

Colombo Municipal Council

Colombo District

1 **Financial Statements**

1.1 **Presentation of Financial Statements**

The financial statements for the year 2016 had been presented to audit on 23 October 2017 and the financial statements for the preceding year had been presented on 06 June 2016. The report of the Auditor General for the year 2016 had been forwarded to the Municipal Commissioner on 18 December 2017.

1.2 **Adverse Opinion**

In my opinion, because of the significance of the matters described in paragraph 1.3 of this report, the financial statements do not give true and fair view of the financial position of the Colombo Municipal Council as at 31 December 2016 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**

The following matters are observed.

- (a) Refundable deposits of Rs.477,218,614 which continued to exist for many years had been brought to revenue. While doing so, it had been treated as revenue of the year instead of being credited to the Surplus and Deficit Account. As a result the revenue for the year under review had been overstated by a similar amount.
- (b) The entire amount received at the Municipal Council should be credited to an account named Municipal Council Account. However, the sum of Rs.32,746,905 received from various donors had been credited to the Colombo City Development Fund and Rs.25,368,547 had been invested in fixed deposits under an account named City Development Fund.
- (c) The audit fees payable as at 31 December 2016 amounted to Rs.6,273,800. However, a sum of Rs.4,538,800 had been shown as creditors under payables resulting in an understatement of creditors by Rs.1,735,000.

- (d) The revenue from interest on property loans in 2016 amounted to Rs.12,141,968. However, it had been entered as Rs.13,277,300 in the Income and Expenditure Account thus overstating the revenue from interest on property loans by Rs.1,135,332.
- (e) The amount reimbursed for salaries during the year under review amounted to Rs. 2,862,420,446. However, this had been brought to account as Rs.2,868,534,283 In the financial statements thus overstating the revenue from salaries reimbursed by Rs.6113,837. The amount received for reimbursement of salaries from the Department of Local Government in 2016 had been erroneously entered in the register.As such, debit and credit enteries, each amounting to Rs.238,535,037 had been made In the revised accounts of 2015 and 2016 by journal entries 67 and 68 resulting in an overstatement of the Surplus and Deficit Account and the Sundry Debtors Account by similar amounts.
- (f) A sum of Rs.12,262,178 was totally payable to the National Water Supply and Drainage Board under Object 07 for 08 public water poles and 06 bathing taps as at 01 January 2008. However, action had not been taken to make the payment or to make provision for creditors .
- (g) The balance of stock shown in the financial statements had exceeded the amount shown in the stock verification reports furnished by the stores as at 31 December 2016 by Rs. 1,705,095
- (h) The revenue from hire purchase shops for 2016 amounted to Rs.20,013,054. However, this had been shown as Rs.8,576,406 in the financial statements. As a result, the revenue from hire purchase shops had been understated by Rs.11,436,648.

1.3.2 Unreconciled Control Accounts

- (a) The value shown in the financial statements with regard to 56 items of accounts amounted to Rs.18,607,853,016 and the value shown in the related subsidiary registers amounted to Rs.11,309,047,875. The difference observed amounted Rs.7,298,805,141.
- (b) The cash In hand shown in the financial statements differed from the figures shown in the cash book maintained at the shroff's branch. Details are shown below.

i Cash in Hand

Details	Value as per financial statements	Value as per cashbook of the shroff's branch	Value as per information obtained from the Computer information system
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Cheques in hand	1,013,906,939	1,262,903,276	1,245,881,545
Cash in hand	1,371,662	18,176,905	1,371,662

ii Balance of the bank Account

Adequate differences were observed between the cash book balances of 04 bank accounts as per final accounts as at 31.12.2016 and the cash balances as per bank reconciliation statements.

1.3.3 Accounts Receivable and Payable

The following matters were observed.

- (a) Action had not been taken to settle 18 balances of accounts receivable amounting to Rs.64,247,278 existing for a period prior to 16 years.
- (b) The balances of petty cash and special advances granted to officers which continued to be shown in the financial statements for many years amounted to Rs.3,911,402.
- (c) Taxes amounting to Rs.17,974,658 collected under the Inland Revenue Act had been shown in the deposits payable account without being remitted to the Commissioner of Inland Revenue.

