

**Sri Jayawardanapura 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 2012 and the financial statements for the preceding year had been presented on 29 March 2011. The report of the Auditor General for the year under review was issued to the Mayor of the Council on 11 December 2012.

**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 Sri Jayawardanapura Kotte Municipal Council for the year ended 31 December 2011 presented for audit.

**1.3 Comments on Financial Statements**

**1.3.1 Accounting Deficiencies**

(a.) Omissions in Accounts

- (i.) A verdict had been given by a court of law with regard to a case settled during the previous year to pay Rs.13,313,438 to a private firm by the Municipal Council. But, either a provision or a disclosure in the financial statements had been made in this regard during the previous year as well as the year under review.
- (ii.) Bank charges and direct debits made to 05 bank current accounts totalling Rs.2,964,013 and credits amounting to Rs.141,560 had not been accounted for.
- (iii.) Six vehicles obtained during November 2007 to March 2008 under Netherland aid had not been capitalized.

(b.) Understatements and Overstatements in Accounts

- (i.) The amount accounted as interest on property loans for the year under review was Rs.832,811 whereas the amount to be accounted was Rs.758,854.
- (ii.) The aid obtained for work during the year under review had been understated in the accounts by Rs.77,010.
- (iii.) Goods purchased and received at the stores during the year under review were valued at Rs.1,604,518. These had not been accounted for. As such, balances of creditors and stock balances had been understated.
- (iv.) Provision for creditors amounting to Rs.9,099,476 had been made for 06 jobs that had not commenced.
- (v.) The balances of 05 items of accounts aggregated Rs.32,377,811 as per control accounts whereas the balances of those accounts aggregated Rs.22,184,675 as per subsidiary registers/reports.
- (vi.) Contributions payable on of behalf pensions fund from 2006 to 2008 amounting to Rs.4,051,330 had not been included in the accounts payable.

**1.3.2 Lack of Evidence for Audit**

(a.) Unreplied Audit Queries

Replies had not been furnished for 03 audit queries by 23 January 2012. The computable values subjected to those transactions amounted to Rs.5,668,538.

(b.) Non rendition of information for Audit

- (i.) Transactions aggregating Rs.71,261,149 could not be satisfactorily vouched in audit due to non-rendition of necessary information to audit.
- (ii.) The approval of the Council to write off creditors of Rs.30,723,861 during the year under review had not been furnished to audit.
- (iii.) An age analysis had not been furnished with regard to balances receivable aggregating Rs.206,387,906 and balances payable aggregating Rs.184,395,079 as at 31 December 2011.

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

### 2.1 **Financial Results**

According to the financial statements presented, the revenue exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2011 was Rs.57,733,176 as compared with the revenue exceeding the recurrent expenditure of the preceding year amounting to Rs.50,657,244.

### 2.2 **Revenue Administration**

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

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

<b>Item of Revenue</b>	<b>Estimated</b>	<b>Actual</b>	<b>Accumulated arrears as at 31 December</b>
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	Rs.'000	Rs.'000	Rs.'000
i. Rates and Taxes	146,612	160,750	105,466
ii. Lease rent	24,872	21,152	16,219
iii. Licence Fees	4,301	3,139	6,637
iv. Other Revenue	134,310	75,025	-

#### 2.2.2 **Other Revenue**

According to 247(a) of the Municipal Councils Ordinance, 1% of the annual income of hotels, canteens/ lodgings registered at the Sri Lanka Tourism Development Board within the authoritative area of the Council should be recovered. However, the Sabha had not taken action to obtain it.

### 2.3 **Uneconomic Transactions**

The following matters are observed.

- (a.) A building had been constructed by spending Rs.6,129,229 in a land belonging to the Urban Development Authority without considering their instructions. The Urban Development Authority had demolished this in June 2012.

- (b.) A fixed deposit of Rs.5,000,000 due to mature on 29 May 2012 had been withdrawn on 25 October 2011 and had been retained up to 17 May 2012 as a payment bond. It was observed that an interest income of Rs.173,727 could have been earned if it had been invested in a 07 day deposit.
- (c.) Demurrage amounting to Rs.20,709 had been paid in respect of the electricity supplied by a transformer for the building in the premises of the head office of the Council for the period January to December 2011.

## **2.4 Contract Administration**

The following matters are observed.

- (a.) During the month of December 2011, 48.32 cubes of premix, 23 barrels of tar, 32 litres of kerosene oil, 28.52 cubes of ABC and 3.52 cubes of 1/2 chips stones had been used for road maintenance activities. A technical officer had not certified the quantity of raw materials used or the completion of work.
- (b.) An agreement had been entered into with a private company on 01 December 2009 with regard to the service and maintenance activities of the crematorium at Nawala and a lump sum of Rs.186,984 had been paid as annual service charges. The company concerned had breached the agreement relating to the supply of services. Legal action had not been taken against the company. It was observed that a clause had not been included in the agreement for action to be taken in case of breach of agreement resulting in action not being taken. Further, this service and maintenance activities had been entrusted to another private company during the year under review and the Council had not entered into an agreement with that company.
- (c.) The Council had to pay Rs.13,838,439 to the contractor who filed a settlement case against the Council with regard to the development activities carried out at the Chandra de Siva Stadium as per verdict given on 25 November 2010. The Council had not acted according to that verdict and as such the Colombo Commercial Court too had again given a judgment on 08 March 2012 affirming the verdict of the above settlement case. The Council had paid Rs.14,402,259 to

the contractor on 23 October 2012 which included the demurrage resulting from the non-implementation of the settlement case.

