

Gampola Urban Council – 2021

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 2021 comprising the Statement of Financial Position as at 31 December 2021, Statement of Financial Operations 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 Sub-Section 181 (1) of the Urban Councils Ordinance (Chapter 255) and provisions of the National Audit Act No. 19 of 2018. 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 Gampola Urban Council as at 31 December 2021, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

1.2 Basis for Qualified Opinion

I expressed qualified opinion 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 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 Section 16(1) of the National Audit Act No. 19 of 2018, the Urban Council's 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

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

- (a) The financial statements of the Urban 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 financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) An employee loan balance of Rs.2,282,360, which carrying forward continuously and cannot be confirmed, was not presented in the financial statements of the year under review.	It had not been accounted by mistake.	Financial statement should be prepared correctly.
(b) In the year under review, 02 Project creditors balances of Rs.1,350,000 had not been presented in the financial statements.	It had not been accounted by mistake.	Financial statement should be prepared correctly.
(c) A total in respect of 06 Project creditors in the year under review had been overstated by Rs.1,741,032 in the financial statements	It has been over-accounted for by mistake and will be corrected in 2022.	Financial statement should be prepared correctly.
(d) Total amount of Rs.364,144 as Project retention amount of Rs.354,307 in relating to 05 occasion and Miscellaneous deposits of Rs.9,837 in relating to 06 occasion had not been presented in the financial statements.	It had not been accounted for by mistake.	Financial statement should be prepared correctly.
(e) The Stock value in relating to 19 units of electricity, stationary, and vehicle spare parts had been overstated by Rs.156,599 and the Stock value in relating to 27 units of Projects, electricity, stationary, water and vehicle spare parts had been understated by Rs.318,129.	It had been informed that Stock registry will be corrected and understated value will be corrected in future.	Correct stock value should be included and Financial statements should be prepared.

- (f) The outstanding rent balance related to 02 occasion had been overstated by Rs.10,112,700 in the financial statements. It had been informed that the mistake will be rectified. Financial statement should be prepared correctly

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
There was a difference of Rs.71,866,823 Balances of Rs.268,678,501 related to 03 accounting subjects shown in the financial statements and the balances of Rs.196,811,678 shown in the related source documents.	It has been informed that actions have been taken to find out the reasons for the changes and correct them immediately.	Differences should be identified and necessary adjustments should be made to the financial statements.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
Due to non-submission of tax and rent documents related to 03 assets subjects of Rs.15,782,429 shown in the financial statements; they could not be verified satisfactorily during the audit.	It has been informed that measures will be taken to prevent such omissions in the future.	All information relevant for the audit should be disclosed.

1.7 Non- Compliances

Non-compliance with Laws, Rules and Regulations

Following are the instances of non-compliance with laws, rules and regulations observed during sample audits

Reference to Laws, Rules Regulations etc.	Non- Compliances	Comments of the Council	Recommendation
(a) Acts of Parliament			
(i) Section 157 (6) (g) of the Urban Council Ordinance	Fees of Rs. 925,500 to be charged for the banners and advertising boards displayed in the Urban Council area had not been collected.	Relevant actions will be taken to collect money.	Provision of the Act should be followed.

(ii) Section 36 (e) (ii) of the Urban Council Ordinance	(i) A land owned by the council was leased for a long period to run a lawyer's office without the prior approval of the minister.	It has been informed that the approval will be taken in the future.	Provision of the act should be complied with.
	(ii) Without the prior approval of the Minister, a shopping complex consisting of 42 stalls at Gampola SLTB Bus Station was leased to a private party for a period of 30 years; from 29th December 2000 and the rent of Rs.3,661,301 due to the council was not collected according to the agreement. .	As the lessees have refused to pay the arrears claiming that the assessed amount is too high, A requests have been made to the Valuation department for obtaining a new assessment.	Rent should be charged as per the assessment.
(b) Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka -----			
Financial regulation 189 and 486	Although the cheques of Rs.563,753 received from 28 parties from 2004 to 2010 were returned, the relevant actions had not been done In this regard by December 31, 2021.	It has been informed that a committee will be appointed based on the decision of the council.	Financial regulations should be followed.
(c) Paragraph V of Local Government Commissioner's Circular No. 2016/3 dated March 03, 2016.	If the council decides, Although it is possible to get 50 percent of the Key money related to the lease of public market stalls and recover the balance in instalments within 06 months; without following the circular instructions, It was decided to get paid 25 percent and the balance in 48 equal instalments at the Special Committee on Public Market Key money Recovery. Due to this, as of December 31, 2021, an outstanding amount of Rs.63,336,199 remained to be recovered.	It has been informed that the remaining balance will be recovered in instalments.	Action should be taken as per circular instructions.

2. **Financial Review**

2.1 **Financial Result**

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs. 73,847,288 as compared with the excess of revenue over recurrent amounted to Rs. 60,198,035 in the preceding year.

2.2 **Revenue Administration**

2.2.1 **Performance in Revenue Collection**

Audit Observation	Comments of the Council	Recommendation
-----	-----	-----
(a) Rates and Taxes		

As on December 31 of the year under review, the assessment and tax arrears was Rs.59,682,577 and in that arrears, there was a balance of Rs.17,321,170 due from 14 government institutions.	It has been informed that the Commissioner of Local Government has been informed about the non-payment of arrears in government institutions.	Assessment should be collected from government as well as public property.
(b) The Key money of Rs. 6,000,750 due from 2016 from shop No. 152 of Gampola Public Market Complex had not been collected by December 31 of the year under review.	It has been informed that the concerned shop owner has been informed to recover the key money.	The agreement should be followed.
(c) As on 31st December of the year under review, Rs.3,874,472 rent to be collected from 155 lessees who had taken land owned by the council on lease, had not been collected.	It has been informed that Rs. 714,458 has been collected from the 155 tax lessees as of July 31, 2022.	Rent should be charged as per the rent agreement.

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 Council under Section 4 of the Urban Councils Ordinance are shown below.

3.1 **Management Inefficiencies**

Audit Observation

Comments of the Council

Recommendation

According to the Circular No. 2016/3 dated March 17, 2016 of the Local Government Commissioner of the Central Province, the rent of the shops owned by the council must be assessed once in 05 years, but the shops owned by the council had not been assessed after the year 2008.

It has been informed that Action will be taken to obtain a new assessment.

Circular instructions should be followed.

3.2 **Idle or underutilized Property, Plant and Equipment**

Audit Observation

Comments of the Council

Recommendation

As on December 31 of the year under review, 08 vehicles and 03 government houses worth Rs.11,614,423 remained idle and underutilized.

The repair is delayed because the compactor has no spare parts. Estimation had been called for the repair of Mahindra Cab. It has been informed that a quarter will be repaired, two quarters will be demolished and a new quarter will be built.

Assets should be utilized optimally.