

Colombo Municipal Council - 2023

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Colombo Municipal Council for the year ended 31 December 2023 comprising the statement of assets and liabilities as at 31 December 2023 and the statements of comprehensive income, statement of changes in 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 reported to Parliament appear in this report.

I do not express an opinion on the financial statements of the Colombo Municipal Council. Because of the significance of the matters described in the Section 1.6 in this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

I express disclaimer of opinion based on the matters described in paragraph 1.6 of this report.

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 responsibility is to conduct the audit of the Municipal Council financial statements in accordance with Sri Lanka Auditing Standards. And to issue an auditor's report. However, because of the matters described in, "Basis for Disclaimer of Opinion" paragraph, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.5 Report on other Regulatory Requirements

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

- a) The financial statements of the Municipal Councils 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.
- 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 Related on the Preparation of Financial Statements

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

Non-compliance with the Reference to Relevant Standard Audit Observation	Comment of the Council	Recommendation
(a) A total of Rs. 1,913,188,795 consisting of mobilization advance and interim payments made to contractors for construction and development work during the year, was not shown as a separate item in the property plant and equipment register, as per the guidelines under EG 3.1 regarding standards on work-in-progress.	Not replied.	According to the standard, payments for work-in-progress should be accounted for through a work-in-progress account, and once construction is completed and the final payments are made, they should be transferred to the fixed asset account.
(b) A sum of Rs. 18,678,077,179 invested in improving the Colombo Municipal Council's sewage system under the Asian Development Bank loan, as of 31 December 2023, was not disclosed in the financial statements as per Section 3.20 of the standard.	Do	Assets should be accounted for and the necessary disclosures should be made according to the standard.

1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Council	Recommendation
(a) Although the total balance of the two current accounts maintained at People's Bank was Rs.704,942,158 according to the cash books, the amount recorded in the assets and liabilities statement as of 31 December 2023 was Rs.725,056,999 resulting in an overstatement of Rs.20,271,585 in the accounts.	Not replied	Corrections should be made by reconciling the balances in the People's Bank accounts and cash books.
(b) The total amount of Rs. 940,454,269 consisting of creditors arising from the purchase of fixed assets and creditors related to contract payments, which was included in the creditors balance as of 31 December 2022, was ruled out from the accumulated fund for the year under review.	Do	The nature of the creditors should be identified, and the accounts should be accurately recorded.
(c) Due to the receipt of 13 new fire extinguisher trucks from the Ministry of Provincial Councils and Local Government, 15 fire extinguisher trucks with a total value of Rs. 123,105,831 that were being used by the Colombo Municipal Council were handed over to provincial institutions in 2022. Although the Municipal Commissioner informed that the accounting adjustments would be made in 2023, the adjustments for 8 fire extinguisher trucks with a total value of Rs. 85,993,586 had not been carried out.	Not commented	After identifying the cost of the 8 transferred vehicles, that cost should be assigned to the provincial institutions, and the accurate value must be stated in the accounts.
(d) Although a depreciation rate of 10 per cent was disclosed for library books, they were not accounted for as fixed assets. The cost of purchasing books, amounting to Rs. 11,952,410 during the year under review, had been accounted for as an expense.	Not commented	Accuracy should be ensured in the process of accounting.

1.6.3 Lack of Documentary Evidence for Audit

	Item	Amount Rs.	Audit Evidence not presented	Comment of the Council	Recommendation
(a)	The fixed assets module in the property, plant, and equipment accounting system	22,427,931,916	Detailed information	Not replied	Detailed information regarding assets should be included in the fixed assets module of the accounting information system.
(b)	Twenty nine payable deposit accounts.	3,677,669,861	Documents and registers	Do	Documents and registers related to the verification should be submitted.
(c)	Payments made in advance	16,566,011	Supporting evidence	Do	Supporting evidence must be submitted for audit
(d)	Advance	2,910,316	Information containing the details of officers or employees who obtained salary advances	Do	Do
(e)	Cash in hand and cheques	9,288,091	Balance confirmations	Do	Balance confirmations should be furnished for audit.

1.7 Non-compliance

1.7.1 Non-compliance with laws, regulations, and management decisions

Instances of non-compliance with laws, regulations, and management decisions are as follows.

	Reference to laws, regulations, and management decisions	Non-compliance	Comment of the Council	Recommendation
(a)	Establishments Code of the Democratic Socialist Republic of Sri Lanka			
i.	Section 3.1 of Chapter VIII	When both managers of the public market stores were on duty, an amount of Rs. 87,671 had been unnecessarily paid for overtime solely in December 2023 without any basis.	Not commented	Costs should be managed by avoiding the assignment of overtime work without a valid basis.

ii. Section 22.4 of Chapter XXII	A report on the 20 employees attached to the Urban Secretary's Department who received unpaid leave in the year 2023 had not been sent to the Auditor General	Not commented	Information regarding unpaid leave should be reported to the Auditor General by Form General 96.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	F.R.570 F.R. 571	The value of the nine deposits, totaling Rs. 229,964 which remained unchanged for a long time had not been disposed of.	Do Action should be taken in accordance with Financial Regulations.
(c) Section 9 of Circular No. SEI/A/4/34 dated 12 July 1995 of the Secretary to the President.	Activities such as renewing agreements related to lands leased to private parties, ensuring the prevention of arrears accumulation, monitoring compliance with contract terms, and recovery of possession of properties in cases of breaches of conditions were not carried out, and the outstanding tax rental of as at 31 December 2023 amounted to Rs. 111,335,194	Do	Actions regarding taxable properties should be carried out in accordance with the circular instructions.
(d) Public Administration Circulars.	i. 22/99 dated 08.10.1999 and 5/2016 dated 09.03.2016 19/2007 dated 08.08.2007 23/2007 dated 23.10.2007 14/2008 dated 26.06.2008 05/2016(1) dated 07.09.2016	Contrary to the circular instructions, a transportation allowance of Rs. 588,630 had been paid to the Deputy Chief Ayurvedic Medical Officer for the period from August 2023 to January 2024 despite the position not being entitled to an official vehicle.	Not replied. Actions should be taken to recover the payments made in violation of the circular instructions.

