

## Sri Jayawardanapura Kotte 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 28 March 2017 and the financial statements for the preceding year had been presented on 30 March 2016. The report of the Auditor General for the year 2016 had been forwarded to the Municipal Commissioner on 09 October 2017.

##### 1.2 Qualified Opinion

In my opinion, except for the effects of the matters shown in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position as at 31 December 2016 and its financial performance of the Sri Jayawardanapura Kotte Municipal Council 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 accounting deficiencies were observed in audit.

- (a) The following values had been omitted in the accounts.
  - (i) Revenue from interest receivable amounting to Rs.162,500.
  - (ii) Garbage fees receivable amounting to Rs.2,299,510.
  - (iii) The sum of Rs.1,450,000 payable to the Department of Government Printing.
- (b) The discount on rates and taxes amounting to Rs.10,922,317 had been debited to the accumulated fund resulting in an understatement of expenditure by a similar amount.
- (c) The interest of Rs.105,711 received on behalf of the previous year had been accounted as the revenue of the year under review resulting in an overstatement of revenue by a similar amount.
- (d) The advertisement board fees of Rs.225,000 had been accounted as dishonoured cheques resulting in an understatement of the Accumulated Fund and an overstatement of profit by similar amounts.
- (e) The deficit of the accumulated fund had been understated by Rs.89,356,601 due to erroneous accounting.

- (f) Value added tax receivable had been overstated by Rs.35,311,735.
- (g) The balance of the Urban Development Fund Deposits Account had been overstated by Rs.77,618.
- (h) The overprovision for creditors by Rs.8,000,000 had resulted in an overstatement of the Creditors' Account by a similar amount.
- (i) A contract valued at Rs.1,418,173 had not been commenced even by commencement of the year. As a result, the Accumulated Fund had been understated and the Creditors account had been overstated by similar amounts.

(j) Non-disclosures in the Accounts

The nature and the uncertainty had not been disclosed in the financial statements with reference to 04 cases valued at Rs.7,233,710 pending in a court of law against outsiders and 21 cases filed by outsiders not with a motive of recovering money but with a motive of obtaining other reliefs.

1.3.2 **Unreconciled Control Accounts**

The balance of an item of account as per financial statements amounted to Rs.16,005,426 whereas the balance amounted to Rs.16,170,927 as per subsidiary registers/reports.

1.3.3 **Unsettled Balances**

- (i) Balances of receivables of 03 items of accounts aggregating Rs.4,815,154 and a creditor's balance of Rs.159,761,797 continued to be brought forward without being settled for many years.
- (ii) The balances of employees' loans recoverable amounted to Rs.112,816,867. Included In these were, a sum of Rs.1,867,175 due from employees who had gone on change of station transfers, a sum of Rs.722,588 due from retired employees, a sum of Rs.725,588 due from employees who had vacated posts and an unidentified loan of Rs.113,536 which remained unsettled for a long period. None of the sum of Rs.1,318,895 recoverable from 104 employees as at end of the previous year had been recovered during the current year,

1.3.4 **Lack of Evidence for Audit**

(a) Unreplied Audit Queries

Replies for 10 audit queries had not been furnished by 30 August 2017. The value of quantifiable transactions subjected to those audit queries amounted to Rs.170,617,243.

(b) Non rendition of Information for Audit

Transactions amounting to Rs.51,789,910 could not be satisfactorily vouched in audit due to non rendition of necessary information for audit.

## 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 ended 31 December 2016 amounted to Rs.663,783,644 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.391,162,435.

### 2.2 Financial Control

Action had not been taken in terms of Financial Regulation 186(4)(a) with regard to 36 dishonoured cheques valued at Rs.447,139.

### 2.3 Revenue Administration

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

The information relating to the estimated revenue, actual revenue and the arrears of revenue for the year under review and the previous year, as furnished by the Council appear below.

Item of Revenue	2016				2015			
	Arrears of actual Balance as at January 2016 Rs.'000	Billing Rs.'000	Actual Recoveries Rs.'000	Accumulated arrears as at 31 December 2016 Rs.'000	Arrears of actual Balance as at 31 December 2015 Rs.'000	Billing Rs.'000	Actual Recoveries Rs.'000	Accumulated arrears as at 31 December 2015 Rs.'000
Rates and taxes	98,855	219,757	144,531	95,134	84,944	207,579	193,668	98,855
licence fees	-	4,432	4,432	-	-	5,690	5,690	-
Lease rent	4,128	22,905	17,996	5,093	6,291	21,793	24,003	4,081
Trade tax	-	5,017	5,017	-	-	5,339	5,339	-

#### 2.3.2 Rates and Taxes

Rates and taxes amounting to Rs.1,957,404 had been written off on two occasions during the year 2016. The approval of the Commissioner of Local Government had not been obtained for the sum of Rs.450,637 written off.

