

## Colombo Municipal Council

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**Colombo District**  
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### **1. Financial Statements**

#### **1.1 Presentation of Financial Statements**

Financial Statements for the year under review had been submitted to the Audit on 06 June, 2016 while Financial Statements relating to the preceding year had been submitted on 08 September, 2015. The Auditor General's Report relating to the year under review was issued to the Municipal Commissioner of the Council on 30 December 2016.

#### **1.2 Qualified Opinion**

In my opinion except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Colombo Municipal Council as at 31 December 2015 and its financial performance for the year the ended and cash flows in accordance with generally accepted accounting principles.

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

#### **1.3.1 Accounting Deficiencies**

The following matters are observed.

- (a.) All the monies received by a Municipal Council should be credited to the account known as Municipal Council Fund. Nevertheless, a sum of Rs. 22,616,905 received from miscellaneous donors had been credited to the Colombo Municipal Council Development Fund and a sum of Rs. 23,552,838 had been deposited in a fixed deposit account under the name of City Development Fund. Those transactions had not been incorporated in the financial statements of the year under review.
- (b.) Stocks of the Microbiological Lab, center for collecting solid waste, and the Fire Service Department, had not been included in the final stock.
- (c.) Provisions amounting to Rs. 216,828,272 received from external institutions in the year under review for activities relating to improvement of water supply and sewage system, and the expenses of Rs. 38,129,424 incurred on those projects, had been debited and credited respectively to the Repayable Deposits Account. Hence, the expenses and the revenue relating to the service rendered by the Council, had not been indicated in the financial statements.
- (d.) Action had not been taken to identify and account the direct debits and credits amounting to Rs. 10,967,601 shown in the bank reconciliation statements over a period of 04 years with respect to 03 bank accounts of the Council.
- (e.) A sum of Rs. 1,100,493,421 credited to the Sundry Creditors Account after being identified as creditors in the preceding years, had been separately identified by removing it therefrom in the year under review and credited to the Surplus and Shortage Account. Nevertheless, action had not been taken to remove the fixed assets, and creditors included in that value, from the accounts.

### **1.3.2 Unreconciled Control Accounts**

A difference of Rs. 4,807,148 was observed between the values shown in the financial statements and the schedules in respect of 03 Items of account. The reasons for that difference had not been made available to audit.

### **1.3.3 Accounts receivable and payable**

The following matters were observed.

- (a.) Debit balance totalling Rs. 15,921,302, and a credit balance of Rs. 2,140,747 that had remained unsettled over an extensive period, had been brought forward, and an age analysis had not been presented in that connection as well.
- (b.) Tax money amounting to Rs. 15,647,557 collected in terms of Inland Revenue Act, had been shown in the Payable Deposits Account instead of being transferred to the Commissioner General of Inland Revenue.
- (c.) A debit balance of Rs. 3,858,435 that had remained unsettled in the Special Advance Accounts, and petty cash granted to the officers had been shown continuously in the financial statements over many years.
- (d.) A sum of Rs. 221,676 recoverable by the Council from 04 retired officers in respect of the *White Park* land sale, should have been recovered from their pension gratuity. However, that loan and the interest had not been recovered even up to 31 December, 2015.

### **1.3.4 Lack of Evidence for Audit**

#### (a.) Non-availability of Information for Audit.

- (i) The updated Registers of Fixed Assets in respect of 10 Items of account totalling Rs. 10,442,194,520, and the information as to how Rates had last been computed on the enterprises of special class, had not been made available to audit.
- (ii) When the expensive, high-capacity, and state-of-the-art machines and equipment valued at Rs. 41.8 million, along with minor equipment and instruments valued at Rs. 4.4 million had been purchased for the Microbiological Lab, in the years 2011, 2012, and 2013, evidence to the effect that the recommendation of a consultant doctor specialized in microbiology had been obtained in terms of Guideline 2.8.1 (b) of the Government Procurement Guidelines in order to identify the suitability of the said equipment and instruments, had not been made available to audit.
- (iii) Thirty four payment vouchers valued at Rs. 5,167,215 relating to the year under review, had not been presented to audit.

#### (b.) Unanswered Audit Queries

Replies to an audit query issued in the year 2014 with respect to transactions valued at Rs. 4,991,542, had not been received even up to 30 September, 2016.

### **1.3.5 Non-compliances with Laws, Rules, Regulations, and etc.**

#### (a.) Municipal Councils Ordinance (Chapter 252)

Although it is the function of the Municipal Commissioner to take all steps necessary to recover when such duty, fine, penalty, fee or other payment is outstanding to be recovered

and credit it to the Municipal Fund in terms of provisions in Section 254 a (1), and (2) of the Municipal Councils Ordinance, monies in arrears amounting to Rs. 3,616,054,624 recoverable as at 31 December, 2015, had not been recovered.