<p>ii. Sub-section 1A of the Circular No. 22/99 dated 08.10.1999 and Circular No. 22/99(XXXIII) dated 07.11.2017.</p>	<p>According to decision No. 1231 dated 17 September 2010 from the Special Commissioner of the Colombo Municipal Council, 27 Class I officers of the Sri Lanka Engineering Service and an accountant, who were not entitled to official vehicles, had been allocated official vehicles and permitted to use them for a fee of Rs. 350 regardless of the municipal limits.</p>	<p>Do</p>	<p>Actions should be taken in accordance with the circular instructions.</p>
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2. Financial Review

2.1 Financial Results

According to the financial statements submitted, the income over expenditure of the Council for the year ended 31 December 2023 was Rs. 2,940,432,774 while the corresponding income over expenditure for the previous year was Rs. 2,905,893,767.

2.2 Financial Control

Audit Observation	Comment of the Council	Recommendation
<p>(a) The direct or erroneous credits amounting to Rs. 60,252,835 related to the 03 current accounts and the direct or erroneous debits amounting to Rs. 14,662,980 associated with the 05 current accounts maintained by the Council had not been not identified and settled.</p>	<p>Not commented.</p>	<p>Steps should be taken to identify and promptly settle the direct or erroneous debits and credits.</p>
<p>(b) No appropriate actions were taken regarding 50 unrealized deposits totaling Rs. 1,320,517 for the years 2021 and 2022.</p>	<p>Do</p>	<p>Actions should be taken to recover funds related to unrealized deposits.</p>
<p>(c) No actions had been taken in accordance with Financial Regulation 396 (d) to settle 511 cheques totaling Rs. 25,144,846 that had elapsed for six months but not presented for payment.</p>	<p>Do</p>	<p>Action should be taken in accordance with Financial Regulations.</p>
<p>(d) Out of the funds deposited in the bank account established for implementing urban development projects, Rs. 766,951,035 had been invested in fixed deposits without being implemented urban development projects. The balance in the bank account as at 30 September 2023 was Rs. 134,950,233.</p>	<p>Do</p>	<p>The money in the urban development account should be utilized for development projects.</p>

2.3 Revenue Administration

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

Information presented by the Municipal Commissioner relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Source of Revenue	Estimated Revenue Rs.Million	2023			2022			Arrears as at 31 December Rs.Million
		Revenue Billed Rs.Million	Revenue Collected Rs.Million	Arrears as at 31 December Rs.Million	Estimated Revenue Rs.Million	Revenue Billed Rs.Million	Revenue Collected Rs.Million	
i. Rates and Taxes	7,366.5	5,430.3	5,565.7	4,492.1	5,160.5	4,358.4	4,166.2	4,368.2
ii. Rent	319.8	309.2	226.6	1,235.1	335.8	271.9	191.7	1,177.8
iii. License fees	126.3	162.2	98.6	4.5	221.9	89.9	67.6	1.8
iv. Other revenue	<u>2,714.6</u>	<u>2,093.8</u>	<u>1,841.3</u>	<u>438.2</u>	<u>3,511.6</u>	<u>1,318.7</u>	<u>1,052.2</u>	<u>679.6</u>
Total	<u>10,527.2</u>	<u>7,995.2</u>	<u>7,732.2</u>	<u>6,169.9</u>	<u>9,229.8</u>	<u>6,038.9</u>	<u>5,477.7</u>	<u>6,227.4</u>

2.3.2 Performance in Revenue Collection

The observations related to the revenue collection performance of the Municipal Council are as follows

Audit Observation	Comment of the Council	Recommendation
(a) Rates and Taxes		
i Of the outstanding rates and tax amounting to Rs. 4,316,776,152 as of 01 January 2023, only Rs. 933,100,725 or approximately 22 percent of the outstanding rates related to years preceding the year under review, had been recovered during the year under review. Although Rs. 933,100,725 was recovered from the balance outstanding at the beginning of the year, the arrears for the year under review stood at Rs. 1,353,476,656 leading to an increase in outstanding rates. Accordingly, the collection of arrears remained at a very poor level. Allowing the payment of rates for the year under review, despite previous years' arrears still being outstanding, further contributed to the increase in arrears.	Not replied.	Actions should be taken in accordance with the provisions of the Municipal Council Ordinance.

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| ii. | In the process of making rate payments through the bank, no agreement has yet been reached with the bank receiving these rates to ensure proper acceptance of funds after the cashier verifies whether the correct property information is included. Consequently, as of 31 December 2023, the balance in the Contingent Account pertaining to rate collection stood at Rs. 2,921,660. | Not replied. | There should be a formal agreement with the banks regarding the collection of rate payments |
| iii. | Compared to the previous year's entertainment tax revenue of Rs. 128,147,498, the entertainment tax revenue for the year under review was Rs. 167,450,662 representing a 30 per cent increase. When preparing the budgeted revenue of Rs. 80,000,000 for 2023, the failure to reasonably estimate the entertainment tax revenue resulted in a revenue variation of over 109 per cent. | Not replied | Realistic estimates should be prepared. |
| iv | As of 31 December 2022, the outstanding entertainment tax amount was Rs. 51,428,430 which increased to Rs. 77,513,277 by 31 December 2023. Although Rs. 11,256,465 was collected from the amount that remained outstanding at the beginning of the year, the weakness in the collection of billed revenue contributed to the rise in the outstanding amount. | Do | All necessary measures should be taken to collect both the outstanding amounts and the billed revenue during the year. |
| v. | According to the by-laws enacted on three occasions for the cinema halls operating within the jurisdiction of Colombo Municipal Council, although it is mandatory to obtain annual licenses under the Public Performance Ordinance for conducting screening activities, 10 out of 34 cinema halls had carried out daily screenings without obtaining this license for the year 2023. Furthermore, they have not complied with sections 6, 12 and 14 of the Entertainment Tax Ordinance No. 12 of 1946 as amended by the Entertainment Tax (Amendment) Act No. 37 of 1984. | Do | Actions should be taken in accordance with the Act. |

