

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Colombo Municipal Council including the financial statements for the year ended 31 December 2021 comprising the statement of assets and liabilities as at 31 December 2021 and the statements of comprehensive income, statement of changes in net assets/equity, cash flow statement for the year then ended and significant accounting policies and other explanatory information was carried out, for the year then ended, under my direction in pursuance of provisions in Article 154 (1) of the constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 219 of the Municipal Councils Ordinance (Chapter 252) and National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Colombo Municipal Council as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in Paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility for the financial statements are further described in the Auditor's Responsibilities Section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Municipal Council's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Municipal Council is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements.

1.4 Audit Scope (Responsibility of the Auditor for the audit of Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercised professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of its internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Municipal Council and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Municipal Council has complied with applicable written law, or other general or special directions issued by the governing body of the Municipal Council ;
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources of the Municipal Council had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Report on other Regulatory Requirements

Special provisions regarding the following requirements of the National Audit Act No. 19 of 2018.

- (a) The financial statements are consistent with those of the preceding year as per the requirement mentioned in section 6(1)(c)(iii) of the National Audit Act No. 19 of 2018 of the Municipal Councils.
- (b) The recommendations made by me in the preceding year had been included in the financial statements except for the observation appear in 1.6.1(ii) of Paragraph 1.6 as per the requirement mentioned in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018 .

1.6 Audit Observations on the Preparation of Financial Statements

1.6.1 Non-compliance with Sri Lanka Public Sector Accounting Standards for Local Authorities

	Non-compliance with Reference to the Relevant Standard	Comments of the Council	Recommendation
(i)	Although the income from sale of land cannot be recognized as an income from exchange transactions in terms of Paragraph 10.1 of the Standard, because of accounting of Rs.433,890,613 in the statement of comprehensive income as an income from land sale income exchange transactions, the surplus of the Council had been overstated by Rs.433,890,613 as at 31 December 2021 .	As the cost of the land owned by the Council has not yet been shown in the financial statements it is difficult to calculate the capital gain earned through the income from the sale of land. It has been informed that a proper method will be functioned in future.	Taking actions in accordance with the Standard.
(ii)	A value of Rs.2,234,233,420 had been recognized in the statement of changes in equity relating to errors pertaining to prior periods in terms of Section 4.11 of the Standard. Although the nature of the prior period error is required to be disclosed by an entity in its financial statements in terms	Includes corrections of errors made through 65 sections of the Council and since it is numerically larger figure, it has been informed that it is difficult to give separate reasons for correcting each mistake.	Officers of the Council should act to adopt an appropriate work arrangements across each sector to comply with Public Sector Accounting Standards 4.14 for Local Authorities.

of Paragraph 4.14(a) of the said standard, it had not been disclosed in the financial statements as at 31 December 2021.

Further, within the net cash flow from operating activities in the cash flow statement, the misstatement related to the prior periods had been added up to Rs.2,234,233,420 as adjustments in the surplus and deficit account. As a detailed schedule of how the value was calculated and the nature of the transactions was not submitted to the audit, it was impossible to verify the accuracy of adding Rs.2,234,233,420 to the net cash flow from operational activities.

(iii) Although a capital expenditure of Rs.35,257,077 received from other parties for road rehabilitation during the year under review except for the Government should be recognized in other comprehensive income in accordance with Section 9.14 of the Public Sector Accounting Standard of Sri Lanka for Local Authorities, without recognizing so, it had been recognized as a liability under transfers from the government for non-recurrent expenditure. Therefore, the surplus of the year under review had been overstated by Rs. 35,257,077

In accordance with 9.10 of the Sri Lanka Public Sector Accounting Standard for Local Authorities, the transfer expenses can be recognized as an income in the period to meet the cost of road rehabilitation.

Other comprehensive income should be recognized as stated in Section 9.14 of Public Sector Accounting Standard for Local Authorities .

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| (iv) | Although the property, plant and equipment should be depreciated as stated in Paragraph 6 of the Standard, the depreciation of property , plant and equipment had not been accounted for in the financial statement of the Council as at 31 December 2021 . | It has been informed that the depreciation and amortization will be done from the year 2023. | Taking actions in terms of the Standard. |
| (v) | Although the assets providing infrastructure should be accounted under property, plant and equipment in terms of Section No. 6.1 of the Standard, the assets providing infrastructure totalling to Rs. 591,888,944 had been accounted for as expenses in the income statement without being accounted for as property, plant and equipment in the financial statement as at 31 December 2021. Accordingly, the surplus had been understated by that amount. | The infrastructure has not been capitalized due to the problems arising during the development of the infrastructure of the Council in relation to the 65 sections and it has been informed that it was noted to set a system future. | To carry out the activities necessary to capitalize the infrastructure quickly by adhering to the Public Sector Accounting Standard . |
| (vi) | Although the intangible assets should be amortized in terms of Section 6.10 of Standard No. 6.10, the amortization had not been accounted for in the financial statement as at 31 December 2021. | The Standard adopted by the council for depreciation under 2.1 of the financial statements and the policy of the Council for that has been stated under 3.3 of the financial statements. | It should be amortized and accounting for and intangible assets accounts should be identified separately. |

