

## **Sri Jayawardenepura Kotte Municipal Council - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Sri Jayawardenepura Kotte Municipal Council for the year ended 31 December 2022 comprising the statement of assets and liabilities as at 31 December 2022 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies was carried out 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 provisions of the National Audit Act, No. 19 of 2018 and Section 219 of the Municipal Councils Ordinance (Chapter 252). My comments and observations which I consider should be presented in 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 Sri Jayawardenepura Kotte Municipal Council as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with Public Sector Accounting Standards for Local Government Authorities.

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

A qualified opinion on financial statements will be expressed 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 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 Sri Lanka Public Sector Accounting Standards for Local Government Authorities, and for such internal control as management determines 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 Sub-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 of the Municipal Council.

#### 1.4 Scope of Audit (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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 the Municipal Council's 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 includes special provisions for following requirements.

- (a) The financial Statements of the Municipal Council are consistent with the preceding year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The recommendations made by me regarding the financial statements for the previous year have been included in the financial statements as per the requirements of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

## 1.6 Audit Observations for the Preparation of Financial Statements

### 1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Revenue from stamp duty amounting to Rs.294,619,184 received in the year under review relating to prior years, had been credited to the Revenue Account of the year under review without crediting to the accumulated fund.	This error has been noted down to be considered in the preparation of final accounts in future and recorded in the correct accounts. However, notes to accounts made at present, will not effect the final statement of financial position.	It should be accurately accounted in relevant accounts.
(b) Goods valued at Rs.1,540,980 purchased in the year under review, had been debited to the Stocks Account without debiting to the relevant Fixed Assets account.	That it has been noted down to rectify this error through Journal entries	-do-
(c) Even though the amortization value for capital grants was Rs.8,157,492 in the year under review, the sum of Rs.6,308,137 was adjusted, thus understating the amortization by Rs.1,849,292	-do-	-do-
(d) Even though a sum of Rs.10,050,000 had been accounted as expenditure on Geographic information systems in the Planning Division based on budgetary provision, no expenditure whatsoever had been incurred therefor in the year under review.	The implementation of this project had been planned to be executed by an external party selected formally. However, action is being taken to execute works of the project by employees presently deployed in the Council due to several issues arisen, it is expected to incur expenditure by management of relevant expenditure of the project and the sum allocated	-do-

as creditors is decided on the said expenditure. In case of a balance, it is expected to be written off from creditors.

- (e) Domestic borrowings and borrowings from the Development Fund amounting to Rs.103,565,540 had been indicated as the balance payable as at 31 December 2022. Nevertheless, sums of Rs.21,973,002 and Rs.81,592,538 had been indicated as short term credit (current) and long term credit (non-current) in the statement of financial position respectively.
- In the preparation of final accounts in future, they will be submitted with correct classification.
- Classifications should be made accurately.

#### 1.6.2 Lack of Documentary Evidence for Audit

Audit Observation	Comments of the Council	Recommendation
Schedules and confirmation of balances relating to 02 balances of assets accounts valued at Rs.50,724,246 and a liability account valued at Rs.7,737,850 had not been made available. As such, it could not be satisfactorily vouched in audit.	Action will be taken to check and settle.	Information required for confirming balances of assets and liabilities should be made available.

#### 1.7 Non-compliances

##### 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	Non-compliance	Comments of the Council	Recommendation
(a) (i) Financial Regulation 396	Action had not been taken in terms of the Regulation relating to payable but outstanding cheques valued at Rs.2,398,783.	Action is being taken to settle in terms of F.R.396.	Action should be taken in terms of Financial Regulations.
(ii) Financial Regulation 571	Deposits valued at Rs.2,533,095 lapsed over 02 years from the date of deposit, had not been settled.	Action is being taken in terms of F.R.571 relating to lapsed deposits.	-do-

## Other Circulars

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National Environment Act, No.47 of 1980 and the Gazette Notification No.1533/16 of 25.01.2008	According to the group classification, of 508 factories for which the Council should issue environmental protection licenses, only 26 institutions had obtained the said licenses.	Environmental Protection Licenses have been formally issued for the year 2023 by now.	Action should be taken to find out the institutions which have not obtained permits and to issue them.
(b) Circular No.WP/LGD/01/2012 of 01 July 2012 of the Department of Local Government, Western Province	In terms of instructions of paragraph xvi of the circular, even though the said planning committees should be held for more than two hours at maximum, some officers had been paid without confirming such details.	Replies have not been made.	Action should be taken in terms of circulars.