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| <p>vi Under the amended Entertainment Tax Ordinance No. 37 of 1984, which modifies the Entertainment Tax Ordinance No. 12 of 1946, the entertainment tax percentage adopted by the Council's Resolution No. 1793 dated 10 February 2022, was submitted for the approval of the Western Province Governor under subsection 2(1) of the said Ordinance for the re-imposition of the statement and terms of the tax levied on the entrance fee for entertainment activities for the ensuing years. However, the tax amount collected was deemed invalid due to the absence of further actions taken regarding this matter.</p> | <p>Do</p> | <p>The Municipal Council should take measures to legally levy the entertainment tax.</p> |
| <p>(b) Rental</p> | | |
| <p>i. The tender amount for public market rentals and meat shops in the year 2023 was Rs. 114,518,769. In the 14 public markets owned by the Colombo Municipal Council, there were 1,314 shops and open stalls excluding meat shops. Among these, 1,118 stalls could be leased, while 196 remained idle. The rent that should have been collected from the leased stalls for the year 2023 was Rs. 214,744,398. However, the rent actually collected was only Rs. 50,000,294 resulting in an arrears of Rs. 164,744,104 solely for the year under review. Accordingly, the collection percentage for the rent was 23 percent, indicating a significant deficiency in collection.</p> | <p>Not replied</p> | <p>Officials should ensure the collection of revenue from the properties owned by the Municipal Council.</p> |
| <p>ii. The retired employees have been unlawfully occupying the 397 official residences of the Municipal Council for over 10 years. The monthly rent for these residences ranges from Rs. 3 to Rs. 200 and the amount accounted for as arrears for the year 2023 was Rs. 180,043. However, no adequate measures had been taken for the reacquisition of these residences.</p> | <p>Not replied</p> | <p>Priority should be given to legal proceedings aimed at repossessing the residences and vacating the land.</p> |

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| <p>iii. Due to the failure to collect rent from the business establishments owned by the Municipal Council and the lack of action to repossess the stalls that are not paying rent, the arrears rent, which was Rs. 98,495,941 in 2022, had increased to Rs. 103,116,196 by Rs. 4,620,255 as of 31 December 2023, confirming poor progress in rent collection.</p> | <p>Do</p> | <p>Legal actions regarding the non-paying business establishments should be expedited according to the terms of the agreements.</p> |
| <p>iv. The rental income from the pavement stalls accounted for the year under review was Rs.142,420,482, while only Rs. 93,459,797 had been received during the year. Due to the continuous failure to receive the prescribed rent throughout the year, the arrears rent amounted to Rs. 655,040,434.</p> | <p>Do</p> | <p>Action should be taken to prevent the accounting of false rent without the identification of individuals.</p> |
| <p>(c) License Fees</p> | | |
| <p>i. The license fee income for the year under amounted to Rs.53,269,000, which is Rs.33,520,088 more than the previous year's income of Rs.19,748,912 reflecting an increase of 170 per cent. Under Section 247(a) of the Municipal Council Ordinance, a license is required for the use of any space for activities described under this ordinance or any by-laws made under it. However, licenses had been issued, and fees had been collected in violation of the law without the necessary regulations being approved.</p> | <p>Do</p> | <p>For all types of businesses not regulated under any other authority, licenses should be issued by adopting by-laws in accordance with the provisions of the Municipal Council Ordinance.</p> |
| <p>ii. The business tax revenue for the review year was Rs. 60,718,500 reflecting an increase of Rs.28,633,750 or 89 per cent compared to the previous year's business tax revenue of Rs.32,084,750. However, due to the Municipal Council levying a business tax without issuing licenses through an adopted by-law, businesses had been operated beyond the Council's control. This had led to inadequate provision of quality, health-safe goods and services to consumers, exposing them to injustices, causing public nuisance, environmental pollution, traffic congestion, and instances of unlicensed business activities</p> | <p>Do</p> | <p>Taxes should be levied on businesses that do not obtain licenses under the Municipal Council's by-laws.</p> |

(d) Other Income

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| <p>i. Revenue from billboard displays in 2023 reached Rs. 87,379,967 representing a 104 per cent increase relative to the revenue of Rs. 42,699,478 in the previous year. Nevertheless, the failure to implement adequate actions to collect lawful fees from billboards displayed in Colombo city resulted in a loss of revenue.</p> | Not replied | Although a large number of billboards have been displayed within the Colombo city area, the Municipal Council receives only minimal revenue from them. Therefore, actions should be taken in accordance with by-laws. |
| <p>ii. Fees for advertising in the Colombo Municipal Council were fixed through the by-law on advertising, published in the Extraordinary Gazette No. 1713/10, dated 05 July 2011, by the Minister of Local Government of the Western Province. However, while charges set by the Commissioner in 2017 were being collected, no action was taken to make these fees legally binding.</p> | Do | In accordance with the provisions of the Municipal Council Ordinance, charges should be publicly announced and collected in a lawful manner. |
| <p>iii. Although the budgeted revenue for the year 2023 for commercial and industrial sewerage services in the year under review is Rs.600,000,000 such revenue could not be collected due to the absence of approval of the minister in charge of the subject for the council adopted draft by-laws to collect that revenue.</p> | Do | Actions should be taken in accordance with the guidance provided by the honourable Governor of the Western Province. |
| <p>iv. The revenue from parking vehicle for the year under review amounted to Rs.362,007,830 reflecting a 44 per cent increase compared to the previous year's revenue of Rs.250,596,742. However, despite the reduction of the outstanding balance by Rs. 91,313,378 during the year from the initial arrears of Rs. 525,292,069 at the beginning of the year, the arrears increased to Rs. 590,571,051 reflecting a 12 per cent rise by 31 December 2023. The poor level of revenue collection from vehicle parking contractors had contributed to this issue.</p> | Do | As this is a fee levied on behalf of the Colombo Municipal Council, measures should be taken to ensure the timely collection of vehicle parking fees for the Council. |

