

## **Sri Jayawardhanapura Kotte Municipal Council - 2021**

---

### **1. Financial Statements**

---

#### **1.1 Qualified Opinion**

---

The audit of the financial statements of the Sri Jayawardhanapura Kotte 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, Comprehensive Income Statement, Cash Flow Statement for the year 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 the provisions of the 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 accompanying financial statements give a true and fair view of the financial position of the Sri Jayawardhanapura Kotte Municipal Council as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Public Sector Accounting Standards for Local Government Authorities

#### **1.2 Basis for Qualified Opinion**

---

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

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements 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 Generally Accepted Accounting Principles, 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 Legal Requirements

-----

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Municipal Council as per the requirement mentioned in Section 6 (i) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) The financial statements presented includes all the recommendations made by me in the previous year, except the audit matters of 1.2.2 (d), (e), (f), (g), (h), (i), (j), (k), (o), described in paragraph 1.6 of this report as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

## 1.6 Audit observations regarding the preparation of financial statements

-----

### 1.6.1 Accounting Deficiencies

-----

Audit observations -----	Comment of the Council -----	Recommendation -----
(a) The value of land, buildings, roads, culverts and bridges owned by the council before the year 2020 had not been identified and accounted.	Instructions have been given to the relevant officials to check this and make correct accounts.	The action should be taken accounting should be done.
(b) The value of 15 lands that do not have land deeds and have no land value had not been recognized and accounted by the council.	Lands that do not have deeds and have no land values will be identified and accounted in the future.	do
(c) In the year 2021 as per the Financial Statement Note No. 16 under property, plant and equipment value of buildings is Rs. 19,872,678 and roads and culverts are up to Rs. 12,949,006, however according to the certification of the Municipal Engineer of the council, it is observed that there is no work being done on 31 December 2021.	The amount of Rs.19,872,678.00 mentioned under the work in progress has been recorded as a late error under note number 16 and it has been recorded as completed and steps have been taken to correct it.	do
(d) The correct value of the furniture and equipment given to the quarters owned by the council had not been identified and accounted.	The relevant officers have been instructed to separately enter into inventory the furniture and equipment of all the quarters owned by the council. It is to be accounted in year 2022.	do

- |     |  |  |    |
|-----|--|--|----|
| (e) | The amount payable to Navaloka Construction Company for the Janajaya City project of Rs.1,488,509, late fees of Rs.29,631,518 and cash in hand of Rs.84,399,312 totalling to Rs.115,519,339 had not been accounted as creditors as at 31 December 2021.  | Had been corrected by using the year 2022 under Journal entries.   | do |
| (f) | After deducting Rs.3,133,982, which is the amortized value for the year 2021, from the capital equity grant of Rs.31,339,815 in the year 2020, the remaining balance is Rs.28,205,833 and the sum of the capital grant of Rs.39,257,979 in 2021 is Rs.67,463,812 assets. And although the unrecognized capital expenditure should have been recorded as grants under the mass of the declaration of liability, it was stated as Rs. 63,100,671 i.e. the net equity was understated by Rs. 4,363,141. | This deficiency has also been recorded to be corrected during the preparation of the accounts of the year 2022 along with the above mentioned deficiency.          | do |
| (g) | According to the warehouse ledger, 19 items valued at Rs.561,772 related to the water work purchased in 2019 and 2020 were in the stock without being issued for the respective project however they had not been included in to the yearend water work stock. The stock was undervalued at that value.  | The purchases were made for the construction of the Moragasmulla housing complex and the construction work has not been completed, so these goods are left behind. | do |

## 1.6.2 Un-reconciled Control Accounts

-----

### Audit observations

-----

A difference of Rs.33,998,683 had been observed between the value in the financial statements related to 04 accounting items and the value according to the schedule.

### Comment of the Recommendation Council

-----

The action will be taken to correct.

Documents and schedules should be corrected.

### 1.6.3 Documentary Evidences not made available for Audit

---

<b>Audit observations</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
The detailed sub-document relating to the transfer of unidentified employee loan balance of Rs.1,641,883 to the account had not been submitted for audit.	Documents are being checked	Relevant schedules should be submitted.

