

## Colombo 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 27 June 2012 and the financial statements for the preceding year had been presented on 28 April 2011. The report of the Auditor General for the year under review was issued to the Mayor of the Council on 14 June 2013.

##### **1.2 Opinion**

In view of the comments and observations appearing in my report, I do not express an opinion on the financial statements of the Colombo Municipal Council for the year ended 31 December 2011 presented for audit.

##### **1.3 Comments on Financial Statements**

###### **1.3.1 Accounting Deficiencies**

- (a.) The value of closing stock amounting to Rs.185,503,015 accounted for , as at end of the year under review had been computed on book values.
- (b.) Three cases filed against the Council by 03 employees claiming a compensation of Rs.11,688,530 continued even as at end of the year under review and contingent liabilities had not been disclosed with the accounts with regard to this.
- (c.) A sum of Rs.50,290,165 had been received from the Ministry of Road Development and Economic Development for road development activities during the year under review. Instead of accounting this as income, this had been carried forward as a credit balance in a debtors account.
- (d.) Although the value of 27 vehicles purchased during 2011 amounted to Rs.50,095,548, a sum of Rs.11,792,299 alone had been accounted for as assets.
- (e.) The agreed value of construction contracts had been accounted for, as assets and the creditors' account credited at the time of awarding the contract itself. As a result, fictitious assets and credits amounting to Rs.91,581,279 existed in the

financial statements as at the end of the year under review in connection with the contracts awarded from 1998 to 2011.

- (f.) None of the constructions were physically observed at the verification carried out as at 31 December 2011 with regard to the sum of Rs.28,110,069 shown in the Buildings Accounts as at end of the year under review. As such, this value too observed to be fictitious.
- (g.) Machinery and equipment valued at Rs.13,962,597 ordered and not received as at end of the year under review had been capitalized as assets.
- (h.) Payments for 03 programmes of the Council amounting to Rs.14,985,635 had been paid in January 2012. But, the accounts had been prepared treating it as payments made in 2011.
- (i.) Revenue receivable amounting to Rs.1,183,663 and accounts payable amounting to Rs.1,323,722 had been omitted in accounts.
- (j.) Trade stalls had been acquired for non-payment of rent during the period 2004 to 2008. A further amount of 20% had been added to this and a balance of Rs.3,590,582 had been accounted for, as fines and arrears, as at 31 December 2011.
- (k.) Provision had been received under the Ministry of Economic Development and the World Bank Project for improvement of infrastructure facilities in the city of Colombo. Of this, the initial Project expenditure of Rs.3,227,110 had not been accounted for as expenditure. Instead, it had been shown as sundry debtors.
- (l.) The sum of Rs.576,472 and the sum of Rs.710,080 retained after the revision of value added tax from 31 December 2010 had been credited to revenue instead of being remitted to the Commissioner General of Inland Revenue.
- (m.) Action had not been taken to settle the debits of 33 accounts aggregating Rs.313,642,510 and the credits of 26 accounts aggregating Rs.181,020,547 which continued to be brought forward since 1974.

### **1.3.2 Unreconciled Accounts**

- (a.) Non- reconciliations aggregating Rs.23,774,346 were observed with regard to the balances of 38 items of accounts and related schedules.

- (b.) A difference of Rs.52,067,204 was observed between the balances of loans between the employees' loan balances of each department and the related accounts.

### **1.3.3 Lack of Evidence for Audit**

- (a.) Transactions aggregating Rs.11,694,354,463 could not be satisfactorily vouched in audit due to non- rendition of necessary information to audit.
- (b.) Thirty two paid vouchers totalling Rs.1,093,177 had not been furnished for audit up to 14 June 2013.
- (c.) Replies had not been furnished to 21 audit queries by 08 May 2013. The computable values subjected to those queries amounted to Rs.2,651,146,538.

## **2. Financial and Operating Review**

### **2.1 Financial Results**

- (a.) According to the financial statements presented, the recurrent expenditure exceeding the revenue of the Sabha for the year ended 31 December 2011 was Rs.161,837,367 as compared with the recurrent expenditure exceeding the revenue of the preceding year amounting to Rs.125,446,519.
- (b.) It was observed that the Municipal Council's activities had resulted in deficits during significant number of years resulting in a continuous set back in Working Capital of the Council. Details of deficits relating to 05 previous years are shown below.

Year	Deficit
-----	-----
	Rs.
2006	(276,605,620)
2007	(368,550,962)
2008	(304,804,165)
2009	(360,539,777)
2010	(125,446,520)

- (c.) The Council continues to account for, the receivables/ payables and income /expenditure through the previous year’s adjustment account, although provision had not been made in the past years.