1.6.2 Accounting Deficiencies

----- Audit Observation -----	Comments of the Council -----	Recommendation -----
<p>(i) As a result of identifying and accounting for 73 cases with the total value of Rs.1,478,292,803 as creditors in the current year and revealed that the identification was not accurate in the current year itself, although actions had been taken to remove that amount from the creditors, due to failure to correct the corresponding accounts, the expenses and the fixed assets had been overstated by Rs.670,046,799 and Rs.808,246,005 respectively.</p>	<p>A problematic situation caused by a system error.</p>	<p>To identify and correct system errors.</p>
<p>(ii) Although the trade license income was Rs.13,121,016 as per the reports of the Revenue Division, because it was accounted for as Rs.22,690,076 as per the financial statements, the income of the year had been overstated by Rs.9,569,060 .</p>	<p>The income of previous years has also been included in the value of the financial statement.</p>	<p>Financial statements should be prepared on accrual basis according to Paragraph 2.5 of the Public Sector Accounting Standard for Local Authorities.</p>
<p>(iii) Although the income from exchange transactions of Rs. 29,143,853 received for the year 2021 under sponsored projects should be recognized under Note no. 7, the transfers from the government for non-recurrent expenditure had been identified under No. 05.</p>	<p>It had been agreed to make corrections.</p>	<p>Actions should be taken in terms of the Standard.</p>

1.6.3 Unreconciled Accounts

----- Audit Observation -----	Comments of the Council -----	Recommendation -----
<p>(i) A difference of Rs.398,584,987 was observed between the values shown in the financial statements and the balances shown in the related schedules in connection to 07 accounting items and the reasons for those differences were not submitted .</p>	<p>The difference related to account 167-1-001-6-3169430 has been corrected in January 2022 . The books related to other expenses are being checked and it has been informed that the necessary actions will be taken to settle immediately.</p>	<p>To identify the differences in between financial statements and schedules when preparing financial statements and correct.</p>
<p>(ii) Although the value of the stores creditor was Rs. 427,183,784 as per the schedules furnished with the financial statements, as a result of accounting it as Rs.200,908,100 in the financial statement, the stores creditors had been understated by Rs.226,275,683 .</p>	<p>The stores creditor balance of Rs.427,183,764 is inaccurate and the amount of Rs. 200,960,100 shown in the creditor schedule appear in the Schedule 1.4.1.1 is accurate.</p>	<p>To maintain the schedules obtain through the computer system in an updated manner.</p>
<p>(iii) Although the income from the billboard revenue was 14,466,579 as per the records of Advertising Committee, the income of the year had been overstated by Rs.3,465,269 because it was accounted for as Rs. 17,931,848 according to the financial statements.</p>	<p>The billboard revenue of Rs.17,931,848 as at 31 December 2021 is correct and actions are being taken to update the schedule maintained by the Advertisement Committee.</p>	<p>To maintain information in an updated manner.</p>
<p>(iv) The value of the motor vehicles had been stated as Rs. 3,602,043,339 under Note No. 18 of the assets and liabilities statement and the value was Rs.4,257,355,321 as per the Register of Motor Vehicles. Accordingly, the value of the motor vehicles had been understated by Rs. 655,311,982 .</p>	<p>It has been informed that the notes were made to check and correct promptly.</p>	<p>To maintain the Register of Vehicles in an updated manner.</p>

- (v) The Council had accounted for property, plant and equipment through a computer software system and although the total property, plant and equipment value was Rs.7,240,344,597 as per the summary report obtained by the system as at 31 December 2021, since the value of property, plant and equipment was Rs. 20,980,036,850 as per the financial statement, a difference of Rs.13,739,692,253 was observed.
- It has been noted that the mistakes will be corrected in future.
- Taking actions to update the computer system promptly.

1.7 Non-compliance

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

The instances of failure to comply with the rules, regulations and management decisions are shown below.

Laws, Rules, Regulations	Non-compliance	Comments of the Council	Recommendation
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<p>(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka and Public Finance Circular No. 01/2020 dated 28 August 2020</p>	<p>F.R. 396 (d)</p> <p>Actions had not been taken in terms of Financial Regulations in respect of 550 cheques issued but not submitted for payment within 06 months valued at Rs. 37,516,845.</p>	<p>Actions are being taken to settle in future.</p>	<p>To act in terms of Financial Regulations.</p>

- (b) Planning Circular Urban Development Authority No. 08 dated 30 September 1987
- Bank overdrafts had been obtained by investing an amount of Rs.721,010,150 from the money deposited in the account in the fixed deposits and keeping those fixed deposits as securities excluding from the purposes of opening a savings account bank account in the name of the Urban Development Authority and without obtaining the prior approval of the Urban Development Authority.
- It is kindly pointed out that as the Colombo Municipal Council had faced a severe financial crisis due to the crisis situation in the country, these fixed deposit investments were given as securities for the purpose of increasing the approved bank overdraft limit to cover the expenses of the Council and it has been informed that as soon as the development projects are proposed, the approved overdraft limit will be made revised and the Council will be able to get those fixed investment money and invest effectively for those projects.
- Taking actions in accordance with the Circular.
- (c) Urban Development Authority Planning Circular No. 10 dated 10 March 1989
- Although 25 per cent of the money collected from developers for internal construction, excess land area ratio and lack of parking space should be credited to the Urban Development Authority on a monthly basis, it was observed that it had not acted accordingly since the opening of the account.
- Since the purpose of transferring 25 per cent of that account to the Urban Development Authority is to use that money again for the development of Colombo city as per Circular No. 5/1/50 and Circular dated 13.03.1989, it is informed that the money will be used directly by the Colombo Municipal
- Taking actions in accordance with the Circular.

