

Moratuwa Municipal Council

Colombo District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2017 had been presented for audit on 27 March 2018 and the report of the Auditor General on the financial statements had been forwarded to the Mayor on 12 September 2018.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters shown in paragraph 1.3 of this report, the financial statements of the Moratuwa Municipal Council give a true and fair view of the financial position as at 31 December 2017 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial statements

1.3.1 Contingent Liabilities

Ten cases filed against the Municipal Council by outsiders and 06 cases filed by the Municipal Council against outsiders had not been disclosed in the financial statements.

1.3.2 Unreconciled Accounts

-
- (a) A difference of Rs.13,433,866 was observed while comparing the balances of 03 items of accounts in the financial statements with the related balances shown in the subsidiary registers/reports.
 - (b) The total of the Employees' Security Deposits Account and the Employees' Security Deposits Interest Account should tally with the balance of the Employees' Security Deposit Investment Account. But, the difference between those accounts as at 31 December 2017 amounted to Rs.25,297.

1.3.3 Accounts Receivable and Payable

(a) Accounts Receivable

-
- (i) A sum of Rs.1,303,203 was receivable from the Panadura Pradeshiya Sabha for disposal of its garbage to the Karadiyana Garbage Sector during the period 2012

to 2015. The arrears due amounted to Rs.1,475,486 with the tax of Rs.172,283 due thereon. Action had not been taken to recover this even during the year under review.

- (ii) The Treasury had not reimbursed Rs.10,140,025 due from the Lanka Electricity Company (Private) for maintenance of street lamps. As a result, further action had not been taken to settle this amount receivable.
- (iii) The loss of Rs.381,969 caused due to misappropriation of rates long ago had been brought to account as current assets in the financial statements. However, instructions had been received on 14.02.2011 to recover Rs.241,749 of the loss from the officer at the time of his retirement. So far, action had not been taken to recover it.
- (iv) The balance due on behalf of fuel amounted to Rs.455,167. 81.54 per cent of this amounting to Rs.371,167 could not be recovered even during the year under review.
- (v) Action had not been taken even during the year under review to recover the rent of Rs.645,055 receivable from beef stalls during the period 1999 to 2016.
- (vi) The Council had been deprived of the entertainment tax of Rs.3,228,197 due to the reduction of entertainment tax upto 10 per cent in terms of the Circular No.LG/3/2000 of 20 January 2000 of the Commissioner of Local Government. This had been brought to account as amount receivable under revenue debtors.
- (vii) Action had not been taken even during the year under review to recover the rest house charges of Rs.526,500 due since 2014.
- (viii) The Council had not taken action even during the under review to recover cash relating to 90 cheques valued at Rs.506,828 for the period 2008 to 2016 included in the balances of dishonoured cheques amounting to Rs.545,411.
- (ix) Action had not been taken to settle the balances of prepayments of Rs.1,293,191 for the period 2000 to 2017.

(b) Accounts Payable

The Development Reserve of Rs.10,000 and the Sinking Fund balance of Rs.89,210 which continues to be shown in the financial statements for many years had not been identified and settled even by end of the year under review.

1.3.4 Lack of Necessary Documentary Evidence for Audit

Ten items of accounts aggregating Rs.25,169,542 could not be satisfactorily vouched in audit due to non rendition of detailed schedules, age analysis and stock verification reports.

1.3.5 Non - Compliance

Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with laws, rules, regulations and management decisions appear below.

Reference to Laws, Rules, Regulations and Management Decisions	Value	Non-compliance
	Rs.	
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
(i) F.R 104(2)	231,000	Accidents caused to 03 vehicles during the year under review had not been reported to the Auditor General.
(ii) F.R.156	737,071	Losses caused due to negligence of officers should be surcharged. However, the surcharge paid to the Employees' Trust Fund due to reports not sent and delays in remittances during 2015, 2016 and 2017 had not been recovered from those who were responsible even by end of 2017.
(iii) F.R 371(2) and (5)	188,402	Advances paid should be settled immediately after the work is over or before 31 December of the year. However, advances paid during 2000 to 2016 had not been settled.
(iv) F.R 396(d)	12,759	Action had not been taken regarding 02 cheques, the validity period of which had expired.