(b.) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

- (i) A Sub-Imprest should not exceed Rs. 20,000 in each case in terms of Financial Regulation 371 (2) (b), but "ad hoc" Sub-Imprests totalling Rs. 2,601,942 had been granted in 13 instances in the year under review.
- (ii) Action had not been taken in terms of Financial Regulation 396 (c) on cheques valued at Rs. 19,840,669 that had remained uncashed for a period of more than 06 months and less than 12 years since the date of issue.

(c.) Establishments Code of the Democratic Socialist Republic of Sri Lanka

- (i) Contrary to Section 13.3 of Chapter II of the Establishments Code, 87 appointments in acting capacity had been made in respect of 87 posts for a period of 01-03 years continuously.
- (ii) In terms of Section 3.1 of Chapter VIII of the Establishments Code, overtime payments should be made only under special circumstances where no alternative is possible. However, it was revealed in sample check that overtime and holiday payments amounting to Rs. 2,302,127 along with an incentive totalling Rs. 13,588,617 had been paid to the officers and the employees of the Microbiological Lab for performing the same duty during the period 2011 – 2013.

(d.) Public Administration Circular

In terms of the Circular, No. 09/2007, dated 17 October, 2007, an officer already employed for a period of 12 months or more, should be reemployed on contract basis up to that period. However, on a request made by the relevant institution, and except when it is informed in writing by the Administrative Officer authorized to make the said appointment, that it is not possible to fill the vacancy with a suitable officer in permanent service on time, the said officer should not be reemployed. Contrary to that, a retired officer reemployed in the post of Land Officer on contract basis, payments totalling Rs. 969,382 had been made in the year under review.

(e.) Circulars of the Urban Development Authority

In terms of the Circular, No. 08 dated 20 September, 1988, a bank account should be maintained for the Urban Development Authority. It is stated that, when an adequate sum is accumulated in the account, a project required by the Council could be implemented by obtaining approval for withdrawing the money with a feasibility report for a project identified by the Local Authority. However, the balance of Rs. 650,418,149 as at 31 December, 2015 had kept accumulating in the **State Agency project** over an extensive period of time, but action had not been taken in terms of the Circular.

## **2. Financial Review**

### **2.1 Financial Result**

The following matters are observed.

- (a.) According to the Financial Statements presented, excess of recurrent expenditure over revenue of the Council for the year under review amounted Rs. 569,949,762 as against the excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 67,504,358. The capital grants amounted to Rs. 2,739,745,422 whilst the capital expenditure amounted to Rs. 3,273,906,691 for the year under review and the overall deficit amounted to Rs. 1,104,111,031.
- (b.) As compared with the preceding year, the recurrent revenue had increased by a sum of Rs. 278 million and the capital grants had increased by a sum of Rs. 1,765 million in the year under review.
- (c.) The total recurrent expenditure of the Council had increased by a sum of Rs. 915 million in the year under review. The increase in the salary of the employees by a sum of Rs. 615 million, current financial expenses by a sum of Rs. 39 million, aid and contribution by a sum of Rs. 219 million, institutional and other expenses by a sum of Rs. 94 million, and capital financial fees by a sum of Rs. 17 million in the year under review as compared with the preceding year, had mainly attributed to the growth in the expenditure.

### **2.2 Analytical Financial Review**

The following matters are observed.

- (a.) Government grants, other aid, and reimbursements had attributed to 79 per cent of the overall increase in the recurrent revenue of the year under review.
- (b.) Rates and taxes, and lease rent revenue had increased by sums of Rs. 108.6 million and Rs. 61 million respectively, whereas the recovery of fees and fines, and revenue from the interest had decreased by sums of Rs. 93 million and Rs. 27 million respectively as compared with the preceding year.
- (c.) Capital grants included the receipts of stamp fees amounting to Rs. 2136.7 million, whilst the World Bank aid amounting to Rs. 479 million included the receipts of vehicles and machinery, and the receipts of fire extinguisher machines had been included in the Japan aid amounting to Rs. 75 million.
- (d.) Incurring the expense in the year under review such as, Rs. 44 million for granting sewing machines to the self-employed persons under aid and contributions, Rs. 162.2 million on women's affairs, and 126.9 million on the 150<sup>th</sup> anniversary, had attributed to the increase in the expenditure on aid and contributions by 47.1 per cent as against the preceding year.
- (e.) The interest on bank overdrafts had increased by 114 per cent in the year under review, due to reasons such as continuous increase in the fixed bank overdraft, and obtaining temporary bank overdrafts.
- (f.) A sum of Rs. 17 million had been paid as interest in the year under review on foreign loans obtained from the Asian Development Bank.