1.3.4 Lack of Evidence for Audit

- (a) Evidence for 10 items of accounts aggregating Rs.14,539,311,239 had not been furnished to audit.
- (b) The financial statements for the year 2016 had been furnished to the Auditor General on 23 October 2017 after revision. Revision had been made for 09 items of revenue amounting to Rs.235,027,401, 08 items of expenditure amounting to Rs.60,799,546, 17 items of assets amounting to Rs.535,851,001 and 01 item of liability amounting to Rs.11,436,640. Journal entries and connected subsidiary records relevant to these revisions had not been furnished for audit.
- (c) **Unreplied Audit Queries**

The value of unsettled audit queries among 42 audit queries issued up to 30 July 2017 on behalf of the year 2016 amounted to Rs.1,354,114,010. Replies had not been furnished for 24 audit queries.

1.3.5 Non-compliance with Laws, Rules, Regulations etc.,

(a) Municipal Councils Ordinance (Chapter 252)

- (i) The Municipal Council should not take final action, whatsoever, till such time a report is furnished by the Standing Committee to the General Council regarding matters relevant to cash as stipulated 28. However, in contravention, an expenditure of Rs.3,569,375 had been incurred on the residential workshop held at Pasikudah, subject to covering approval.
- (ii) A gazette notification had been issued by the Minister of Local Government and Housing bearing No.494 dated 19 February 1988 in terms of Section 230(4) by which discount of 10 per cent of the rates and taxes should be allowed provided the payments are made on or before 31 January and a discount of 5 per cent should be allowed within the first month to those who pay it in instalments. Accordingly, rates and tax payers are entitled for a discount of 10 per cent and 5 per cent. But, discounts had been allowed for payments relating to the current year while the arrears of previous had not been settled. It was observed at test checks that discounts amounting to Rs.248,558,166 had been granted in respect of 109 properties with arrears contravening the above gazette notification.
- (iii) Action should have been taken in terms of Section 247 to identify trades liable for taxes, classify the trades and take initial action to impose taxes, and to institute legal action against tax evaders. However, the Council had been deprived of significant revenue for many years as a result of not acting accordingly.
- (iv) According to 254 a(1) and (2) it is the duty of the Municipal Commissioner to recover and credit to the Municipal Council's fund any tax, fines, penalties, payments as a means of punishment, fees or any other payments due to the Council at any instance. However, the arrears of Rs.3,586,549,919 recoverable as at 31 December 2016 had not been recovered.

(b) Chapter V111 of Bye-laws of the Colombo Municipal Councils Ordinance Paragraph 34

- (i) The arrears of revenue relating to removal of trade garbage by 30 June 2016 amounting to Rs.27,293,400 had not been recovered in terms of bye-laws, Chapter XXV.

- (ii) The district offices had not taken action even by 11 October 2016 to issue the Annual Notice No.4 Issued by the Council for collection of fees for removal of trade garbage.

(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

- (i) F.R.395(c) – Bank reconciliation statements showing the position of transactions as at end of each month should be prepared before 15 of the following month. However, Instances were revealed where there were delays ranging from 40 to 290 days in the preparation of bank reconciliation statements.
- (ii) F.R.751 – It was observed that reports, whatsoever, had not been maintained at the Fire Extinguishing Department for receipts and issues of stock. Precautionary steps had not been taken to safeguard the foam machine.
- (iii) F.R.1653 – Thirty two vehicles belonging to 04 district offices had performed with obsolete milometers.

(d) Quarters should be classified and the names of applicants should be entered in the waiting

list accordingly for allocating quarters in a serial order in terms of Chapter XIX of the Establishment Code of the Democratic Socialist Republic of Sri Lanka. However, the Council had not taken action accordingly.

(e) Six tippers had been hired from a private company under the emergency purchases on rental

basis and a sum of Rs.59,628,833 had been paid for the period June 2015 to 12 May 2017 by the Solid Waste Material Cleansing Division, contravening Section 3.8.1(a) of the Procurement Guidelines.

- (f) According to the Public Administration Circular No.22/99 of 08 October 1999, action should be taken to provide group transport facilities to officers who are not entitled for official vehicles provided there is possibility to allow vehicles with the required fuel. However, transport facilities had been given by allowing one vehicle for each officer, contravening the circular instructions.
- (g) The closing balance of the bank account relating to the Urban Development Authority amounting to Rs.689,014,313 remained idle for a long time contravening the circular of the Urban Development Authority No.08 of 20 September 1988.

