

Kolannawa Urban Council

Colombo District

1 Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2016 had been presented to audit on 29 March 2017 and the financial statements for the preceding year had been presented on 31 March 2016. The report of the Auditor General for the year 2016 had been forwarded to the Secretary of the Council on 15 September 2017.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters shown in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position as at 31 December 2016 and its financial performance of the Kolannawa Urban Council for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following accounting deficiencies were observed in audit.

- (a) The loss of Rs.266,239 caused to the goods of the Sabha as a result of the collapse of compost division had not been brought to account.
- (b) The revenue from rates and taxes of the year and the Arrears of Rates and Taxes Account had been overstated by 1,186,884.
- (c) The Accumulated Fund and the Advance Account had been overstated by Rs.76,354 as a result of bringing forward the graduates' allowances of Rs.76,354 in the Advance Account.
- (d) The closing stock had been overstated by Rs.136,732.
- (e) The stock of goods purchased for Rs.6,900 in 2015 had been brought to account as Rs.9,600 resulting in an overstatement of Stock Account by Rs.2,700.
- (f) The balances of deposit brought forward from previous years had been erroneously noted. As a result, the current assets and the current liabilities had been overstated by Rs.299,949.

- (g) The sum of Rs.232,875 being the value obtained from sale of fertilizer for work relating to the previous year had been entered in the Deposit Account . As a result, the accumulated fund had been understated and the current liabilities had been overstated by similar amounts.
- (h) The sum of Rs.10,164 recovered in excess as installments of employees' loans had been written off against the balances of employees' loans resulting in understatement of Employees' Loan Account by a similar amount.

1.3.2 Unreconciled Control Accounts

The balances of 4 items of accounts aggregated Rs. 66,422,333 whereas the balances of those accounts aggregated Rs.46,840,092 as per subsidiary records / reports.

1.3.3 Lack of Evidence for Audit

- (a) **Unreplied Audit Queries**
Replies for 03 audit queries issued to the Chairman from 2011 to 2015 had not been received even by June 2017.
- (b) **Non rendition of Information for Audit**
Transactions aggregating Rs.67,438,727 could not be satisfactorily vouched in audit due to non rendition of necessary information for audit.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2016 amounted to Rs.34,896,256 as compared with the excess of revenue over recurrent expenditure of the previous year amounting to Rs.53,261,623.

2.2 Financial Administration

The balance of the current account of the People's Bank amounted to Rs.666,509 as per financial statements of the year and it was Rs.88,436 as per bank statement, although a sum of Rs.787,009 had been added and a sum of Rs.323,195 had been deducted with regard to unrealized cheques, bank errors and transfer of cash as per bank reconciliation statement as at 31 December 2016. which continued to be brought forward for many years. However, the evidence concerned had not been furnished to audit.

2.3 Revenue Administration

2.3.1 Estimated Revenue Acted Revenue and the Appears of Revenue

The information relating to the estimated revenue, acted revenue and the arrears for the year under review and the previous year, as furnished by the Council, is given below.

Item of Revenue	Balance of arrears as at January 2016	2016			2015			Accumulated Arrears as at 31 December 2015
		Billings	Actual Recoveries	Accumulated Arrears as at 31 December 2016	Balance of arrears as at 01 January 2015	Billings for the year	Actual Recoveries	
Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Rates and Taxes	43,857,302	61,888,299	70,424,501	35,321,100	35,370,301	67,718,253	59,231,282	43,857,302
Licence Fees	42,200	396,750	395,500	43,450	3,350	355,600	316,750	42,200
Industrial and Business	756,741	861,900	864,900	753,741	771,691	872,600	887,550	756,741
Revenue from Rent	3,351,767	7,645,458	7,118,317	3,878,907	2,029,634	4,163,532	2,841,399	3,351,767

2.3.2 Rates and Taxes

The total arrears of rates and taxes recoverable from 42 government and private sector institutions as at 31 December 2016 amounted Rs.20,472,350. These arrears were 42 per cent of the total arrears of rates and taxes as at end of the year under review.

2.3.3 Lease Rent

- (a) None of the lease rent of the properties belonging to the Sabha had been recovered during the year 2016 and the amount due from 2 institutions amounted to Rs.44,850

- (b) Tenders had been called for, for the canteen of the Urban Council during the year under review and the canteen had been given on lease for Rs.13,740 per quarter. The canteen had been closed as the lease period ended on 30 September. The lease rent for the first quarter of 2016 only had been paid and the arrears of rent of Rs.27,480 for the balance period had not been recovered even by 30 May 2017.
- (c) That instalments and instalment relating to arrears, whatsoever, had not been paid by 07 business institutions during 2016 and the total rent recoverable as at 31 December 2016 amounted to Rs.691,370. The total arrears of rent recoverable from business institutions for over 12 months amounted to Rs.860,826.