### 2.3 Management of Working Capital

The following matters are observed.

- (a.) The overall current assets owned by the Council totaled Rs. 5,938,460,593, and the current liabilities amounted to Rs. 6,306,588,757. Accordingly, a deficit of Rs. 368,128,164 was observed in the working capital. Even if all the current assets of the Council had been realized, it is observed that it would not generate a fund adequate enough to settle the total of the current liabilities.
- (b.) According to the bank statement for December, 2015, the bank balance of the Main Payment Account had been an overdraft of Rs. 1,231,049,775 as at the end of the year under review.
- (c.) The payments made by the Council had increased, due to reasons such as, non-recovery of revenue estimated for the year, exceeding the expenditure forecasted, and incurring the expenditure not forecasted. In general, a bank overdraft had been resulted in throughout the year owing to this. By placing all the fixed deposits as sureties by 31 December, 2015, a fixed bank overdraft up to Rs. 1,200 million had been obtained whilst temporary bank overdrafts amounting to Rs. 350 million had been obtained in 02 instances. Due to problems in formulating an efficient methodology to collect the revenue recoverable by the Council, and the management of expenditure, the bank overdraft valued at Rs. 742,900,572 as at 31 December, 2011, had been continuously growing and reached Rs. 1,231,049,775 by 31 December, 2015.
- (d.) As a sum of Rs. 50 million had been provisioned as current financial fees through the budget for the year 2015, and a sum of Rs. 70.5 million had been paid as interest on overdrafts, the expenditure had exceed the provisions by 41 per cent.

### 2.4 Revenue Administration

#### 2.4.1 Revenue Estimates

When comparing the revenue estimates for the year 2015 with the actual revenue, a revenue of Rs. 860.4 million had been estimated for 05 Items of Revenue, under which no revenue whatsoever had been collected as at 31 December, 2015. Furthermore, a revenue of Rs. 1296.7 million had been estimated for 06 Items of Revenue, and despite the actual recovery of Rs. 57.7 million thereof, the percentage of non-recovery had been as higher as 94.3 per cent – 100 per cent. An overestimation had been made when preparing the estimates of revenue for the year 2015, and the Revenue Accounting Officers should have endeavored to make their estimates as realistic and accurate as possible in terms of Financial Regulation 85 (1) (c), but it had not been so done.

#### 2.4.2 Rates

The following matters are observed.

- (a.) The total of the Rates in arrears as at 31 December, 2015 amounted to Rs. 2,596,914,615, and that included 647 properties exceeding Rs. 500,000 with Rates in arrears amounting to Rs. 1,302,259,439. The number of properties therein of which the Rates in arrears had exceeded Rs. 01 million, was 312, and the value thereof amounted to Rs. 1,072,043,576 representing 41 per cent of the tax in arrears.
- (b.) Of the properties in the jurisdiction of the Council, the Rates in arrears with respect to 188 properties, amounted to Rs. 528,420,822 as at 31 December, 2015 representing 17 per cent of

the total in arrears.

- (c.) Of the properties with a balance of more than Rs. 500,000 in arrears, 457 properties from which no Rates whatsoever had been recovered in the year 2015, were observed, and the value in arrears thereof totaled to Rs. 851,473,441.
- (d.) Taking into account the year 2011 as the base year, and considering the increase in the revenue for 04 years in comparison with the base year, the revenue for the year 2012 had been increased only by 7.46 per cent, whilst the increase had been 3.97 per cent by the year 2015. Comparing that value with the increase for the year 2012, a decrease of 4 per cent was observed.
- (e.) The recovery of Rates in arrears within a period of 05 years had ranged between 14.4 per cent and 29.5 per cent, and the recovery of revenue in arrears remained weak. Particulars are as follows.

<u>Year</u>	<u>Initial Arrears</u>	<u>Recovery of the Arrears</u>	<u>Percentage</u>
	Rs.	Rs.	%
2011	2,603,060,920	424,213,088	16.29
2012	2,682,525,723	471,064,929	17.56
2013	2,758,579,237	397,259,160	14.40
2014	2,944,276,572	88,584,288	29.50
2015	2,515,636,643	451,710,814	17.95

