

Moratuwa Municipal Council
Colombo District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial statements for the year 2016 had been submitted on 21 March 2017 while the financial statements for the preceding year had been submitted on 30 March 2016. The report of the Auditor General for the year 2016 was issued to the Municipal Commissioner on 24 October 2017.

1.2 Qualified Opinion

In view of the importance of matters referred to in paragraph 1.3. of this report my opinion is that the financial statements give a true and fair view of the financial position of the Moratuwa Municipal Council as at 31 December 2016 , its financial performance for the year then ended in accordance with generally accepted accounting standards.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following observations were made in audit.

- (a) The value of six items of assets aggregating Rs.20, 375,561 and the value of 3 items of liabilities aggregating Rs.670, 297 had been understated in accounts.
- (b) Surplus for the year under review had been overstated by Rs. 222,980 and accumulated fund had been overstated by Rs.11, 513,563 due to making adjustments for Prior years in the current year.
- (c) Although it had been informed by the Lanka Electricity Company (pvt) Ltd on 12 December 2013 that a sum of Rs.10, 140,025 could not be reimbursed as the Treasury did not grant that amount to the company which was receivable for maintaining street lights, the said amount had been shown in the accounts as receivables.

1.3.2 Contingent Liabilities

Seven unresolved cases against to the Moratuwa Municipal Council were in 05 Courts as at the end of the year under review and fixed deposits valued at Rs.25,105,037 had been kept as a bond for the overdraft facility obtained by the Council through the main current account. However those information had not been disclosed in the Financial Statements.

1.3.3 Non-reconciled Control Accounts

When comparing balances of 12 items of accounts aggregating Rs.279,105,733 with relevant subsidiary records, overstatement of Rs.29,762,284 and understatement of Rs.13,224,968 were observed in the financial statements.

1.3.4 Accounts receivable and payable

The following observations are made.

- (a) Nothing had been recovered in the years 2015 and 2016 relating to staff loans amounting to Rs.645, 100 receivable from 10 transferred employees and Rs.1,573,424 receivable from 131 employees who were retired and vacated post.
- (b) The value of returned cheques amounting to Rs.506, 828 relating to a period of 3 years to 17 years had not been recovered even in the year under review.
- (c) Out of the unsettled balance of advances of Rs.489, 218 as at the end of the year under review a sum of Rs. 188,402 were older than 01 to 15 years.
- (d) A balance of Rs. 15,569,883 receivable before 6 years, had been brought forward continuously.
- (e) The receivable restaurant fees of Rs.526, 500 shown in the account was older than 15 years.
- (f) The deduction of entertainment tax to 10 percent and non-received entertainment tax of Rs.3, 228,197 relating to the year 2005 and 2006 had not been reimbursed from the Ministry of Local Government as per the circular of the Commissioner of Local Government No LG/3/2000 dated 20 January 2001.
- (g) A sum of Rs.1, 303,203 recoverable from Panadura Pradeshiya Sabha for removing garbage for the period from the year 2012 to 2015 had not been recovered even in the year under review.
- (h) A sum of Rs.642, 055 recoverable from 21 meat stalls for the period from the year 1999 to 2012 had not been recovered even in the year under review.

1.3.5 Lack of Evidence for Audit

The balance of 10 items of accounts aggregating Rs.448, 685,185 could not be satisfactorily vouched due to non-availability of written evidence.

1.3.6 Non-Compliance of Laws Rules and Regulations

The following non-compliances of laws rules and regulations were observed.

Reference to Laws Rules and Regulations

- (a) Employees trust Fund No 46 of 1980

Non-compliance

Surcharge of Rs. 1,472,582 had to be paid by the Council due to non-submission of reports on due date. Out of that surcharge a sum of Rs.464,325 had been paid by the Council from the year 2016 to April 2017.

