

Sri Jayawardhanapura Kotte Municipal Council

Colombo District

1. Financial Statements

1:1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 31 March 2011 and the financial statements for the preceding year had been presented to audit on 02 July 2009.

1:2 Opinion

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

1:3 Comments on Financial Statements

1:3:1 Accounting Deficiencies

The accounting deficiencies observed in the accounts in terms of revenue, expenditure, assets and liabilities are given under instances and values in the following table.

	<u>Revenue</u>		<u>Expenditure</u>		<u>Effect on the Accounts</u>		<u>Liabilities</u>	
	Number of Instances	Value	Number of Instances	Value	Number of Instances	Value	Number of Instances	Value
		Rs.'000		Rs.'000		Rs.'000		Rs.'000
(a) Overstatements in the Accounts	--	--	01	58,298	01	891	--	--
(b) Understatements in the Accounts	02	3,334	01	2,999	01	5,352	--	--
(c) Omissions in the Accounts	02	23,641	--	--	01	143	01	13,877
(d) Others	--	---	01	21	--	--	--	--

1:3:2 Unreconciled Control Accounts

The balances of 14 items of account according to the Control Accounts totalled Rs.267,806,162 whereas according to the relevant subsidiary registers / records, the balances of the accounts totalled Rs.310,404,361.

1:3:3 Unsettled Accounts

Six items of account totalling Rs.2,151,594 had been continuously brought forward over a period exceeding 05 years without being settled. Even though this matter was pointed in my reports for the preceding years, no action whatsoever had been taken in that connection.

1:3:4 Lack of Evidence for Audit

(a) Unanswered Audit Queries

Replies to 14 audit queries had not been furnished even by 30 June 2011 and the value of transactions relating to those audit queries amounted to Rs.162,660,855.

(b) Non – submission of Information

Transactions totalling Rs.91,134,525 could not be satisfactorily vouched in audit due to the non – submission of required information to audit.

1:3:5 Non – compliances

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

Reference to Laws, Rules, Regulations and Management Decisions	Non - compliance
(a) Financial Regulations of the Republic of Sri Lanka	
(i) Financial Regulation 110	A Register of Losses and Damage had not been maintained.
(ii) Financial Regulation 134 (2) and the Management Audit Circular No. DMA/2009 (1) of dated 09 July 2009.	The Internal Audit Unit should prepare Internal Audit Programmes every year by 31 January and furnish a copy to the Auditor General. Nevertheless, it had not been so done.
(iii) Financial Regulations 570, 571 and 572	Action in terms of the Financial Regulations had not been taken on lapsed deposits amounting to Rs.5,973,244.
(iv) Financial Regulation 702(3)	Copies of contracts signed by the Council had not been furnished to the Auditor General.
(b) Public Finance Circular No. PF/R/2/2/3/5(4) of 10 March 2010	A Corporate Plan and an Action Plan for the Municipal Council had not been prepared.

2. Financial and Operating 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 2010 amounted to Rs.50,657,244 as compared with the corresponding excess of revenue over recurrent expenditure amounting to Rs.260,975,938 for the preceding year.

2:2 Financial Control

The following financial control deficiencies were observed.

- (a) Even though a balance of Rs.6,910,767 existed in the Bank Current Account as at 31 December 2010, the attention had not been paid by the officers for the investment of any excess money short term basis.
- (b) Action in terms of Financial Regulation 396 had not been taken on cheques valued at Rs.1,614,956 issued but not presented for payment for over 06 months.
- (c) Action in terms of Financial Regulations 189 and 486 had not been taken on 14 dishonoured cheques valued at Rs.110,861.

2:3 Revenue Administration

2:3:1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information on the estimated revenue, the actual revenue and the arrears of revenue for the year under review and the preceding year presented by the Mayor is given below.

<u>Item of Revenue</u>	<u>2010</u>			<u>2009</u>		
	Estimated	Actual	Cumulative Arrears as at 31 December	Estimated	Actual	Cumulative Arrears as at 31 December
	----- Rs.'000	----- Rs.'000	----- Rs.'000	----- Rs.'000	----- Rs.'000	----- Rs.'000
(i) Rates and Taxes	146,250	153,972	114,719	117,200	151,788	106,996
(ii) Lease Rents	20,885	18,860	22,506	20,296	15,640	22,713
(iii) Licence Fees	4,101	3,839	6,723	5,201	4,015	6,993
(iv) Other Revenue	149,180	104,880	--	138,895	262,246	---

It was observed in audit the figures presented do not reconcile with the accounts.