- (h) Waste materials should not be transported without the licence issued by the Central Environmental Authority in terms of the Gazette Extra Ordinary Notification No.1534/18 of 21 February 2008. However, it was observed that the Council had not verified whether the institution which offered the tipper on hire for transporting the waste materials had obtained the required licence, before awarding the tender.

2. **Financial Review**

2.1 **Financial Results**

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Council for the year under review amounted to Rs.4,042,313,090 as against the excess of expenditure over recurrent revenue of the preceding year amounting to Rs.569,949,762. Accordingly, an improvement in financial results amounting to Rs.4,612,262,852 was observed as compared with the previous year. The increase in financial results could be mainly attributed to the increase in total revenue by Rs.5,004,505,835 of the year under review.

2.2 **Analytical Financial Review**

The following matters are observed.

- (a) The recurrent revenue of the current year had increased by 76 per cent as compared with the previous year. The increase in fees and recoveries by 987 per cent as compared with the previous had attributed to this. The refundable deposits of Rs.477.2 millions existing for many years had been to revenue and the stamp duty had been classified under fees and recoveries which had caused by the increase in fees and recoveries.
- (b) The rates and taxes, revenue from rent and the revenue from interest had increased by 27 per cent, 3 per cent and 12 per cent respectively.
- (c) The receipt of Rs.8 million as revenue from hire purchase shops and 12 garbage lorries valued at Rs.34 million obtained from the Government of Japan as project aid had been entered as capital receipts.
- (d) The expenditure incurred on interest for the loan obtained from the Asian Development Bank during the year under review as capital financing cost amounted to Rs.60.6 million. This had caused an increase of 245 per cent in the capital financing cost than the previous year.

- (e) The establishment and miscellaneous expenditure of the year under review had increased by 51.6 per cent than the previous year. Meanwhile, an expenditure of Rs.1294 million had been incurred on collection and disposal of solid waste material and this increase was 62 per cent more than the previous year.
- (f) The increase in net assets of the year under review as compared with the previous year amounted to Rs.3,146,961,642. The identification of work-in-progress amounting to Rs.349,129,555 during the current year, the decrease in creditors by Rs.684,123,615 and the increase in cheques in hand by Rs.916,484,421 were the causes of this increase.

2.3 Revenue Administration

2.2.2 Rates and Taxes

The following matters are observed.

- (a) The total balances of rates and taxes as at end of the year under review amounted to Rs.2,593,828,007. Included in these total balances of arrears of rates and taxes were 650 properties with arrears of over Rs.500,000 which were valued at Rs.1,348,595,164 and it was 52 per cent of the total arrears.
- (b) The number of properties with a value of Rs.1,000,000 per year were 297. Of these, arrears as at 31 December 2016 amounted to Rs.1,100,665,942 which was 42 per cent of the total arrears.
- (c) Out of the total government properties within the authoritative area of the Colombo Municipal Council, 182 properties had an arrears of Rs.517,110,341 which was 20 per cent of the total arrears of revenue.
- (d) Four hundred and ninety six properties with an arrears of balances over Rs.500,000 had not paid any arrears in 2016 and the total arrears amounted to Rs.967,015,990.
- (e) The percentage of recovery of arrears of rates and taxes during the recent past 5 years ranged from 14.4 to 29.5 per cent and the recovery of arrears was at a weak level.
- (f) Discounts had been granted to those who pay rates and taxes on the due dates and similar discounts had been granted to those who were not so. As such, those who duly pay rates and taxes get disgruntled. Although the Information Technology Operating System (AS400) existing at the Council comprises the valuation process, no action, whatsoever, had been taken to update the field.

2.3.2 Trade Tax and Business Tax

The following matters are observed.