### 2.3.3 Trade Licences

The revenue from trade licences recoverable from 204 trade establishments and 15 trade stalls as at 31 December 2016 amounted to Rs.873,570.

### 2.3.4 Trade Tax

The revenue from trade tax recoverable from 695 trade establishments belonging to 10 revenue areas and from 70 trade stalls as at 31 December 2016 amounted to Rs.1,988,250. Meanwhile, 08 establishments dealing with contracts which ought to pay trade tax had not paid trade tax and the Council had been deprived of a revenue of Rs.24,000.

### 2.3.5 Other Revenue

#### (a) Environmental Licences

Thirty three establishments had not obtained licences again although the date of expiry mentioned in their environmental licences had exceeded. Meanwhile, 14 trade establishments which were required to obtain environmental licences had not obtained them. As a result, the Council had been deprived of Rs.132,000 and Rs.56,000 respectively.

#### (b) Lease of Stalls at the Welikada Plaza Trade Complex

The rent recoverable from 30 stalls as at 31 December 2016 amounted to Rs.700,185. Of these, Rs.282,106 belonged to stall holders who had not paid their rent continuously for over 3 months.

#### (c) Advertisement Board Fees

The Council had been deprived of a revenue of Rs.569,125 during the year under review as a result of not identifying 26 advertisement boards, 5 banners and a LED Board.

### 2.3.6 Surcharges

The surcharges recoverable as at 31 December 2016 with reference to 14 surcharge certificates issued in terms of Section 261(1) of Chapter 252 of the Municipal Councils Ordinance amounted to Rs.25,550,166.

## 3. Operating Review

### 3.1 Operating Inefficiencies

The following matters are observed.

- (a) Copies of the “Asirimath Kotte” publications numbering 3,229 with a printing cost of Rs.2,825,375 had been allowed to idle at the stores since 2015. The Council had announced the objective of printing of those books as to publicize the historical importance of Kotte

among students of schools and universities of the entire country as well as among the entire readers so as to bring to their memory, the glory of historical importance of Kotte. However, the objective of printing the above book had not been achieved.

- (b) A sum of Rs. 31,074, being the entire salary due to an unskilled labourer of Grade 111 had been credited to his private bank account in April 2016 although it had been reported that he had been taken into custody by the Navy on 05 April 2016. According to Section 31 of the Western Province Public Service Procedure Rules Code it had been informed that it was not suitable to appoint an expelled employee of the Navy for a post in the Western Province Public Service. In spite of this, a sum of Rs.31,174 had again been paid to him as salaries without approval for the period 24 May 2016 to 23 June 2016 for the services rendered by him.
- (c) A sum of Rs.23,158,753 had been paid to a private institution in 2015 and 2016 for obtaining architectural and consultancy services to construct the proposed building for the Council in a land close to the Welikada Police and the receipt furnished for this amounted to Rs.16,924,563. However, the General Council had decided on 07 May 2015 that the building should be constructed in the premises where the Council functions at present and not at the proposed land. As such, the sum of Rs.23,158,753 spent as referred to above had become fruitless.

### 3.2 **Trasactions of Contentious Nature**

- (a) An officer who had gone on transfer to another work place of the Council on 25 February 2015 had not handed over the official quarters No.615/3, at the Rajagiriya Gardens.
- (b) A driver of the Council had been attached to the private staff of the Chief Minister of Western Province from August to December 2016 and a sum of Rs.205,507 had been paid to him as salaries and overtime for the said period from the funds of the Municipal Council.

### 3.3 **Uneconomic Transactions**

A car park was proposed to be constructed in the premises of the Council on behalf of the Rajagiriya “Janajaya” City New Trade Complex. However, this work had not been executed and as such the sum of Rs.74,370 spent on calling for tenders had become a transaction of fruitless nature.

### 3.4 **Idle / Under utilized Assets**

- (a) Seven vehicles which were inoperative and valued at Rs.17,673,035 remained without being repaired for 6 months to 3 years.
- (b) Action had not been taken to dispose of, 03 vehicles valued Rs.8,692,020.
- (c) A stock of paint valued at Rs.101,025 purchased in 2014 and 2015 had not been used.