3. Operating Review

3.1 Execution of duties assigned by the Act

Audit Observation	Comment of the Council	Recommendation
(a) The Council had identified approximately 20 locations in Colombo that can flood even under typical rainfall conditions. However, during the review year, it was not possible to achieve the physical and financial progress needed for the proposed projects aimed at mitigating the flooding conditions caused by rainwater drainage, nor to award the related contracts.	Audit observations are agreed upon.	Remedial measures regarding the identified locations should be expedited.
(b) With funding from the World Bank, the Colombo city-related Noris Canal development project implemented under the Ministry of Urban Development and Housing had initiated the construction of a new drainage channel measuring 632 meters to facilitate the rapid discharge of rainwater into the Beire Lake. However, the contract could not be completed due to a dilapidated housing complex of 36 houses owned by the Municipal Council. To complete the remaining 105 meters of the channel, an allocation of Rs. 150 million was made under the Ministry of Urban Development and Housing during the year under review. Since the measures to remove the residents were not carried out promptly, the Municipal Council was unable to use the allocated funds, resulting in the failure to prevent rainwater from flooding Maradana Deans road.	While efforts are ongoing to address the issues arising during the removal of residents and the acquisition of the land, delays from the water supply and drainage sector also persist as actions are taken in accordance with court orders, and relevant officials have been instructed accordingly.	Priority should be given to completing the construction activities of the project.
(c) The Land Development Corporation had laid a 24-inch concrete pipe approximately 180 meters long for rainwater drainage on Sangharaja Mawatha several years ago. While the obstruction that hindered the completion of the last 10 meters had been cleared, the responsible officials from the Colombo Municipal Council failed to complete the project. Consequently, rainwater was unable to flow off the street, even during light rains, resulting in flooding.	The issue was resolved on 19.01.2024.	The remaining work on the project should be completed immediately.

3.2 Unidentified Losses

Audit Observation	Comment of the Council	Recommendation
(a) i. No inventory records had been maintained in accordance with F.R. 751(1), for equipment and household items for the Mayor's official residence, a building of historic value located in Colombo.	Since the year 2016, inventory records have not been maintained, and no verification of stores have been conducted. The committee appointed to rectify these deficiencies is currently correcting such deficiencies.	Stores verification should be conducted after updating the Inventory records.
ii. No action had been taken to recover losses from the responsible individuals regarding the misplacement of equipment and household items with a total value of Rs. 560,250 purchased in 2018, 2019 and 2020.	Not replied	Actions should be taken to recover losses from the responsible individuals.
iii. Action was not taken to recover outstanding amounts from the former Mayor, including Rs.107,472 for 2 water connections and Rs.49,289 for overdue payments on 3 fixed telephone connections and internet services for the official residence for the relevant period.	Do	Actions should be taken to recover the outstanding amounts mentioned in the bills relevant to the period when the former mayor resided there.
(b) A formal investigation was not conducted into the damage to the gearbox of the jeep operated by the former Municipal Commissioner without authorization. After the garage completed repairs and issued an invoice for Rs. 930,000 on 15 August 2022, no action was taken to make the payment and retrieve the vehicle, which was allowed to retain at a private garage.	Not replied	Actions should be taken to release the vehicle by settling payments, and if any loss has been revealed according to a formal investigation, it should be recovered.

3.3 Management Inefficiencies

Audit Observation	Comment of the Council	Recommendation
(a) Out of the creditors value totaling Rs. 6,031,795,723 from 2017 to 31 December 2022, the total payments during the year under review was Rs.1,402,687,587 or 23 per cent, and management of sundry creditors remained at a poor level.	Not replied	The accounting of creditors should be done under a systematic management system.

(b) Actions had not been taken to settle 4 longstanding balances totaling Rs. 17,057,736 and a debit balance of Rs. 817,585, accounted for under refundable deposits in the Statement of Assets and Liabilities.	Do	Steps must be taken to credit lapsed deposits to the revenue and the debit balances should be settled.
(c) No action was taken to settle the fictitious cash balances totaling Rs. 3,934,868 that continued to exist under cash and cash equivalents for several years.	Do	All funds that do not genuinely exist should be investigated and settled.
(d) No action had been taken to settle the 10 unidentified account balances totaling Rs. 5,426,492 included in previous payments and the advance value.	Do	Unidentified advance account balances that do not really exist should be settled.
(e) Out of the 24 audit queries issued for the year ending 31 December 2023, responses were not provided for 18 queries, with response delays ranging from 01 to 10 months.	Do	The internal control system should be strengthened to provide responses to audit inquiries within the stipulated deadlines.

3.4 Operating Inefficiencies

Audit Observation	Comment of the Council	Recommendation
(a) Only goats are slaughtered at the Colombo Municipal slaughterhouse, whereas beef is transported to the Colombo slaughterhouse from local authority areas like Vavuniya, Horowpothana, Galenbindunuwewa, Kahatagahasdigiliya, Galgamuwa, Central Nuwaragam Palatha, Mihintale, and Giribawa, and then delivered to beef shops in Colombo. Although the transport of beef from the local authority areas to the Colombo Municipal Council's slaughterhouse is completely contrary to the existing interim regulations, this practice has been ongoing for 4 decades. Requests for the necessary amendments to the interim regulations and for the formulation of laws that should take place at the national level have also not been made to the relevant authorities.	Not replied.	Information should be provided for the amendment of the by-law and for the legal enactments that should take place at the national and provincial council levels.

