

**Kolonnawa Urban Council
Colombo District**

1. Financial Statements

1.1. Presentation of Financial Statements

The financial statements for the year under review had been submitted to the Audit on 31 March 2016 while financial statements relating to the preceding year had been submitted on 31 March 2015 and the Auditor General's Report relating to the year under review was issued to the Chairman of the Sabha on 07 July 2016.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Kolonnawa Urban Council as at 31 December 2015 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

- (a) Fixed assets valued at Rs.21,433 purchased in the year under review had not been capitalized.
- (b) Provisions had not been made for the expenditure of Rs.22,944 payable for repairs of motor vehicles that had met with accidents in the year under review and the insurance coverage receivable thereon had not been accounted as well.
- (c) The closing stock had not been verified in the year under review and the value of Rs.34,755,432 shown in the Stock Ledger had been shown as the balance stock in the financial statements.
- (d) The writing off of a sum of Rs.86,250 out of the total interest amount received for fixed deposits at the beginning of the year under review had not been brought to account. As such, the interest income had been overstated by that amount.
- (e) Direct receipts to the bank account in the year under review amounting to Rs.25,501 had not been identified and recorded in the financial statements.
- (f) A stock of drugs valued at Rs.755,000 received in the current year purchased under stores advances in the year 2014 had not been brought to account in the year under review.
- (g) Stamp revenue of Rs.20,445,648 received relating to the year 2013 had been brought to account as revenue of the year under review instead of adjusting to the revenue of the preceding year. As such, the Revenue Account had been overstated by

Rs.20,445,648 and the revenue of the preceding year had been understated by that amount.

- (h) A sum of Rs.780,100 had been allocated as provision for creditors for the purchase of fuel valued at Rs.733,900 in the year under review and as such, the fuel expenditure and creditors had been overstated by Rs.46,200.
- (i) The balance of the Deposit Account amounting to Rs.17,760,422 shown under current assets in the balance sheet included the double entry of unclaimed pensions gratuity amounting to Rs. 216,411 relating to the year 2012. As such, the balance of the Deposit Account had been overstated by that amount.
- (j) Even though the members' allowances reimbursable as at 31 December 2015 amounted to Rs.1,797,000, it had been shown as Rs.123,000 in the financial statements and as such, the balance receivable as at that date had been understated by Rs.1,674,000.
- (k) Even though unclaimed deposits of Rs.2,179,691 of 6 preceding years from the year 2008 to the year 2013 should be adjusted to the Accumulated Fund, it had been brought to account as revenue of the year under review. As such, the revenue of the year had been overstated by that amount.

1.3.2 Contingent Liabilities

- (I) Even though 03 cases filed against the Council by external parties and 02 cases filed against an external party by the Council were on trial at the Courts during the year under review, no disclosures had been made in that respect in the financial statements as a note.
- (II) Damages to houses of residents of the area, environment pollution and health problems had occurred due to the overflow and slipping of the garbage dump at the Meethotamulla area in Kolonnawa belonging to the Council. As such, the residents of the area had filed 02 human rights cases against the Council. As a result, there is a possibility of economic benefits flowing out and the nature of contingent liabilities had not been revealed by the accounts of the current year.

1.3.3 Unreconciled Control Accounts

According to accounts relating to 10 Items of Accounts, the balances totalled Rs.169,911,315 and in accordance with the relevant subsidiary registers/reports, the balances of those accounts totaled Rs.119,149,405.

1.3.4 Unsettled Accounts

Four accounts balances totalling Rs.512,020 remaining since many years were being brought forward without being settled.

1.3.5 Lack of Evidence for Audit

(a) Unanswered Audit Queries

Replies had not been issued to 10 audit queries to the computable value of transactions as at 30 June 2016 amounting to Rs.1,033,569.

(b) Non-submission of Information to Audit

Transactions totalling Rs.86,417,222 could not be satisfactorily vouched in audit due to non-presentation of required information to audit.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2015 amounted to Rs.53,261,623 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 25,989,522.

2.2 Bank Accounts

The following observations are made.

(a) People's Bank – Kolonnawa – Current Account Number 194100173792765

According to the financial statements of the year, a balance of Rs.666,509 had been shown in the bank account and according to bank statements, that balance had been brought forward as Rs.88,436 continuously since the year 2010. A sum totalling Rs.1,040,054 had been shown as unrealized cheques and banking errors brought forward over many years in the bank balance of the bank reconciliation statement prepared as at 31 December 2015. The bank reconciliation statement prepared, had been in an unacceptable position due to failure in furnishing to audit, whatsoever evidence for confirmation of the above balances.

(b) People's Bank – Kolonnawa – Account Number 194100153792766

Transfers of money amounting to Rs.15,000 existing since the year 1993 and unrealized cheques amounting to Rs.10,104 for which a specific year cannot be found, had been shown as additions to the balance of the bank statement. Nevertheless, no adequate evidence had been made available to audit for any confirmation of those balances.

3. Administration of Revenue

3.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

Information on 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	Outstanding balance as at 01 January	Billing	Actual Recoveries	Cumulative Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.
Rates and taxes	35,370,301	67,718,253	59,231,282	43,857,302
Licence Fees	3,350	355,600	316,750	42,200
Rent	2,029,634	4,163,532	2,841,399	3,351,767
Business Tax	771,691	872,600	887,550	756,741

3.2 Rates

The arrears of accumulated rates as at 31 December of the preceding year amounted to Rs.35,370,301 and the arrears stood at 43,857,302 by the end of the year under review. Accordingly, the arrears of rates in the year under review had increased by Rs.8,487,001 representing 24 per cent.