### 3.5 Contract Administration

- (a) The Janajaya City Mixed Development Project which commenced its construction work on 15 February 2016 with a contract cost of Rs.619,276,616 had not been completed even by September 2017 although it was expected to be completed within 18 months. The consultancy fee payable during the course of construction and thereafter was 32 per cent of the entire consultancy fees. However, payments of consultancy fees made by end of the year under review, exceeded the agreed amount by 4 per cent.
- (b) Construction of the Angampitiya Housing Complex

A sum of Rs.48,320,909 had been paid to a private contractor as at end of the year under review for constructing the Angampitiya Housing Complex. A physical verification revealed that there were cracks on the walls of the housing complex at certain places. On an overall basis, the standard of construction of this two storied housing complex was not satisfactory. As such, the residents are of opinion that the building may collapse at any time.

### 3.6 Delays in Projects

The following observations are made.

- (a) The following deficiencies were observed regarding the Janajaya City Project with a contractual value of Rs.1,687,986,224 for which a sum of Rs.1,222,886,828 had been paid as at 31 December 2016.
- (i) The original plan of the contract had been altered from time to time after the award of the contract.
- (ii) Although it had been decided at the first instance to maintain the Seventh Floor as office premises, the decision had been altered subsequently to make stalls in it on a pre-sale basis. But, the report relating to the effect on payments caused due to the decision of the General Council and the decision made after signing the agreement had not been furnished to audit.
- (iii) The contractor had claimed Rs.18,655,727 on 16 May 2017 as demurages for non payment of bills furnished by him in terms of Condition No. 14.07 of the contract agreement.
- (iv) Although the construction of the building should have been completed on 23 July 2016 as per agreement, it had subsequently been extended up to 20 January 2017. But, the work relating to the building had not been completed till 15 June 2017.
- (v) The Council had paid the entire amount to the consulting firm without deducting Rs.1,519,187 being 2 per cent retention on completion of the post construction phase.
- (b) The construction work of a work site, a reliable maintenance unit and a stores complex building had been entrusted to a private contractor for Rs.46,973,078 on 21 August 2014

in a marshy land of 02 acres, 01 rood and 34 perches at Nanayakkara Mawatha belonging to the government and the Council had no legal entitlement to this land. An advance of 20 per cent of the agreed amount, that is, Rs.9,394,616 and the initial part payment of Rs.8,257,371 had been paid on 13 January 2015. But, the value of work done by 02 February 2015 was Rs.11,468,571 and as such a sum of Rs.5,716,458 had been overpaid to the contractor. A physical verification carried out on 12 July 2017 revealed that iron rods had been laid for 42 concrete posts on the foundation, which was not visible on the floor and the rods were getting corroded and the contractor had abandoned the work leaving room for shrubs to grow in the vicinity. As such, the sum of Rs.17,651,987 that had already been paid for this work had become fruitless.

### 3.7 **Solid Waste Material Management**

The following matters are observed.

- (a) According to the fifty ninth paragraph of Chapter 6 of the rules relating to Urban Waster Material Management No.01 of 2008 of the Western Province published in the Gazette Extraordinary No.1560/6 of 30 July2008, all the local authorities are required to organize bio-gas composting or any other practical technology with regard to carbonic waste material in collaboration with the Waste Material Management Authority. However, this had not been utilized as a resource for garbage management in the authoritative area of the Cou cil.
- (b) According to 18 (1) of Chapter 2 of the Urban Solid Waste Material Management Rules, in addition to the payment of tax, the householder is bound to pay utilization fees for door to door collection of garbage in order to meet the expenditure incurred. However, the Council had not recovered such fees from the houses within the area of the Council.
- (c) Monthly progress reports of garbage management and the calendar relating to the collection of garbage separately, as decayable and not decayable had not been prepared.
- (d) A sum of Rs.103,782,886 had been paid during the year under review to a private company for the period 01 May 2015 to 30 April 2017, that is, 2 years to carry out garbage management activities in the areas No.6,7,8,9 and 10 of the Council. Daily performance reports had not been furnished as required by the contract agreement.

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

### 4.1 **Budgetary Control**

Significant variances were observed between the budgeted and actual revenue and expenditure showing that the budget had not been utilized as an efficient instrument of management control.

4.2 **Procurement Plan**

It was observed that the procurement plan proposed and furnished for the year 2016 was not in accordance with the Budget Circular No.128 of the Ministry of Finance and Planning.

4.3 **Internal Audit**

Adequate internal audit had not been carried out.

5. **Systems and Controls**

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

- (a) Accounting
- (b) Stock Control
- (c) Revenue Administration
- (d) Contract Administration
- (e) Internal Audit