<p>(b) The fee for beef inspection was set at Rs. 5 cents per animal, and since there has been no amendment to the fee since 27 February 1959, the Council decision numbered 3516 dated 27 December 2022, established the service fees for meat inspection at Rs. 1,500 for a cow, Rs. 1,500 for a pig, and Rs. 600 for a goat. Due to the failure to publish and charge these fees, a revenue loss of Rs. 43,126,800 had occurred.</p>	Do	Actions should be taken against non-compliance with council decisions and against the loss of revenue
<p>(c) The "Old Town Hall Center" and the ancient Edimborough Hall, located on the main street of Pettah in Colombo 11, were re-established as a museum and cultural arts and commercial center by His Excellency the President and the Honorable Prime Minister on 16 February 1984, and designated a historic monument by the Gazette of the Democratic Socialist Republic of Sri Lanka number 1873/73, dated 16 August 2013; however, they have been permitted for commercial use in a manner that suppresses their intended objectives and detracts from the historical significance and prestige of the structure.</p>	Actions are being taken to formalize the adverse situation.	Since it is a place capable of attracting foreign and domestic tourists, efforts should be made to protect the ancient monuments.
<p>(d) The number of shops rented in the Old Town Hall was 48, and the monthly rent should have been revised every five years. Accordingly, the municipal assessor had assessed the rent to be charged from 01 January 2012 on 29 June 2012, and forwarded it to the Assistant Treasurer (Revenue). However, due to the failure to update the computer system and charge the revised rent, the municipal council lost Rs. 27,958,260 from 01 January 2012 to 31 December 2022.</p>	Action will be taken to conduct further investigations to ascertain whether a loss of Rs. 27,958,260 has occurred,	The losses incurred should be recovered from the responsible officials.
<p>(e) Due to the failure of the officer in charge of the subject to collect the assessed rent in the year 2012 within the stipulated time, actions had been taken in May 2023 to charge that assessed rent. Consequently, owing to collecting a previously determined rent overriding the new assessments that should have been conducted in 2017 and 2022 resulted in the loss of the fair rent that should be charged from 2023 onward.</p>	Action will be taken to conduct further investigations to ascertain whether a loss occurred.	Action should be taken against the officials regarding their negligence.
<p>(f) Although a year had passed since the date by which the rent revision for the public markets related to the year 2022 should have been carried out when the assessment was received on 30 January 2023, the Municipal Council lost Rs. 7,862,400 due to the failure to charge rent according to the new assessment and update the computer system.</p>	Not replied	Action should be taken to recover the dues from the responsible officers.

- (g) According to the directives issued by the Governor through the letter number GOS/LES/2020 dated 08 July 2020, of the Western Provincial Governor's Secretary addressed the Chief Secretary and in accordance with the Provincial Commissioner of Local Government's circular number LGD/13/2016(1) dated 03 December 2020, the rent for the market shops should be revised every three years based on the assessment conducted by the government assessor from the date of the agreement. Although the rent for market shops belonging to the Colombo Municipal Council has been revised every five years, the last time a substantial number of shop rents were revised was in 2017.
- Do Attention should be directed towards the directives of the Governor and the guidelines issued by the Commissioner of Local Authority and to ensure that rent assessments are revised and collected within the stipulated timeframe.
- (h) The revised rent submitted by the municipal assessor for the shops at Boraesgamuwa public market as per the Financial Management Committee's decision to revise public market rents in 2017 showed considerable variation, with some shop rents decreasing by about 33 per cent, while the rent for another shop at that market increased by an astonishing 824 per cent. The basis contributed it was not confirmed during the audit. Accordingly, it was noted that an unbiased and fair rental assessment had not been conducted by the municipal assessor, and in response to repeated requests from the trading community regarding the municipal assessor's rental assessment, it was decided to reduce the proposed rent by 20 per cent by the special commissioner. Accordingly, the council had not paid attention to the fact that after the increase in shop rents, which occurred after a span of 10 and 17 years, the rents for 26 shops were lower than the rents in 2016.
- Do A fair rental assessment must be conducted, and when there is a dispute regarding the assessed rent, a re-evaluation should be carried out to ensure that actions are not taken contrary to the law.
- (i) In the Kirulapone market, a daily rental fee of Rs. 50 was collected from vendors conducting daily trades, and 68 stalls (*Bakki*) were assigned under series of general guidelines. While the sale of food items was restricted according to the guidelines and conditions outlined in number 05, it was noted that a permanent shop was established using aluminum and glass at location 29A, where a restaurant was operated, paying only Rs. 55 in rent. The shop utilized public electricity and water for refrigeration, electric fans, Nescafé machines, electric kettles, and a radio, but no action was taken to recover the possession of the shop and levy charges for the misuse of electricity and water.
- Do Steps should be taken to recover the possession of the business premises to recover the charges related to the misuse of electricity and water.

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| <p>(j) While the Municipal Council experienced a loss of income due to the closure of 171 shops in the four-story building of the Borella public market, which consists of 369 shops and a vehicle parking area on the ground floor, according to a tender announcement made on 19 January 2022, a businessman offered a tender of Rs. 2,071,000 for the shops numbered 7/2/2G, 7/2/2H, 7/2/25, and 7/2/2M. After receiving the council's approval on 30 April 2023, an amount of Rs. 3,002,392 was charged, but as of 30 May 2024, no steps had been taken to hand over the shops.</p> | Do | The public market should be renovated as much as possible, and arrangements should be made to lease the closed shops through a tender process. |
| <p>(k) According to Section 16 of the main charter, amended by Section 7 of the Licensing of Clubs Act No. 38 of 1987, 11 specific conditions have been presented that must be fulfilled at any premises where the social club operates or intends to operate. Licenses should only be issued if these conditions are met. Furthermore, under Section (2) 2 of the same Act, a social club established after the Act came into effect should not be issued or renewed license unless it is registered under the Societies Ordinance or established by an Act of Parliament. However, licenses were issued to 25 social clubs without due consideration of these conditions.</p> | Do | Actions must be taken to grant licenses to clubs as stipulated by the law. |
| <p>(l) The plot of land containing 02 roods and 39 perches located on R.A. De Mel Mawatha, owned by the Colombo Municipal Council, was leased on 14 September 1983 for 99 years at an annual rental of Rs. 1200 through a lease agreement for religious purposes without charging the assessed rental value. By violating Condition 02 of the lease agreement, the owner had sublet parts of the land and the buildings on Lots 1, 2, and 3 mentioned in the No. 11 – 2009 transferred back to the Municipal Council as per cancellation deed No. 3772 have not been taken under the Council's control, allowing further misuse of Council property. Although a decision was made to take disciplinary action against officials who assisted and concealed fraudulent commercial activities, such as approving building plans and assigning assessment numbers, no such disciplinary actions have been taken. Consequently, with ongoing support from officials, Municipal Council property continues to be misused to this day. Furthermore, although the Presidential Secretariat agreed to pay the rental fees to the Colombo Municipal Council, no further action was taken to collect these payments for the Council.</p> | Not replied. | Since the ownership of the land and the building belongs to the municipal council, immediate action should be taken to recover the possession and either re-rent it or utilize it for the activities of the municipal council. Efforts should be made to obtain the funds agreed upon by the Presidential Secretariat for payment. |