- (b) 25 (1) and 99 (1) of Motor Traffic Act No 14 of 1951 Revenue license for 23 vehicles and revenue license and insurance certificates for 8 vehicles had not been obtained.
- (c) **Chapter 252 of Municipal Councils Ordinance**
- (i) Sub section 188 (1) A sum of Rs.629, 690 and Rs.1,059,832 had been paid from the council fund in the year 2015 and 2016 respectively for an accident and health insurance cover which had not covered by the provisions of this section for 27 councilors of the Municipal Council.
- A sum of Rs.415, 480 paid from the council fund for purchasing uniforms for department heads in the year 2014 and 2015 had not been recovered even up to the end of the year under review.
- (ii) Section 266 (a) Approval of the minister had not been obtained to write off the outstanding amount of Rs.266, 400 receivable from 2 stalls.
- (d) **Establishment Code**
- (i) **Paragraph XIX**
- Section 4.2.1 Actions had not been taken to classify Government residences as scheduled residences or common residences.
Making scheme for allocation of official residences had not been prepared.
- Section 4.3.4 Separate waiting registers had not been maintained for each grades of residences.
- Section 6.1 Even though the period of leasing should be limited for 05 years for residencies allocated for any post, residents had been allowed to stay for a period from 6 ½ years to 19 years.

Section 6.1.4	Action had not been taken to hand over residence in a proper way by residents when they were transferred.
(ii) Chapter XXIV Section 1.6	Details relating to outstanding balance of staff loans amounting to Rs.440,983 receivable from 5 transferred employees had not been sent to the new Department
Section 4.1	A sum of Rs.254, 290 had been paid as loans without recovering the previous loan completely.
Section 4.6	Instructions had not been obtained from the Attorney General relating to non-receivable staff loans of transferred officers.
(e) Financial Regulations of Democratic Socialist Republic of Sri Lanka	
(i) F.R 128	A sum of Rs.1, 369,169 had to be paid as interest for bank overdraft obtained during the year 2016 due to the failure of maintaining proper finance administration.
(ii) F.R 156	A surcharge of Rs.76,454 had to be paid to the Employees Trust Fund in the year 2015 due to neglecting make payment on due time. However actions had not been taken to recover the said surcharge from the responsible officers.
(iii) F.R 261 (3)	Cheques had been issued without having adequate balance in the current account.
(iv) F.R 371 (2)	A delay of 50 days to 184 days had been observed in settlement of advances amounting to Rs. 53,000 issued during the year 2016.
(v) F.R 371 (5)	Although advances issued should be settled on or before 31 December of the year which the advance issued, advance amounting to Rs. 489,218 issued from the year 2000 to the year 2016 had not been settled even up to the end of the year under review.

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| (vi) | F.R 396 | Action had not been taken in connection with 9 cheques valued at Rs.39, 155 issued but not presented more than a period of 6 months. |
| (vii) | F.R 570 and 571 | Out of the refundable deposit as at 31 December 2016 lapsed deposits of Rs.7,662,878 relating to the period from 2007 to 2014 had not been credited to revenue. |
| (viii) | F.R 756 | Board of survey had not been carried out at the end of the year in connection with fixed assets valued at Rs. 269,478,251 and stock valued at Rs. 21,375,091 shown in the financial statements. |
| (ix) | F.R 1645 and 1646 | Running charts and monthly summaries had not been presented to the Auditor General before 15 of the following month and monthly summaries had not been prepared for any vehicle of the council. |
| (f) Circulars | | |
| (i) | Paragraph 02 of the Public Administration Circular No 41/90 dated 10 October 1990 | Fuel consumption of vehicles belong to the Council had not been tested. |
| (ii) | Local Government commissioner's (western province) Circular No WP/LGD/01/2012 dated 11 July 2012 | A monthly progress report relating to activities of planning committees had not been prepared and presented to the following month's council meeting. |
| (iii) | Local Government commissioner's (western province) Circular No 1980/46 dated 31 December 1980 | Although estimated rent should be revised and agreements should be updated at least once in a five years' time, agreements relating to 142 stalls had not been updated from 6 years to 29 years. |

1.3.7 Transactions not an Adequate Authority

The total value of retention deposits and staff loans deposits amounting to Rs. 290,818 which had been brought forward since number of years had been written off without proper identification and obtaining proper approval.