## 2 Financial Review

### 2.1 Financial Results

According to the financial statements presented, excess of revenue over expenditure of the Council for the year ended 31 December 2022 amounted to Rs. 305,213,090 as compared with excess of revenue over expenditure amounting to Rs. 161,796,825 in the preceding year.

### 2.2 Financial Control

Audit Observation	Comments of the Council	Recommendation
According to the statement of bank reconciliation as at 31 December in a bank current account, bank charges and direct bank debits were Rs.106,216, Rs.4,587 and Rs.1,575 in the years 2020, 2021 and 2022 respectively and those balances had not been specifically identified and accounted.	According to bank statements provided by the bank in the years 2020/2021, direct bank debits have been identified and it had been the overpayment occurred due to being recorded twice in entering the online payments (overtime/holiday pay) made to employees. Action is being taken to settle same after obtaining details thereon.	Relevant settlements should be made.

### 2.3 Control of Revenue

#### 2.3.1 Revenue estimated, billed, collected and in arrears

Details on revenue estimated, billed, collected and in arrears presented relating to the year under review and the preceding year are as follows.

Source of Revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December 2021	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December 2021
	Rs. '000	Rs. '000	Rs. '000	Rs '000	Rs. '000	Rs. '000	Rs '000	Rs. '000
(i) Rates and Taxes	248,500	256,056	207,781	173,684	252,600	232,669	246,987	136,885
(ii) Rentals	74,181	75,250	77,390	31,776	54,654	38,799	60,899	45,006
(iii) License Fees	20,500	27,555	27,570	-	10,000	5,239	28,062	-
(iv) Other Revenue	114	106	115	3	1,059,805	4,312	877,070	4,247
	<u>343,295</u>	<u>358,967</u>	<u>312,856</u>	<u>205,463</u>	<u>1,377,059</u>	<u>281,019</u>	<u>1,213,018</u>	<u>186,138</u>

### 2.3.2 Performance of Revenue Collection

Audit Observation	Comments of the Council	Recommendation
(a) The balance of rates and taxes recoverable as at the end of the year under review was Rs.158,305,993 of which a sum of Rs.63,065,594 was recoverable from 477 houses, vacant lands and business premises whose annual rates and tax value exceeded Rs.50,000.	Red notices have been issued in this regard. Measures have been taken to recover arrears of rates and taxes.	Arrears of rates and taxes should be recovered in terms of provisions in the Act.
(b) The lease rental and rental recoverable since November 2018 from the cinema hall on the 10 <sup>th</sup> floor of the Janajaya City super market complex and 219 other stalls in the market complex were Rs.3,879,571 and Rs.17,402,694 respectively.	Action was taken to seal and take over 219 stalls and most stall owners have paid the dues and removed the seals by now.	Rentals recoverable should be recovered as per the lease agreement.
(c) As 14 stalls in the Janajaya City remain vacant for a long period, the revenue receivable to the Council therefrom was lost.	The 11 remaining stalls mentioned in the audit report are to be tendered and they have been referred to the Valuation Department for obtaining the valuation of those stalls.	Strategies should be planned to lease out the stalls of the Janajaya City that have not been leased out.