- (f.) In terms of the Gazette Notification, No. 494 of the Democratic Socialist Republic of Sri Lanka dated 19 February, 1988 issued by the Minister of Local Government and Housing in accordance with the provisions of Paragraph 230 (4) of the Municipal Councils Ordinance, provisions had been made to claim for a discount of 10 per cent in case payment is made on or before 31 January of the relevant year, and a discount of 5 per cent within the first month when the payment is made in installments. It was revealed in the sample check that a sum of Rs. 5,913,000 had been granted in respect of 130 properties with balances in arrears. As discounts had equally been granted to the parties paying Rates properly, or defaulting on Rates, it was observed that a negative impact on the parties paying the Rates properly was unavoidable. Although a module on assessment had been incorporated in the Information System (AS 400) currently being used by the Council, no action whatsoever had been taken to update that module.
- (g.) In order to establish an Information System on assessment, provisions amounting to Rs. 10 million, Rs. 7.2 million, Rs. 15.3 million, and Rs. 20 million had been allocated through the annual budget in the years 2013, 2014, 2015, and 2016 respectively. However, no performance whatsoever had been achieved in that connection even up to 03 August, 2016.

#### **2.4.3 Lease Rents of Reception Halls**

As revealed in the sample test with respect to the fee structure shown in the booking form of the reception hall on Magazine Road, the rent per day amounted to Rs. 5,000 with a deposit of Rs. 5,000, and a fee of Rs. 2,500 would be charged for a half-day (05 hours) with a deposit amounting to Rs. 5,000, whilst a fee of Rs. 900 would be charged for an additional hour along with Value Added Tax equivalent to 15 per cent on the fees. Nevertheless, sums of Rs. 6,410 and Rs. 53,500 had been undercharged in 19 instances on fees and deposits respectively.

#### 2.4.4 Rents on the Business Places in the Municipality

The following matters are observed.

- (a.) Two hundred and fifty five business establishments in the municipality had been given on lease, and the total of the revenue in arrears with respect to 232 of them amounted to Rs. 25,079,544 as at 31 December, 2015. Furthermore, the number of business establishments with more than 3 installments in arrears, represented 59 per cent of the total number of such places given on lease.
- (b.) The revenue expected annually by leasing out the business establishments in the municipality totaled Rs. 25,000,000, and the total cumulative revenue in arrears amounted to Rs. 25,079,544 as at 31 December, 2015. The said total revenue in arrears had increased up to 84 per cent of the total revenue.
- (c.) The rents in arrears with respect to shops and trade stalls ranging between 03 - 200 installments represented a sum of Rs. Rs. 23,807,139 whilst a sum of Rs. 786,939 represented a number of more than 200 installments in arrears.

#### 2.5 Surcharges

A sum of Rs. 290,387 remained recoverable as at 31 December, 2015 in respect of 06 surcharge certificates issued to the Council by me.

### 3. Operating Review

#### 3.1 Performance of the Municipal Microbiological Lab

The following matters are observed.

- (a.) In respect of the functions performed by the Municipal Microbiological Lab being maintained by the Council, a revenue of Rs. 17,050,167, and an expenditure of Rs. 84,626,632 had been expected through the budget for year 2015. As compared with the preceding year, the revenue from the test fees collected in the year 2015 had decreased by 79 per cent indicating 28 per cent of the expected revenue. The expenditure had also increased and the expenditure on the maintenance of capital assets included therein, had increased by 83 per cent.
- (b.) The particulars relating to the revenue collected and the number of fee-levying tests conducted during the 05 preceding years by the Microbiological Lab, are given below.

<u>Year</u>	<u>No. of Water Samples</u>	<u>No. of Food Samples</u>	<u>No. of Medical Tests</u>	<u>Total No. of Tests</u>	<u>Revenue Collected</u>
					Rs.
2011	1303	1090	28602	30995	8,888,659
2012	1688	2785	51390	53863	16,900,507
2013	2136	1708	51381	55225	17,538,480
2014	1709	1448	39789	42946	22,707,810
2015	768	274	7352	8394	4,836,532

The number of fee-levying tests had gradually increased from the year 2011 to 2013, and indicated a decrease of 22 per cent in the year 2014 as compared with the preceding year, whilst a decrease of 80 per cent had been indicated in the year 2015. Likewise, the revenue for the year 2015 had indicated a decrease of 79 per cent as compared with the preceding year.

- (c.) In terms of Regulation 11 of the Food Regulations- 2011, every person who works in the capacity of a food handler shall be certified by a Medical Officer registered with Sri Lanka

Medical Council prior to their employment. Furthermore, a trade license should be obtained annually to maintain a food-related business within the municipality, and the recommendation of the Chief Medical Officer of Health should be obtained thereon. Action had not been taken to collect a revenue by encouraging to get the medical tests done through the Microbiological Lab by formulating by-laws.