As a result, the financial results of any particular year becomes a suspense. Accordingly, the effect on financial results of 5 previous years are shown below.

Year of Accounts	Financial Results Surplus/ (Deficits) Rs.	Net adjustments made in the ensuing year Debit/ Credit Rs.	Net results after adjustments Rs.
2005	90,846,722	49,396,657	140,243,379
2006	360,001,825	(14,894,954)	345,106,871
2007	(614,038,292)	(152,073,255)	(766,111,547)
2008	(162,900,199)	204,851,320	41,951,121
2009	818,149,934	233,731,266	1,051,881,200
2010	(470,289,942)	170,894,201	(299,395,741)

## **2.2 Financial Control**

The following deficits/ deficiencies in financial control are observed.

- (a.) Overdrafts amounting to Rs.744,088,787 and Rs.752,570,824 respectively were observed during the year under review and the previous year in 02 bank accounts maintained.
- (b.) Delays ranging from 25 to 60 days were observed while preparing bank reconciliations of 7 bank accounts.
- (c.) Information revealed as per analysis of adjustments shown in the bank reconciliation statements are shown in the following statement.

	No. of Bank Accounts	01 Year	1-3 years	Over 03 years	Total
	-----	-----	-----	-----	-----
		Rs.	Rs.	Rs.	Rs.
Action not taken in terms of Financial Regulation 396(d) with regard to unpresented cheques	2	2,493,724	931,571	1,297,229	4,722,524
Credit balances regarding which action had not been taken to identify	2	89,596	726,303	786,382	1,002,281

(d.) Included in the balance of Rs.6,247,554 shown in the Prepayments Account for purchase of petroleum allied products was a prepayment of Rs.5,943,264 made during 2002 to 2009 and a balance of Rs.41,735,584 existing from 2010 and years prior to it had been included in the balance of Rs.42,323,992 shown in the prepayment accounts for purchase of materials other than petroleum products. It has been reported to audit that many of these had been identified as settled. However, necessary adjustments had not been made in the accounts, so far.

(e.) A sum of Rs.3,875,489 had been overpaid in excess of the value concerned while purchasing petroleum allied products. Action had not been taken to settle this amount within a period of 04 months to 07 years.

## **2.3 Revenue Administration**

### **2.3.1 Estimated Revenue, Actual Revenue and the Arrears of Revenue**

The information relating to the estimated revenue, actual revenue and the arrears of revenue relating to the year under review, as presented by the Chairman, is shown below.

Item of Revenue -----	Estimated -----	Actual -----	Accumulated arrears as at 31 December -----
	Rs.'000	Rs.'000	Rs.'000
(i) Rates and Taxes	3,000,000	2,248,050	2,975,379
(ii) Lease Rent	180,256	151,031	540,468
(iii) Licence Fees	34,321	34,321	-
(iv) Other Revenue	46,946	26,953	19,993

### 2.3.2 Court Fines and Stamp fees

Money receivable as at 31 December 2011 from the Chief Secretary of the Provincial Council and other authorities were as follows.

	Rs.
(i.) Court Fines	491,397,490
(ii.) Stamp Fees	918,726,819

### 2.3.3 Rates and Taxes

- (a.) The number of properties exceeding Rs.500,000 with reference to one unit of rates and taxes as at 31 December 2011 were 672. An arrears totalling Rs.1,455,059,268 was due from these properties. An arrears Rs.1,171,520,336 was due from 289 properties which had an arrears of more than Rupees one million. These arrears of balances represented 80% of the total arrears of taxes.
- (b.) During the years 2006 and 2007 properties with an arrears of taxes amounting to Rs.54,402,525 had been auctioned. But, action had not been taken to legally vest these properties with the Council. As such, it was observed that the owners of those properties continued to enjoy the benefits of those properties.
- (c.) Out of the 3,389 properties belonging to the government within the authoritative area of the Council, arrears of taxes due from 1571 properties amounted Rs.244,680,682 and this was 17% of the total arrears of taxes.
- (d.) It is the duty of the Municipal Commissioner to take all necessary steps to recover rates and taxes due to the Municipal Council in terms of Section 254 (a) (1) and

(2) and Section 256 of the Municipal Councils Ordinance. However, after the year 2005, action had not been taken even up to end of the year under review to distrain properties and sell by auction for non payment of arrears of rates and taxes and warrant charges amounting to Rs.2,682,525,723 as at end of the year under review.