## 2. Financial Review

---

### 2.1 Financial Result

---

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2021 amounted to Rs. .161,796,825 as compared with excess of revenue over recurrent expenditure amounted to Rs. 102,549,081 in the preceding year. It was observed that the financial result of the year under review year had increased by Rs. 59,247,744 .

### 2.2 Financial Administration

---

<b>Audit observations</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
According to a statement of bank reconciliation as at 31 December in a bank current account, a sum of bank charges and direct bank debits was Rs. 140,047 and those balances had not been specifically identified and accounted.	The parties related to the transactions mentioned in the bank charges and direct bank debit schedule have now been identified and the excess payments made to them are being recovered to our council.	Immediate steps should be taken to recover overpayments.

## 2.3 Revenue Administration

---

### 2.3.1 Performance of Revenue collection

---

<b>Audit observations</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
<b>(a) Assessment Tax</b> At the end of the year under review, the balance of assessed tax to be collected was Rs.136,885,146, of which Rs.40,817,645 should have been collected from 295 houses, vacant lands and business premises whose annual assessed tax value	Rs. 4,893,000 has been collected from 44 units of vacant land and businesses with annual assessment tax value exceeding Rs.50,000 included in the assessment tax balance due at the end of the year under review and final notices have been sent to recover the remaining	Arrangements should be made to recover the arrears of assessment revenue.

<p>exceeded Rs.50,000. These assessments had not been collected till June 2022.</p>	<p>amount and in the future mobile. It has been planned to collect the arrears of assessment tax through service and property ban activities. Furthermore, due to the recent Corona threat and the fuel crisis, the planned mobile service activities and property ban activities had to be postponed.</p>	
<p><b>(b) Shop Rent</b> -----</p>		
<p>The total rental income to be collected at the end of the year under review was Rs.31,866,491.</p>	<p>Necessary steps have been taken to recover the rent arrears.</p>	<p>do</p>
<p><b>(c) Quartes Rental</b> -----</p>		
<p>The rental value of the quartes to be collected was Rs.84,843 at the end of the year under review, in which there was Rs.79,430 to be collected from a period of 5 to 10 years.</p>	<p>Recommendations for write off the outstanding balances have been requested and forwarded to the Assistant Commissioner of Local Government with a copy dated 28.12.2015, 30.09.2018 and 07.12.2019.</p>	<p>do</p>
<p><b>(d) Entertainment Tax</b> -----</p>		
<p>The balance of entertainment tax to be collected from two cinema halls is Rs. 3,169,717 and Rs. 2,781,680 at the end of the year under reviewed which is to be collected from a period of 5 to 10 years had not been collected as at 31 December 2021.</p>	<p>In the years 2015 and 2016, the billed income of Rs. 2,781,679.16 could not be collected.</p>	<p>do</p>
<p><b>(e) Garbage disposal fees</b> -----</p>		
<p>At the end of the year under review, the balance of garbage tax to be collected from business premises in the council area is Rs. 4,097,526, in which Rs. 1,267,376, which should be collected from a period of 1 to 3 years, remained outstanding as at 31 December 2021.</p>	<p>Necessary action has been taken to recover the arrears.</p>	<p>do</p>

(f) **The Court fines and Stamp Fees**  
-----

The stamp fees billed for the year under review was Rs.226,101,938 and the stamp fees due at the end of the year under review was Rs.323,378,363. Also, by the end of the reviewed year, court fines of Rs.3,891,501 had to be collected and the balance consisted of Rs.879,787 related to the period from 5 to 10 years and Rs.3,011,713 to be collected from more than 10 years.

The actions could not be taken to do proceed with the recovery of fines.