<p>(m) (i) While a land measuring 38.32 perches, located at Nos. 319 and 323 Old Yawn Street, was leased to an individual on 09 December 1983, for a long-term period of 99 years by a lease agreement, this leasehold right was transferred as a commercial establishment for a period of 99 years starting from 09 December 1983 by the Deed No. 964. As the lessee had not paid the due ground rent, an arbitrary process and a legal procedure were initiated aiming at collecting the outstanding rent. However, the writ order issued by the High Court decision dated 21 November 2007, was also not enforced. Although Case No. HCARB1571/2003 filed in the High Court was concluded with an agreement to settle the full outstanding amount within the next 10 years, by 30 June 2024, the lessee had still not paid the full outstanding amount of Rs. 20,823,102, which was due by 31 August 2019. However, no action had been taken against the lessee.</p>	Do	Action must be taken to recover the overdue rent by taking over of the business establishment.
<p>(ii) Furthermore, although there was an agreement to construct a reception hall of the same size on the fourth floor as a replacement for the original reception hall at the time of leasing this land to the lessee, Council's officials had continuously permitted the misuse of Council property by approving the building plan without considering this condition.</p>	Do	Steps should be taken to reclaim this business premises, which has even deprived the urban population of their rights
<p>(n) i. After the 30-year lease period granted on 10 August 1987 for the 20-perch land located at No. 02B, Elvitigala Mawatha, Colombo 08, for operating a funeral hall expired in 2017, the same lessee was granted a 02 extension on a rental basis at a monthly rent of Rs. 725,000. This lease term ended on 11 August 2019, and the property was permitted to be used without a contract, with rental payments continuing until 30 May 2024.</p>	Not replied	Upon the expiration of the agreed timeframe, steps should be taken to assess the property and formalize agreements based on either the rental or tax basis
<p>ii. According to the letter No. LGD/13/2016(1) from the Commissioner of Local Government dated 03 December 2020, when leasing a building or land related to a municipal council, if the property in question falls under the provisions of Sections 35 and 37 of the Municipal Council Ordinance, prior approval must be obtained from the Honorable Minister of Local Government of the Western Province/ the Honorable Governor of the Western Province, along with the prior approval of the Honorable President. However, the necessary</p>	Do	The officers in charge of subject must ensure compliance with the provisions of the Municipal Council Ordinance and the circular instructions issued by the Commissioner of Local Authority.

approvals for leasing the aforementioned property under a long-term lease basis after the 30-year period had not been obtained.

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| <p>iii. Following the expiration of the lease agreement on 11 August 2019, although a new lease valuation should have been conducted, it was delayed until 17 March 2021. As a result, a shortfall of Rs. 9,286,250 (including VAT) had occurred, and the officials responsible failed to collect this shortfall amount even by 30 June 2024.</p> | Do | The officers in charge of subject must ensure compliance with the provisions of the Municipal Council Ordinance and the circular instructions issued by the Commissioner of Local Authority. |
| <p>(o) After the expiration of the 30-year lease for a 14.76-perch property belonging to the Municipal Council located at No. 9/1, Robert Gunawardena Mawatha, Colombo 05, on 31 December 2017, the Commissioner decided on 27 February 2018, to grant the lessee a new 10-year lease at a monthly rent of Rs. 2,000 contrary to the provisions under Section 40(1)(f) of the Municipal Council Ordinance. Subsequently, the monthly rent for this property was assessed at Rs. 16,000 however, the lessee had not paid this rent, and due to the lack of a formal agreement, the Council suffered a total loss of Rs. 1,008,000 for from 01 January 2018 to 31 December 2023.</p> | Do | Actions must be taken in accordance with the Municipal Council Ordinance, and the assessed rent should also be collected. Steps should be taken against the responsible officials regarding the default on the recovery of rent. |
| <p>(p) The 30-year lease for the property located at No. 45, Sir Marks Fernando Mawatha, belonging to the Colombo Municipal Council, which houses a well-known sports association covering 4 acres, 3 roods, and 31 perches, expired on 01 August 2017. Although it was required to hand over the freehold possession of all buildings to the Council after the lease expired, the Council had approved the extension of the lease at the request of the association, and the payment of the revised rental amount and the execution of the agreement were neglected. If the association did not enter into an agreement under the conditions of collecting outstanding rent and revise the rent every three years, there was a need for the responsible officials to take necessary legal actions to transfer the property; however, they had failed to do so.</p> | Not replied | Action should be taken to carry out re-lease in accordance with provisions of the Municipal Council Ordinance and legal actions should be taken regarding unauthorized occupation of the lessee. |