2. Financial Review

2.1 Financial Results

According to the financial statements presented the revenue for the year ended 31 December 2016, in excess of the in the recurrent expenditure of the council amounted to Rs. 65,914,271 whilst against to it the expenditure in excess of the recurrent revenue of the previous year amounted to Rs. 17,040,824.

2.2 Revenue Administration

2.3.1 Performance of Collecting Revenue

The Summarized information on the actual revenue and revenue in arrears presented by the Municipal Commissioner in respect of the year under review and the preceding year are as follows.

Source of Revenue	2016			2015		
	Actual Sum to be Collected	Actual Sum Collected	Arrears for the Year	Cumulative Arrears as at 31 December	Actual sum to be Collected	Cumulative Arrears as at 31 December
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Rates and Taxes	110,901	106,868	4,303	145,365	58,701	149,204
Lease Rent	11,250	11,865	-	-	11,159	3,194
License fees	20,504	20,686	-	2,933	11,083	54,045
Other Revenue	170,740	165,127	5,613	102,301	152,924	10,140
	313,395	304,547	9,646	250,599	233,867	216,583

2.3.2 Rates

The following observations are made.

- Rates amounting to Rs. 145,975,458 had been remained outstanding as at the end of the year under review due to failure of taking action to recover rates in accordance with section 252 of Municipal Council Ordinance. A sum of Rs.61,650,608 represents 131 units which had exceeded Rs. 50,000 had been included in the said balance.
- Rates amounting to Rs. 2,443,648 had been written off in the years 2015 and 2016. However approval had not been obtained in this regard. Although the value of property had been increased radically from the year 2008 to 2016 in the jurisdiction of the Municipal Council a valuation of property had not been done after the year 2008.

2.3.3 Stall Rent

A sum of Rs. 442,920 had been remained outstanding as at the end of the year under review from 18 stalls out of 46 stalls which had been rented out without entering in to agreements. Further a sum of Rs 489,600 had been lost to the Council due to failure of taking action as per the lease agreements of 2 stalls which had not paid any monthly rental.

2.3.4 Waste Disposal

A sum of Rs. 7,826,652 should be recovered to the Council for disposal of light garbage from the year 2012 to 2016 and a sum of Rs.3,441,300 represents 30 units which had exceeded Rs. 50,000 had been included in the said balance.

2.3.5 Court Fines

The income of court fines of the previous year amounting to Rs. 20,524,903 had been deteriorated by 97 per cent and it had fallen down to Rs.636, 839.

3. Operating Review

3.1 Operating Inefficiencies

The following observations are made.

- (a) Cases filed by the Council against to businessmen who had not obtained licenses for the year 2014 and had not paid business tax for the year 2013 had been withdrawn by the Council. As a result licenses fees and courts fine income receivable from 52 business who had not paid business tax and 117 business who had not obtained licenses had been lost to the Council.
- (b) Although a sum of Rs.13, 825,119 had been sent to the Employees Provident Fund as the contribution of 208 employees from the year 2012 to 2015, actions had not been taken to forward applications and obtain numbers for 64 employees out of those 208 even up to the end of the year 2016.
- (c) The land in extent of 0.7063 which the rest house was being located had been acquired by the Ministry of Housing. However information relating to the relevant agreement or compensation had not been furnished to audit.
- (d) Contrary to the terms of the paragraph 8.3.9 of the Public Administration Circular No PED/12 dated 02 June 2003, a compactor belong to the Council under the number 226/2026 had been released to the Boralasgamuwa Urban Council in the year 2010.

3.2 Operating inefficiencies

The following observations are made.