(d) Paragraph 4 of Planning Circular of Urban Development Authority No. 15 dated 18 November 1993

In contrary to the provision of the circular, an amount of Rs.782,249,685 added to this account had not been used for any expected development project.

Council for the development of Colombo city.

A balance similar to the balance mentioned in the bank account pertaining to the special government representative account had also remained in the related liability account and as the keeping of funds in a current account without receiving interest is not effective in financial management, a considerable portion of that money was invested in fixed accounts at a higher interest rate and invested in those fixed deposit accounts. Similarly, the remaining funds in the bank account 167100183169429 are maintained with the expectation of using them for any development project is received and since no such development project proposal has been made so far, it has been stated that there has been no utilization of the funds.

Taking actions in accordance with the Circular.

<p>(e) Circular No. LGD/09/2019(1) dated 27 August 2020 regarding the maintenance of Local Authority Accounts</p>	<p>The Budget 2021 submitted to the Annual Council Meeting had not been Submitted in accordance with the formats scheduled by the circular and the Annual Budget had not been prepared using the code numbers and formats prescribed by this Circular in line with the new Accounting Standard.</p>	<p>It has been informed that the actions will be taken accordingly when submitting Budget 2023 to the Council.</p>	<p>Taking actions in terms of the Circular.</p>
<p>(f) Public Finance Circular No. 01/2020 dated 28 August 2020</p>			
<p>(i) Section 13.2</p>	<p>Actions had not been taken in terms of the Circular in respect of 84 unusable vehicles cost at Rs.165,860,240 .</p>	<p>All the vehicles have been submitted for the approval of the Municipal Commissioner by now to take actions for auction and sale as per the Circular.</p>	<p>Actions should be taken in accordance with the Circular.</p>
<p>(ii) Section 11.1</p>	<p>As per the provisions of the Circular and the Financial Regulations 756(6) ,</p> <ul style="list-style-type: none"> • Although the Board of Survey Report should be forwarded to the Auditor General before 15 June 2022, the report had not been submitted even by 30 June 2022. Although the making arrangements on disposal of unusable goods should be completed before 30 April 2022, the said activities had not been completed even by 30 June 2022 . 	<p>Appropriate arrangements are being made in respect of the unusable goods as per F.R. 756(6) and it was impossible to complete it on the scheduled date due to the limited number of officers called to work due to the situation in the country and the size of the properties belonging to the Council was also large.</p>	<p>Actions should be taken in terms of the Circular .</p>

1.7.2 Non-compliance with Tax Requirements.

----- Audit Observation -----	----- Comments of the Sabha -----	----- Recommendations -----
<p>Actions had not been taken to settle the Value Added Tax payable as at 31 December 2021 amounting to Rs.627,440,441 as per the tax returns sent by the Department of Inland Revenue for the period from 2016 to 2019 .</p>	<p>Due to inability to adjust the computer information system as required, information of 2016-2019 could not be submitted. Actions will be taken to discuss with the Department of Inland Revenue in future and to find solutions.</p>	<p>Actions should be taken to timely submit the income tax returns and to pay and settle the arrears of taxes promptly.</p>

2. Financial Review

2.1 Financial Results

As per the financial statements submitted, the revenue exceeding the recurrent expenditure of the Council as at the end of 31 December 2021 was Rs. 570,693,595 and the revenue which exceeded the expenditure of the Council as against to that for the preceding year was Rs. 366,815,280.

2.2 Financial Control

----- Audit Observation -----	----- Comments of the Council -----	----- Recommendation -----
<p>Although the balance cannot be negative in respect of revenue collection accounts, it had been shown as a negative balance of Rs.5,611,732 as at 31 December 2021 in the financial statement with regard to the account number 236-1-001-9-3478543.</p>	<p>It has been shown as a negative balance due to a problem in the computer system in 2016 and it has been informed that the steps have been taken to correct in future.</p>	<p>Taking actions to correct immediately.</p>

2.3 Revenue Administration

2.3.1 Performance on Revenue Collection

Audit Observation	Comments of the Council	Recommendation
<p>(a) The total outstanding arrears of rates as at 31 December 2021 was Rs. 4,202,014,333. Out of the total arrears of rates the number of properties exceeded Rs. 500,000 was 1121 and the arrears of rates therein was Rs.1,893,978,890. Likewise, Out of this arrears of properties, 166 are government property and its arrears was Rs. 504,395,533. Out of these properties, a number of 812 units had not paid any of the arrears in 2021 . The number of properties of arrears of rates exceeding Rs. 10 Million was 24 and the value of it was Rs. 445,568,243 .</p>	Actions are being taken to recover the arrears.	Taking actions to recover the arrears of rates promptly.
<p>(b) Hawker Rent ----- The Hawker Rent receivable as at 31 December 2021 was Rs. 602,373,386 and that value was about 647 per cent of the billing of the year. An inactive Hawker Rent amounting to Rs. 163,207,567 was also included in that arrears and actions had not been taken to recover or write off this amount.</p>	Actions are being taken to recover the arrears	Taking actions to recover promptly.