**3. Operational review**  
-----

**3.1 Operating insufficiencies**  
-----

<b>Audit observations</b> -----	<b>Comment of the Council</b> -----	<b>Recommendation</b> -----
(a) On 16 February 2016, a contract was signed with a private contractor for the construction of Jayaracity combined Development Project at Pitakotte for a contract value of Rs.619,276,616. Form that, Rs.2,638,191 had been spent as consultant fees and Rs. 255,707,477 were spent for construction and the contractor had abandoned the work site on 10 September 2018.	The Jayaraja City mixed development project was started in the year 2016 by obtaining funds on the pre-sale method, and in this way, about 30% of the money could be obtained through the pre-sale method, and at that time the construction of the project was being carried out by Orient Contract Company. Due to a defect in its construction, the National Building Research Institute called for a report and although that institute had given instructions for further construction, the council was dissolved and the project was stopped by the Municipal Commissioner because there was no money to continue the project in 2017. The Finance Committee submitted a proposal to the Finance Committee to start the project again according to the structural plan revised by the Urban Engineer, and according to the current economic situation in the country, further action has been temporarily stopped.	Projects should be completed promptly as plans implemented scheduled

- (b) A contract was signed for Rs.36,010,657 to provide consulting services for the construction project of the new municipal building and Rs.26,220,340 was paid for consulting fees on January 26, 2015. Later, the council abandoned the project to build a new Municipal office building as the council did not own the land. The consultant company filed a case against the Council to recover the remaining amount due and the council had spent Rs.877,887. Due to the non-payment of these arrears, late payment of Rs. 11,468,913 had to be paid.
- Regarding the construction of this Municipal office building, according to the proposal of the then Honorable Mayor, it was proposed to build it on the land near Welikada Police Station on 28.03.2013. Under Council Resolution No. 06.01, approval had been received to hire Engineering Consultants and Architects for the construction in the above land Council office building on 28.06.2013. Under Council Decision No. 06.01, the approved the registration of Chartered Architects to prepare plans for development on 2013.07.29. According to the decision of the Council, the tenders were called and evaluated and according to the report, Ranjan Nadeshpille Associates was selected as approved by the Council on 31.01.2014. Accordingly, since the council does not own the land, it is ruled out that the construction in question had been abandoned by the council.
- The ownership of the land should be taken over and the projects should be completed promptly and the plans should be implemented as per schedule.

### 3.2 Identified Losses

<b>Audit observations</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
The council had not arranged to cover the repair cost of Rs.127,700 by the insurance in relation to 3 vehicle accidents.	The comments had not been given.	Insurance compensation should be recovered.

### 3.3 Transactions in contentious nature

The following observations were made regarding the removal of the existing insecure wall and the construction of a part of the new security wall around the Nawala Cemetery and Funeral Hall (Palar) site.

<b>Audit observations</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) According to 4.3.1 (b) of the Government Procurement Guidelines Code, a cost estimate including all associated costs should be prepared by the procurement entity, however	Initially, estimates have been prepared only in relation to the provisions given by the Divisional Secretariat.	The work of the related projects should be done transparently



within the total cost estimate prepared at the beginning of Rs. 3,813,645 Expenditure on preparation of new land to be given to the Rehabilitation and Road Development Authority, the entrance gate to the cemetery, setting up the safe chamber, removing and restoring the tombstones had not been included.

- |  |  |  |
|--|--|--|
| <p><b>(b)</b> After including the expenses mentioned in (a) above, a re-estimate was prepared and although the cost estimate was Rs. 5,372,345, due to the approved provision of Rs. 3,000,000, there was not enough provision for it, and a decision was made on how to provide the provision for the remaining expenses. The Divisional Secretariat was not informed that due to the fact that an amount of Rs.3,000,000 has been approved for this project under the 2021 Decentralized Budget Program, the total cost estimate exceeded the approved cost estimate even though the estimates were prepared to match that amount.</p>               | <p>The total cost estimate (with VAT) is Rs. 5,372,345 out of which the construction of the wall under the relevant decentralized support was done as work phase i, ii and iii. 2021 Decentralized provision of Rs. 2021 to remove the existing insecure wall around the construction site of Nawala Burial Ground and Funeral Hall (Palar) in Nawala West Domain (220B) and construct a part of the new security wall. 3,000.000 was allocated.</p> | <p>The work should be completed within the respective estimated allocations.</p>     |
| <p><b>(c)</b> The engineer had informed in writing that the Road Development Authority has marked that 1.6 meters should be taken back from the existing granite wall and that part can be used for a parking yard to collect revenue. Accordingly, instead of taking 1.6 meters back, 15 feet It was observed during the audit on November 3, 2021 that the construction of the wall was being taken back. For this, according to Chapter 11, 5(1) of Ordinance No. 57 of 1946 on Public Burials and Private Burials, the Minister's approval had not been obtained regarding the reduction of the size of the burial ground or any other change.</p> | <p>As this project is still in working condition and work has not been completed, the future work of the project will be planned in accordance with all these observations.</p>  | <p>Estimates should be prepared formally with necessary approvals and agreements</p> |