- (a) A computer software had been purchased in the year 2007 at a cost of Rs. 850,556 in order to manage rate income relating to 63,265 properties located under the jurisdiction of the Council and a sum of Rs. 111,945 had been paid annually for the service agreements. However action had not been taken to rectify the deficiencies of the information obtained from this software.
- (b) According to the tax order issued in the years 2014 and 2015 relating to period from the year 2009 to 2011 vat and NBT amounting to Rs. 31,137,637 with a fine of Rs. 10,896,288 had not been settled even up to 29 May 2017.
- (c) Out of the value of dishonored cheques amounting to Rs. 1,098,723, value of 90 cheques older than 3 years to 17 years was Rs. 506,828. Actions had not been taken to recover those money even up to now.
- (d) Expenditure items such as fuel allowances, bank interests, garbage disposal charges, and other expenses had been abnormally increased by 85 per cent as compared the previous year expenditure of Rs. 22,879,333 with the expenditure of Rs. 42,219,113 for the year under review.
- (e) Action had not been taken by the Council to rent out the second floor of the Central Market Building after 31 October 2010 and repairs of all stall buildings had not been done by the Council over a period of 11 years. As a result those buildings were decayed.

3.3 Uneconomic Transactions

The following observations are made.

- (a) A sum of Rs. 712,500 had been paid in the year 2014 for fixing Japanese engine to the micro vehicle belong to the council without taking actions to enter in to an agreement with the contractor. However repairs had not been completed and the vehicle had not been taken in to use even up to 17 April 2017. Further removed engine had not been taken back to the Council.
- (b) A sum of Rs.1, 998,500 had been incurred in the year 2015 to convert an ambulance belong to the Council to a passenger vehicle without obtaining approval of the Commissioner of Motor Traffic and without following proper methodology. However repairs had not been completed and the vehicle had not been taken in to use even up to 17 April 2017. Further removed accessories of the ambulance had not been taken back to the Council.

3.4 Dengue Campaign

Although a sum of Rs. 25,750,938 had been incurred for Dengue Campaign in the year 2016, the number of dengue patients had been increased by 42 percent from 812 to 1150 during the year under review compared with the previous year. One death had been reported in the year under review whilst no deaths had been reported in the previous year. Although the number of cases filed and the number of red notices issued had been increased during the year under review compared with the previous year, number of breeding places and number of houses with larvae had been increased. Programmes implemented during the year under review had failed to suppress spreading the disease and to minimize the number of patients.

3.5 Implementation of Projects

The following observations are made.

- (a) Out of the funds amounting to Rs. 145,050,000 allocated in the budget for the year under review for General Fund Projects, estimates had not been prepared for a sum of Rs. 115,786,601 represents 80 per cent of the allocation even up to the year under review.
- (b) Although estimates had been prepared, actions had not been taken even up to the end of the year under review to enter in to an agreements for implementation of 19 constructions projects valued at Rs.12, 376,407.
- (c) Although agreements had been signed to complete constructions of 24 projects valued at Rs. 14,522,412 during the year under review, those constructions had not been commenced even up to the end of the year under review.

3.6 Library Service

The building of a library, out of 09 libraries belong to the Council, had been decayed and it had been closed since the year 2015. Deficiency of 894 books and 216 damaged books had been revealed in the annual board of survey for the year under review and actions had not been taken to assess the value of those books and to write off from the books. Further actions had not been taken to collect back to the library the books which members and officers of the Urban Council had been borrowed.

3.7 Identified Losses

Liquidated damages amounting to Rs. 255,000 had not been recovered from the contractor for 85 days as per the agreement for repairing compactor belong to the Council.

3.8 Vehicle Utilization

The following observations are made.

- (a) Two fire vehicles valued at Rs. 2,600,000 received to the Council in the years 1985 and 2006 had not been registered even up to the end of the year under review.