- (a) A sum of Rs.26,221,470 had been shown as trade and business tax in the final accounts of the year under review and a major portion of it consisted of the revenue relating to the previous year. The amount estimated as trade and business tax for the year 2016 was Rs.67,796,600 of which Rs.12,441,000 only had been received in cash during the year 2016. Accordingly, Rs.13,780,470 out of the Rs.26,221,470 shown in the accounts was not relevant to the year 2016 and only 18 per cent of the total revenue had been depicted in the final accounts.
- (b) The tax pertaining to a year should be collected during the same year itself and it is the responsibility of the administrative head, as instructed in the circular No.39/96 of the Department of Western Local Government. However, the Colombo Municipal Council had not acted accordingly with regard to the business tax. Details are shown below.
 - (i) The revenue from trade tax receivable by the Council as per trade tax summary of 2016 amounted to Rs.67,796,000. However, the actual amount recovered was Rs.12,441,000 only. As such, the revenue receivable for 2016 amounted to Rs.55,385,000 which was 82 per cent of the revenue receivable.
 - (ii) The number of establishments belonging to the Colombo Municipal Council which had been identified for recovery of trade tax for the year 2016 were 18,823 and only 3,033 trade establishments had paid tax as at end of the year. Accordingly, tax had not been recovered from 15,790 trade establishments for the year 2016.
- (c) The Council had marked the tax numbers of 47 trade tax areas. Of these, the progress in recovery of tax was at a low level of 7.8 to 13.7 per cent in 08 areas.

2.3.3 Trade Licence Fees from Hotels, Restaurants and Lodgings registered at the Tourist Board

The number of trade establishment identified for trade licences as at 31 December 2016 were 132 of which a sum of Rs.45,091,444 had been recovered from 107 establishments. 2 establishments had been closed and 25 establishments had not made payments. Establishments which had neglected payments had continued to do so since 2008 and it was observed those were prime establishments receiving significant revenue. Stern action had not been taken to recover revenue deprived of, by the Council from such establishments and the Council continued to provide services to those establishments.

2.3.4 **Revenue from Hire Purchase Shops**

The particulars of hire purchase period of many shops had not been entered in the register of hire purchase shops revenue maintained by the revenue branch. As such, the revenue receipt reports could not be reconciled with the register. Further, there were 5 instances where the entries relating to the period of hire purchase had not been entered in the register of hire purchase shops revenue.

2.3.5 **Entertainment Tax**

(a) Entertainment tax relating to Concerts, Musical Shows and Sports Competitions

The entertainment tax recovered on behalf of concerts, musical shows and sports competitions held in 2016 within the authoritative area of the Colombo Municipal Council amounted to Rs.84,235,644. Entertainment tax amounting to Rs.30,324,273 had been exempted on an approval granted by the Minister in charge of the subject, Local Government. While doing so, it had been instructed that the revenue derived from the concerts/competitions should be utilized for community aid/school development by the said foundation and it should be confirmed by the organizers to the local government institution within 30 days of the end of the concert/competition. However, the entertainment tax had been released without confirming that (60%) of the revenue received from sale of admission tickets had been utilized for community aid/school development.

(b) **Cinema Hall Entertainment Tax**

- (i) Twenty four cinema halls are in operation within the Colombo city limits and the revenue for the year 2016 amounted to Rs.63,770,318 of which Rs.17,166,725 was recoverable as at end of the year under review. The accumulated arrears as at 31 December 2016 amounted to Rs.33,060,432.
- (ii) A comparison of the file relating to arrears of entertainment tax and the register of cinema hall fees with the records maintained by the subject clerk revealed a difference of Rs.2,944,365 in the revenue billed for 2016 and a difference of Rs.10,022,778 in the accumulated arrears as at 31 December 2016.
- (iii) The duty of revenue inspectors is to advise the cinema halls to settle the entertainment tax before 15 of the following month. However, it was observed that there was delays ranging from 02 to 12 months in settlement. A sum of Rs.23,037,654 was due from 25 cinema halls since 2011 and legal action had not been taken to recover it in terms of the Paragraph Entertainment Tax Ordinance No.12 of 1946.

2.3.6 Fees for removal of Trade Waste Material

The following observations are made.

- i Systematic annual survey had not been carried out relating to the quantity of garbage removed from business establishments, new business establishments and non functioning business establishments within the authoritative areas of district offices and as such fees for removal of trade waste material had been recovered on the basis of information which had not been updated. Adequate attention had not been paid to introduce proper methods for recovery of revenue.
- ii The fees for removal of trade waste materials recoverable in 2016 at 03 district offices amounted to Rs.3,464,000. However, the actual recoveries amounted to Rs.1,401,000. As such, the recovery of trade waste material revenue was at a low level of 40 per cent by 30 October 2016. Further, the arrears of revenue due from removal of trade waste materials by 30 October 2016 amounted to Rs.4,571,700 and action had not been taken to recover it in terms of Chapter XXV of the bye-laws.
- iii The information relating to payments made for notices issued during the year had not been updated in the register maintained at the shroff's branch or with the register of collection of revenue quarterly maintained at the sub office. As a method had not been adopted for this , the exact information pertaining to the arrears of revenue could not be obtained.
- (iv) There was no proper transformation of information between the Municipal Treasurer's Department and the district offices. As a result, the ability to get information regarding the new businesses commenced within the authoritative area of the Council after issuing business licences to them had been lost.

