

Sri Jayawardhanapura Kotte Municipal Council - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Sri Jayawardhanapura Kotte Municipal Council for the year ended 31 December 2023 comprising the statement of assets and liabilities as at 31 December 2023, statement of comprehensive income for the year then ended and, 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 section 219 of the Municipal Council Ordinance (Chapter 252) and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be reported 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 Sri Jayawardhanapura Kotte Municipal Council as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Governments.

1.2 Basis for the qualified Opinion

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

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 Governments 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 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 to be prepared of the Municipal Council.

1.4 Audit Scope (Auditor's Responsibility for the Audit of the 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 risk 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 procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Municipal Council;
- Whether the Municipal Council has performed according to its powers, functions and duties; and
- Whether the resources 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

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) The financial statements of the Municipal Council presented is 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 financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.6 Audit observations on the preparation of financial statements

1.6.1 Accounting Deficiencies

	Audit observation	Comments of the Council	Recommendation
(a)	The sum amounting to Rs.53,616,974 paid to the contractor Company in 2023 in respect of constructing the Janajaya City building and the sum amounting to Rs.1,813,500 paid to the consulting firm, had been shown under bridges and culverts.	That it has been noted to make corrections through journal entries.	The relevant assets should be accounted under accurate assets account.
(b)	Due to the reason that necessitated an extension of contract period in respect of the construction of the JananaJaya City super market as at 31 December of the year under review, although the values that were to paid to the contractor, had been shown as a contingent responsibility, a sum amounting to Rs. 66,858,731 that was to be made as late charges for bill payments, had not been shown as a contingent liability.	That it has been shown under fact No 07 in page 10 of the financial statement 2023.	Provision should be allocated.
(c)	Depreciation had not been made in relation to the fixed asset value amounting to Rs.512,834,813 that was revalued in 2020 and depreciation had been accounted only for assets purchased after the year 2020. Accordingly, as fixed assets were depreciated, a sum amounting to Rs.1,417,377 had been understated while a sum amounting to Rs.2,589,429 overstated.	That it has been noted to make corrections on depreciation allocation value computed related to the year 2023 on assets purchased after 2020, being reallocated and tallied with the information available with the Audit Division.	Depreciation should be correctly identified and accounted.
(d)	Fixed assets purchases amounting to Rs.2,200,110 in the year under review, had not been accounted under fixed assets	That it has been noted to make corrections through the journal entries.	Accounts should be correctly prepared.

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| (e) | Books received as gifts in the year under review, value of which amounting to Rs.290,686, had not been accounted. | That it has been noted to make corrections through the journal entries. | -Do- |
| (f) | Creditors amounting to Rs.6,481,525 as at 31 December of the year under review, had been accounted in both miscellaneous creditor and stores creditor accounts | That it has been noted to make corrections through the journal entries. | -Do- |
| (g) | A sum amounting to Rs.400,000 in respect of Citizen Charter notice board in the year under review and a sum amounting to Rs.575,000 for purchasing ladders, had been accounted as recurrent expenditure. | That it has been noted to make corrections through the journal entries. | -Do- |
| (h) | Containers and equipment worth Rs.4,275,417, purchased in the year under review, had been debited to the culvert and roads account without being accounted in the Containers and equipment account. | That it has been noted to make corrections through the journal entries. | -Do- |
| (i) | 6 items valued at Rs.674,520, had been debited to the buildings account without being debited to the fixtures and fittings account. | That it has been noted to make corrections | -Do- |
| (j) | Although Controller managing Employees vehicle fleet and property confiscation officer security deposits amounted to Rs.692,054 in saving accounts as at 31 December 2023, it had been mentioned as Rs.716,228 in financial statements. | That it has been noted to make corrections through the journal entries. | -Do- |
| (k) | The recurrent expenditure that stood at Rs.204,491 and fixed assets that stood at Rs.3,488,954 according to the stock analysis, had been debited to the stock account without being debited to the relevant accounts. | That it has been noted to make corrections through the journal entries. | Accounts should be correctly prepared. |

1.6.2 Unreconciled control Accounts or Reports

Audit Observation	Comments of the Council	Recommendation
A difference amounting to Rs.675,157 existed between 03 accounts balances and schedules as at 31 December in the year under review.	That it has been noted to make corrections through the journal entries.	Action should be taken to make correction following the identification of differences.