- (b) Eleven vehicles valued at Rs. 25,078,000 included in the pool of vehicles and 3 vehicles which the value had not been mentioned had not been entered in to vehicle register.
- (c) Actions had not been taken to transfer 6 vehicles valued at Rs. 34,449,179 which had been registered on the name of external institutes but belongs to the Council.
- (d) Although a compactor belongs to the Council had been converted to a tipper, the proposal on this matter had been rejected in the council meeting. However after the dissolution of the Council the contract had been awarded to an institute situated at 120 KM far from Moratuwa at a value of Rs. 600,000 without considering disadvantages set in to the Council. Even though the approval of the management committee had been obtained, the contract had been awarded based on quotations which was received before 3 months for the approval of the management committee rejecting two lowest quotations. Further additional repairs valued at Rs. 165,000 had been awarded without calling quotations. A sum of Rs. 120,000 paid during the year under review for conversion of the compactor to a tipper had been brought in to accounts as recurrent expenditure.
- (e) Log books relating to 17 vehicles had not been presented to audit.

3.9 Staff Administration

Details of Approved and actual cadre of the Council as at 31 December 2016 are given below.

<u>Category</u>	<u>As at 31 December 2016</u>			<u>Surplus</u>
	<u>Approved cadre</u>	<u>Actual cadre</u>	<u>vacancies</u>	
Staff Grade	21	31	-	10
Tertiary grade	06	04	02	-
Secondary Grade	233	203	30	-
Primary Grade	733	680	53	-
	993	918	85	10

- (a) The vacancies of the permanent cadre as at 31 December 2016 were 94 and even though duties of the vacant posts had been fulfill by employees who had been recruited on the basis of casual and contract, actions had not been taken to fill those vacancies in the year.
- (b) After recruiting employees on the basis of contract and casual, the total vacancies were 85.
- (c) Nine posts in 3 categories which was very responsible for fire brigade had been remained vacant even though it may be adversely effected in an emergency.

- (d) In addition to the approved cadre, 13 ayurveda doctors of staff grade in casual basis and 10 employees of secondary and primary grade had been recruited on the contract basis.
- (e) Although the post of dispensary assistant had been dropped from the approved cadre as at 01 January 2013, 08 employees had been serving in that post.
- (f) Although the post of garage administrator and revenue in charge had not been included in the approved cadre, 2 employees had been attached to those posts.
- (g) Even though 12 employees had been approved to the Lunawa Development Project, any permanent employee had not been attached to the service.

3.10 Assets Management

Idle and underutilized assets

- (a) Seventeen vehicles and machinery costs of Rs. 36,382,958 included in the assets register had been remained idle over a period of 1 year to 7 years.
- (b) The generator in working condition had been removed from use since 28 July 2010 in order to purchase a new generator. However it had been remained idle in the premises of the Council.
- (c) Six residences belong to the Council had been closed without taking in to use.
- (d) Units 154 of 26 categories of Vehicle spare parts and 1,277 units of 305 categories of other items received from the Lunawa project had been remained at the stores without taking in to any use in the year 2010.

4. Accountability and Good Governance

4.1 Budgetary Controls

- (a) Even after transferring provisions between the heads of revenue and expenditure and obtaining additional estimates in the year under review, budgeted and the actual revenue had decreased to 96.6 percent from increase of 79 percent and budgeted and the actual expenditure had increased from 2.22 percent to 69.61 percent thus observing that the budget had not been made use of as an effective instrument of control.

- (b) The Council had failed to generate 79.13 percent of the budgeted capital income and 7.32 percent of budgeted recurrent income whilst 69.1 percent of budgeted capital expenditure and 9.6 of budgeted recurrent expenditure had not been utilized during the year.
- (c) Whatsoever income had not been generated in the year under review from 16 income items which the expected income was Rs.742,000 and whatsoever expenditure had not been incurred during the year under review on 123 recurrent expenditure items amounting to Rs. 7,361,000 and 26 capital expenditure items amounting to Rs.88,630,000.
- (d) Although the estimated income of 13 revenue items which 50 percent could not get fulfil during the year under review was Rs.31, 642, 000, the actual income was Rs.6, 137,138.

5. Systems and Controls

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

- (a) Accounting
- (b) Administration of Revenue
- (c) Control of Budget
- (d) Control of fixed assets
- (e) Contract control