2.3.7 Revenue from Investments Interest

A sum of Rs.100,000,000 and a sum of Rs.80,000,000 had been deposited under 7 day deposits by 01 January 2016 and during 2016 respectively. These investments had been made at a low interest rate of about 3.5 per cent and the interest obtained in 2016 amounted to Rs.3,452,055. These had been deposited in the call deposits due to the necessity of short term working capital. However, these had not been cashed till 01 January 2017. The Council had been deprived of a revenue of about minimum sum of Rs.3,000,000 per year as compared with the confirmed interest of 6.5 per cent prevailed then at the state banks.

2.4 **Surcharges**

A sum of Rs.357,979 remained recoverable as at 31 December 2016 on behalf of 05 surcharge certificates issued by me to the Municipal Council during the previous years.

3. **Operating Review**

3.1 **Managemnt Inefficiencies**

3.1.1 **Construction of the New Building of the Colombo Municipal Council**

- (a) The said construction which should have been constructed by the contractor by 31 January 2016 had not been completed even by 15 December 2017.
- (b) A sum of Rs.75,509,312 was due as total demurrages for the period of delay. That is, from 31 January 2016 to 14 September 2016.
- (c) The variation between the bill of quantities and the actual construction was 10 to 893 per cent and as such the estimate had not been properly prepared.

3.1.2 **Consultancy services obtained for renovation of the old Municipal Council Building**

The following observations are made.

- (a) There was no definite schedule for the renovation activities of the old municipal building and as such nearly 2 years had been spent on preparing bid documents, bill of quantities, plans with specifications, and a long period such as from the date on which a decision had been made to obtain consultancy services.
- (b) Payments for 8 per cent of the total construction cost had been approved to the consultancy firm at the time of award of the contract. However, the entire construction estimate had not been prepared by then. The consultancy firm had furnished a cost analysis for Rs.363 million by 06 May 2015. However, the consultancy fees could not be specifically identified as the entire construction cost was in suspense.

3.1.3 **Purchase of uniforms and shoes for officers of the Fire Extinguishing Services Department**

The following matters were observed.

- (a) The supplier had agreed to supply 4 types of items for Rs.788,451 as per agreement No.05/2016 dated 11 January 2016. But, the supplies had not been made even by 21 October 2016 and the uniform requirements of the departmental officers had not been accomplished.
- (b) Failure to fulfil proper supplies could have been covered up by the performance bond. But, the performance bond No.06/2016 furnished by the supplier had expired by 08 July 2016.
- (c) According to the report of the Technical Evaluation Committee dated 19 October 2015, recommendations for purchases from the highest bidder had been made. But, rejection of the second tender had not been based on adequate grounds. This item was expected to be used for one year and the selection of the supplier who had quoted the highest price had ended in an excess expenditure of Rs.552,720.

3.1.4 **Sewing Machines to Low Income Group Families**

One thousand two hundred and eighteen sewing machines valued at Rs.29,672,810 had been distributed among selected women to empower the women of low income earning families during the year 2016.

The following matters were observed at a test check of 39 sewing machines.

- (a) Six out of the 39 selected beneficiaries only had followed courses in sewing.
- (b) The number of persons engaged in sewing field were 07 only.
- (c) Follow up action had not been taken with regard to beneficiaries to whom sewing machines had been given.

3.1.5 **Appointment of a Deputy Chief Medical Officer (Micro biology and Laboratory services)**

A female graduate who had followed a medical degree in Soviet Socialist Republic in 1986 who was not entitled to appear as a medical officer of Sri Lanka in terms of the Medical Ordinance No.16 of 1965 and without an internship training before being appointed as an apprentice medical officer had been appointed as an apprentice medical officer on 31 July 1989 by the Local Government Service Commission. Subsequently, she had been appointed as Medical Officer Grade 11 of the Local Government Service from 08 September 1989. According to the service minutes of the Western Province Council Medical Officers, the Deputy Municipal Medical Officer (micro biology) should possess a postgraduate degree. Although this medical officer had no such

qualification, she had been appointed as a Specilized Medical Officer (Deputy Chiefr Health Medical Officer – micro biology and laboratory Services) from 29 April 2005 by the Local Government Services Commission.