(d)	There was no clear agreement regarding the future use of the land given to the Road Development Authority by taking the new wall 15 feet back from the existing wall, and there was no plan in the estimate to prepare that land. No agreement was reached with the Road Development Authority in this regard.	The comments had not been given	-do-
-----	--	---------------------------------	------

### 3.4 Idle or underutilized Property, Plant and Equipment

-----

Audit observations -----	Comment of the Council -----	Recommendation -----
In the year 2015, 3891 out of 4000 copies of Wonderful Kotte printed at a cost of Rs.2,825,375 were received in the store and by the end of the year 2021, 178 copies and 192 book covers valued at Rs.155,750 remained idle in the store.	The Wonderful Kotte books left in the warehouse are being prepared to be given to government schools and government libraries to improve the knowledge of the students.	Resources should be utilized to the maximum extent.

### 3.5 Assets Management

-----

Audit observations -----	Comment of the Council -----	Recommendation -----
(a) <b>Repurchasing the property called public well owned by the council</b> ----- It was observed that the officers of the council have participated in the repurchase transaction of the property called Public Well of 01.75 perches No. 285/B of Stanley Thilakaratne Mawatha owned by the Municipal Council and the council property was sold to an external party on 24 June 2019 for Rs.1,575,000 and the said party declared ownership was allowed to do.	The property in question has been mentioned in the summoning of information as a property received from the predecessors of the Municipal Council since 1979, however there is no mention of the relevant property in the assessment documents before 1979. Accordingly, it is not observed that the property is held by the council from predecessors or by usurpation. The relevant property No. 2048 and according to the plan dated	The necessary measures should be taken so that the council does not incur losses by taking appropriate measures immediately.

10.06.1979 has been mentioned by the government audit as a piece of land owned by the council which has been set aside as a public well and cemetery, however there is no documented fact in the possession of the council that the said property is identified or documented as a scheduled burial ground of the council.

(b) In the above land The Council's Assessment Register for the year 2016/2017, Stanley Thilakaratne Mawatha, No. 285 B, 01.75 perches of land was recorded as a public well belonging to the Kotte Municipal Council under No. 12 of the assessment register.

Thus, it is mentioned in red to clearly show the previous right and the new right, and it is the general method maintained by this institution since then. Accordingly, according to the presented deed summary of the ownership of the above property, when documenting the new ownership, the previous ownership was cut out in red and the names of the 10 stakeholders were entered in the document in red.

It was observed that in the 2018/2019 Assessment Register, the names of 10 stakeholders were written and cut out in red colour and in the 2020/2021 Assessment Register it was also noted as public well.

#### 4. Accountability and Good Governance

##### Submission of Financial Statements

###### Audit observations

According to the Western Province Local Government Commissioner's Circular No. LGD/02/2021 dated 10 November 2021, the final accounts for the fiscal year 2021 will be prepared on 31 December 2021 and the related set of financial statements should be sent to the Auditor General with copy to the Local Government Commissioner and the Assistant Commissioner of Local Government before 28 February 2022. The financial statements of the Sri Jayawardenepura Kotte Municipal Council for the year 2021 had been submitted to the Auditor General only on 24 May 2022.

###### Comment of the Council

The final account of the year 2022 will be prepared and presented on the scheduled date. The reason for the change in the form of the final account this year was the transfer of the Chief Municipal Accountant.

###### Recommendation

The Final accounts should be submitted on due date.