

## **Sri Jayawardhanapra Kotte Municipal Council - 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Sri Jayawardhanapura Kotte Municipal Council including the financial statements for the year ended 31 December 2020 comprising the Statement of assets and liabilities as at 31 December 2020 , Comprehensive Income Statement, Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, under my direction in pursuance of provisions in Article 154 (1) of the constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 219 of the Municipal Councils Ordinance (Chapter 252) and the provisions of the National Audit Act No 19 Of 2018. My comments and observations which I consider should be report to parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Sri Jayawardhanapura Kotte Municipal Council as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Public Sector Accounting Standards for Local Government Authorities.

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

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

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

#### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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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)**

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercised professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of its internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Municipal Council, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Municipal Council has complied with applicable written law, or other general or special directions issued by the governing body of the Municipal Council
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources of the Municipal Council had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Report on Other Legal Requirements**

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

- (a) Financial Statements of the Municipal Council as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

## 1.6 Audit observations regarding the preparation of financial statements

### 1.6.1 Noncompliance with the Sri Lanka Public Sector Accounting Standards for Local Government Authorities

Non-compliance with reference to the relevant standard	Comments of the Council	Recommendation
(a) Under the Section 3.9 of the Standard, If there are quantitative differences between the budget and the actual figures they should be disclosed in the financial statements however had not been disclosed. In addition, this was emphasized in Regulation No. 99 of the Accounts Relating to the Financial Administration of the Municipal Council No. 6/2155 dated 24 December 2019.	Action will be taken to disclosure from next year.	Should comply with the Standards and Gazette Notification.
(b) Although it was revealed that property, plant and equipment were re-valuated in accordance with Section 4.6 of the standard, buildings , roads, culverts and bridges existed before 2020 had not been re-valuated. Further, the library books had continued the balance of 31 December of the previous year as the revaluation balance.	Action will be taken to re-valuate in the future.	Should comply with the Standards and Gazette Notification.

### 1.6.2 Accounting Deficiencies

Audit observations	Comment of the Council	Recommendation
(a) According to paragraph 6.15 of the Sri Lanka Public Sector Accounting Standards for Local Governments Authorities, the entity should select a depreciation method that reflects the pattern in which the asset is expected to consume future economic benefits. However, it had been mentioned in the Note 3.5 of the Financial Statements states that the re-valuated property, plant and	Under the note No. 8 of the Financial Statements Rs. 6,632,814.67 was not depreciation and it is sum of several debit and credit entries indicating the total of some journal entries. This is incorrectly shown under the depreciation expense description.	Action should be taken in accordance with the standards.

equipment will not be depreciated by 31 December 2020. However, details had not been disclosed on how the comprehensive statement of financial statement was calculated under Expenses in the statement and Rs.6,632,814 had been accounted as depreciation.

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| (b) | Sundry income amounting to Rs.14,459,683 and Rs. 7,826,870 had been credited by journal entries in the year under review and were not reconcile to the Comprehensive Income Statement.   | Inform that this value, which was incorrectly adjusted, is shown under the depreciation expense description.             | Action should be taken to keep accounts accurately.        |
| (c) | Due to the allocation of Rs. 529,448 for the service of generators in the Janajaya Super Market Complex from 01 October 2020 to 30 September 2021, the loan and expenditure for the year under review had increased by Rs. 397,086 during the year under review. | Action will be taken to adjust the accounts next year.   | Action should be taken to keep accounts accurately.        |
| (d) | Although the value of buildings in the year under review was Rs. 3,814,274, however it had been disclosed in the financial statements as Rs. 3,322,679, the buildings had been under stated by Rs.491,595.   | Kindly inform that the steps will be taken to rectify that error in preparation of accounts for the year 2021.           | All the property, plant and equipment should be accounted. |
| (e) | Although the depreciation had to be calculated for the library books valued at Rs. 14,603,915, the depreciation value had not been taken into account.   | Kindly inform that the action will be taken to account by Journal entries when preparing the accounts for the year 2021. | Depreciation value should be properly accounted.           |
| (f) | Buildings valued at Rs. 3,322,679 and roads, culverts and bridges valued at  | Kindly inform that the action will be taken to keep accounts in the year   | Should be accounted under Property,                        |