3.1.6 Official Quarters

The following matters were observed.

- (a) The Municipal Council had not maintained a centralized file and a waiting list containing particuars of all the official quarters of the Municipal Council.
- (b) Departmental Heads had action to allocate quarters of the Municipal Council to each officer although such information were not revealed in audit to show that such authority had been grnted to them.
- (c) Unauthorized persons were in occupation of many official quarters of the Colombo Municipal Council belonging to various departments for about 10 years.
- (d) Nine out of all the quarters belonging to the Colombo Municpal Council remained unoccupied.
- (e) Officers, employees etc, of other departments were in occupation of official quarters allocated for each department. There were instances where the officers who had been transferred continued to remain in those official quarters.

3.2 Idle Assets

- (a) The vehicles belonging to the Colombo Municipal Council valued at Rs.26,624,000 remained parked in the premises of the official residence of the Mayor for over one year from 01 July 2016 to 30 October 2017.
- (b) A tipper, a tractor and 03 trailers remained idle at the office premises for a long time.
- (c) Forty nine inoperative vehicles were observed to be parked at the factory premises without repairs been completed. These inoperative vehicles consisted of 14 garbage press pack, 13 tractors, 01 bulldozer, 02 becko loaders, 01 J.C.B, 05 tippers, 02 lorries 01 car, 01 van and 01 crew cab.

3.3 **Operating Inefficiencies**

3.3.1 **Foam machine used to Extinguish Fire**

About 4,200 litres of foam had been damaged during the period of 2009 to 20 October 2016. Inadequate storage facilities, lack of proper filling of barrels, barrels kept in open space etc., were the causes of it. Accordingly, it was observed that during the above period the quantity damaged had exceeded the actual consumption.

3.3.2 **Administration of Land, Buildings and Properties belonging to the Colombo Municipal Council**

(a) **Land bearing Assessment No.43, Barnes Place, Cinnamon Gardens**

The Colombo Municipal Council had acquired 154.43 perches bearing the assessment No.43, Barnes Place Cinnamon Gardens in 1974 for non-payment of rates and taxes. The Municipal Council had not taken action even by December 2017 to acquire the ownership of this land.

(b) **Hire Purchase property No.149/5, Havelock Road, Colombo 05**

Six perches of land situated at No.149/5, Havelock Road, Colombo 05 belonging to the Colombo Municipal Council had been given on lease at the rate of Rs.700 per month for a period of 30 years from 17 June 1986 to 14 June 2016. This had been sub let by constructing a three storied building for 03 business enterprises without the authority of the Council.. Action had not been taken to reacquire this premises with a high commercial value.

(c) **Construction of a Private Funeral Parlour**

A private institution had constructed an unauthorized two storied building to be used as a funeral parlour on a land belonging to the Municipal Council lying between a private funeral parlour at Borella, Colombo and the official residence of the caretaker of the crematorium. The Municipal Council had not taken any action against this unauthorized construction.

(c) Housing Complex

Nineteen housing complex which comes under the administration of the Colombo Municipal Council consists of 828 units. The following matters were observed in this connection.

- (i) A nominal rent only had been recovered from the occupants of these complex and the Municipal Council had not taken action to recover a reasonable commercial rent to coincide with the current market value.
- (ii) Certain houses of the complex had been given on rent for over 37 years and the Municipal Council had not taken action to repair the houses or to recover a reasonable rent so as to make it comfortable for the occupants. Similarly, unauthorized persons had occupied both sides of the ground floor without informing the Municipal Council.
- (iii) The arrears of rent recoverable by the Municipal Council from each housing complex as at 31 December 2016 amounted to Rs.3,177,806 and the Colombo Municipal Council had failed to prepare a method to recover the arrears of rent or to avoid occurrence of such arrears.

