

Gampaha Municipal Council
Gampaha District

1. Financial Statements

1.1. Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 31 March 2016 and the financial statements for the preceding year had been presented on 31 March 2015. The report of the Auditor General for the year under review was issued to the Municipal Commissioner on 08 July 2016.

1.2. Qualified Opinion

Except for the effects on the financial statements of the matters referred to in Paragraph 1.3 of this report, I am of opinion that the financial statements have been prepared in accordance with the Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Gampaha Municipal Council as at 31 December 2015 and the financial result of its operations and cash flows for the year then ended.

1.3. Comments on Financial Statements

1.3.1. Accounting Deficiencies

The following deficiencies are observed.

- (a) The surplus of the revenue and expenditure account amounting to Rs.24,915,436 had been adjusted to the excess/shortages account through the Journal Entry 55, and during this process the amount had been adjusted to the ledger account as Rs.25,267,388. Therefore the balance in the excesses and shortages account had been overstated by Rs.351,952.
- (b) The revenue contribution to the capital outlay account, the aid contribution to the capital outlay account, and assets loans account totalled to Rs.236,519,293, whilst the value of fixed assets amounted to Rs.240,505,250. Therefore a difference of Rs.3,985,957 between the accounts was observed.
- (c) It has been indicated under the accounting deficiencies in the audit report of the preceding year, that the supplies creditors paid in advance amounting to Rs.316,729 had not been shown in the financial statements as a balance of stores creditors (debit) under payment in advance, and this error had not been corrected.
- (d) The value of 06 vehicles received by the Council as donations during the year 2015 and prior to that, had not been obtained from relevant establishments or assessed, and brought to account.

1.3.2. Lack of Evidence for Audit

Transactions amounting to Rs.7,216,259 could not be vouched satisfactorily during the audit, due to non-submission of information to the audit.

2. Financial Review

2.1. Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2015 amounted to Rs.35,243,249 as compared with the excess of revenue over recurrent expenditure amounting Rs.41,080,544 for the preceding year.

2.2. Financial Control

(a) The value of two cheques received during the year 2008 and dishonoured, amounted to Rs.4,527, and this amount existed in the payment in advance account even as at 31 December 2015, and action had not been taken to recover this.

(b) The cheque valued at Rs.172,375 dated 11 June 2015, issued in respect of the payment of loan instalments for the Local Loans and Development Fund had been misplaced, and action had not been taken in respect of this as stipulated in Financial Regulations 392(a) II and III of the Republic of Sri Lanka.

2.3. Revenue Administration

2.3.1. Estimated Revenue, Actual Revenue and Revenue in Arrears

The information submitted by the Municipal Commissioner with respect to the Estimated Revenue, Actual Revenue and Revenue in Arrears relevant to the year under review are indicated below.

Item of Revenue	Estimated Rs.000,	Actual Rs.000,	Cumulative Arrears as at 31 December Rs.000,
Rates and Taxes	53,521	49,079	36,442
Business Taxes	3,196	3,065	1,097
Trade Licences	2,035	2,018	276
Other Revenue	316,471	310,579	170,276

In comparison to the balance of arrears at the beginning of the year under review, the balance of arrears as at the end of the year had been increased by 5%, whilst adequate action had not been taken to recover revenue in arrears.

2.3.2. Rates and Taxes

(a) An assessment on rates and taxes had not been carried out in the area under the authority of the Yakkala Sub Office after the year 2006.

(b) According to the age analysis submitted by the Municipal Commissioner, the balance of rates and taxes in arrears as at 31 December 2015 amounted to Rs.21,990,184. This included; a balance of Rs.5,978,332 due for a period of 1 to 3 years; a balance of Rs.3,719,430 due for a period of 3 to 5 years; and a balance of Rs.1,724,961 due for a period of over 5 years.

2.3.3. Business Taxes

The balance of business taxes in arrears as at 31 December in the year under review amounted to Rs.1,100,588. This included; a balance of Rs.221,350 due for a period of over 5 years; a balance of

Rs.135,000 due for a period of 3 to 5 years; a balance of Rs.58,200 due for a period of 1 to 3 years, from 230 businesses.

2.3.4. Stall Rentals

The following matters are observed.

- (a) According to the terms and conditions of the lease agreement, the leasee is not permitted to; handover, mortgage, sub-lease, or engage in businesses with another partner. But, it was revealed during the physical check, that the leasees had sub-let majority of the stalls to other parties contrary to the said terms and conditions.
- (b) The businessmen who obtained stalls in the General Market Building had closed down 15 stalls since 29 May 2008. The Council had not taken any action against these leaseholders who had closed down the stalls. The Revenue Inspector and the Revenue Controller had not reported this to the Council as well.
- (c) The balance in arrears recoverable from 51 trade stalls in the Urban Development Project during the period from 01 August 2008 to 31 December 2015 amounted to Rs.8,566,200.

2.3.5. Fish Stalls

The following matters are observed.