- Rs. 18,610,264 under construction as at 2021  
31 December 2020 should be accounted  
as working progress however they had  
been accounted as property, plant, and  
equipment.
- plant and equipment  
only after  
construction is being  
completed.
- (g) The interest income of Rs.11,402,240  
received during the year under review had  
not been included in the net cash flow  
from the investment activities of the Cash  
Flow Statement.
- The action will be taken to prepare the  
cash flow statement accurately when  
preparing the final accounts for the  
year 2021.
- Funds received from  
all activities should  
be included in the  
cash flow statement.
- (h) The provision had not been made for the  
accrual payment of Rs. 2,260,000 to the  
Sri Lanka Transport Board for the  
temporary acquisition of the land  
belonging to the Sri Lanka Transport  
Board at Pagoda Road, Pita Kotte.
- Kindly inform you that the action will  
be taken to adjust the accounts in the  
coming year.
- Action should be  
taken to account  
correctly.
- (i) The professional charges amounting to  
Rs.21,639,056 and late interest amounting  
to Rs. 1,645,818 had not been taken into  
account for the consultancy firm as at 31  
December 2020 to provide consulting  
services for the architecture of the new  
municipal building.
- Kindly inform you that action will be  
taken to adjust the accounts in the year  
2021.
- Action should be  
taken to account  
correctly.
- (j) Five direct bank credits amounting to  
Rs.20,353 per bank account and  
Rs. 106,414 direct bank debits had been  
understated by Rs.20,353 and Rs. 106,414  
during the year under review due to non-  
adjustment of cash accounts.
- Inform you that the actions are being  
taken to settle by discuss with the  
Bank in the future.
- Action should be  
taken to account  
correctly.
- (k) 32 CCTV cameras purchased in the year  
2018 worth Rs. 1,577,771 and 69 sets of  
camera system with accessories including
- Inform you that the action will be  
taken to look into the matter in the  
future.
- Action should be  
taken to account  
correctly.

02 TVs Equipped with GPS technology tool kit and bailing machine had not been accounted under Property, plant and equipment, therefore the Property, plant and equipment had been understated by that amount.

- (I) The amount of Rs. 1,488,509 payable to Nawaloka Construction institute, Rs. 29,631,518 for late interest and Rs. 84,399,312 for retention for the Janajaya City project had not been shown in the financial statements as at 31 December 2020, therefore the creditors had been understated by that amounts.
- Inform you that the action will be taken to look into the matter in the future.
- Action should be taken to account correctly.

### 1.6.3 Un reconciled control Accounts

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#### Audit observations

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There was a difference of Rs. 67,143,237 relevant to 07 accounting items in between the balances shown in the financial statements and the corresponding reports.

#### Comment of the Council

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The action will be taken to correct the changes in the future.

#### Recommendation

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Differences need to be identified and corrected.

### 1.6.4 Lack of documentary evidences for audit

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#### Audit observations

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Due to non-submission of the required documents to examine 03 accounting items valued at Rs.41,252,290,763 could not be satisfactorily verify and vouch in audit.

#### Comment of the Council

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The action will be taken to provide relevant information in the future.

#### Recommendation

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Documents including detailed schedules, documents and estimates required for the audit should be submitted.

## 1.7 Non compliances

### 1.7.1 Noncompliance for Laws, Rules and Regulations and Management decisions

Reference to laws, Rules and regulations etc.	Noncompliance	Comment of the Council	Recommendations
(a) Financial Regulations of the Democratic Socialist Republic Sri Lanka			
Financial Regulation 371 (5)	The advance given to the officers during the year under review amounting to Rs. 3,291,097 had not been settled by 31 December.	Actions are being taken to recover the festival advances of the casual, substitute and permanent employees from the guarantors.	Advances should be settled in accordance with Financial Regulations.
(b) Establishments Code of the Democratic Socialist Republic of Sri Lanka			
The Chapter XXIV of Section 4.2.5	The outstanding employee loan amount due from 34 retired employees was Rs. 1,570,614 and that loan can be recovered from the officer's convertible pension or gratuity. However They had been issued "no-	Arrangements have been made to recover Rs. 1,570,614 employee loans applicable to retired employees. Action will be taken to recover the employee loan from the	Action should be taken to recover the arrears of employees as per the Establishments



demand certificates" without pension gratuity of the Code. being recovered the loan and employees who retired ten action had not been taken to years ago. The action will recover the relevant arrears be taken to identify and from the officer who issued the recover the responsible certificates. parties in this regard.

