

Moratuwa Municipal Council

Colombo District

1. Financial Statements

1:1 Presentation of Financial Statements

The financial statements for the year under review had been presented for audit on 19 March 2012 and the financial statements for the previous year had been presented on 30 March 2011. The report of the Auditor General for the year under review had been presented to the Mayor of the Council on 17 August 2012.

1:2 Opinion

In view of the comments and observations appearing in my report, I do not express an opinion on the financial statements of the Moratuwa Municipal Council for the year ended 31 December 2011 presented for audit.

1:3 Comments on Financial Statements

1:3:1 Accounting Deficiencies

(a) Omissions in the Accounts

The following omissions were observed.

- (i) The sum of Rs.2,246,530 to be sent to the Local Government Pensions Contributions Fund for the period July 2010 – December 2011.

- (ii) The sum of Rs.225,615 to be recovered from 33 employees with regard to no-pay leave.
- (iii) Provision for audit fees payable with regard to the previous year and the year under review.
- (iv) The values of a hand tractor, trailer and a motor boat aggregating Rs.795,000 received from Waster Management Authority.

(b) Understatements in Accounts

The following understatements in accounts were observed.

- (i) Discounts offered for rates – Rs.1,999,700
- (ii) Interest receivable on fixed deposits – Rs.274,626
- (iii) Value of investment savings – Rs.22,970
- (iv) Balance of expense creditors – Rs.16,644,033

1:3:2 Unreconciled Control Accounts

Differences aggregating Rs.74,796,788 were observed between the figures appearing in 17 items of accounts shown in the financial statements presented for audit and the corresponding figures appearing in the subsidiary registers.

1:3:3 Accounts Payable

The following observations are made.

- (i) The balance of creditors payable as at end of the year under review aggregated Rs.114,788,977. The balance of Rs.4,141,950 included in it had exceeded a period of 10 years.

- (ii) The balances of refundable deposits as at end of the year under review aggregated Rs.50,744,483. However, the total was Rs.51,437,353 as per age analysis furnished. Of these balances of deposits, balances exceeding a period of 3 years aggregated Rs.27,981,052. The balances relating to a period ranging from 5 to 10 years aggregated Rs.22,379,222.

1:3:4 Lack of Evidence for Audit

(a) Unreplied Audit Queries

Replies for 6 of the audit queries issued during the year under review and replies for 15 audit queries issued during the past 5 years had not been furnished even as at 17 July 2012. The quantifiable value of transactions subjected to the unreplied audit queries of the year under review was Rs.2,567,702.

(b) Non-rendition of Information to Audit

Transactions aggregating Rs.274,376,111 could not be satisfactorily vouched in audit due to non-rendition of necessary information to audit.

(c) Non-rendition of Paid Vouchers to Audit

Forty paid vouchers aggregating Rs.6,146,521 had not been furnished to audit.

2. Financial and Operating Review

2:1 Financial Results

According to the financial statements presented, the recurrent expenditure exceeding the revenue of the Council for the year ended 31 December 2011 was Rs.889,564 as compared with the recurrent expenditure exceeding the revenue of the previous year amounting to Rs.29,406,241.

2:2 Financial Control

The following lapses in financial control were observed.

- (a) Interest on overdraft paid during the year under review as compared with that of the previous year had exceeded by Rs.3,167,577 showing an increase of 162.25 per cent.
- (b) The dormant balance in a bank account as at 31 December 2011 amounted to Rs.45,908.
- (c) Action had not been taken in terms of the Financial Regulation 396 of the Government of Sri Lanka with regard to 18 cheques aggregating Rs.839,003 which had exceeded a period of 6 months from the date of issue.
- (d) Five cheques aggregating Rs.94,065 drawn during the period 22 February to 27 December 2011 had been retained by the subject clerk without being issued to those who were entitled to them, even as at 23 April 2012.
- (e) Twelve cheques aggregating Rs.4,418,761 drawn from the General Account, 2 cheques aggregating Rs.1,458,245 drawn from the Employees' Loan Account and 8 cheques aggregating Rs.338,924 drawn from the Decentralized Fund Account during the year under review had been retained with the subject clerk without being signed due to lack of adequate funds in those bank accounts.

2:3 Revenue Administration

2:3:1 Estimated Revenue, Actual Revenue and Arrears of Revenue

The information furnished by the Mayor for the year under review with regard to the estimates revenue, actual revenue and arrears of revenue is shown below.

Income Item	Estimated	Actual	Accumulated Arrears as at 31 December
-----	-----	-----	-----
	Rs'000	Rs'000	Rs'000
i. Rates and Taxes	85,717	42,389	131,315
ii. Lease Rent	8,059	6,655	4,108
iii. Licence Fees	14,435	6,834	43,057
iv. Other Income	--	263,883	--

Fifty two per cent of the estimated rates, lease rent and the revenue from licences alone had been recovered during the year under review.

2:3:2 Business Tax

Although 2,332 institutions had been identified for recovery of business tax for the year under review, tax had been recovered from 945 institutions only. Accordingly, tax had not been recovered from 1,387 institutions representing 59.47%. The balance of arrears of business tax amounted to Rs.3,418,700. But, action had not been to recover that amount in terms of the provisions in the Municipal Councils Ordinance.