(d) Playgrounds on Hire Purchase Facilities Basis

(i) Havelock Playground

The Havelock playground of 04 acres, 01 rood and 25.1 perches had been granted to the Havelock Sports Association on a long term hire purchase facilities basis. The extent of the land had been shown as 03 acres, 03 roods and 35.8 perches as per survey carried out by the Municipal Assessor on 23 January 2009. No inquiries, whatsoever, had been made regarding the decrease of 69.3 perches as per initial agreement. Extensive revenue continues to be earned by installing advertisement boards within the playground and a liquor shop too functions to provide liquor to members. Action had not been made to make correct assessment and recover revenue for this premises with an extensive commercial value.

(ii) BRC Playground

This land consisting of 04 acres, 02 roods and 13.83 perches had been given on a long term hire purchase facilities basis. It was revealed that there were advertisement boards and a liquor shop within the premises together with a body building centre, all in a 4 storied building. It had been decided to recover a monthly rent of Rs.75,000 (excluding tax) from the sports association with effect

from 01 January 2006. The property from which an extensive revenue could be earned had been given to an outsider at a minimum lease rent.

(iii) Colts Playground

The Colombo Colts Sports Association had been given 07 acres, 03 roods and 26.7 perches of land on a long term lease basis. However, according to the Municipal Assessors's report of 23 January 2009, the extent of the land was 05 acres, 02 roods and 4.54 perches. Accordingly, action had not been taken regarding the shortfall of 02 acres 01 Perch and 22.16 perches. It had been decided to recover Rs.90,000 (excluding tax) per month with effect from 01 January 2006 subjected to a revision of the higher purchase revision in 05 years.

3.4 Identified Lossess

A stock verification carried out at the District 2 B Office revealed a shortage of 115 litres of paint valued at Rs.36,000.

3.5 Solid Waste Material Management

- (a) Permission had been granted to temporarily dispose of the garbage in a 02 acres land at Metotamulla as per decision No.SC/FR/218/09 of 27 April 2009. But, the garbage had been irregularly disposed of in an area extending upto 20 acres. The Council had no long term plan to recycle the garbage although a land had been purchased for disposal of garbage. At present, the garbage is being temporarily disposed of at Muthurajawela. But, a complaint had been lodged at the Supreme Court as the public had protested against the disposal of garbage.
- (b) Although a total sum of Rs.81,000,000 had been provided in the annual budgets of 2012, 2014 and 2016 for the purchase of necessary bulldozers and excavators required for the activities of the garbage section, action had not been taken to purchase them. Excavators and bulldozers had been hired and it was observed that a sum of Rs.680,656,697 had been paid during 2010 to 2016. A decision had been made to quickly repair the bulldozer and the loader vehicle belonging to the Council to utilize it at the garbage division and not to hire them in future, as per decision No.2117 of 30 April 2015 of the Council. However, action had not been taken even by May 2017 to get back the bulldozer and the loader vehicle which had been handed over for repairs to a private firm in 2016.
- (c) Adequate vehicles were available at the Solid Waste Material Cleansing Division. In spite of this, 06 tippers had been hired from a private firm as an emergency measure and a sum of Rs.59,628,833 had been paid during June 2015 to 12 May 2017 in this connection.

- (d) Vehicles had been hired from an identical private firm without calling for tenders till such time a new Council is formed as decided by the Council, bearing No.178 of 06 September 2016.
- (e) A lady engineer of the Solid Waste Material Management Division had been trained abroad on 07 instances. However, the foreign training had not been made use of, to prepare a long term plan such as recycling of garbage.

3.6 **Payment of compensation to the persons affected by Meetotamulla Garbage Tragedy**