#### **2.3.4 Arrears of Rent**

It is the duty of the Municipal Commissioner to take all necessary steps to recover the revenue due to the Municipal Council and to credit it to the Council's Fund in terms of aSection254(a)(1) and (2) of the Municipal Councils Ordinance (Chapter 252). However, arrears of rent and fines had been accounted as Rs.228,243,319 as a result of not taking swift action to recover arrears of rent to take over the property.

#### **2.3.5 Arrears of Rent - Borella Super Market**

- (a.) Fifty three stalls with an arrears of rent of Rs.21,000,571 as at 31 December 2011 had been sealed. However, legal action could not be taken against 38 stalls as the Livestock Medical Department had not furnished agreements or assignment letters to the legal division. Notices had been sent to the balance 15 stalls. But, 10 of them had been returned due to wrong addresses and vacation of residential premises. As a result, the rent of Rs.8,303,893 recoverable from 48 stalls and fines amounting to Rs.10,280,857 could not be recovered.
- (b.) The Borella Super Traders' Association and owners of stalls had filed cases in order to avoid acquisition of stalls due to non-payment of rent. On 23 November 2011, the Municipal Treasurer had been informed by the legal department that 3 of these cases had been dismissed. However, action had not been taken to take over the properly upto the date of audit.
- (c.) Action should have been taken to take over trade stalls with arrears of rent exceeding 03 months. However, during the year 2011, action had not been taken against 70 small stalls which had not paid any rent in terms of Paragraph(d) of the trade stall vesting letter and they had been allowed to continue their businesses. Rent amounting to Rs.43,190,364 and surcharges amounting to Rs.3,257,277

were due from those small stalls/ trade stalls as at 31 December 2011. In addition to the letter referred to, trade licences should be obtained every year as per Paragraph 11 of the agreements entered into between the trade stall owners and the Council. However, legal action had not been taken against 69 traders who had not obtained trade licences since 2008.

#### 2.4 Idle and Under Utilized Physical Resources

- (a.) Nine vehicles, the values of which had not been assessed remained in the Municipal workshop exposed to elements and were getting corroded.
- (b.) Balances in 02 current accounts of People’s Bank aggregating Rs.617,771 remained idle for about 05 years.

#### 2.5 Loans to Employees

- (a.) The dormant loan balances included in the Employees’ Loan Account amounted to Rs.18,703,903. An age analysis of same appears below.

##### Age Analysis

Dormant Loans Rs.	Less than a year Rs.	Over 01 and less than 03 years Rs.	Over 03 years and less than 05 years Rs.	Over 05 years Rs.
----- 18,703,903	----- 1,458,025	----- 1,543,757	----- 2,568,295	----- 13,133,826

- (b.) In addition, employees’ loans amounting to Rs.119,026,735 continued to be brought forward without change for many years.

#### 2.6 Uneconomic Transactions

The following observations are made.

- (a.) It was observed at an on the spot inspection carried out on 14 March 2012 that the required cleaning activities had not been carried out by the private contractor to



whom the cleaning work of the Borella and Kirulapana Public Market had been entrusted to on 23 November 2010. The inspectors of the market concerned had reported the above position on 01 March 2011 and 21 October 2011. However, action had not been taken in terms of Section 03 of the agreement and a sum of Rs.3,365,984 had been paid to the contractor during the year under review.

- (b.) The cleaning work of the Kollupitiya Super Market had been entrusted to a private contractor on 28 July 2010. The inspectors of the market had reported to the Municipal Veterinary Surgeon on 31 August 2010, 23 September 2010 and 20 February 2011, that the cleaning services at Kollupitiya super market had not been properly attended to. In spite of this, a sum of Rs.548,717 had been paid to the contractor for the period August 2010 to June 2011. The employees of the Municipal Council had attended to this work and a sum of Rs.1,039,049 had been paid to them as salaries and overtime during the period concerned.
- (c.) It was decided to convert the first floor of the Public Market at Dean's Road as a pavement trade complex by removing 41 small stalls. In this connection, a sum of Rs.124,701 had been paid on 12 January 2011 to obtain lighting facilities and a sum of Rs.460,097 had been paid for painting. Meanwhile, a sum of Rs.820,784 had been paid on 02 February 2011 to renovate the 2<sup>nd</sup> Floor. But, these premises had not been made use of, up to 16 March 2012, the date of audit.

## **2.7 Irregular Transactions**

The following observations are made.

- (a.) The management work relating to the vehicle park within the area of the Municipal Council which earns no revenue had been entrusted to 02 private firms for Rs.111,450 for the period 01 July 2010 to 30 November 2011 without calling for tenders contravening provisions in Paragraph 1.2.1 of the Government Procurement Procedure.
- (b.) According to Section 18 of Part 1 of the tender agreement for purchasing medicines to the disease cure department, medicines purchased should possess expiry dates exceeding at least 02 years. However, 07 varieties of medicines with

less than an expiry period of 02 years had been purchased at a cost of Rs.549,104 on 22 March 2011.

