

Kolonnawa Urban Council

Colombo District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2017 had been presented for audit on 29 March 2018 and the report of the Auditor General on the financial statements had been forwarded to the Chairman on 22 October 2018.

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 of the Kolonnawa Urban Council give a true and fair view of the financial position as at 31 December 2017 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 deficiencies are observed.

- (a) Furniture and fittings worth Rs.1,471,238 and motor vehicles and carts worth Rs.27,494,904 which could not be confirmed physically had been included in the balances of accounts. As such, the fixed assets had been overstated by Rs.28,966,142.
- (b) An arrears of water charges payable to the Water Supplies Board as at 31 December 2017 amounting to Rs.47,662,878 had not been included in the financial statements. As a result, the creditors had been understated by a similar amount.
- (c) The cash book balance of the bank Account No.194100173792765 as at 31 December 2017 amounting to Rs.190,920 had been shown as Rs.52,133 in the Balance Sheet. As a result, the current assets had been understated by Rs.138,787.
- (d) Rates receivable amounting to Rs.1,328,889 had not been entered in the Control Account. As a result, rates receivable and the year's revenue had been understated by similar amounts.

- (e) The balance of the General Stores Account amounted to Rs.38,884,780. However, the balance amounted to Rs.4,521,097 according to the board of survey report as at 31 December 2017 resulting in an overstatement of assets by Rs.34,363,683.

1.3.2 Contingent Liability

Four cases filed by the Council against outsiders were pending and this had not been disclosed by a note in the financial statements.

1.3.3 Unreconciled Accounts

A difference of Rs.42,660,142 was observed between the balances of 04 items of accounts shown in the financial statements presented for audit and the balances appearing in the relevant subsidiary registers/schedules.

1.3.4 Accounts Receivable and Payable

A balance aggregating Rs.4,662,802 consisting of 03 items of accounts receivable and 02 items of accounts payable amounting to Rs.811,678 and Rs.3,851,124 respectively continued to be brought forward for many years without being settled.

1.3.5 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with laws, rules, regulations and management decisions appear below.

Reference to Laws, Rules, Regulations and Management Decisions	Value	Non-compliance
-----	-----	-----
	Rs.	
(a) Section 170 a(2) of the Urban Councils Ordinance	80,650,400	It is the duty of the Secretary of the Council to collect all dues of the Council and to take necessary steps to credit to the Urban Council's Fund. However, the arrears of revenue recoverable as at end of the year under review had not been recovered.
(b) Undated Local Government Circular No.LGD/03/2017 of May 2017	-	Although it had been instructed to segregate the garbage collected at the place of collection itself by requesting the public to do so, 88

per cent of the garbage sent to the garbage sector from July to December 2017 consisted of mixed garbage.

- (c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
- (i) Financial Regulation 571 158,498 Action had not been taken to identify/ investigate deposits over 02 years since the day of deposits and to credit them to revenue.
- (d) Circular of the Urban Development Authority, Letter No.Dec/01 of 20 March 1985 - The ratios of the extent of land getting exceeded, unauthorized constructions and non remittance of 25 per cent of service charges recovered on behalf of vehicle park to the Urban Development Authority were observed.

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 2017 amounted to Rs.39,677,933 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.18,999,809.

2.2 Financial Control

(a) **People's Bank (Kolonnawa) Account No.194100173792765**

The bank balance at 31 December 2017 amounted to Rs.190,920 as per bank reconciliation statement as at 31 December 2017 and it had been shown as Rs.88,436 as per bank statement as at that date. The bank reconciliation statement concerned included Rs.172,721 which continued to be brought forward for many years (bank errors, cash transfers) and Rs.70,237 had been deducted from that balance. No evidence, whatsoever, had been furnished to audit to confirm the above adjustments. As such, the bank reconciliation prepared could not be accepted.

(b) People's Bank (Kolonnawa) Account No.194100153792766

Cash transfers of Rs.15,000 and unrealized cheques of Rs.10,104 existing since 1993 and the exact period of which could not be identified, had been shown as additions to the balances in the bank statements. However, adequate evidence had not been furnished to audit to confirm these balances.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Revenue Billed, Revenue Collected and the Arrears of Revenue

The information relating to the estimated revenue, revenue billed, revenue collected and the arrears of revenue furnished for the year under review and the previous year appear below.