(c) **House Rent**

The arrears of house rent receivable from each housing complex as at 31 December 2021 was Rs. 21,298,843.

Actions have been taken to recover the arrears.

Making arrangements to recover promptly.

3. Operating Review

The matters observed on the fulfillment of the functions such as regularization and control of matters relating to public health, public utility services and public roads and the welfare, convenience and welfare of the people which should have been achieved by the Council under Section 4 of the Municipal Councils Ordinance are as follows.

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) It was observed that the Slave Island Waste Water Pumping Station which was constructed under the Greater Colombo Wastewater Management Project valued at Rs. 481,617,786 and handed over to the Colombo Municipal Council on 30 November 2021 had remained inactive. It was observed during preliminary inquiry that the damage occurred to the Force Main connected with the pumping station after taking over the pump station had caused to this. Similarly, it was observed that a large environmental damage had also occurred by releasing of waste water collected at the Slave Island Waste Water Pumping Station into the Bere Lake through an open drain.	Although the Ministry of Urban Development, Water Supply and Housing Facilities had agreed to provide the allocation for this Project through the Ministry of Provincial Councils and Local Government, funding has continued to be delayed. It is informed that the actions are being taken to repair the damaged parts of the pipeline system and to put the pumping station into operation.	Taking actions to immediately repair the high pressure pipe system and make the pumping station operational.

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| (b) | The private institutions contracted to collect parking fees had defaulted continuously on the monthly rent payable to the Municipal Council and the arrears of fees to be recovered from 38 institutions as at 31 December 2021, was Rs.265,499,052 . | Answers have not been given. | Taking actions to recover the arrears without delay. |
| (c) | A contract had been entered into with a private company for parking vehicles by installation of parking meter in selected administrative area and the arrears of rental income to be collected from the relevant institution as at 31 December 2021 was Rs.101,771,107. Although the Municipal Council had taken actions to suspend the agreement with the relevant institution on 07 April 2021 because of non-payment of rent properly since 2016 , an alternative system had not been set f or collection of parking charges in those areas even by 30 April 2022. Accordingly, it was observed that the Municipal Council had lost an income of Rs. 66,724,488 for almost a year. | Answers have not been given. | Taking actions to recover the arrears without delay. |

3.2 Delays in Contracts

Audit Observation	Comments of the Council	Recommendation
(a) The Competent Authority who had the authority to perform the powers and duties of the Colombo Municipal Council had given the approval by Decision No. 543 on 28	It is accepted that these delays have resulted in additional costs and although measures are being taken at the level of the project office and related	Taking necessary measures by officers of policy supporting groups, project officers and responsible officers efficiently and

September 2009 to provide Rudra Stadium in Wellawatte for the purpose of construction of Waste Water Treatment Plant under Asian Development Bank Loan No. 3348/3349 . Accordingly, a tripartite agreement had been entered into on 11 October 2021 to the VAT-free value of Rs.4,360,779,986 based on planning, construction and operation of the wastewater treatment plant . Although the land is to be handed over to the contractor on 18 March 2021, the land had not been handed over actions had not been taken to hand over the land even by 31 March 2022. Due to this, it was not possible to complete the tasks that should be completed by 31 December 2021 as per the contract implementation plan.

Due to the delay in handing over the proposed land to the contractor and also the claims made on the additional cost of the contractor, there is a huge risk of having to spend a large amount of money for the purposes of the Project and it was observed that there is also a risk of having to abandon the project due to the increase in costs due to project delays and insufficient funds and the expiring of the project period. Similarly, as this Project is the only wastewater treatment plant to be constructed for the entire wastewater project costing about Rs. 30,229 million, by failing this, it was observed that there is a risk of failure of the entire Project.

institutions in this activity, delays occur in dealing with external organizations have affected this.

solve problems to complete projects promptly.

- (b) Due to the delay in handing over the proposed land to the contractor for the construction of Thalakotuwa Pumping Station at a cost of Rs.717,054,675 under Asian Bank Loan No. 3348/3349, a claim of Rs. 3,071,262,126 was made for the additional cost incurred by the contractor and as the contract engineer had not agreed with it, it had been referred to the Dispute Board. After presenting to the Dispute Board, the contractor had made a claim of Rs. 1,050,015,153 and the payment of liquidation damages submitted by the Contract Engineer was Rs.261,286,732. Accordingly, as the dispute remained unresolved, it had been referred for arbitration . It was observed that there is a risk of not being able to efficiently use the money received under the foreign loan projects for the project tasks due to not properly manage the project tasks.
- It is acknowledged that the additional costs had to be incurred due to these delays and in this activity, although measures are taken at the level of the project office and related institutions, the delays occur in dealing with external organizations have affected this.
- Taking necessary measures by officers of policy supporting groups, project officers and responsible officers efficiently and solve problems to complete projects promptly.
- (c) A policy supporting groups consisting of officers of the Colombo Municipal Council, officers of the Ministry of Local Government and officers of the Western Provincial Council had been appointed to promptly solve the problems arising during the implementation of the projects since 2010 and a sum of Rs.41,236,786 had been paid as allowances to those officials as 31 December 2021 . But the entire Asian Development Wastewater Management Project had

become a slow-running project by 31 December 2021. Details are shown below.