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| <p>(q) The property measuring 14.20 perches, located at PPA 3233 and Lot No. 2 on Jumpettah Street, Colombo 13, had been leased to a woman on 26 February 1986, under a rental agreement for a monthly fee of Rs. 5,000, to be used solely as a parking space. By violating Condition 4 of the agreement, the lessee had constructed a building on it. Nevertheless, that property had not been sealed and taken over by 31 December 2023 and the outstanding rent that should have been collected from 1992 to 31 December 2023 amounted to Rs. 918,540.</p> | Do | <p>The plot of land should be immediately acquired and properly leased through the tender process. Furthermore, appropriate actions must be taken against officials who neglect their duties.</p> |
| <p>(r) A plot of land containing 15.68 perches, owned by the Colombo Municipal Council and located at Assessment No. 136 on Sri Sumanatissa Mawatha, Colombo 12, had been irregularly leased for a timber business at a monthly rent of Rs. 30. On 11 December 1980, a tender had been called through a newspaper advertisement to lease this land for 99 years. Although a private company offered a bid of Rs. 3,250,000 at the time, the transaction was not completed, and no action has been taken to remove the unauthorized occupant, lease the land, or collect a fair rental amount to date.</p> | Do | <p>The land should be leased via a tender process after recovering its possession from individuals who have been unlawfully residing since 1980.</p> |
| <p>(s) A 5-acre, 2-rood, 17-perch plot of land adjacent to High-Level Road on Park Road, Colombo 5, owned by the Colombo Municipal Council, had been leased to a sports club, and the lease period ended on 31 December 2020. Although approval from the President was obtained to re-lease the property to the same sports club on a long-term basis, more than three years have passed without the lessee agreeing to pay the revised monthly rental of Rs. 413,000 and instead, continuing to recover the old rent.</p> | Do | <p>Entering into agreements with the lessee, recovery of outstanding rents, and revising lease rent every three years should be carried out. Legal actions should be taken against unauthorized usage.</p> |

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| <p>(t) The Nawam Mawatha Laundry, constructed with 40 laundry rooms as an investment of Rs. 900 million by the Urban Development Authority before 2013, had been handed over to the Colombo Municipal Council. Yet, it was not operated as per the provisions in the by-law, and 14 of the dirty laundry rooms and washing rooms were utilized for residential purposes in violation of regulations. According to Council Decision No. 1029 of 2013, it was intended to obtain a deposit of Rs. 50,000 from laundry operators and enter into agreements to charge a monthly rental fee of Rs. 5,000. However, this plan was not implemented as specified, and in 2017, as per the Special Commissioner's decision, the rental fee was reduced to Rs. 3,000. Out of the 40 laundry rooms, 14 are being fully used for residential purposes, with some individuals not engaged in laundry work also residing therein. Furthermore, the Public Health Department had not taken action to operate the laundry facility in accordance with the provisions of the by-law.</p> | <p>Not replied</p> | <p>Actions should be taken in accordance with the provisions outlined in the by-law to prevent the misuse of government investments.</p> |
| <p>(u) To provide housing for individuals engaged in laundry work, a housing complex comprising 64 units had been constructed at a cost of Rs. 200 million, with construction beginning in 2012 and completing by 2016. However, due to the failure to hand over these housing units to the intended beneficiaries, thieves had removed windows, doors, bathroom fittings, and water motor electrical installations, and unauthorized families had taken up residence.</p> | <p>Do</p> | <p>Unauthorized occupants should be removed, and housing should be provided to the rightful individuals. Additionally, losses incurred should be assessed and recovery actions should be taken against the responsible officials.</p> |
| <p>(v) During a field inspection conducted by technical officers from the Town Planning Division in the Maradana and Wellewatta areas, it was found that construction activities were ongoing in 05 premises without approved permits, in 02 premises contrary to the approved permits, and in 02 premises without renewal of permits. However, the officers from the Town Planning Division had not paid attention to these violations. Additionally, the Colombo Municipal Council did not possess copies of the permits issued by the Urban Development Authority for construction activities in 07 premises.</p> | <p>Do</p> | <p>Actions should be taken to prevent unauthorized constructions.</p> |

3.5 Transactions of Contentious Nature

Audit Observation	Comment of the Council	Recommendation
<p>(a) Regarding a request for a rainwater connection for a new building situated at No. 15, C.W.W. Kannangara Mawatha, Colombo 07, the Director of the Water Supply and Drainage Division had submitted an estimate of Rs. 90 million to the concerned private company on 05 October 2020. A letter submitted by the company to the Mayor on 11 January 2021, was directly forwarded by the Mayor to the Director of the Water Supply and Drainage Division. Accordingly, a new estimate of Rs. 3.08 million was approved instead of the initial estimate of Rs.90 million, and the corresponding rainwater connection was subsequently provided. The reduction of the initial estimate from Rs. 90 million to Rs. 3.08 million was reported to be due to the original proposal to install a separate pipeline from the relevant location to the Noris Canal. However, the Colombo Municipal Council did not possess any such proposal or plan. Additionally, since the Lipton Roundabout area is not considered a flood-prone zone, the provision of an estimate of Rs. 90 million was a contentious issue.</p>	Not replied	As the contract amount is determined according to the nature of the connection in providing connections to the rainwater system and waste water system of the Colombo Municipal Council, more transparent methodology should be introduced.
<p>(b) A total of 134,000 gift vouchers valued at Rs. 3,500 each were bought for Rs. 459,620,000 from Lak Sathosa and distributed based on the preferences of each municipal council member without any defined criteria for providing relief to people facing economic difficulties due to the current economic inflation without legal provisions under the Urban Council Ordinance or the Poor Law. This expenditure was unauthorized under Section 188(1) of the Urban Council Ordinance.</p>	Not replied	Municipal funds should be used solely for the expenses authorized under Section 188 of the Municipal Council Ordinance.