3.3 Stall Rent

The arrears of stall rent as at the end of the year under review amounted to Rs.3,351,767 and out of these arrears, 30 per cent represented arrears of house rent. The total arrears of rent had increased by 65 per cent as compared with the preceding year.

3.4 Business Tax

The balance in arrears of revenue in business tax amounting to Rs.756,741 as at 31 December 2015 was an arrears of revenue relating to the preceding year and the business tax revenue billed for the year under review had been recovered in the year under review. The arrears existing since previous years had remained the same.

4. Operating Review

4.1 Management Inefficiencies

The following observations are made.

- (a) Title deeds relating to the total lands of 4 acres 0 roods and 15.05 perches in extent which was not valued, belonging to the Council, had not been made available to audit.
- (b) The Isuzu F.R.R. Compactor vehicle costing Rs.3,406,365 belonging to the Council, had been removed from running since June 2014 due to an engine repair. A sum of Rs.928,000 had been paid for 02 hired motor vehicles from 31 October to 31 December 2015 at the rate of Rs.8,000 per day for removal of garbage instead of repairing this motor vehicle without delay and engaging it in service.
- (c) The Council Fund had incurred the expenses of bills amounting to Rs.23,428 in the year under review for the private television connection (PEO TV) charges of the Chairman, Vice Chairman and the Secretary of the Council contrary to the provisions in Section 159 (1) of the Councils Ordinance (Cap.255).
- (d) Action had not been taken in terms of Financial Regulation 571 of the Democratic Socialist Republic of Sri Lanka in respect of balance of advances amounting to Rs.4,409,650 unsettled as at 31 December 2015.
- (e) Action had not been taken in terms of Financial Regulation 571 of the Democratic Socialist Republic of Sri Lanka in respect of deposits of Rs.9,625,340 existing for over a period of 08 years.
- (f) In terms of Financial Regulation 762 of the Democratic Socialist Republic of Sri Lanka, it should be the duty of the Store Keeper to keep the stocks of only the required goods in the stores and not to keep excessive stocks. Nevertheless, stock of goods relating to 63 items totalling Rs.628,692 purchased by the Council had been stored without issuing. The period of storing the goods had ranged from 06 months to 27 months.
- (g) In terms of Finance Circular No.6/2015 of 11 April 2015 of the Chief Secretary (Provincial Ministry of Finance) and the Secretary to the Provincial Treasury, the maximum charges for the residence telephone and the mobile phone of the Secretary of the Urban Council is a maximum of Rs.2,500. However, a sum of Rs.6,659 had been incurred in the year under review by the Council Fund for 06 months exceeding that limit.

4.2 Employees' Loans

The employees' loan balances recoverable as at 31 December 2015 totalled Rs.33,786,452 and out of that, the outstanding loan balances of transferred and retired persons amounted to Rs.2,970,941. It represented 8 per cent of the entire outstanding

balance recoverable and an age analysis on the outstanding balances as well had not been presented.

4.3 Transactions of Contentious Nature

A sum of Rs.100,000 had been given by the Ministry of Economic Development for settlement of administrative expenses of the Council in respect of economic development programmes implemented in the year 2014 by the Ministry of Economic Development together with the Council. The aforesaid sum of Rs.100,000 had been divided among 18 officers including the Secretary and Chairman instead of crediting a certain portion to the Council Fund without any legal basis or approval for settling of expenses (stationery expenses, telephone charges, fuel expenses) incurred by the Council Fund in the implementation of the aforesaid programmes.

4.4 Solid Waste Management

4.4.1 Pothuvil Field Compost Compound commenced under the Pilisar Project

An agreement had been entered into by the Central Environmental Authority together with the Urban Development Authority on 06 May 2009 to construct a compost compound by the Central Environmental Authority, vesting a land of 04 acres in extent by the Urban Development Authority and to implement the Solid Waste Management Project by the Urbna Council for the implementation of a garbage management methodology in the Kolonnawa Urban Council. The aforesaid Project had been implemented from the year 2012 to May 2014 and a revenue of Rs.162,462 had been earned from the sale of compost during this period. As the garbage dump had slipped on to the compost compound in May 2014, its operation had completely ceased and the council had not taken proper measures in implementing and maintaining that Project.

4.4.2 Environmental Issues

It was observed in audit that due to disposal of waste by the Colombo Municipal Council and the Kolonnawa Urban Council into the Meethotamulla garbage dump located within the boundaries of the Kolonnawa city, severe environmental problems as well as health problems have arisen. A stench had spread in the environment and the well water in the area had become impure. The community residing in the houses within close proximity had been affected with respiratory and skin diseases and it was revealed by the reports of Medical Officers of Health in the area that there are patients with stomach ailments due to the impurity of water. Accordingly, it was observed that the community living in houses close by is affected with mental, environmental, social and economic problems due to the ever increasing garbage dump.

4.5 Contract Administration

Action had not been taken to commence works of 75 industries to the estimated value of Rs.29,413,215 which was proposed to be implemented in the year 2015.

5. Accountability and Good Governance

5.1 Internal Audit

Even though the Internal Audit Unit was in operation, the Internal Audit Programme of the year 2015 had not been presented to Audit and an internal audit had not been carried out as well.

5.2 Assets Management

5.2.1 Idle and Underutilized Assets

Even though action should be taken to auction and dispose of or to repair and make use of 05 scrap motor vehicles to the total value of Rs.1,011,875 and the Compactor vehicle valued at Rs.3,406,365 which was out of running condition, those motor vehicles were decaying in the Urban Council premises.

5.3 Annual Boards of Survey

An Annual Board of Survey had not been conducted in the year under review.

6. Systems and Controls

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

- (a) Internal Audit
- (b) Accounting
- (c) Financial Control
- (d) Revenue Administration
- (e) Contracts Control
- (f) Stores Control