1.6.3 Non-existence of written evidence for the audit

Item	Amount Rs.	Non-supplied audit evidence	Comments of the Council	Recommendation
(a) Unidentifiable employee loans	1,641,884	Schedules	These are over 20 years old balances and that a committee has been appointed to identify these balances and take appropriate action in that regard.	Schedules should be presented.
(b) Dishonored cheques	581,650	Schedules	That it has been noted to make corrections through journal entries.	-Do-
(c) Stock	39,845,468	Schedules	Action is being taken to correct the deficiencies following the identification thereof.	-Do-

1.7 Non-compliances

1.7.1 Non-compliance with laws, rules, regulations and management decisions The instances of non-compliance with laws, rules, regulations and management decisions are as follows.

Reference to laws, rules, regulations and management decisions	Non-compliance	Comments of the Council	Recommendation
(a) Financial regulation 104 and 104(3)(4) of the Democratic Socialist Republic of Sri Lanka.	No reports had been presented following investigations carried out on the accidents caused in the year under review to 10 vehicles of the Council.	That action will be taken on the future accidents as per F.R. 104.	Action should be taken as per financial regulation.

- (b) Chapter (I) in advertisement in part II of the extra ordinary gazette of the Democratic Socialist Republic of Sri Lanka dated 20 January 1989. Although an advertisement to be displayed by a certain person in a manner that can be viewed from a street, road, canal or reservoir, should be done under approval issued by the Commissioner, no money had been paid in respect of 87 such advertisements boards and no action had been taken to remove them as well. That a continuous process is currently underway to remove such advertisement boards in respect of which fees have not been paid. Action should be taken as per the Circular.
- (c) Section 3.1 of the Public Administration Circular No 30/2016 dated 29 December 2016. Fuel consumption test had not been carried out in respect of 7 vehicles belonging to the Urban Council. Those necessary steps have been taken to carry out the fuel consumption test on these 07 vehicles highlighted by the audit. Action should be taken as per the Circular.

2. Financial review

2.1 Financial Results

According to financial statements presented, the revenue that had exceeded the recurrent expenditure of the Council for the year ended 31 December 2023, stood at Rs. 210,290,184 and correspondingly, the revenue that had exceeded the recurrent expenditure of the preceding year stood at Rs. 305,213,090.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Outstanding Revenue

Information on the estimated revenue, billed revenue, collected revenue and outstanding revenue is as follows as per the information provided by the Municipal Commissioner.

Source of revenue	2023				2022			
	Estimated revenue	Billed revenue--	Collected Revenue	Total Deficit as at 31 December 2023	Estimated revenue	Billed revenue	Collected Revenue	Total Deficit as at 31 December 2022
	Rs. .000	Rs. .000	Rs. .000	Rs. .000	Rs. .000	Rs. .000	Rs. .000	Rs. .000
(i) Rates and Tax	283,200	268,546	279,125	197,088	284,500	256,056	207,781	173,684
(ii) Rent	100,073	72,890	72,339	45,619	74,181	75,250	77,390	31,776
(iii) License fees	38,476	42,215	42,215	0	20,500	27,555	27,570	-
(iv) Other Revenue	1,344,534	629,122	632,330	4,192	144	106	115	3
Total	1,766,283	1,012,773	1,026,009	246,899	379,325	358,967	312,856	205,463

2.2.2 Performance of revenue collection

	Audit Observation	Comments of the Council	Recommendation
(a)	The rates balance remains unrecovered as at the last day of the year under review stood at Rs.141,865,710.	That a sum of Rs.31,383,217 has been recovered by now out of the outstanding rates tax balance amounting to Rs.173,248,927 as at 31 12 2023.	Action should be taken to collect the recoverable tax values without delay.
(b)	(i) The total shop rent to be recovered as at the end of the year under review stood at Rs.35,090,412 and the outstanding rents remained unrecovered over one year stood at Rs.30, 130, 251.	Measures are being taken these days to recover the outstanding shop rents.	Action should be taken to collect the recoverable shop rents without delay.
	(ii) 10 shop rooms of the welikada plaza market complex had not been tendered and rented out and the other shop rooms had been given for trade activities to shop owners since 1998. Revenue Inspectors of the Rent Board had valued the shop rooms up to the year 2013 and recovered rents thereupon and even though a new valuation had been obtained by the Department of Valuation in 2023 in respect of shop rooms, such valuation had not been implemented on account of the shop owners' opposition to it.	That action had been taken to tender and rent out these 10 shop rooms. Due to the opposition of the shop owners, it has been referred to carry out a revaluation of shop rooms in the Welikada Plaza shopping complex on the instructions of the Chief Secretary of the Western Province, and that once the new revaluation is received, action will be taken to recover the rents together with the relevant outstanding amount.	Action should be taken to implement the new valuation.