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| <p>i. Although the Greater Colombo Wastewater Management Project under Loan Agreement No. 2557/2558 with a cost of Rs. 12,597.11 million was scheduled to be commenced on 4 April, 2010 and be completed on 30 June 2015, the project completion date had delayed to 31 December 2022 that is by 90 months.</p> | <p>It has delayed due to the matters such as delay in evaluating bids, delay in procurement process, having to employ foreign companies, difficulty in getting information due to old sewage system, weaknesses of the contractor.</p> | <p>Taking actions to make maximum use of the scarce foreign investment, setting up methods to measure the active contribution of officers, speed up the decision-making process.</p> |
| <p>ii. Although the programme cost at Rs. 16,401.76 million under loan agreement No. 3348 / 3349 was supposed to be completed on 30 November 2016, the period was extended up to 24 October 2022 due to failure to complete the planned works.</p> | <p>It has delayed due to the matters such as delay in evaluating bids, delay in procurement process, having to employ foreign companies, difficulty in getting information due to old sewage system, weaknesses of the contractor .</p> | <p>Taking actions to make maximum use of the scarce foreign investment, setting up methods to measure the active contribution of officers, speed up the decision-making process.</p> |
| <p>iii. Although the program cost at Rs. 1,230.60 million under loan agreement No. 3030 was supposed to be commenced on 3 June 2014 and be completed on 30 June 2019, the period had been extended up to 24 October 2022 due to failure to complete the planned works .</p> | <p>It has delayed due to the matters such as delay in evaluating bids, delay in procurement process, having to employ foreign companies, difficulty in getting information due to old sewage system, weaknesses of the contractor.</p> | <p>Taking actions to make maximum use of the scarce foreign investment, setting up methods to measure the active contribution of officers, speed up the decision-making process.</p> |
| <p>(d) Seven cases valued at Rs. 7,268,516,296 were sent to the Disputes Board and Arbitration for various reasons as at 31 December 2021 regarding Loan No. 2557/2558 and Loan No. 3348 /3349 as at 31 December 2021 . This value is about 24 per cent of the total</p> | <p>It has been informed that the contract claim make by a Contractor does not always mean poor contract management.</p> | <p>Taking necessary measures by officers of policy supporting groups, project officers and responsible officers efficiently and solve problems to complete projects promptly.</p> |

project value and it was observed that this situation is a weakness in Project Management. Accordingly, there is a serious risk of failure of the Project and it was also observed that there is a risk of project failure due to not being able to complete the expected project tasks.

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| <p>(e) Although the contract period of 19 projects valued at Rs. 1,075,286,017 awarded by the Drainage and Water Supply Department for the period from 2013 to 2021 had ended, their work had not been completed even by 31 December 2021. In these 19 projects, the percentage of work completed by 31 December 2021 had ranged from 5 per cent to 90 per cent.</p> | <p>Agreed. It has been stated that there have been delays due to various reasons and necessary actions will be taken.</p> | <p>Investigate the causes of project delays and take action against the responsible officers and taking this situation into consideration while measuring the performance of officers and make arrangements to complete the delayed projects.</p> |
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3.3 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
<p>(a) An extent of 4 acres, 29.8 perches of 1 rood from the land located at No. 45, Marcus Fernando Mawatha, was leased on 07 October 1958 to the Sri Lanka Tennis Association at a monthly rent of Rs. 100 for 25 years. Although this lease had expired on 30 September 1983, a formal lease agreement had not been entered into up to 31 August 2022 and the Tennis Association has been using the land without obtaining a formal agreement. Similarly, in</p>	<p>The approval has been given for the lease by the Council Meeting Decision dated 22 October 2021 and the file has been forwarded to the Commissioner of Local Government to get approval from the Honourable President.</p>	<p>Taking prompt actions to recover arrears of lease and make arrangements to enter into a formal agreement.</p>

addition to the extent of above land , land with an area of 55 perches is being illegally used by the Tennis Association without paying any rent since 1958. The arrears of rent to be recovered from the Tennis Association was Rs.30,075,662 by 30 June 2022 .

- (b) Even though it had been informed that 168 lands are owned by the Municipal Council, necessary information to ascertain how the ownership of the land was transferred to the Council or whether the land belongs to the Municipal Council. Although it was revealed that there are unauthorized residents in 06 lands no formal action with regard to that had not been taken in this regard even by 31 December 2021 .
The information of only 6 out of the 14 function halls owned by the Council was given in the submitted Register of Land and the information on the leased lands of the Council had not been provided.
- It is expected to make a policy decision as a Council in future and it is informed that the lease property is being registered in the Register Lands.
- Preparation of a formal follow-up process on Council property.
- (c) The former Charity Commissioner was handed over the official residence of the Charity Commissioner at No. 1/E Maligakande on 30 May 2017 . Accordingly, although 10 per cent of the officer's salary should be charged monthly as house rent for the period from 30 May 2017 to 14 January 2020 in accordance with Section 5.3.1 of Chapter XIX of the Establishments Code , a sum of Rs.3,750 per
- Agree.
- Taking actions to recover the arrears of rent and penalties promptly.

month had been charged as economic rent . Accordingly, the house rent had not been accurately calculated and recovered from the former Charity Commissioner by the date of audit. Similarly, although he had transferred from Colombo Municipal Council since 14 January 2020 , as the possession of the official quarters was not handed over till 12 January 2021, the penalty to be charged for that period as per Section 7.2 of Chapter XIX of the Establishments Code had also not been recovered even by 31 December 2021 . As the officer is not residing in a scheduled house,