## **2.5 Operating Inefficiencies**

The following matters are observed.

- (a.) A corporate plan and an action plan had not been prepared in terms of the Treasury Circular No.PED/12 dated 02 June 2003.
- (b.) A sum of Rs.6,795,611 had been spent in 2011 to purchase books. The books had not been parcelled according to the list of classes and as such books valued at about Rs.689,387 remained without being distributed.
- (c.) Five blocks of land at 4<sup>th</sup> lane, Rajagiriya each containing 5.30 perches had been sold to 05 buyers on 5 May 2005 at Rs.550 each misinterpreting provisions in Section 40(i) (h) of the Municipal Councils Ordinance. The buyers had consolidated the entire blocks and had sold it for Rs.5,300,000 on 29 November 2005. The Council had taken action to assess the access road of 4.70 perches at Rs.6 lakhs and to vest it with the present owners of the land.
- (d.) A sum of Rs.1,109,709 had been paid in 2011 to a private construction firm to construct 08 houses at the 45/10<sup>th</sup> lane of Maligawa Road. The land where the houses had been built had not been acquired by the Council.
- (e.) Used computer accessories (11 monitors) had been purchased for Rs.41,500 during the year under review without calling for quotations and without the approval of the technical evaluation committee and the finance committee.
- (f.) The Deputy Municipal Commissioner of the Municipal Council had acted in the post of Municipal Commissioner for the entire period of 05 years commencing from August 2007. So far, action had not been taken to make a permanent appointment to the post in terms of provisions in Section 13(3) of Chapter 02 of the Establishments Code.
- (g.) Significant variations were observed between the budgeted and actual income and expenditure and it was thus observed that the budget had not been utilized as an effective instrument of management control.

- (h.) Action had not been taken in terms of Financial Regulation 396 of the Republic of Sri Lanka with regard to 10 cheques amounting to Rs.1,063,034 issued with reference to 02 current accounts and remaining unrepresented for payments payment for over 06 months.
- (i.) The balances of 05 items of accounts aggregating Rs.2,136,594 remained unsettled for over 06 months. These continued to be brought forward without necessary action being taken to settle.

## **2.6 Body Building Centres**

The matters observed at test checks carried out in March 2012 are as follows.

- (i.) Five out of 12 Body Building Centres belonging to the Council were inoperative.
- (ii.) The trade Mill Machine costing Rs.375,000 handed over the Sapumal Place Body Building Centre on 09 March 2010 remained inoperative.
- (iii.) The body building centre at No.18, first floor, Welikada Plaza building renovated by spending Rs.2,539,989 remained unused for over one year.

## **2.7 Surcharges**

Surcharges amounting to Rs.25,550,166 as at 31 December 2011 had been imposed by me against those who were responsible in terms of Section 261(1) Chapter 252 of the Municipal Councils Ordinance.

## **2.8 Assets Management**

### **(a) Employees' Loans Recoverable**

The balances of employees' loans and employees' advances due as at 31 December 2011 aggregated Rs.87,214,721. An age analysis had not been furnished with regard to the balances of Rs.3,335,741 due from those who had been transferred and those who had vacated posts.

### **(b) Non moving Current Assets**

The dormant cash balances exceeding 03 years as at 31 December 2011 amounted to Rs.183,598.

## **2.9 Vehicle Utilization**

The following matters are observed.

- (a.) It was observed that vehicles of the vehicle pool of the Council remained parked at residences of officers at weekends and on holidays and overtime paid to drivers assigned for duties on those days.
- (b.) It was observed that vehicle carrying officers arrive at the office premises at weekends, holidays and return with the officer after a short while. The officers had obtained 1/20<sup>th</sup> allowances on these days.
- (c.) Seven instances were observed where officers drive vehicle to the Council and the drivers concerned had obtained overtime payments.
- (d.) A loader bearing No.RS-1248 had been used on weekdays and at weekends without the supervision of a responsible officer and prior approval to work at weekends had not been obtained. A sum of Rs.194,901 had been paid for 2616 litres of fuel during the first half of the year 2011.

## **2.10 Internal Audit**

Copies of internal audit reports had not been furnished to the Auditor General in terms of Financial Regulation 134(3) of the Republic of Sri Lanka.

## **3. Systems and Controls**

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

- (a.) Accounting
- (b.) Revenue Administration
- (c.) Stock Control
- (d.) Assets Management