- (d.) A sum of Rs. 62,857,231 had been incurred during the period 2011-2015 on the maintenance of capital assets and purchasing state-of-the-art equipment capable of being used in testing a significant number of food samples at once, but due to failure in carrying out tests on an adequate number of food samples, the said equipment remained underutilized.
- (e.) Due to lack of tests being conducted at the lab, the excess amount of the chemicals stored at the Lab had either expired or about to be expired.
- (f.) As per the Decision of the Council, a sum of Rs. 4,767,983 equivalent to 35 per cent of the monies recovered by the Council with respect to the issue of reports on the analysis of private food and water samples, had been approved by the Honorable Governor for the period 2011-2013 to be paid to the officers and employees involved in testing such samples. However, in excess of that recommendation, incentives totalling Rs. 13,588,617 had been paid to the officers and employees of the Municipal Microbiological Lab in respect of the period 2011, 2012 and up to February, 2013, thus paying a sum of Rs. 8,820,634 by exceeding the approval. The allowances had been calculated and paid based on the gross revenue without deducting the direct expenses incurred on those tests.
- (g.) An annual Board of Survey had not been conducted in any instance so far on the stocks in the stores of the Microbiological Lab in terms of Financial Regulation 756 (1). Furthermore, chemicals worth Rs. 138 million had been supplied to this Lab during the 05 preceding years.

## **3.2 Management Inefficiencies**

### **3.2.1 Purchasing Instruments for the Fitness Centre**

In order to transform the fitness center being maintained at the community center, Kochchikade into an ultra-modern gymnasium, fitness equipment had been purchased by incurring a sum of Rs. 9,244,964 during the year under review. In this purchase, equipment valued at Rs. 1,759,772 had also been included in addition to the ones requested by the Fitness Instructor. The following matters are observed in this connection.

- (i) Based on the recommendation of the Technical Evaluation Committee that the products of the Real Leaders being a product of the US, that had presented the highest bid, should be purchased, 52 items had been purchased from the Emperor Distributors. However, it was observed in audit that the trade name, USA Real Leader was of Chinese origin.
- (ii) According to the specifications, the Treadmill should have the capacity of 05 horsepower. However, as 02 Treadmills with 03 horsepower valued at Rs. 900,000 had become non-functional within a period of 02 months since the machines had been received by the community center, 02 Treadmills of the brand Acer had again been provided.
- (iii) Although 09 fitness equipment valued at Rs. 4,070,368 had been provided for the community center, those equipment had not been included in the report on the issue of fitness equipment presented to the audit by the Director of the Department of Sports and Recreation on 04 December, 2015.
- (iv) The fitness center in Kochchikade had been vested in a sports club sans approval of the Council and without entering into an agreement thereby allowing that club to charge fees.
- (v) The metallic parts of the fitness equipment had corroded. Despite being agreed in terms of the purchase agreement that repairs and services would be provided when necessary, the rust on



the equipment had not been removed by the relevant institution.

### **3.2.2 The Official Quarters at No. 4 (2 ½) on Park Lane, Colombo 05**

Once the chief Medical Officer of health of the Colombo Municipal Council had been retired, the official quarters had been granted to his wife, a medical officer employed at the laboratory service. A rent equivalent to 12 ½ per cent of her salary should have been recovered from the salary of this officer who is not entitled to a scheduled quarters in terms of Section 5.4 of Chapter 19 of the Establishments Code, but only a rent of 2 ½ per cent of her salary had been recovered since June, 2014. Although a sum of Rs. 148,667 should have been recovered, only Rs. 29,733 had been recovered, thus the sum further recoverable amounted to Rs. 118,934. As the quarters No. 4 and this quarters had been conjoined, the opportunity for an officer entitled to a scheduled quarters had been deprived of obtaining a quarters, as well as the rent receivable from the quarters No. 4 had been deprived of.

### **3.2.3 Purchase of Vehicles**

The following matters are observed.

- (i) Import or purchase of new vehicles had been suspended in the year 2015 in terms of Paragraph 6:3 of the National Budget Circular, No. 1/2015, dated 19 February, 2015. Nevertheless, the Council had purchased vehicles valued at Rs. 35,750,000 during the year. Approval of the National Budget Department had been obtained only for purchasing 02 Cabs valued at Rs. 13,000,000.
- (ii) In terms of Section 28 of the Municipal Council Ordinance, no financial matter shall be dealt with by a Municipal Council unless such matter has been finally dealt with and reported on by the standing committee on finance. Nevertheless, vehicles valued at Rs. 22,750,000 had been purchased in 02 instances subject to covering approval of the Council.