- (d) Although 10 per cent of the house rent from officer's salary should be collected monthly in accordance with Section 5.3.1 of Chapter XIX of the Establishments Code, for the period from the date of the official residence handed over to the former Deputy Municipal Treasurer to the date of his transfer from Council service, a sum of Rs.2500 per month had been charged as house rent. Accordingly, actions had not been taken to accurately calculate and recover the arrears of house rent of the former Deputy Municipal Treasurer even by 31 December 2021 . Similarly, actions had not been taken to calculate and collect the penalty properly for the period from the date of transfer from Council service to the date of return the official
- Actions have been taken to inform the Department of Forests Conservation to charge 12.5 per cent of wages and for charging penalty as the officer is not residing in a scheduled house.
- Taking actions to recover the arrears of rent and penalties promptly.

residence in terms of Section 7.2 of Chapter XIX of the Establishments Code.

- (e) An amount of two million one hundred fifty four thousand six hundred and one (Rs. 2,154,681) that should be recovered in terms of Section 7.2 of Chapter XIX of the Establishments Code of the Democratic Socialist Republic of Sri Lanka as penalties for house rent to the Council because the former Municipal Commissioner who had transferred but not returned the quarters to the Council from 01 January 2012 to 14 January 2015 had not been recovered.
- Taking actions against the female officer is problematic as per Local Government Quarters Repossession Provisions, 1978. Accordingly, it is not possible to collect the penalty .
- Taking actions to recover the penalties promptly.
- (f) Although it has been allowed as a practice of the Council to the vehicles of the Members of the Council to park in front of their offices without charging money, it was observed as per the audit test check carried out that the 51 Members were running business activities in the places reserved for the parking of their vehicles. Likewise, in case of checking files, the lease agreements, affidavits or other legal documents entered into with owners were not submitted to audit to ensure that the Members of the Council maintain their offices in the respective places.
- It is expected to obtain a policy decision in this regard in future.
- To implement the formal system expeditiously.

3.4 Assets Management

Audit Observation	Comments of the Council	Recommendation
<p>(a) A selected sample of equipment valued at Rs. 7,934,518 purchased for the official residence of the Mayor in the years 2018, 2019, 2020 and 2021 was physically inspected on 30 December 2021 . But due to failure to maintain of a formal Register of Fixed Asset, it was impossible to carry out a complete check on the selected sample. Similarly, due to failure to maintain a formal Register of Fixed Assets, Board of Survey was not done formally.</p>	<p>It has been informed that it will be entered into a register of fixed assets in future.</p>	<p>To maintain an updated Register of Fixed Assets.</p>
<p>(b) Written evidence that 18 projects built by the Urban Development Authority and handed over to the Colombo Municipal Council between the years 2013 and 2019 were not formally submitted to the audit and accordingly, it could not be ascertained whether the assets constructed by the projects were recognized as assets in the financial statements or not.</p>	<p>Steps will be taken to revalue these 18 assets and to enter the value in the financial statements in future.</p>	<p>Make arrangements to enter the assets in financial statements.</p>
<p>(c) Although 04 pumping stations completed under the Greater Colombo Wastewater Management Project (a) had been handed over to the Colombo Municipal Council , classifying the machines and equipment available in those 04 pumping stations had not been handed over in writing even by 31 March 2022 along with the financial cost of each pumping station.</p>	<p>Actions will be taken to identify the costs incurred for the completed pumping stations and to report in future.</p>	<p>Make arrangements to enter the assets in financial statements.</p>

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| <p>(d) A full report had been submitted on 12 October 2020 that is after 30 days , in terms of Paragraph 104(3) of the Financial Regulation regarding the accident that had occurred to the snorkel vehicle belonging to the Council. Although the claim form should be submitted to the insurance company within 14 days of the accident to get the insurance claim, because the claim form was submitted after a delay of about 600 days after the accident, the insurance company had paid Rs.596,849 less than the agreed insurance cover.</p> | <p>Accepted.</p> | <p>Identify those responsible and take immediate actions to recover the losses incurred by the Council.</p> |
| <p>(e) Although the Financial and Management Accounting System valued at Rs.3,159,879 under the Greater Colombo Wastewater Management Project had been handed over in 2014 to the Sewerage Department of the Colombo Municipal Council it was observed that the system had not been used since 2016.</p> | <p>It is not functioned due to lack of trained officers and arrangements have been made to update through a consulting service.</p> | <p>Taking actions to identify those responsible and take disciplinary actions and make arrangements to make use it promptly.</p> |
| <p>(f) After the completion of the survey, the reports should be checked and if there is any deficiency, the Department Heads should make arrangements to recover the value of the goods from the respective officers in terms of Section 5.7 of the Circular No.නා.භා/ගබ්බාගිණුම්/01/2021 dated 23 November 2021 of the Council and it had been stated that the measures taken should be reported to the Municipal Treasurer before 25 February 2022. Accordingly, actions taken by the Department Heads regarding shortages were not submitted to the audit.</p> | <p>It has been informed that these activities have been recorded to be completed in future.</p> | <p>Taking actions in terms of the Circulars.</p> |