2:3:2 Rates

The following observations are made

- (a) There were 47,619 property owners in the area of authority of the Council in the year under review and the arrears of rates as at 31 December 2010 had been reported as Rs.95,158,941.
- (b) Ten officers had been deployed in 10 Rates Divisions in the area of authority of the Council for the collection of rates. Warrants had been issued during the year under review for the collection of rates amounting to Rs.82,742,455 through the issue of Distraint Orders by the end of the year. As Rs.49,511,479 only had been collected that represented 60 per cent of the amount for which warrants were issued.
- (c) Even though computation of allowances payable for collection of rates should be made only after the cheques are realized it had not been so done in the year 2009, resulting in the payment of Rs.9,333 as allowance on cheques valued at Rs.93,332 dishonoured.
- (d) Cash collected daily by Distraint Officers should be deposited in the office on all Mondays and Fridays and if the cash collected exceeds Rs.5,000 such collections should be deposited on the day following. Thirteen instances in which

the Distraing Officers of Divisions 4, 7 and 10 had retained cash exceeding Rs.5,000 contrary to the above condition for 08 to 35 days were observed.

2:3:3 Trade Licences

- (a) Applications for Trade Licences had been made by 1,043 business premises and the delays in the issue of licences ranged between 7 to 10 months. Only 79 licences had been issued up to 29 October 2010, the date of audit. The attention of the officers responsible had not been paid to the delays and it was observed that about 964 businesses had been run in the area of authority of the Council without obtaining Trade Licences.
- (b) Documentary evidence to confirm inspections of business premises by the Public Health Inspectors before the issue of Trade Licences was not available.

2:3:4 Trade Stalls Rent Revenue

The following observations are made in connection with the arrears of trade stalls rents amounting to Rs.18,853,250 as at 31 December 2010.

- (a) According to Clause 1 of the agreement on trade stalls rents the monthly rental should be paid on or before the 10th day of the relevant month. Nevertheless, the attention of the officers responsible had not been paid in that connection.
- (b) In terms of Clause 2 of the trade stall rent agreement, in instances where the rent is in arrears for more than 03 months the agreement should be cancelled and dispossess the trading rights. Nevertheless, the attention of the officers responsible had not been paid in that connection.
- (c) A loss had been caused to the Council Fund due to the award of trade stall No. 12 of the ground floor of the Welikada Plaza at the old rates outside the Procurement Procedure and without revising the minimum bid value and the monthly rent.

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 variances are given below.

Item of Expenditure	2010			2009		
	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Personal	243,522	233,591	9,931	274,856	233,421	41,435
Emoluments						
Others	217,159	213,739	3,420	210,662	204,017	6,645
Sub-total	460,681	447,330	13,351	485,518	437,438	48,080
Capital Expenditure	559,961	146,841	413,120	565,863	264,227	301,636
Grand Total	1,020,642	594,171	426,471	1,051,381	701,665	349,716

2:5 Surcharges

According to the surcharges imposed by me against the persons responsible in terms of provisions of Section 226 (1) of the Municipal Councils Ordinance (Cap. 252), the value of surcharges recoverable as at 31 December 2010 totalled Rs.25,550,166.

2:6 Human Resources Management

Approved and Actual Cadre

The information on the cadre of the Council as at 31 December 2009 had been as follows.

Category of Employees	Approved	Actual
Staff Grad	12	10
Secondary Grade	134	93

Primary Grade 804 727
2:7 Assets Management

2:7:1 Accounts Receivable

The value of accounts receivable as at 31 December 2010 amounted to Rs.220,328,503 and an age analysis thereon was not furnished.

2:7:2 Staff Loan Recoverable

The balances of staff loan and advances recoverable as at 31 December 2010 totalled Rs.89,683,574 and an age analysis of loan balances amounting to Rs.3,681,160 due from transferred, retired and vacated post officers as well as unidentified loan balances had not been furnished.