Item of Revenue	2017				2016			
	Estimated Revenue Rs.	Revenue Billed Rs.	Revenue Collected Rs.	Total arrears as at 31 December Rs.	Estimated Revenue Rs.	Revenue Billed Rs.	Revenue Collected Rs.	Total arrears as at 31 December Rs.
Rates and Taxes	74,620,000	83,379,116	75,566,342	43,887,616	68,515,000	62,750,199	71,289,402	36,074,841
Rent	13,543,760	7,428,269	8,179,133	3,128,043	13,075,260	7,645,458	7,118,317	3,878,907
Licence Fees	850,150	462,250	462,250	43,450	720,100	396,750	395,500	43,450
Other Revenue	10,984,500	-	21,036,951	-	13,730,000	-	24,287,638	-

2.3.2 Rates

-
- (i) Out of the Rs.117,630,123 relating to arrears of rates of the previous year, current rates billed and fines, a sum of Rs. 71,615,687 had been recovered during the year. The balance recoverable represented 39 per cent of the total rates.
 - (ii) The total arrears of rates recoverable from state and private institutions which owed arrears over Rs.50,000 as at 31 December 2017 amounted to Rs.23,589,848. This arrears represented 65 per cent of the total arrears as at date. The Council had not taken action to recover this revenue due from arrears of rates.

2.3.3 Rent

(a) **Stall Rent**

Arrears of stall rent recoverable as at 31 December 2017 from the entire 37 stalls of the Super Trade Complex functioning as at 31 December 2017 amounted to Rs.157,800.

(b) **House Rent**

The total revenue due as rent from 15 houses of 02 housing complexes of the Council as at 31 December 2017 amounted to Rs.670,095. The Council had recovered Rs.155,425 out of those arrears as at 30 September 2018.

3. Operating Review

3.1 Performance

The following matters were revealed with regard to duties to be fulfilled by the Council in terms of Section 4 of the Urban Councils Ordinance, such as regularization and control of matters relating to public health, common amenities and public highways, healthy environment of the public, facilities, welfare etc.,

(a) **Work Abandoned**

Sixteen work at an estimated cost of Rs.9,722,980 had been abandoned during the year under review.

(b) **Solid Waste Material Management**

-
- (i) The Council had not acted in accordance with the rules relating to Western Province Waste Material Management No. 01 of 2007.

- (ii) The Council had not segregated garbage for disposal at the Muthurajawala Garbage sector. As such, a sum of Rs.14,277,328 had been overpaid at the rate of Rs.2,300 per ton for the period 01 July 2017 to 31 December 2017.
- (iii) According to 18(1) of Chapter 2 of the rules for solid waste material management No.01 of 2008 of the Western Province published in the Gazette Extra Ordinary No.1560/6 of 30 July 2008, in addition to the tax paid to local authorities, a monthly garbage fee should be recovered for collecting garbage from door to door. However, the Council had not acted accordingly.
- (iv) Revenue amounting to Rs.10,448,400 could have been recovered for the year 2017 provided the Council had recovered the minimum usage fees from 8,707 business establishments which pay rates within the limits of the Council.

(c) Environmental Problems

The garbage collected in the area of the Council had been segregated in a state land and had been transported to the Muthurajawala garbage sector during the year 2017. Later, another place had been used for collection of garbage by shifting from the previous place. But, the entire garbage dumped at the previous place had not been removed. This had created environmental problems at present.

(d) Sustainable Development Target

It was observed that the Council was not aware of the 2030 Agenda relating to Sustainable Development Target.