3.5 Contract Administration

Audit Observation	Comments of the Council	Recommendation
<p>(a) As per the Quotations called on 17 February 2017, the contract for the improvement of the Muthuwella Stadium and the construction of the sports hall valued at Rs. 61,375,369 was awarded to the contractor who had submitted the lowest price and the work should have been completed on 18 June 2018. Although an extension of 667 additional days was granted in 05 cases and accordingly it should have ended on 27 July 2019, it had not yet been completed by 31 December 2021. A sum of Rs. 30,143,490 with taxes had been paid to the contractor As of by 31 December 2021 and this was about 42 per cent of the total contract cost.</p>	<p>It has been informed that an arbitration process is being carried out regarding this contract.</p>	<p>Complete the arbitration process promptly and finalizing the contract.</p>

4. Accountability and Good Governance

4.1 By-laws

Audit Observation	Comments of the Council	Recommendation
<p>The waste water management project has been running since 2010 with the aim of rehabilitating and improving the existing sewerage system under the 3 loan projects of Rs.30,229.47 million provided by the Asian Development Bank, the European Investment Bank and the</p>	<p>Since the Western Provincial Council has been dissolved in the year 2019, it was unable to get approved. The new draft has been approved by the Council Meeting and forwarded to the Governor in 2022.</p>	<p>To get the approval for the by-laws promptly and implementation of a sewerage fee system.</p>

Government of Sri Lanka, and extending the service to areas where the sewerage facilities were not available. Three wastewater pumping stations that had been completed, were handed over to the Colombo Municipal Council by 01 January 2022 . It had been impossible to enforce and implement the by-laws related to the sewerage fee system drafted in 2017 even by 31 December 2021 to determine the fees and build a fund for the safe maintenance of this sewerage system, to carry out the operation of the system, to solve traffic and social problems.

It has been informed that the fees will be collected after the by-laws are passed.

4.2 Solid Waste Management

Audit Observation	Comments of the Council	Recommendation
<p>Solid waste management activities are being carried out by 06 District Offices established in 47 Rates Divisions of Colombo Municipal together with the Council and private companies. An expenditure of Rs. 2,982,388,253 was incurred in the year 2021 for this. It was observed that the cost of solid waste management was 38 per cent of the net turnover income of the Council in the year 2021 and by not making the garbage collected in the Municipality to a property of the Council, in terms of Section 130 of the Municipal Council Ordinance it was observed that this cost was only an expenditure to the Council.</p>	<p>A lot of money is saved by free disposal of the currently collected waste to the Kerawalapitiya Waste to Energy Project.</p>	<p>Taking necessary measures to turn the collected garbage into property.</p>

4.3 Budgetary Control

Audit Observation	Comments of the Council	Recommendation
<p>(a) The total revenue estimates submitted for the 4 Departments were Rs.657,638,000 and its actual revenue totalled to Rs.1,099,007,416. Accordingly, the actual income exceeded the budgeted income and increased by Rs.441,369,416 and the variation in income items had ranged from 7 per cent to 947 per cent. Similarly, the budgeted income for 15 Revenue Heads was Rs.810,268,000 and its actual income was Rs.1,858,571,451 . The actual income had increased by Rs.1,048,303,451 and as a percentage, there was a variation in the range of 5 per cent to 443,790 per cent. The total revenue estimates submitted for the 15 Departments was Rs. 14,806,946,000 and the actual income therein was Rs.10,457,122,919. Accordingly, the difference between budgeted and actual income was Rs.4,349,823,081 and the percentage had ranged from 7 per cent to 100 per cent.</p>	<p>It has been informed that the steps have been taken to prepare the budget documents to minimize this situation in future.</p>	<p>Taking actions to prepare budget documents in a realistic manner.</p>
<p>(b) Although the total estimated income was Rs. 362,501,000 in relation to the 10 Revenue Heads of 7 programmes in checking the estimated income and actual income of the Council as at 31 December 2021 according to each programme, the Council had not been able to earn any income in the year 2021 .</p>	<p>It has been informed that the financial assistance has not been received due to the economic crisis.</p>	<p>Taking actions to prepare budget documents in a realistic manner.</p>

4.4 Unresolved Audit Paragraphs

Audit Observation	Comments of the Council	Recommendation
<p>(a) Because of failure to make payment of rates within one year by the owner of a property for an extent of 154.43 perches situated at Rate No. 43, Barnes Place, Kurunduwatta, although the certificate of purchase was registered at the Colombo Land Registration Office on 07 October 1974 and the legal ownership of the property was transferred to the Council, actions had not been taken to transfer the ownership of the land to the Municipal Council even by 31 December 2021 .</p>	<p>The case filed by the Legal Department of the Colombo Municipal Council in the Colombo Magistrate's Court bearing number 63194/5/16 to obtain the ownership has been scheduled to hear on 24 November 2022.</p>	<p>Taking actions to get the ownership of the land.</p>
<p>(b) Actions had not been taken to remove the unauthorized construction made on the wall behind Clifton Girls College and near that.</p>	<p>Legal actions have been commenced.</p>	<p>Actions should be taken to remove the unauthorised constructions .</p>
<p>(c) Actions had not been taken even by 31 December 2021 to provide 64 houses in the Paradise Housing Complex which has been built in the laundry area at Paradise Place, Colombo 12 by 28 February 2016, at a cost of Rs.200,863,837 to be given to residents and low-income homeless people.</p>	<p>It has been informed that the activities will be implemented in future.</p>	<p>Taking actions to distribute the houses formally.</p>
<p>(d) Fifty perches had been leased out in July 1992 to an entity from Modara Elie House Land and it was observed that the balance 60 perches had also been encroached and used for its activities. Even though it was revealed that unauthorized constructions had been done therein, no action whatsoever</p>	<p>Necessary actions are being taken.</p>	<p>Making arrangements for recovery of arrears and to take legal actions promptly.</p>

had been taken in respect of unauthorized uses and unauthorized constructions.