### **3.2.4 Reimbursement of Members' Allowance**

Although a sum of Rs. 12,860,000 had been paid as members' allowance in the year under review for the Mayor, Deputy Mayor, and 51 Municipal Members, only a sum of Rs. 3,333,000 had been reimbursed from the Department of Local Government with respect to the year. Irrespective of the increase in the members' allowance for the year 2015, monies had been reimbursed by the Department of Local Government based on the previous value, and the Council had not taken action to rectify the reimbursement. As such, the sum of the members' allowance not reimbursed in the year 2015, amounted to Rs. 9,527,000, and that amounted to Rs. 2,650,000 in the year 2014. Furthermore, significant delays were observed in obtaining the signature of the members to the effect that the allowance had been received when reimbursing the allowance, and furnishing the applications for reimbursement of the allowance to the Department of Local Government .

## **3.3 Operating Inefficiencies**

### **3.3.1 The Municipal Press**

The following matters are observed.

- (i) In spite of being pointed out by the construction company that planned the building that an electric capacity of 400 Amperes would be required for the proper functioning of the machines installed in the building constructed at Hyde Park for the municipal press, a connectivity of 60 Amperes had been obtained by the Council for this building. As it was not possible to run all the machines of the press with the 60 Ampere capacity, the printing of documents required for daily use of the Council had been delayed for 1-6 months, whilst printing activities relating to 04 miscellaneous departments and 02 divisions, had also been delayed.

- (ii) A bi-color offset printer of the model SM74- 2 had been purchased in the year 2014 by incurring a sum of Rs. 39,447,287. When purchasing this printer, the Council was with the objective of earning an income by undertaking printing jobs from external institutions in addition to the printing activities of the Colombo Municipal Council. Quotations had been called for by 11 external institutions by 30 May, 2016 for printing activities, but no response had been made in that connection. Hence, the Council had been deprived of a possible income.

### **3.3.2 Printing Books for the 150<sup>th</sup> Anniversary of the Colombo Municipal Council**

A sum of Rs. 4,520,000 had been paid for printing 500 copies of coffee table books for this anniversary. Recommendation of the standing committee on finance had been received that a copy of the said book could be sold at a price ranging from Rs. 15,000 to Rs. 20,000, but up to 04 May 2016, only 05 copies had been sold at Rs. 10,000 each, whilst 202 copies costing Rs. 1,826,080 had been stored at the Department of Public Libraries.

### **3.3.3 Obtaining Vehicles on Lease**

The following matters are observed.

- (i) A sum of Rs. 168,722,961 had been paid to a private institution in the year 2015 for obtaining the services of 03 Bulldozers and 05 Excavators at the garbage disposal site in Meethotamulla for solid waste management. As a significant expenditure is incurred annually in this connection from the Municipal Council Fund, such an expenditure could have been minimized whilst the Council could have owned the assets, had the Council purchased the vehicles itself and deployed at the site.
- (ii) It had been recommended in accordance with the Decision, No. 2117 of the Council, dated 30 April, 2015, that the Backhoe loader at the municipal factory of the Council, be repaired and deployed at the garbage disposal site, thereby refraining from obtaining the Backhoe loaders on lease. Nevertheless, 02 Backhoe loaders had been obtained for a period of 4 months, and 3 or 4 Backhoe loaders had been obtained for a period of 8 months on lease during the entire year, thus paying a sum of Rs. 81,096,604 in that connection.
- (iii) Although the period of contract had lapsed, the said work had been awarded to the same contractor without following the proper tender procedure in accordance with the Council Decision, No. 2218, dated 30 June, 2015.

### **3.3.4 Repairing the Lorry**

A private institution had been assigned to repair a lorry belonging to the Council at an estimated expense of Rs. 925,000. The repairs to be done included: an engine overhaul, repairing the brake and electric system, welding, painting, and repairing of PTO machine and the hydraulic system. The lorry had been handed over to the solid waste management division after being repaired. The following matters were observed in the physical inspection carried out on 29 March, 2016.

- (i) Although bills valued at Rs. 290,000 had been issued in respect of welding and painting of the lorry, it was revealed in the physical inspection that those activities had not been done properly.
- (ii) The value estimated for wiring the lorry amounted to Rs. 45,000. A clutter of cables had been observed in the dashboard at the physical inspection.

### 3.3.5 Felling and Removal of Teak Timber from the Vytswyke Playground

It was observed in the inspection conducted on 14 November, 2014 that 50 trunks of Teak timber felled and removed from the Vytswyke Playground during May– June 2014, had been stored unsafely at a place belonging to the Council over a period of 18 months without being used for any productive activity.

### 3.3.6 Assessment of Rates – Business Enterprises of Special Class

The following matters are observed.

- (i) The following values were observed when examining 03 quinquennial revisions in respect of the property under assessment No. 578.