- (c.) Section 03 of Part 02 of the agreement requires that medicines should be supplied within 14 days of the date of the order or before, if not, on the date agreed upon. However, 14 varieties of medicine to be supplied on 04 March 2011 had been supplied during the period 04 April 2011 to 10 June 2011. As such, a delay of 29 to 97 days was observed in the supply of medicines.
- (d.) According to the information furnished to audit, the Public Service Commission is the appointing authority of acting appointments given to 2 medical officers of the veterinary department to act in the post of Deputy Chief Municipal Veterinary Surgeon. However, the Municipal Veterinary Surgeon had granted the appointment for the period 06 August 2006 to 29 August 2012 without proper authority.
- (e.) While purchasing 04 varieties of drugs for the Disease Cure Department, drugs had been purchased from other institutions forwarding highest quotations instead of purchasing from the State Pharmaceuticals Manufacturing Corporation which had quoted lowest prices. As a result, a sum of Rs.1,402,000 had been overpaid during the year 2011.

## **2.8 Contract Administration**

### **2.8.1 Construction of a Western Medicine Dispensary and Official Quarters**

The following observations are made.

- (a.) A physical audit verification was carried out on 03 January 2012 with regard to the construction of the Western Medicine Dispensary at Cotta Road and official quarters entrusted to a private contractor for Rs.21,532,526 on 12 October 2009. It was observed at the verification that flower plants valued at Rs.77,900 to be planted in the premises as per contract estimates had not been planted so. Instead, some other flower plants had been planted. In this connection, a sum of Rs.202,150 had been paid on 28 February 2011 resulting in an overpayment of Rs.124,250.

- (b.) According to the certificate of final payment there were no extra payments. But, an additional expenditure of Rs.178,114 had been included in the bill and payments had been made accordingly on 28 February 2011.
- (c.) Items of work to be included had not been included in the original estimate. Those had been shown under additional items of work and a sum of Rs.207,306 had been paid on 28 February 2011.

### **2.8.2 Construction of a new building for the Kotahena Dispensary Complex**

According to Paragraph 5.4.8(b) of the Government Procurement Procedure, the performance bond furnished for any contracts dealing with work is valued up to 28 days after the expected date of completion of work. However, the contract had been awarded to the contractor at an agreed value of Rs.18,160,049 on 23 December 2008 for constructing a new building for the Kotahena Dispensary Complex. According to the agreement, the work should have been completed on 23 December 2010. But, the construction work was in progress by furnishing performance bonds. The performance bond lapsed on 22 November 2011. The construction work had not been completed even as at 04 January 2012, the day of audit. Action had not been taken to extend the period of validity of the performance bond. It was planned to make payments for the 04<sup>th</sup> bill to the contractor by 31 December 2011 by deducting the value of the performance bond amounting to Rs.908,002.

### **2.9 Operating Inefficiencies**

The following observations are made.

- (a.) The municipality's stray dog centre is responsible for controlling stray dogs in the city of Colombo. But, according to the information obtained from the Colombo National Hospital, the number of patients who had been vaccinated at the Out Patients' Department and who had become victims of dog bites and admitted to hospitals during the year 2011 were 12,906 and 3,471 respectively. Many of them were from the city of Colombo.
- (b.) A woman had encroached the premises of the Kotahena Dispensary (Western Medicine) belonging to the Council. In order to evacuate her from the premises

she had been given 01 perch of land at Kalinga Mawatha, belonging to the Council, as an alternate means, on 10 March 2011 by the Special Commissioner contravening provision in Paragraph 36 (i) (iii) of (Chapter 252) of the Municipal Councils Ordinance.

## **2.10 Stock Shortage at Suduwella Stores**

The following observations are made.

- (a.) Action had been taken to recover the value of stock shortage amounting to Rs.1,080,789 revealed at the annual stock verification during July 2004 to February 2009 from the officer who was responsible. It was decided to recover Rs.5,000 per month from his salary commencing from the month of March 2012. It was observed in audit that the amount that could be recovered from him till his date of retirement, that is, 23 January 2014, plus the amount that could be recovered from his pension gratuity were not adequate enough to equalize the stock shortage.
- (b.) Action had not been taken to issue charge sheet even as at 13 September 2012 to another store keeper of the said stores who too was responsible for the stock shortage of Rs.1,189,453 as at 09 June 2008 in order to conduct a proper disciplinary inquiry and to recover the value of shortage.
- (c.) The chief store keeper is alleged to have irregularly removed 6 varieties of goods valued at Rs.1,297,639 by entering them in the goods issued notes. In this connection, a portion of the value had been recovered. Yet, a sum of Rs.247,639 remained recoverable.
- (d.) A stock of underutilized goods, the value of which had not been computed were observed at the physical verification carried out as at 31 December 2011 in terms of Financial Regulation 770 of the Republic of Sri Lanka. Action had not been taken in terms of the Financial Regulation with regard to the excesses and shortages observed.