(v)	F.RR 570 and 571	9,066,794	Action had not been taken regarding deposits over 02 years.
(vi)	F.R. 756	372,765,151	Annual board of survey had not been conducted with regard to fixed assets and stocks.
(vii)	F.R.1646	-	Daily running charts and monthly performance summaries of vehicles of the Council had not been furnished to the Auditor General, before fifteenth of the following month.
(b)	Paragraph 3.1 of the Public Administration Circular No. 30/2016 of 29 December 2016	-	Consumption of fuel by vehicles of the Council had not been tested.

1.3.6 Transactions without Adequate Authority

Payments amounting to Rs.629,620 and Rs.1,059,832 respectively had been made in 2015 and 2016 from the funds of the Council to 27 members of the Council for accidents and health insurance coverage respectively for which provision had not been made in terms of sub section 188 (1) of (Chapter 252) of the Municipal Councils Ordinance.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2017 amounted to Rs.36,705,215 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.65,914,271,

2.2 Revenue Administration

2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and the Arrears of Revenue

Information relating to the estimated revenue, revenue billed, revenue collected and the arrears of revenue furnished for the year under review and the previous year appear below.

Source of Revenue	2017				2016			
	Estimated Revenue Rs. '000	Revenue Billed Rs. '000	Revenue Collected Rs. '000	Total arrears as at 31 December Rs. '000	Estimated Revenue Rs. '000	Revenue Billed Rs. '000	Revenue Collected Rs. '000	Total arrears as at 31 December Rs. '000
Rates and Taxes	122,200	114,307	97,474	158,037	118,550	110,901	106,868	148,593
Rent	13,373	13,752	14,504	2,313	11,767	11,250	11,866	3,132
Licence Fees	21,450	21,228	21,228	2,933	11,455	20,504	20,686	2,933
Other Revenue	642,832	507,038	509,751	114,719	618,510	561,904	560,255	95,940

2.2.2 Performance in Collection of Revenue

The Council had failed to earn 17.84 per cent of the budgeted recurrent revenue and 85.66 per cent of the budgeted capital revenue for the year 2017. The total revenue not earned during the year under review amounted to Rs.400,095,273.

2.2.3 Rates and Taxes

- (a) The arrears of rates and taxes as at 31 December 2017 amounted to Rs.154,809,101. Of these, Rs.69,557,291 was due from 162 units of rates exceeding Rs.50,000.
- (b) The rates billed for the year under review amounted to Rs.101,366,060. However, the Council had failed to recover 41 per cent of it amounting to Rs.41,298,410.
- (c) The balance of arrears of rates as at 31 December 2016 amounted to Rs.142,331,668. Of this, 28 per cent amounting to Rs.39,198,739 had been recovered during the year under review and the recovery of Rs.103,132,929 had failed.

2.2.4 Rent

- (a) Out of the properties that could be given on lease, the Council had given 271 out of 282 of its properties on lease during the year under review.
- (b) The long outstanding balance of Rs.1,418,207 included in the balance of accumulated arrears of Rs.2,416,341 as at 31 December 2016 could not be recovered.

2.2.5 Licence Fees

- (a) Although there were 3092 trade establishments to which trade licences should have been issued for the year 2017, trade licences had not been issued to 810 trade establishments as at 31 December 2017.
- (b) Action had not been taken even during the year under review to recover the arrears of licence fees revenue of Rs.2,933,175 receivable for 2014 and year priors to it.

3. Operating Review

3.1 Performance

(a) Delays in Execution of Projects

- (i) Two projects with an estimated value of Rs.577,558 as per contract agreement had not been completed even by 31 December 2017.

