbage dumping on that land by the Gampaha Municipal Council, the removal of garbage had been awarded to a private company and that company had been paid a sum of Rs.5,541,117 for that purpose.
- (x) As there is a large stock of garbage dumped on this land over a number of years by the Attanagalla Pradeshiya Sabha and the Gampaha Pradeshiya Sabha, and as a block of land had not been allocated to the Municipal Council and as the block of land along the main road appearing in the place had not been used for exchange of garbage, it was not possible to carry out a satisfactory audit check of the removal of the garbage by the private company after the transport of the Municipal Council garbage to the site.



(xi) According to Section 130 of the Municipal Councils Ordinance, garbage is a property of the Council. But the Council had failed to classify garbage for recycling or for the production of compost fertilizer. As such result a sum of Rs.6,241,117 had to be paid to two contractor to remove garbage in 2010 and spent on the maintenance of the garbage collection motor vehicles and the employees of the Council.

(c) Payment of Value Added Tax on the Mobilization Advances  
-----

In terms of Section 5.4.4 of the Government Procurement Guidelines Value Added Tax should not be made on mobilization advances. Nevertheless an overpayment of Rs.2,915,229 had been made to the contractors of projects due to the inclusion of the Value Added Tax to the advances.

2:8 Contentious Transactions  
-----

The following observations were made.

- (a) Even though a sum of Rs.90,000 for a software for computer section of miscellaneous revenue and a sum of Rs.46,000 for consultancy services had been paid to a private supplier the work on computerization of miscellaneous revenue the work had not been completed even up to 31 December 2010. According to the Circular No. LG/15/2001 dated 12 October 2001 of the Commissioner of Local Government on the computerization of the management of rates and taxes of Local Government institutions, the maximum amount payable for the software on computerization of rates and taxes is Rs.35,000 and the amount payable for consultancy service is Rs.1,200 per day. But payments exceeding that stipulation had been made for the software and the consultancy services.
- (b) Many instances of the use of the double cab motor vehicle allocated for service in the Fire Department, extraneous to the duties of fire fighting services for travel in and out of the area of authority of the Council by stating “Mayors duty” were observed. Such traveling done during the period January to August 2010 had been 6,561 kilometres.
- (c) Even though the ambulance and the water bowzer of the Municipal Council had been deployed at carnivals, sports events, processions, religious celebrations, etc. held outside the are of authority of the Municipal Council at the request of the institutions organizing those events, no charges had been recovered in that connection.

- (d) Twenty casual labourers had been recruited for a Drains Cleaning Project and a sum of Rs.2,216,338 had been paid as salaries of labourers for the period January to November 2010. Nevertheless, according to the Daily Service Records, those labourers had been deployed on work such as sweeping roads and collection of garbage on roads. Further, 65 Health Labourers and 32 Road Laboruers who were in permanent service had been attached to the Council in the year under review. As the duties of the permanent labourers and the labourers of the Drains Cleaning Projects had not been separately assigned, it was not possible to be satisfied in audit with regard to the deployment of project labourers.
  
- (e) According to the orders relating to the payment of traveling expenses to the Mayors, Deputy Mayors and Members of Municipal Councils published in Part IV(a) of the Gazette Extraordinary No. 1400/85 of 08 July 2005, the activities for which traveling expenses are paid should be assigned by a decision of the Council and those should not be activities paid have to assigned to any officer. Nevertheless, motor vehicle mileage amounting to Rs.665,310 had been paid contrary to such orders to the members on the approval of the Mayor for carrying out the duties assigned to the Technical Officers, Sanitary Inspectors and Work Supervisors.

2:9 Operating Inefficiencies

-----

The following matters are observed.

- (a) The arrears balance of house rent as at 31 December 2010 amounting to Rs.127,613 included a sum of Rs.56,451 recoverable from 12 deceased officers and a sum of Rs.11,680 recoverable from 02 retired officers. Action had not been taken for the recovery of the balance arrears from the gratuities due to those officers.
  
- (b) Even though a sum of Rs.139,598 being the overtime and the combined allowances of the driver and vehicles assistants of the ambulance deployed on duties relating to the resettlement of displaced people in the North during the period 02 May 2009 to 08 June 2009 should have been obtained as a reimbursement from the Chief Secretary of the Western Provincial Council, such action had not been taken.
  
- (c) The balance of prepayments amounting to Rs.32,068,107 included a dormant prepayment balance of Rs.1,494,654 and action had not been taken to settle that amount.

2:10 Internal Audit

-----

An adequate internal audit of the institution had not been carried out.

03. Systems and Controls

-----

Special attention is drawn to the following areas of systems and controls.

- (a) Accounting
- (b) Internal Audit
- (c) Revenue Administration
- (d) Assets Management