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| (c) | The stamp fee billed for the year under review stood At Rs.500,000,000 and the stamp fee to be recovered at the end of the year under review stood at Rs.152,347,461. Further, court fines to be recovered at the end of the year under review stood at Rs.3, 891,500 and that balance consisted a sum amounting to Rs. 879,787 over a period from 05 to 10 years and a sum amounting to Rs.3,011,713 remains to be recovered over a 10 years period. | That the outstanding revenue of the billed revenue of previous years has been collected by now and that officers and employees of the Council have been assigned to identify and collect the further outstanding amounts.
<u>Court Fines</u>
That it is expected to further investigate the dues to be collected from the year 2013. | Outstanding revenue should be identified and recovered as early as possible. |
| (d) | The entertainment tax balance amounting to Rs. 2,781,679 due from two cinema theatres from 2019 which are located within the administrative limits of the Council, had not been recovered even by 31 December 2023. | That a letter with regard to entertainment tax has been referred for approval of the Assistant Commissioner of Local Government and the approval therefor has not been received even by the audited day | Action should be taken as soon as possible to recover the revenue that remains due. |

3. Operational Review

3.1 Uneconomic Transactions

Audit Observation	Comments of the Council	Recommendation
(a) The approval of the Commissioner is required to establish advertisement boards within the Council's administrative area and the relevant permit shall not be issued to the applicant till the relevant payment therefor is paid. However, amongst the applications referred in 2023 for establishing advertisement boards, trade name boards and name boards, payments had not been made in respect of 03 applications worth Rs. 127,100 and it was found at the physical inspection that the advertisement boards related to the said applications had been established within the administrative limits of the Council' area.	The implementation of fees in respect of 08 institutions pointed out by the audit had been effected in respect of named institutions identified at the advertisement board survey. That the fees have been prescribed following physically establishing that the advertisement was displayed in the year 2023.	Measures should be taken to recover the fees.
(b) Although it has been assigned to the Municipal Engineer under his department to remove name boards, such removal had not been carried out in respect of 435 name boards worth Rs. 70,245,648 for which fees have not been paid	This task had been temporarily halted taking into consideration the requests made owing to the Corona epidemic prevailed in the	Appropriate measures should be taken.

during the period from 2016 to 2023 and 118 advertisement boards in respect of which outstanding fees amounting to Rs.28,224,248 had not been received even until October 2023. The outstanding amounts had not been brought forward as dues. country and the adverse economic downturn that followed.

3.2 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The balances amounting to Rs.960,160 remain to be recovered as per the Corona Advance Schedule granted during Corona period, had not been recovered even by the end of the year under review.	That it has been decided to rerecord the balances in books that are not shown in accounts books. .	Action should be taken to investigate the balances not shown in accounts books and recover them.
(b) Although goods had been taken away from the Council to be sold and distributed under the programme of selling goods on conciliatory basis during the first Covid wave, no proceeds from such sales had been credited to Council fund and as a result, Corona advance balance amounting to Rs.1,291,160 remained owed as at 31 December 2023, had not been recovered.	That an investigation in this regard is being conducted jointly by the Commission to Investigate Allegations of Bribery or Corruption and Office of the Assistant Commissioner of Local Government and future action will be taken based on the results thereof.	Appropriate action should be taken as immediately as the investigation is over.
(c) Although a sum amounting to Rs. 1,490,252 had been obtained up to October 2023 by the Council in respect of drilling the road for obtaining new water connections by the people in Kotte area, no repairs had been carried out to fix the roads.	That the road drillings highlighted by the audit have been duly repaired.	Immediate steps should be taken to repair drillings on the roads.
(d) A late payment amounting to Rs. 31,120,027 had been paid due to bill values being underpaid from 2014 in respect of the construction of Jana Jaya City. Further, the manner in which these values were composed was not furnished to the audit.	That the reason for the Council to make a late payment amounting to Rs.31,120,027 is requirement to pay interest on outstanding balances created due to less value of the bill value being paid	Action should be taken avoid huge financial losses caused to the Council by settling bills without delay.