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| <p>(c) The 30-year lease period of a plot of land located at Sir James Peiris Mawatha, with assessment numbers 71 ½, 71 1/3, and 73, belonging to the Colombo Municipal Council and containing 01 rood and 0.1 perches, was extended to 50 years with the approval of the Council on 22 October 1992. Subsequently, a new lease agreement, numbered 3411, was signed on 30 November 2004. In accordance with Conditions 2 and 3 of the said agreement, the Urban Assessor had assessed the annual ground rent at Rs. 5 million and the nominal monthly rent at Rs. 18,000 on 22 December 2022. Although the proposal to revise the rental was approved by the Finance Committee on 17 February 2023, and by the General Meeting of Council on 03 March 2023, the Municipal Fund incurred a loss of Rs. 100 million by proposing to charge an annual ground rent of Rs. 5 million instead of the Rs. 100 million that should have been collected in a lump sum for the next 20 years, according to the valuation report, and by failing to collect this Rs. 5 million as well.</p> | <p>Do</p> | <p>If the assessed ground rent is not collected from the lessee, measures should be taken to recover the losses incurred by the municipal council from the responsible officials.</p> |
| <p>(d) Although 65 housing units had been obtained from the Housing Development Authority for the residents of the Arnold Ratnayake Mawatha Housing Complex, 14 of these housing units were irregularly allocated to employees attached to the Mayor's Office and the Department of Municipal Secretary.</p> | <p>The officers in charge of the relevant divisions have been instructed to take steps in a way that is not prejudiced in granting legal residency and accordingly, it is proposed to sign agreements with the employees for temporary residence.</p> | <p>By preventing the misuse of urban properties, agreements should be established for the houses provided to employees, treating them as official residences, and rent should be collected.</p> |
| <p>(e) The land located at No. 20 Magazine Road, containing 17.7 perches, was leased to an organization named the 'Magazine Buddhist Library Association' under agreement number 90, with effect from 13 September 1983, at a monthly rent of Rs. 150 for a period of one year without a tender process. The said lease agreement was not renewed, and on 12 March 2020, a request was made by the individual who served as the chairman of that association, seeking to amend the lease rights under the name of</p> | <p>Not replied</p> | <p>Immediate action should be taken to recover the possession of the land, and the land and buildings should be leased or rented using a tender process. Furthermore, disciplinary measures should be</p> |

the association, despite there being no such registered association and a certificate dated 23 November 2014 had confirmed that a Municipal Council security was residing on the premises. Accordingly, despite occupying Municipal Council property without authorization, conducting business, and being an employee of the Municipal Council, the authorities had not taken action against this individual.

implemented against the municipal council employee involved.

(f) A plot of land at No. 3 Mahakumarage Mawatha, Colombo 14, covering 6.80 perches, was initially leased to an individual for Rs. 60,000 on 14 January 2020 for a term of 30 years. After the end of this lease period on 14 January 2020, without reclaiming the property, it was re-leased to the same lessee for a period of 3 years at a monthly rent of Rs. 83,000, which has since also expired. Following a request from the Accountant Revenue, the Municipal Assessor re-evaluated the rent at Rs. 138,060 and decided to re-lease it to the same individual for 20 years, without obtaining the approval of His Excellency the President.

Do

The irregular leasing practices should be immediately halted, and actions should be taken to implement proper leasing procedures.

3.6 Assets Management

Audit Observation

Without any intervention from the Municipal Council, a group of individuals had issued tickets and collected charges for parking vehicles on a Municipal Council-owned land, covering 3 roods and 2.12 perches, located in front of the Nagalagamaweediya Public Market, generating revenue on behalf of external parties, whereas the Municipal Council had not taken any action in this regard.

Comment of the Council Recommendation

Not replied

Steps should be taken to ensure that the land is leased systematically and lawfully to generate revenue for the municipal council.

3.7 Human Resource Management

Audit Observation	Comment of the Council	Recommendation
<p>(a) The approved cadre of the Colombo Municipal Council is 8,700, while the actual cadre as of 31 December 2023 was 5,317, resulting in 3,518 vacancies. Additionally, there was an excess staff of 29 in the executive grades and 106 in the secondary grade. The following observations are made in this regard.</p>		
<p>i. Although a study of the staffing needs of the Municipal Council should have been conducted, along with a staff review to facilitate staff restructuring, such a review had not been carried out over a long period.</p>	Not replied.	Employee needs of the Colombo Municipal Council should be studied and an employee review should be conducted.
<p>ii. Based on the vacancies from executive grades to minor staff in the Municipal Council, 409 officials and employees had been appointed to the daily wage payment scheme based on the 'Labor Purchasing Basis' by 30 June 2023. The total salary paid to such officials and employees for the year under review amounted to Rs. 219,066,660.</p>	Do	Action should be taken to properly fill vacancies by preventing irregular recruitments.
<p>(b) In connection with the theft of newspapers and magazines worth Rs. 327,030 stored in a room on the fourth floor of the Wellewatta public market, a worker employed at that market pleaded guilty in the Mount Lavonia Magistrate's Court. Although he was sentenced to six months of rigorous imprisonment and suspended for five years due to the payment of the amount to the Municipal Council, no disciplinary actions had been taken by conducting a formal investigation against the said labor or the two shop managers and five workers at the Wellewatta public market.</p>	Do	Action should be taken in accordance with the provisions of the Establishments Code against the employee who was found guilty.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comment of the Council	Recommendation
<p>The documents to be presented in the annual budget report submitted to the Municipal Council in terms of formats scheduled by the Circular No. LCD/09/2019(1) dated 27</p>	Not replied	Budget should be prepared and submitted to the General Assembly as

August 2020 issued by the Commissioner of Local Authorities regarding the accounting practices of local authorities, were not prepared and submitted alongside the 2023 budget report. The annual budget report was not presented using the code numbers and formats prescribed by this Circular in accordance with accounting standards.

per the circular instructions.

4.2 Internal Audit

Audit Observation	Comment of the Council	Recommendation
(a) A total of 33 internal audit reports had been issued for the year 2023, of which replies were not provided for 13 reports. Out of the 33 recommendations made by the internal auditors, only 2 recommendations were implemented.	Not replied	The recommendations of the Internal Auditor should be implemented.