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| (d) | Angampitiya houses had been provided to homeless people on rental basis in the years 2015/2016 by the Kotte Urban Council and the housing rental recoverable to the Council from 3 house owners for about a period of 3 years by the end of the year under review was Rs.173,500.                  | Garbage tax is being recovered since 09.09.2022 by the Mixed Income Department and arrears of lease are being recovered. | Action should be taken to recover arrears of lease.   |
| (e) | The balance of garbage tax recoverable as at 31 December of the year under review from business premises in the jurisdiction of the Council was Rs.4,001,126.  | Garbage tax is being recovered since 09.09.2022 by the Mixed Income Department and arrears of lease are being recovered. | -do-  |
| (f) | Action had not been taken to prepare schedules and identify revenue for court fees receivable as at 31 December 2022 from the Chief Secretary of the Provincial Council and other authorities and the revenue receivable from court fees in the year under review had not been brought to account. | Employees have been engaged in the activities of recovering penalties and it is being carried out by now.                | -do-  |
| (g) | As schedules of stamp duty relating to the year had not been prepared, the accurate arrears relevant to the year could not be identified.  | Action is being taken to rectify that deficiency.  | Action should be taken to prepare relevant schedules, identify arrears and to recover them. |

### 3 Operating Review

#### 3.1 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) A survey had not been conducted on properties subjected to the industrial tax and business tax.	The survey on businesses are being conducted by now. Accordingly, it is expected to take future measures on recovery of tax.	Tax money should be duly recovered.
(b) Even though in terms of Guideline 9.8 of the Government Procurement Guidelines, electronic submission of	Electronic mail was used for this purpose as it has been permitted by Electronic Transactions Act,	If electronic procurement is carried out, relevant control

<p>bids is not allowed, quotations have been sent for by electronic mail and procured computers and accessories valued at Rs.5,136,200.</p>	<p>No.19 of 2006 to submit bids through electronic media and as the postal activities were not in proper operation due to the unstable condition in the country as a result of the Covid pandemic.</p>	<p>systems should be followed to ensure the confidentiality of bids.</p>
<p>(c) Lands and buildings existed before the year 2020 owned by the Council had not been revalued and brought to account.</p>	<p>Action is being taken to refer to the Valuation Department for assessment of buildings and it is expected be sign the agreement after obtaining assessment values.</p>	<p>Should be accounted after obtaining assessment values.</p>
<p>(d) The reason to remove the Sri Lanka Insurance Corporation, which had submitted the minimum quotation for insuring the Janajaya City building, from the insurance activities of the Council had not been mentioned in the decision of the Annual General Meeting. Moreover, the Council had selected the fifth bid indicating the minimum quotation for the Janajaya City building without a proper evaluation of bids and a sum of Rs.491,221 had been paid in addition to the agreed value. Moreover, the Technical Evaluation Committee had removed an insurance company which had fulfilled all specifications, from the bid evaluation process.</p>	<p>Has been awarded on the recommendations of the Technical Evaluation Committee.</p>	<p>Action should be taken as per Procurement Rules.</p>

### 3.2 Identified Losses

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
<p>(a) The Medical Officer who served in the Council had left the Council on transfer and action had not been taken to recover the excess overtime payment of Rs.716,919.</p>	<p>The sum of excess overtime of Rs.716,919 obtained by the Medical Officer who served in the Council had been identified and overtime of 2 months to be paid was withheld and the relevant Medical Officer who transferred out had been made aware of it. Action is being</p>	<p>Action should be taken to recover overpayments.</p>

taken to recover the remaining money in terms of Financial Regulations by informing his new work place.

- (b) The sum of Rs.244,405 recoverable to the Council from 17 employees who have taken leave without pay after expiry of casual leave, had not been recovered.
- The Municipal Commissioner has indicated relating to obtaining local and foreign leave formally as per Internal Circular No.06/2022 of 25.10.2022. Instructions have been given to recover money from employees who have obtained leave without pay.
- Action should be taken to recover relevant values.

### **3.3 Human Resource Management**

The Council had not taken proper measures relating to the recovery of employees' loans valued at Rs.2,171,860 remaining unrecovered for a long period.

They were vacancies arisen due to officers who transferred, retired, left the service and deceased.

Action should be taken to recover the said amounts.