3.3 Transactions of Contentious Nature

Audit Observations	Comments of the Council	Recommendation
The new shop room rent related to each shop room has been informed as per the monthly shop room rents in respect of Welikada plaza Shopping Complex issued by the Government Valuation Department in respect of 2023 The shop owners have expressed the opinion that they are unable to agree with the new shop room assessment due to the decrease of income as they sublet the same shop rooms. However, it was observed that the shop owners make an unreasonable monthly profit of Rs.21000 and that the condition No 18 has been violated and no action had been taken by the Council with regard to the violation of the agreement.	The Revenue Inspectors of the Council are conducting a survey as to whether the shop owners of Welikada Plaza shopping complex have sublet the shop rooms and action will be taken thereafter as per the Agreement.	Action should be taken as per the Agreement.

3.4 Idle or underutilized property plant and equipment

Audit Observation	Comments of the Council	Recommendation
(a) 43 out of 48 shop rooms of the shopping complex of Nugegoda Bus Stand had been closed even by November 2023 without being rented out. Therefore, the Council is deprived a monthly income amounting Rs. 42,958 revenue deprived.	It has been inquired from the Urban Development Authority once more that whether it is possible to rent out the shopping complex again till a mixed development project is initiated again by the Urban Development Authority.	Action should be taken to earn income by taking suitable measures.
(b) Action had not been taken to develop as income generating vehicle parks the places such as parking spot in front of the Janajaya City Shopping Complex, vehicle park in front of the Urban Council, Rajagiriya Gardens, Buthagamuwa road and Chapel road.	Action will be taken in future to identify those vehicle parks and new vehicle parking spaces and thereafter rent them out.	Action should be taken to earn income by taking appropriate measures.
(c) Although 3 to 6 months have elapsed after 4 vehicles belonging to the Council have been handed over to the garage, no action had been taken to repair and use them again even by the audited day.	That the said vehicles being repaired will be repaired soon and used for the transport purpose.	Action should be taken to immediately repair and use them.

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| (d) | Action had not been taken to dispose even by the end of the year 2023, 5 vehicles and machineries valued at Rs. 26,422,000 that had been identified for removing from use and disposal. | Action is being taken to gift two vehicles to a school for the purpose of educational activities and that the activities related to disposing the dilapidated vehicles are currently going on. I. | Immediate action should be taken to dispose them. |
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3.5 Assets Management

Audit Observation	Comments of the Council	Recommendation
(a) Although value of the goods in stores stood at Rs. 158,216,652 and that the building value stood at Rs. 127,416,735, as at 31 December of the year under review, no insurance cover had been obtained for goods in stores and buildings	The process for insuring them has already begun and that steps are to be taken immediately to do the needful.	Security of assets should be ensured
(b) Action had not been taken to obtain the legal ownership of 13 lands used by the Council.	That to obtain transfer orders in respect of land highlighted by the audit and all lands with deeds of expression, the Commissioner of local Government (W.P) has been requested through the application dated 24 October 2023 and No LAW 2008 21-4 to issue.	Action should be taken to obtain the legal ownership to the Council.

3.6 Management of Human Resources

Audit observation	Comments of the Council	Recommendation
(a) 199 vacancies at senior, tertiary, secondary and primary levels existed at the Council as at 31 December 2023.	The employee vacancy reports of the Council are monthly sent to the Office of the Commissioner of local Government, and since the recruitment of officers has been currently halted by the Government, the task of filling up vacancies has become an uphill task.	Action should be taken to complete the vacancies.
(b) Action had not been taken to recover the employee loans amounting to Rs. 8,842,794 that have been outstanding from 5 to 10 years obtained by the employees.	These balances are being further identified and that future action is to be taken following the obtainment of further instructions.	Action should be taken to recover the employee loans.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observation

As per the Circular No LGD/02/2021 dated 10 November 2021 of the Commissioner of Local Government-Western Province, although the financial statements related to the financial year 2023 of the Municipal Council of Sri Jayawardhanapura should be presented to the Auditor General before 28 February, they had been presented to the Auditor General only on 11 March 2024.

Comments of the Council

That it is noted to present the final financial statements related to 2024 on the scheduled date.

Recommendation

Action should be taken as per the Circulars.

4.2 Budget Control

Audit Observation

(a) The provision made for 245 expenditure objects totaling to Rs.144,809,020 had totally saved.

Comments of the Council

That this amount has saved owing to non-submission of vouchers as expected related to the expenditure objects and the amounts being used economically.

Recommendation

Action should be taken to prepare the budget after identifying the requirement and based thereon.

(b) Although a sum amounting to Rs.89,89,722,800 had been allocated for 59 expenditure objects, not more than 75 per cent had been expended of that amount and that amounted to Rs.70,251,437.

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Budget should be used as an effective control tool.