- (i) In accordance with decision taken at the General Assembly on 08 August 2011, 10 stalls in the Retail and Wholesale Trading Complex had not been vested with the stall owners even as at 18 March 2016.
- (ii) 07 out of these 10 fish stalls had remained unutilised, whilst the rent had not been recovered even from the stalls which had been rented out.
- (iii) Whilst there are businessmen who own permanent stalls and hold licences from the Council for selling of fish, 05 fish stalls operate along the pavement and sell fish and even a daily fee had not been charged from them. Therefore problems such as; drop in sales for the businessmen who own trade stalls; customers have to buy fish in an unhygienic manner; environmental pollution; and congestions in the streets had been surfaced. But appropriate action had not been taken to control this situation.
- (iv) The General Assembly held on 08 August 2011 had approved the allocation of stalls in the Retail and Wholesale Trading Complex, to 10 fish stall owners, and 09 fish stalls had not been provided to the relevant persons through legal agreements, to date. Only the fish stall No.31 at the General Market Complex had been leased out on 01 April 2012 by signing agreements.
- (v) The balance of lease rent in arrears due from 03 fish stalls, No. 31, 36, and 37 since the year 2012 amounted to Rs.503,625.

- (vi) The money recoverable from 20 trade stalls which had been terminated from the sections A and B of the Fish Market, amounted to Rs.215,000 and Rs.100,100 respectively.

2.3.6. Trade Licence

The balance in trade licence as at 31 December of the year under review amounted to Rs.277,375 and this included a balance recoverable from 64 businesses amounting to Rs.105,985, carrying forward since the year 2003.

2.3.7. Other Revenue

The following matters are observed.

- (a) In spite of having a Revenue Controller, a survey had not been carried out on Telephone Towers, which would have earned large amount of revenue to the Municipal Council, whilst the Council had been deprived of the revenue receivable in respect of Telephone Towers. Fees amounting to Rs.919,657 had been recovered only from 03 Telephone Towers.
- (b) According to the approved Fire Fighting Service Bylaws - Part II, indicated in the Part IV(A) of the Gazette Extra Ordinary Notification dated 20 January 1989, of the Republic of Sri Lanka; fire certificate should be included in addition to the annual trade licence in respect of the businesses coming under the category of dangerous and hazardous licences; and recommends that it was appropriate to charge an additional fee with the maximum limit of Rs.5,000, considering the nature of the risk and the service provided. But fire certificates had not been provided in respect of 116 such businesses, by recovering a fee of Rs.232,420.

3. Operating Review

3.1. Idle and Underutilized Assets

03 dilapidated trailers without numbers and 02 Kubota Two-wheeled Tractor with a book value of Rs.203,600 had remained unusable and un-repairable over a period of 08 years and during the goods verification of 2015, a decision had been taken to auction these units. But this had not been implemented even as at 28 May 2016.

3.2. Contract Administration

By the 31 December in the year under review, the Municipal Council had received a provisional allocation amounting to Rs.119,922,003 under various projects, and 341 projects should have been implemented through this. 187 projects had been implemented as at the said date, whilst 06 projects had been cancelled.

The following matters are observed.

- (a) Estimates had been prepared for 16 out of 87 projects under the members provisions, and out of this, agreements had been entered into only in respect of 04 projects. In May 2015, agreements had been entered into in respect of 04 road development projects valued at Rs.667,929. Though 07 months had passed, the work had not been commenced even as at 31 December 2015.
- (b) Estimates had been prepared for 100 out of 211 projects provided under Council Funded Projects, and due to the limitations in budgetary allocations, agreements had been entered into only in respect of 25 projects.

3.3. Construction of Yakkala Sathipola

A loan amounting to Rs.4,855,000 had been received from Local Loans and Development Fund to construct Yakkala Sathipola, on the basis of the payment through the bank standing orders, with effect from 04 April 2002. The Sathipola building constructed utilising this loan had been completely demolished and removed by the Ministry of Economic Development in the year 2014 and the building had been constructed according to a new plan and handed over to the Municipal Council. However, up to 31 December 2015, the Council had paid, Rs.4,855,000 as loan instalments, and Rs.1,949,145 as interest, in respect of this loan. As the building, which was constructed incurring a cost amounting to Rs.6,804,145 in respect of the loan and the interest, had been demolished, this money had become a wasteful expenditure.

3.4. Operating / Management Inefficiencies

As per a Gazette Notification issued on 15 February 2002, the roads vested with Municipal Council should be gazetted and included in the road register and updated. But the road registers had not been updated even as at 31 December 2015. Only 1646 roads had been entered in the road register even as at the date of the audit, which was carried out on 31 December 2015. The roads completed during the period of last 3 years had not been included in this register.

3.5. Solid-Waste Management

According to the notification of the Members Committee Decisions dated 13 July 2015, it had been recommended that; a gulley waste treatment plant should be established based on the technical knowledge and advice of the Waste Management Authority and it is appropriate to purchase a suitable land and prepare the estimates for this; a suitable land should also be purchased for the final disposal of the waste; and a thermal burner should be installed in this land. But the Council had not taken any action in this respect even as at 28 May 2016. The Municipal Council had spent Rs.11,388,100 during the year under review for the waste disposal.

3.6. Delayed Projects

An agreement had been entered into (period of the agreement is 9 months) with a private contracting company on 22 December 2008, to construct a shopping complex consisting 102 stalls at a cost of Rs.122,655,339, adjoining Yakkala – Kirindiwela road, and 7 years had passed since entering into agreement. The contracted company had been paid a sum of Rs.66.3 million in 10 instances during the period from 09 April 2009 to 07 April 2015. Though 41 stalls had been completed, in the shopping complex as at the date of the audit, which was carried out on 16 February 2016, no benefit had been gained from this project up to now.

4. Systems and Controls

Special attention of the Council is needed in respect of the following areas of systems and controls.

- (a) Accounting
- (b) Budgetary Control
- (c) Internal Audit
- (d) Financial Control
- (e) Revenue Administration
- (f) Control over Contracts
- (g) Solid-Waste Management
- (h) Stocks Control