## 2 Financial Review

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### 2.1 Financial Result

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According to the Financial Statements presented, revenue over recurrent expenditure of the Sabha for the year ended 31 December 2020 amounted to Rs. 102,549,081 as against with the recurrent expenditure over revenue amounted to Rs. 75,615,584 in the preceding year.

### 2.2 Revenue Administration

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#### 2.2.1 Performance of the collection of Revenue

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	<b>Audit observations</b>	<b>Comment of the Council</b>	<b>Recommendations</b>
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(a)	<b>Assessment</b>		
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	The recoverable assessment balance as at the end of the year under review was Rs. 129,457,211 and Rs. 43,946,161 had not been recovered from 270 vacant lands and business premises exceeding Rs. 50,000.	Kindly inform the action will be taken in the future to issue statutory notices and take action to recover the optimum level from the deficit	Action should be taken to recover the arrears of assessment.

(b) **Shop rent**

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The action had not been taken to recover the total recoverable income of Rs. 24,171,063 due at the end of the year under review. Kindly inform that the action will be taken to recover the arrears at the optimum level in the future . Action should be taken to recover the arrears of shop rent.

(c) **Entertainment Tax**

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The entertainment tax balance due at the end of the year under review was Rs. 3,169,717. Received entertainment tax income has been referred to the Minister in charge of the subject and action will be taken to dispose of the entertainment tax revenue receivable after approval. Action should be taken to recover the recoverable entertainment tax.

(d) **Garbage disposal charges**

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The garbage tax balance due at the end of the year under review was Rs. 4,664,226. Inform that the arrangements have been made to recover arrears by providing grace periods for business premises which are difficult to pay and by recovering the arrears in instalments at present. Action should be taken to recover the garbage tax due expeditiously.

(e) **Assessed income**

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The soft copies of the computer software of the detailed schedule had not been submitted for audit to check the assessment income of Rs.235,452,983 and the arrears of assessment income of Rs.129,457,211. Submit the relevant information in a timely manner in the future. All the information required for the audit should be submitted.

### 3. Operating Review

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Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Council under Section 4 of the Municipal Council Act are shown below.

#### 3.1 Identified Losses

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<b>Audit observations</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
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Sapiri Gamak' was a community based rural development program with government assistance for the year 2020. According to the program, an estimate of Rs. 833,161 had been prepared for the reconstruction by covering the drain by laying slab at 60 Estate Assessment No. 48/68/1, Dharmashala Mawatha, Obeysekarapura. According to the information provided by the Municipal Engineer, it is confirm that the project has been completed at a cost of Rs. 381,948 due to protests by the residents of the area. However, the Divisional Secretariat had refused to pay assistance to the Council as it had been done ineffectively and the expenditure of the Council was Rs. 381,948 which was a loss for the Council.	The loss incurred by the Council was Rs. 381,948 which was incurred for the relevant project could not be recovered.	Should be recovered from those responsible persons .

#### 3.2 Operational In efficiencies

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<b>Audit observations</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
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(a) An agreement had been entered into on 15 February 2016 with a private contractor for the construction of the Jaya Raja City Mixed Development Project in Pita Kotte	The action are being taken to commence the project with the old contracting firm and the consulting firm	Action should be taken to terminate the relevant work and action should be taken to recover the losses

- at a contract value of Rs. 619,276,616 on 16 February 2016. The total expenditure incurred for the project up to 2018 was Rs. 255,707,477 including consultancy fees of Rs. 2,638,191. However, due to a structural crack in the building, the council terminated the work on the project on 17 May 2017, and on 10 September 2018, the contractor abandoned the site.
- in the future. incurred from those responsible.
- (b) An agreement had been entered to construct the Moragasmulla four storied apartment complex consisting of 28 houses with an estimated value of Rs. 69,704,581 on 01 June 2016 to be completed and handed over within a period of 06 months. Although the contractor had been paid Rs. 62,986,117 and Rs. 70,524,541 including Rs. 7,538,424 for additional work, the contractor had abandoned the work unfinished. Also in 2019, the council had used direct labor outside of the contractors. Although Rs. 3,630,781 was spent on raw materials for 18 houses and Rs. 155,726 was spent on food, water and electricity, the project was abandoned without completion.
- The activities of the project are being commenced at present. Action should be taken to complete the work in the project and the contractor should be blacklisted.