- (a) Payment of compensation to families affected by the garbage sector tragedy commenced in Octoer 2012 and so far a sum of Rs.605,914,020 had been paid as compensation under 8 stages. But, provision had not been made in tems of Section 188 of the Municipal Councils Ordinance in this connection.
- (b) A sum of Rs.237 million had been spent to obtain 158 houses of the Salamulla Project belonging to the Urban Development Authority in 2012 on behalf of the people who had been affected by the tragedy caused in the Kolonnawa area close to the garbage sector as a result of disposing garbage there. The following matters were observed in this connection.
 - (i) The Divisional Secretary, Kolonnawa and the Kolonnawa Urban Council had conducted 2 surveys to ascertain whether the persons affected were residing there. Variations had been observed between those 2 reports.
 - (ii) The Colombo Municipal Council had not conducted an on the spot investigation to identify the permanent residents before granting houses.
 - (iii) Accepted scientific methods had not been followed to decide payment of compensation to these persons. The payment of compensation had been decided at a meeting by the Colombo Municipal Council with the unauthorized settlers who had been affected due to the garbage sector
 - (iv) Documents confirming the permanent residency and the duration of occupancy of the persons concerned should have been obtained while paying compensation. However, the Colombo Municipal Council had prepared a leaflet named “details of houses and families affected”, based on which the permanent residency and the duration of occupancy had been determined. As a result, adequate Information related to their permanent residency and the duration of occupancy had not been collected.
- (c) According to the agreement, the houses should have been demolished within a month. However, 2 destitutes had obtained Rs.10 lakhs each at the 6th stage, one destitute had obtained Rs.10 lakhs at the 7th stage and 20 destitutes had obtained Rs.10 lakhs each at the 8th stages respectively and it was observed they had not left the premises even after

obtaining the money. Meanwhile, many affected persons who had not come forward to obtain compensation at all these stages were residing there. Although they had not come forward to obtain compensation, they were entitled for it. The Council could have minimized the devastation of 14 April 2017 provided the Council could have succeeded to offer an acceptable solution by calling them for a discussion.

(d) According to the report of the Department of Census and Statistics, the damages caused due to the garbage slip at Meethotamulla are as follows.

• Deaths	32
• No of persons affected	1,059
• No of families affected	246
• No. injured	11
• No. disappeared	08
• Damages to houses – Fully	80
• Damages to houses – Partly	17

(e) The forecast made by a senior lecturer of the Environmental Engineering Science of the University of Peradeniya, showed that there was a risk of an earthslip worse than the Aranaayaka Samasara Kanda earthslip at the Kolonnawa Garbage sector in the near future and it had been published in the Sunday Lankadipa of 05 June 2016. This forecast had been based on a research of the Meethotamulla garbage dump and the beautiful surroundings of the area. This worse tragedy which occurred after 10 months of the statement could have been avoided provided the authorities of the Municipal Council had paid their attention to the statement made by the lecturer of an accepted University of the country and acted accordingly.

4. **Good Governance and Accountability**

4.1 **Budgetary Control**

The revenue and expenditure of the Council for the year under review had not been properly estimated and as such the variances between the estimated and actual revenue/expenditure ranged from 11 to 603 per cent as shown below and that the budget had not been utilized as an efficient tool of management control. Details appear below.

(a) The revenue estimates from 04 items of revenue amounted to Rs.670.5 million whereas the actual revenue as at 31 December 2016 amounted to Rs.4.6 million. The percentage of non recovery ranged 93.9 to 99.9 per cent, a very high percentage.

- (b) The revenue estimated from 13 items of revenue amounted to Rs.1,143.5 million whereas the actual recovery amounted to Rs.256.2 million representing a percentage of 22.4.
- (c) The budgeted revenue of 09 items of accounts amounted to Rs.168.7 whereas the actual revenue amounted to Rs.311.4 million. The recovery exceeding the provision was at a higher level of 38.9 to 603.1 per cent.
- (d) The expenditure estimated for 16 items of expenditure amounted to Rs.217.9 million whereas no expenditure had been incurred even by end of the year under review.
- (e) The expenditure estimated for 10 items of expenditure amounted to Rs.880.9 million whereas the actual expenditure amounted to Rs.58.5 million. As such, the percentage unspent was at a higher level of 86 to 99.4 per cent.
- (f) The budgeted expenditure of 07 items of expenditure amounted to Rs.1007 million whereas the actual expenditure amounted to Rs.1,629.6 million. The expenditure exceeding the provision was at a higher level of 11 to 357 per cent.

5. Systems and Controls

Deficiencies observed in audit were brought to the notice of the Municipal Commissioner from time to time. Special attention is needed in respect of the following areas of control.

System	Deficiency
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(a) Accounting	(i) Omissions in accounts. (ii) Registers not being properly maintained.
(b) Revenue Administration	(i) Non collection of correct arrears of revenue. (ii) Assessment of tax not being made on the due dates.
(c) Stores administration	(i) Board of survey activities not being properly carried out. (ii) All items of stores not being subjected to verifications during the previous boards of survey.
(d) Assets Utilization	(i) Valuable vehicles being allowed to idle.