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| <p>(e) Two storied of 6000 square feet building was built illegally in about 11 perches located in Lot No. 48 of Plot No. 2 of the land where the official residence of the Borella Cemetery Keeper is located at 08 Alvitigala Mawatha owned by the Colombo Municipal Council. These unauthorized constructions had not been removed by 31 December 2021.</p> | <p>Legal actions have been taken.</p> | <p>Taking legal actions to take over the relevant property to the Council.</p> |
| <p>(f) Although the land of 17.7 perches situated at No. 20 Magazine Road Borella was leased out for one year from 13 September 1983, the agreement was not renewed until 31 December 2020. The arrears of lease amount of Rs.1,025,871 receivable as at 31 December 2021 was not collected till 31 December 2021 .</p> | <p>Actions are being taken to submit to the Council.</p> | <p>Recovery of arrears and updating of lease agreement.</p> |
| <p>(g) Twelve separate houses owned by the Colombo Municipal Council had been transferred to individuals and the rental value of 11 of these houses had not been assessed for several years. The Municipal Council did not have information about the location of these houses, who is occupying them, the square footage of the houses and the existence of the houses.</p> | <p>Actions are being taken to submit to the Council.</p> | <p>Recovery of arrears and update the lease agreement .</p> |
| <p>(h) The following matters were</p> | <p>Legal proceedings have</p> | <p>Actions should be taken</p> |

observed in the inspection carried out on Building (B+G+6) of 2143.75 square meters with 7 storied and Premises No. 32 Mudalige Mawatha Colombo 01 under Building Plan No. ME/PBC/BA/01/18.

been commenced.

to stop or rectify unauthorized constructions.

- An unauthorized building of 05 storied 533.46 square metres in extent had been constructed covering the vacant space shown in the approved plan.
 - Although the ground floor should be at ground level as per the approved plans, the ground floor of the building had been constructed at 380mm above ground level.
 - Although a 12 feet arcade line has been marked from the end of Mudalige Mawatha as per the approved plan, an unauthorized construction of 40.61 square meters has been done to cover that amount.
 - Although parking facilities for 4 vehicles should be provided in the basement as per the approved plan, the parking lot was being used as a warehouse.
- (i) Although the tree structure inspection machine purchased by the Land and Environment Development Division at a cost of Rs. 7.4 Million in 2015 to measure and inspect the trunks and roots of 100-year-old trees

Taking action to recruit an officer who can analyze the data provided by the machine and carrying out discussions with the institution that purchased the machine for data analysis.

Taking necessary actions for immediate use.

in the city had elapsed 6 years by 31 December 2020, it had been kept in the Viharamahadevi Park Office without being used.

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| <p>(j) A number of 200 buggy stalls had been purchased in September 2016 for Rs. 29,325 each at Malwatta Road Pedestrian Trade Complex for Rs. 5,865,000 the stalls were not used effectively, and prone to natural disasters and became unsafe and unusable even by 31 December 2021.</p> | <p>Although it could not be able to apply for the productive work because the merchants refused to accept the buggy stalls, it has been proposed the buggy stalls to be used for other public market purposes.</p> | <p>Utilizing promptly for productive purposes.</p> |
| <p>(k) The Kangaroo Rider Machine which was purchased on 16 March 2018 for Rs. 4,242,000 has been removed from use since 2018 as it had broken within about 2 months of purchase. In order to cover this loss, the performance guarantee bond of Rs. 2,723,735 presented by the supplier organizations was taken over by the Council. Actions had not been taken to recover the financial loss of Rs.2,154,564 not covered thereby even by 31 December 2021 .</p> | <p>Legal proceedings have been commenced.</p> | <p>Taking actions to recover promptly.</p> |
| <p>(l) Actions had not been taken even by 31 December 2021 to recover the loss of Rs.131,462 occurred to the Council due to the accident of a vehicle belonging to the Municipal Secretary Department on 04 September 2017 from the Former Municipal Secretary who was responsible for it.</p> | <p>Although the Secretary to the Ministry of Provincial Councils and Local Government has been informed on 24 December 2021 to prepare a suitable work arrangement for recovering the money, actions have not been taken.</p> | <p>Taking actions to recover the loss occurred to the Council immediately.</p> |

- (m) It had been entered into an agreement by Agreement No. 53/2016 dated 28 March 2016 with a private company regarding the installation of parking meters in a Council area and collection of rent .The arrears of rent amounting to Rs.101,161,649 had not been recovered by 31 December 2021 because the relevant company had not paid the rent according to the agreement and the responsible officials of the Council had not attended on it according to the agreement.
- Legal proceedings have been commenced.
- Taking actions to recover immediately.