3.2 Management Inefficiencies

- (a) The Council had not granted approval upto 30 September 2018 for 28 applications forwarded by the city dwellers from January to October 2017 for construction of buildings, alterations or change of usage etc.,
- (b) According to the board of survey report 2017, there were Rs.129,000 books beyond usage and 1043 books which needed disposal while there were 164 books valued at Rs.34,056 which could not be traced during the board of survey. Action had not been taken to dispose of those books concerned and to recover the value of misplaced books from those responsible which occurred at the public library and 02 reading rooms of the Council.
- (c) The register at the stores had not been updated and maintained. The inventory items and fittings had not been entered in registers at the service centre at Majid

Place, Sedawatte Dental Ward, Sedawatte Clinic and Vadullawaththa physical culture centre.

3.3 Human Resources Management

(a) Vacancies and Excesses in the Cadre

(i) The details of approved cadre and the actual cadre of the Council appear below.

Category of Employee	Approved Cadre	Actual Cadre	No. of Vacancies	No. in Excess
Executives	05	03	02	-
Secondary	56	50	06	-
Primary	291	310	-	19
	-----	-----	-----	-----
	352	363	08	19
	=====	=====	=====	=====

(ii) Approval had been granted for the post of Secretary of the Council which belongs to the post in 111/11 of the Administrative Service. However, officers from other services had been appointed to cover up duties of the post up to now. The posts of Accountant and the Administrative Officer had fallen vacant.

(iii) One hundred and twenty nine out of 310 employees who served in primary posts were sanitary labourers. Of them, 63 persons had been assigned with duties not relevant to the health division and as such the objective of recruiting sanitary labourers had not been achieved.

(b) Employees' Loans

A sum of Rs.3,092,797 made up of Rs.2,335,408 due from 27 officers who had gone on transfers and Rs.757,389 due from 42 officers who had retired/expired was recoverable as at 31 December 2017. Of this, a sum of Rs.1,490,110 remained unrecovered by 20 September 2018.

3.4 Operating Inefficiencies

Inefficiencies in providing Common Amenties Services

Arrears of water charges due on bills amounting to Rs.47,662,877 remained recoverable as at 31 December 2017. This included monthly water charges of Rs.214,015 (including tax) of 20 public bathing wells constructed in the authoritative area of the Council about 15 years ago and the

previous years' arrears. At present, many of those public bathing wells are being used by occupants who have tap water facilities in their houses and their business establishments. As such, the Council had not taken action to remove the unnecessary bathing centres and water taps or to manage them.

3.5 Irregular Transactions

The Ministry of Economic Development had granted Rs.100,000 to settle the administrative expenses of the Council incurred on the economic development programme jointly implemented by the Council with the Ministry of Economic Development in 2014. Of this, a sum of Rs.95,000 had been shared among 18 officers including the Chairman and the Secretary of the Council.

3.6 Assets Management

- (a) The Council was not in possession of vesting certificates and title deeds to confirm the ownership of the Council relating to 43 acres, 2 roods and 36 perches of land of 28 properties included in the register of fixed assets which are being used at present.
- (b) The Council was not in possession of documentary evidence to confirm the ownership of the Dahapura Community Centre building and the goods and equipment therein which had been received by the Council as government grant. As such, it was unable to recover the loss.
- (c) A stock shortage valued at Rs.280,410 was observed between the bin card balances and the physical stock verification balances of 16 items of stores.

4. Accountabilty and Good Governance

Budgetary Control

Variances of 50 per cent to 100 per cent had been observed between the budgeted revenue and expenditure and the actual revenue and expenditure of the year under review showing that the budget had not been utilized as an efficient instrument of management control. Details appear below.

- (a) The entire provision totalling Rs.8,039,539 of 66 Objects had been saved.
- (b) Out of the sum of Rs.31,410,229 provided for 71 Objects, over 50 per cent amounting to Rs.23,404,332 had not been spent.

5. **Systems and Controls**

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

System	Deficiency
-----	-----
(a) Revenue Administration	(i) Inadequate collection of arrears of revenue. (ii) Non implementation of new rent assessment.
(b) Accounting	Ommissions in accounts, overstatements and understatements in accounts.
(c) Financial Control	Non settlement of unrealized cheques and cash transfers existing for many years.
(d) Stock Control	Non verification of closing stocks.
(e) Contract Administration	Abandonment and delays.