<u>Year</u>	<u>Method of Assessment</u>	<u>Annual Value</u> Rs.	<u>Rates per Quarter</u> Rs.
2004	Contract method	38,500,000	3,368,750
2010	Method not made available	40,600,000	3,552,500
2015	Method not made available	44,660,000	3,907,750

- According to the said values, the information relating to the methodology based on which, the quinquennial revision on Rates had been made in the year 2010, was not made available to audit, whereas the information presented with respect to the year 2015, was of unacceptable nature. The assessment on rates had increased by Rs. 4,060,000 in the quinquennial revisions made in the year 2015, and the information relating to the methodology used to verify the increase in the Rates for a quarter by Rs. 355,250 in concurrence therewith, was not made available to audit.
- (ii) Information relating to the quinquennial revisions-2004 in respect of the property under the Assessment No. 578, had been included in the file. The following information was revealed in the examination conducted thereon.
- The annual value of the said property had been assessed by a valuer based on the Profits Method and the Contractors Method. The actual annual value had been assessed to be Rs. 88,000,000 and Rs. 73,000,000 respectively. After being dissatisfied with that value, another valuer had assessed the property using the Contractors Method, and the actual annual value amounted to Rs. 95,616,750. The actual annual value had been compared with the lease value, and 44.7 per cent therefrom, equivalent to a sum of Rs. 42,750,000, had been computed as annual value. The value of Rs. 42,500,000 had been approved by the Municipal Valuer, and due to objections, it had been decreased to Rs. 38,500,000
  - Significant discrepancies were observed with the information based on which, the said valuers had assessed the value using the Contractors Method.

<u>Description</u>	<u>Valuation – 1</u>	<u>Valuation – 2</u>	<u>Difference</u>	<u>Percentage of the Difference</u> %
Value of 01 perch of the land	120,000	300,000	180,000	150
The No. of square feet of the building	300,000	339,045	39,045	13

- According to the matters shown above, it was not verified that accurate information relating to the valuations by the professional valuers, had been made use of in the assessment of Rates. As such, it could not be satisfied in audit as to the accuracy of the assessment on Rates.
- (iii) When maintaining files on the valuation of properties, it was observed that adequate attention had not been drawn in updating the files with information relating to the valuations under the quinquennial revisions.
- (iv) Revisions should be done quinquennially, instances of delay ranging from 06 to 40 years, were observed.
- (v) With respect to 04 Divisions, namely, Narahenpita, Kirula, Kirulapana, and Pamankada East being the underdeveloped Revenue Divisions in the jurisdiction of the Council, 17,231 Properties of assessment of Rates had been identified. Due to failure of the Council to take action suitable for developing those Divisions identified as underdeveloped areas before 50 years, the recovery of Rates remained 15 per cent. As the Council had not taken action to improve that scenario, the Council had been deprived of a significant revenue annually.

### 3.3.7 Unauthorized Constructions

In the 47 zones within the jurisdiction of the Council, 1982 unauthorized constructions had been identified by the year 2014. The action being taken thereon, had not been reported.

### 3.4 Transactions of Contentious Nature

#### (a.) The Land with the Assessment No. 105 on R.A.De. Mel Road.

- (i) This land in extent of 02 roods, and 19 perches, leased out on a 99 year lease agreement on 04 September, 1983 for a Buddhist religious affair at a lease rent of Rs. 1,200 per year, had been subleased by the lessee on 11 January, 1994 without approval of the Council, and the property had been enjoyed by the sub lessee for a period of about 21 years thereafter. It was observed even by 30 May, 2016 that the sub lessee was enjoying the property, and no legal action whatsoever had been taken by the Council in that connection.
- (ii) An investigation had not yet been conducted on granting approval for constructing buildings against the law.
- (iii) Payment of Rates for the said property enjoyed by the sub lessee without being vested properly, had been defaulted. Rates totalling Rs. 1,170,637 had remained recoverable for 04 preceding years from 2012 to 2015.

#### (b.) Transferring the Ownership of Properties on Fraudulent Information

Property in extent of Perches 34.35 situated at No. 680, Maradana Road, Kuppiyawatta - West Area Rates Division – 32 was owned by the Sri Lanka Petroleum Corporation since the year 1958. However, it was revealed in audit that, it had been planned to provide a false ownership of that property, through entering the name of a private individual in the Register of Rates on the basis of false information. After being reported by the audit in that connection, the name of the previous owner had been included in the Register of Rates. All the documents relating to the transfer of ownership had been misplaced, and necessary action had not been taken by identifying the parties responsible.

### 3.5 Uneconomic Transactions

#### Leasing of Henry Pedris Stadium

The following matters are observed.