2:7:3 Non – moving Current Assets

The non – moving idle cash balances older than 02 years as at 31 December 2010 amounted to Rs.183,598.

2:7:4 Assets not Surveyed

The value of assets not supported by Board of Survey Reports and computed at the book value as at 31 December 2010 amounted to Rs.18,470,644.

2:8 Transactions without Adequate Authority

2:8:1 Write Off of Arrears of Revenue

Even though rates or taxes considered as irrecoverable can be waived by a resolution of the Council, any such waiver exceeding Rs.1,000, should fall under the approval of the Minister in charge of the subject in terms of provision of Section 266 (a) of the Municipal Councils Ordinance (Cap. 252). Nevertheless, arrears of revenue exceeding Rs.1,000 as shown below had been written off by a resolution of the Council without obtaining the approval of the Minister in charge of the subject.

	Rs.
Rates	4,582,382
Other Rents	156,065
Water Rates in Arrears	35,955
Electricity Charges in arrears	7,689,594

2:9 Contract Administration

(a) Construction of Chandra De Silva Stadium

In view of the non – payment of the final bill of the contractor by the Council in terms of the contract for the construction of the Chandra De Silva Stadium, the construction firm had filed an Arbitration Case against the Council in July 2008.

The following observations are made in connection with the case.

- (i) According to clause No. 3:7 of the agreement entered into between the Council and the National Building Research Organization which functioned as the consultant for the construction of the Chandra De Silva Stadium, before making an order by the consultancy firm, irrespective of whether such order would result in an additional expenditure to the Council or the expenditure would be within the estimates, it should be brought to the notice of the Council immediately. Nevertheless, the prior approval of the Council had not been obtained for the expenditure amounting to Rs.8,206,977 exceeding the estimate incurred contrary to the agreement.
- (ii) According to clause No. 10 of the agreement entered into between the Council and the construction company, there was no entitlement for any additional payment for ground preparation done time and again until the achievement of the approved result. Nevertheless bills exceeding the estimated amount had been submitted for removal of garbage spreading, compacting and covering. In the settlement of bills the expenditure shown against each item had not been compared with the estimates and enquiries had not been made from the consultants with regard to the excesses.
- (iii) Enquiries in this connection had not been made at the Performance Evaluation Committee meetings. An adequate attention of the officers responsible who represented the Council at such meetings had not been

paid in this connection. The Municipal Accountant and the Municipal Engineer had participated at 02 of those meetings only.

- (iv) The Municipal Commissioner and the Municipal Engineer had represented the Council at the handover of the Completed Chandra De Silva Stadium on 17 July 2007 and the shortcomings had not been detected even on that day.
- (v) According to the decision on the Arbitration case delivered on 10 December 2010, the Council had been directed to pay a sum of Rs.13,877,258 comprising the sum of Rs.8,206,977 payable by the Council and a sum of Rs.5,670,280 interest on the delay up to the date of the decision.

(b) Repairs to the Beddegana Crematorium

A cost estimate in terms of Section 4:3 of the Government Procurement Guidelines had not been prepared for carrying out repairs to the Beddegana Crematorium while an agreement had not been entered into with the contractor in terms of Section 8:9:2. A mobilization advance of 50 per cent of the cost had been paid contrary to the provisions of Section 5:4:4.

2:10 Operating Inefficiencies

(a) Diyawanna Youth Park

The Municipal Council had entered into an agreement with a private Company on 02 December 2002 for the maintenanc eof the Diyawanna Youth Park and the Boat Yard and that agreement had expired on 31 December 2007. The following observations are made in connection with the breach of terms of contract and recovery of money during the agreement period.

- (i) According to clause No. 3 of the agreement a sum equivalent to 22 per cent of the profit for the preceding year should have been paid to the Council. Nevertheless such amount had not been paid to the Council.
- (ii) The charges for advertisements displayed had not been recovered at the rates for display of advertisements published in the Gazettes in the respective years.