2.3.4 Business and Trade Tax

Out of the sum of the Rs.756,741 due to the Council, a sum of Rs,3,000 representing 0.4 per cent only had been recovered during the current year. Action had not been taken to recover the balance of Rs.753,741.

3. Operating Review

3.1 Management Inefficiencies

The following matters are observed

- (a) According to the particulars of approved cadre of 2016, the Secretary of the Council should belong to the Sri Lanka Administrative Service Group III/II and the Accountant should belong to the Accountant's Service Group III/II But, an officer of the supra grade of the Management Assistants Service had been appointed as the Secretary and a lady officer of the Management Assistants Service, grade I had been appointed for the post of Accountant. Further, the post of Administrative Officer had fallen vacant.
- (b) The balances of employees' loans recoverable as at 31 December 2016 amounted to Rs.37,431,534. Included in these were balances of loans of Rs.3,552,017 due from those who had been transferred and who had retired and it was 09 per cent of the overall balances of employees' loans recoverable.
- (c) According to the report of the stores verification of the year under review, there were lapses such as inventory register not being updated for many years, non maintenance of correct receipt of stores by officers going on transfers and issue of stores without issue orders at all instances. As such, the correctness of balances of stores amounting to Rs. 35,631,670 could not be accepted.

3.2 Transactions of Contentious Nature

The Ministry of Economic Development had granted Rs. 100,000 to settle the administrative expenses of the Economic Development Programme implemented during 2014. Instead, of settling the expenditure concerned, 18 officers including the Chairman and the Sectary had shared it among themselves.

3.3 Idle/Under Utilized Assets

There vehicles totally valued at Rs.9,737,730 remained idle in the premises of the Sabha without being repaired.

3.4 Operating Inefficiencies

Arrears of water bills of 23 public water taps and 12 bathing spots for the period 2002 to the year under review amounted to Rs. 48,902,698 as at 31 December 2016. But, these payables had not been revealed in the financial statements furnished by the Council.

3.5 Contract Administration

- (a) Twenty five jobs costing Rs.33,060,891 had been abandoned during 2016.
- (b) The estimated value of abandoned jobs expected to be executed from the funds of the Sabha in 2016 amounted to Rs.43,106,690. But, the amount provided in the budget amounted to Rs. 29,100,000.

3.6 Solid Waste Material Management

- (a) The institutional heads of state institutions, school and other institutions had been requested to separate the garbage at its place of origin and collect them from 01 November 2016 and had made it compulsory by the letter of the Commissioner of Local Government (W.P) No.LGQ/03/01/13 of 04 December 2016. However, the Council had not taken such action even by 12 June 2017.
- (b) According to Chapter 18(1) of Rules for Waste Material Management No.1 of 2008 of the Western Province published in the Gazette Extra Ordinary No. 1560/6 of 30 July 2008, a monthly garbage fees should be collected for door to door collection of garbage in addition to the tax paid to the local government institution. But the management had not taken action to recover garbage fees and as a result the Council had been deprived of Rs.10,448,400 for the year under review.
- (c) A daily or monthly garbage management programme had not been prepared.for 2016.

3.7 Environmental Problems

The Colombo Municipal Council and the Kolannawa Urban Council disposes their garbage at the Meethotamulla Garbage Division. This had resulted in bad smell around the environment and pollution of water in the wells. As a result of the pollution of water, there had been patients with stomach problems and this had been reported by the Medical Officer of Health of the area. As a result of the increase in heap of garbage it was observed that the residents of the area had faced mental environmental, social and economic problems. Adequate audit could not be carried out regarding the collapse of the Meethotamulla Garbage Heap on 14 April 2017, which had caused deaths and damages to private and public properties.

4. Good Governance and Accountability

4.1 Budgetary Control

Significant variances were observed between the budgeted and actual revenue and expenditure showing that the budget had not been used as an instrument of effective management Control.

4.2 Annual Procurement Plan

The Urban Council had not prepared a procurement Plan in term of Txasury Circular No. PED/112 of 02 June 2003.

4.3 Internal Audit

Although an officer had been appointed in the internal audit branch an internal audit programme had not been furnished and internal audit had not been carried out for 2016.

4.4 Implementation of Audit and Management Committees

The minimum meetings to be held by the Audit and Management Committee had not been held during the financial year in term of the circular No. PED/ 12 of 03 June 2003.

5. Systems and Controls

Special attention of the Council is needed in respect of the following areas of control.

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