- (i) The basketball court in extent of 02 roods and 12.15 perches had been leased to the *Tharunyata Hetak* organization on 16 January, 2012 for a period of 20 years until 15 January, 2032. Without considering to improve the sporting activities of the people living in the municipality, and the growth of the revenue of the Council, action had been taken to lease out the Stadium by considering only the request made by the said organization without calling for quotations in the open market.
- (ii) According to the report of the Municipal Valuer for leasing that property, the monthly lease rent had been decided to be Rs. 300,000. The lease rent had been reduced to Rs. 115,000 by the Council Decision, No. 2227, dated 27 September, 2011. Due to that reduction, the income that the Council Fund had been deprived of as at 31 December, 2015 amounted to Rs. 8,510,000.
- (iii) Despite being stated in terms of Section (III) of the agreement that a sum of Rs. 20 million should be invested by the lessee on the renovation of the Stadium, how and when the investment should be made had not been mentioned, as such it could not be checked as to whether the investment had been productive. Furthermore, it had been stated that buildings would be constructed during the period of lease, but adequate information relating to the plan of the buildings to be constructed and how they would be constructed, had not been obtained before entering into the agreement.

### 3.6 Identified Losses

The following matters are observed.

- (a.) Due to delays in paying the contribution to the Employees' Trust Fund in respect of the casual employees of the Water Supply and Drainage Division of the Municipal Engineering Department for the period December, 1997 - January, 2014, a surcharge of Rs. 182,064 had to be paid. Due to delays in paying the contribution to the Employees' Provident Fund for the period June, 2000 to February, 2014, a surcharge of Rs. 963,274 remained payable. The surcharge of Rs. 1,145,338 resulted in due to inefficiency of the management, had been a loss sustained by the Council.
- (b.) As Election Duty Allowances amounting to Rs. 116,974 paid in the year 2015 had not been reimbursed from the Department of Elections on time, the Council had sustained a loss equivalent to that value.

### 3.7 Solid Waste Management

#### Recycling Project for Plastic and Polythene in Waste

Project reports had been prepared in the year 2014, and an institution had also been selected to implement the project in the same year, but agreements had not been entered into even up to 31 December, 2015. Although a land in extent of about 01 acre had been selected for this project in April, 2006, it had been decided to use that land for a housing scheme proposed by public representatives. Delays in finding a solution to this problem was unjustifiable due to continuous public outcry following the environmental issues relating to the solid waste management in the city of Colombo, and the waste disposal site at Meethotamulla.

#### **4. Accountability and Good Governance**

##### **4.1 Budgetary Control**

The following matters are observed.

- (a.) As significant variations were observed between the estimated revenue and expenditure, and the actuals, the Budget had not been utilized as an effective tool of management.
- (b.) A number of 786 Items of Expenditure in which more than 50 per cent of the estimated provisions had been saved, were observed, and provisions totalling Rs. 1,426,184,980 made available for 397 Items of Expenditure in respect of 22 Departments therein, had been totally saved.
- (c.) There were instances of transferring more than 50 percent of the provisions from other Items of Expenditure, in addition to the provisions made available through annual budget for 175 Items of Expenditure relating to the 20 Departments. The percentage of the additional provisions transferred from other Items of Expenditure ranged from 50 per cent to 17900 per cent.

##### **4.2 Assets Management**

###### **Idle and Underutilized Assets**

The following matters are observed.

- (i) Three ECG machines valued at Rs. 285,000 purchased for the Microbiological Lab on 14 September, 2015, had remained unused even by 24 March, 2016.
- (ii) As the Sky lift vehicle had become unusable from April, 2007, it had been handed over to the training yard of the Fire Department.
- (iii) The Land Rover of the Council repaired by incurring a sum of Rs. 2,172,744 in the year 2012, had remained parked without being used at present.
- (iv) A Tractor sent for repairs due to an accident, had been parked at the garage of the Solid Waste Management Unit, and a repair estimate of Rs. 99,800 had also been given on 01 June, 2011. No action whatsoever had been taken even up to 05 April, 2016 to repair that Tractor.
- (v) No action whatsoever had been taken even up to 31 December, 2015 to repair a Bulldozer of the Council no more being used, and 30 unusable vehicles had been parked at the factory premises.

##### **4.3 Unresolved and Unanswered Audit Queries**

Replies to an audit query issued in the year 2014 with respect to transactions valued at Rs. 4,991,542 had not been received even up to 30 September, 2016.

#### **5. Systems and Controls**

Special attention of the Council is needed in respect of the following areas of Systems and Controls.

- (a.) Accounting
- (b.) Revenue Administration
- (c.) Budgetary Control
- (d.) Assets Management
- (e.) Solid Waste Management