## 2.11 Transactions of a contentious nature

The following observations are made.

- (a.) A three wheeler bearing No.21-4358 used by the Municipal Workshop had been handed over to a private garage on 31 January 2010 and a sum of Rs74,350 had been paid on 21 May 2010. It was revealed that the number of the engine could not be identified as it had been damaged in such a manner. The colour of the three wheeler too had been altered without obtaining any instructions. No action had been taken in this regard.
- (b.) Three vehicles had been handed over to a private garage for repairs during 2007-2009. These had not been returned even as at 13 March 2012, the date of audit. Details appear below.

<b>Number of the Vehicle</b>	<b>Type</b>	<b>Estimated Amount Rs.</b>	<b>Date on which handed over for repairs</b>	<b>Period of Delay</b>
40-5309	Sky lift	1,325,600	23.05.2007	04 Years
LW-0272	Ambulance	148,500	19.05.2009	02 Years
41-8079	Fire Extinguisher	149,500	19.05.2009	02 Years

## 2.12 Human Resources Management

The following observations are made.

- (a.) The information relating to the approved and actual cadre as at 31 December 2011 appear below.

<b>Grade of Employees</b>	<b>Approved</b>	<b>Actual</b>
Senior	348	234
Tertiary	996	532
Secondary	2,367	1,145
Primary	8,427	4,770
	12,138	6,681

- (b.) The approval of the authority is needed for carrying out duties on acting basis in terms of Section 13.1.1 of Chapter XI of the Establishments Code of the Republic of Sri Lanka. However, the approval concerned had not been obtained for appointments granted to 08 officers in 05 Departments from 31 May 2004 to 14 March 2012.
- (c.) Acting appointments could be made as a temporary measure till permanent appointments are made, as per Section 13.3 of Chapter XI of the Establishments Code of the Republic of Sri Lanka. However, 155 offices had been appointed on acting basis in 20 departments and sub officers for a period exceeding 01 to 10 years. Meanwhile, a sum of Rs.2,885,788 had been paid as acting allowances in 2011.
- (d.) Re-employment of pensioners are limited for a period of twelve (12) months in terms of Section (iii) and (iv) of the Public Administration Circular No.09/2007 dated 11 May 2007. Contravening this, 08 retired officers had been appointed during 1 to 7 years. During the period of re-employment, the head of the Department should identify a suitable replacement for training under the retired officer, who should be held responsible for it. However, the heads of the Departments had not been made aware of, to identify suitable replacements. Meanwhile, this responsibility had not been referred to in the letters assigning duties to the retired officers.
- (e.) Extension of service over 60 years of age cannot be considered as a matter of government policy, to officers belonging to permanent posts in terms of Letter No. MF/12/958/38/1245 dated 09 March 2011 of the Ministry of Finance and Policy Planning. However, 08 officers exceeding 60 years had been allowed to work in 06 departments from 04 November 2005 to 31 January 2012, contravening this requirement.
- (f.) Instead of using a finger print machine for arrivals and departures of the staff of the Municipal Workshop as required by the Public Administration Circular No.9/2009 of 16 April 2009, 02 time marking machines had been used for 02 groups of employees.

### **2.13 Budgetary Control**

The following observations are made.

- (a.) The income and expenditure of the Municipality for the year under review had not been estimated on an actual basis. As a result, significant adverse variations were observed between the estimated and actual income/expenditure.
- (b.) Instances were observed where provision amounting to Rs.567,211,160 had been transferred from other objects in addition to the provision of Rs.279,577,000 allocated to 18 objects by means of the annual budget. These transfers ranged from 55% to 859% compared with the original provision.
- (c.) The entire provision aggregating Rs.318,705,100 provided for 308 objects of 16 departments remained unused.
- (d.) The entire provision of Rs.146,360,000 provided for 24 objects of 07 departments had been transferred to other objects.

### **3. Systems and Controls**

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

- (a.) Accounting
- (b.) Internal Audit
- (c.) Budgetary Control
- (d.) Revenue Administration
- (e.) Assets Management
- (f.) Loans to Employees
- (g.) Contract Administration
- (h.) Control over Vehicles