- (iii) According to clause 19 of the agreement, the agreement should be cancelled for any breach of the terms of the contract. Even though the terms of the agreement had been breached in 21 instances during the period of agreement action had not been taken to cancel the agreement.
- (iv) Contrary to clause 20 of the contract, 13 other institutions had run businesses.
- (v) The performance bond to be furnished in terms of clause 22 of the agreement had not been furnished.
- (vi) Action in terms of the Entertainment Tax Ordinance had not been taken to recover entertainment tax on the entrance fee to the Park and on charges for boat rides.
- (vii) Lease rent for the years 2007, 2008, 2009 and 2010 had not been billed and a sum of Rs.4,868,040 had not been brought to account.

(b) Auction of 04 Tractors without Council Approval

A sum of Rs.820,500 had been obtained by auctioning 04 tractors without the approval of the Council and the 04 tractors had been parked idling for over 02 years as the ownership of the tractors had not been transferred to the buyers. As such, a case had been filed against the officers demanding Rs.3,000,000 as compensation. The case had been settled on the promise of not paying compensation and a sum of Rs.126,500 had been paid from the Council Fund as costs of the case due to the negligence of the officers. In addition the ownership of 04 tractors had to be transferred without the approval of the Council.

2:11 Performance

(a) Solid Waste Management

- (i) A provision of Rs.129,248,000 had been made for the collection of garbage accumulating in the area of authority of the Council and cleaning of the drains. Out of that a sum of Rs.70,000,000 had been allocated to make payments to 02 private institutions engaged in the removal of garbage.
- (ii) Clauses had not been included in the agreement to ensure for weighing the garbage collected for destruction and the project to be environment friendly.
- (iii) One institution had agreed to a fee of Rs.795 for the destruction of 01 ton of garbage and a sum of Rs.46,635,480 had been paid in the year 2010 on the basis of the quantity of garbage destroyed per day as 55 tons. The garbage destroyed had not been weighed.
- (iv) A physical inspection of the removal of garbage revealed thoroughfares not swept and cleaned and areas where garbage had not been removed.
- (v) Areas had not been subjected to supervision by Supervisors and uncleaned drains.
- (vi) A project for the distribution of compost barrels under the Waste Management Process had been commenced. The receipt and issue of compost barrels had not been documented and evidence in support of the correctness of the physical balance available was not furnished. Compost barrels had been retained in the Council premises without being distributed.

(b) Diseases Preventive and Curative Services

The Council had conducted 02 clinics at Moragasmulla and Bandaranaikapura. The following matters were observed at an examination of the drugs issued to those clinics.

- (i) The opening balances, receipts, issues and the balance of the drugs had not been recorded in the Stock Book of Drugs. It was observed that the Stock Book of Drugs had been maintained by a casual labourer.
- (ii) According to the stocks issue cards of the Head Office drugs valued at Rs.52,084 had been issued but those had not been recorded as receipt by the Bandaranaikepuram Clinic.
- (iii) The stock of drugs included 11 categories of outdated drugs valued at Rs.31,280.
- (iv) Monthly clinics are conducted for patients suffering from diabetes and high blood pressure. Even though clinics had been held in the first 09 months of the year the Doctor had participated in 05 clinics only. Even though the Mayor confirmed me on 04 October 2011 that the Doctor participates in all the clinics unless he is absent due to unavoidable circumstances and that the patients are treated according to the recognized methodology, it was revealed that casual labourers had been issuing drugs to the patients when the Doctor was absent.

(c) Dengue Eradication Special Project

A Dengue Eradication Special Project had been commenced on 29 October 2009 on the approval of the Commissioner of Local Government of the Western Province for the eradication of the dengue menace in the area of authority of the Council. Thirty five employees were newly recruited for this project and attached to the Mosquito Eradication Division and the Drains Cleaning Division. A sum of Rs.4,780,918 had been spent on the employees' salaries and allowances and mosquito eradication chemicals during the period 01 January 2010 to 30 June 2010. Nevertheless a field inspection carried out on 13 September 2010 revealed that the drains systems of the Church Lane, Nawala, Purwarama Road, Nugegoda, Suhada Mawatha Udahamulla and the Station Road Nugegoda had not been cleaned properly and the drains system was full of dirty water infested with mosquito larvae and garbage thrown from houses and business houses.

2:12 Internal Audit

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

3. Systems and Controls

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

- (a) Accounting
- (b) Revenue Administration
- (c) Stock Control
- (d) Contract Administration

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