2:3:3 Trade Licence Fees

Although 2,350 shops had been identified for issue of licences for the year under review, 108 shops alone had obtained licences. Accordingly, 2,242 shops representing 95.4% had carried out business activities without obtaining licences. It has been shown in the financial statements that the value of arrears of licence fees recoverable as at end of the year under review amounted to Rs.24,161,855.

2:4 Idle and Underutilized Physical Resources

- (a) The vehicles and machines detailed below had not performed functions for a long period. Action had not been taken to repair the said vehicles and machines or to dispose of them.

Vehicle/ Machine		Value
-----		-----
		Rs.
(i)	Tractors 08	3,043,000
(ii)	Compactors 02	6,812,730
(iii)	Fire Extinguishers 01	100,000
(iv)	Motor Bicycle 01	35,000
(v)	Road Roller 01	4,630,000
(vi)	Road Rollers 02	Value not mentioned
(vii)	Galie Bowser 02	1,500,000
(viii)	Chain Dozer 01	500,000

- (b) Three fire extinguishers valued at Rs.4,304,195, a water bowser valued at Rs.4,000,000, two ambulances valued at Rs.3,237,442 and a water bowser given by the Water Resources Board valued at Rs.4,000,000 received for the fire extinguishing unit remained unused as the fire extinguishing unit had not been established.

2:5 Uneconomic Transactions

A surcharge of Rs.285,247 had been levied during the year under review on behalf of the period June 1999 to June 2010 for non payment of contributions as per provisions in the Employees' Trust Fund Board Act, No. 46 of 1980 and the related amendments..

2:6 Operating Inefficiencies

The following observations are made.

- (a) Administrative reports of the Council for each year had not been furnished to the Council with the financial statements in terms of Section 218 of the Municipal Councils Ordinance (Chapter 252).
- (b) The balances of unsettled advances as at 31 December 2011 aggregated Rs.5,784,942.
- (c) According to the circular issued by the Ministry of Power and Energy on 25 August 2010, 2489 unauthorized street lamps within the Municipal area should have been regularized. The Electricity Company had considered them as unauthorized street lamps as applications had not been furnished. The sum of Rs.8,631,016 receivable on behalf of unauthorized street lamps was in suspense.
- (d) Action had not been taken even by end of the year under review, to register and bring to account the two ambulances with an estimated value of Rs.2,600,000 received during the year 2006 and before.
- (e) There was long delay in furnishing monthly reports to be furnished in Form Specimen No. II, as required by Section 37 of Employees' Trust Fund Board Act, No. 46 of 1980 as amended by the Employees' Trust Fund (Amendments) Act, No. 18 of 1993.
- (f) A compactor vehicle No. 226-2026 purchased at a cost of Rs.3,406,365 in 1999 had been released to the Boralesgamuwa Urban Council in October 2010 without any agreement.
- (g) A corporate plan and an action plan in coordination with the corporate plan had not been prepared.
- (h) Release of retentions amounting to Rs.10,462,646 had been rejected as a result of not completing the questionnaire introduced by the Department of Local Government for release of 15% of the salaries retained on behalf of the previous years.

- (i) According to the Order No.7(2)(b) made to the Employees' Trust Fund Board Act, No. 15 of 1958 which came into effect on 29 March 1962, the six month report containing the details of contributions recovered and remitted for the year 2006 in Form C(3) had not been sent even as at 30 April 2012. As a result, the contributions recovered and remitted had not been "credited to" to the individual accounts of each member. The amount concerned had been credited to the "Suspense Account".

2:7 Stock Control

Due to the following accounting deficiencies it could not be confirmed in audit whether the expenditure on consumption for the year and the balance of stock at the stores amounting to Rs.23,253,070 had been correctly shown in the financial statements.

- (i) Purchase of stock up to 31 July 2011 had been "debited" to the expenditure heads.
- (ii) The cost of stock consumed from August 2011 had not been entered in the accounts.
- (iii) The balance of Rs.20,789,460 continued to be bought forward without changes from the year 2008 had been entered in the balances of the General Stores.
- (iv) The value of purchases for the period August to December 2011 amounting to Rs.2,463,610 had not been entered.
- (v) The balance of closing stock had not been computed.
- (vi) Non reconciliation of the stock ledger.

2:8 Approval of Housing Plans and Issue of Certificates

The position relating to issue of plans and certificates as at end of the year under review is as follows.

Details	Year		Total
	2010	2011	
-----	-----	-----	-----
i. Plans of ground floors	122	178	300
ii. Construction of buildings and additions	73	95	168
iii. Issue of compliance certificates	46	48	94
	-----	-----	-----
	241	321	562
	===	===	===

3 Systems and Controls

Special attention is needed in respect of the following areas of systems and controls.

- (a) Accounting
- (b) Financial Control
- (c) Revenue Administration
- (d) Budgetary Control
- (e) Assets Management
- (f) Debtors/ Creditors' Control
- (g) Personnel Management