- (ii) Thirty six projects valued at Rs.24,072,859 to be executed under the local financing project and 15 general fund projects had not been completed.

(b) Solid Waste Material Management

- (i) The arrears of garbage tax receivable as at 31 December 2016 amounted to Rs.7,883,750. During the year under review, a sum of Rs.1,725,750 had been recovered out of this arrears. The recovery of arrears was at a weak level of 21.89 per cent.
- (ii) Segregated garbage of 16,074 tons and 12,451 tons of garbage which had not been segregated had been handed over to the Karadiyana Garbage Sector in 2017. The collection of garbage had not been properly managed and as such the Council had to pay an extra amount of Rs.8,519,220 for mixed garbage.
- (iii) The garbage revenue receivable as at 31 December 2017 amounted to Rs.12,052,900. Of this, Rs.6,158,000 belonged to the previous years.
- (iv) A sum of Rs.22,063,395 which had not been entered in the books of the Council had been intimated to the Council as arrears payable as at 31 December 2016 by the Solid Waste Material Management Authority (Western Province). This had not been settled even by end of the year under review.

3.2 Management Inefficiencies

- (a) The Council had not adopted proper procedures to identify the quantity of gas issued to each crematorium. The quantity of gas requested by the employees of the crematoriums had been issued without examining the number of corpses that could be cremated by a 37.5 kilogramme cylinder.
- (b) The reports on value added tax for the years 2009, 2010 and 2011 had not been furnished on the due dates. As such, the Council had been directed in 2014 and 2015 to pay the Commissioner General of Inland Revenue a fine of Rs.10,818,002 together with the defaulted value added tax of Rs.31,059,351. However, the Council had not been exempted from paying tax as requested by the appeal.
- (c) According to the Circular No.WP/LGD/01/2012 of 11 July 2012 of the Commissioner of Local Government (Western Province), monthly performance reports of planning committees should be prepared and furnished at the corresponding monthly meeting. However, this had not been done.

3.3 Human Resources Management

The information regarding the approved and actual cadre of the Council as at 31 December 2017 appear below.

Category of Employees	Approved Cadre	Actual Cadre	Vacancies	Excess
Senior Level	21	17	04	-
Tertiary Level	06	04	02	-
Secondary Level	233	185	48	-
Primary Level	733	680	53	-
Others	-	132	-	132
Total	993	1018	107	132

The following observations are made.

- (a) Failure to fill 107 vacancies by end of the year under review.
- (b) The activities of the Council could not be efficiently and effectively carried out due to 04 vacancies in the posts of Senior Level.
- (c) Three officers belonging to 02 responsible service groups of the fire extinguishing units remained vacant throughout the year.
- (d) The post of Dispensary Assistant had been removed from the approved cadre since 01 January 2013. However, a sum of Rs.3,651,088 had been paid during the year under review on behalf of 08 employees who were engaged in those posts.
- (e) The posts of garage controller and tool keeper are not included in the approved cadre. But, during the year under review a sum of Rs.814,789 had been paid to 2 employees who had been assigned to do the duties relevant to the posts.
- (f) The approved cadre of the crematorium was 09. However, the post of Crematorium Operator and the post of officer in charge of the crematorium had fallen vacant.
- (g) Loan balances recoverable from 79 retired/interdicted officers amounted to Rs.2,341,855, None of the loan balances of Rs.751,957 due from 14 officers included in this balance had been recovered during the year under review.

- (h) Action had not been taken to settle the loan balances of Rs.1,573,647 recoverable from 128 officers included in the register of dormant loan balances.

3.4 **Operating Inefficiencies**

The following matters were observed.

(a) Dengue Eradication Programme

- (i) A dengue eradication action plan had not been prepared for the municipal area as at 31 December 2017. 165 dengue worm centres in 2016 had rapidly increased to 814 during the year under review.
- (ii) The issue of red notices had increased from 435 to 1571 and cases filed in the courts regarding centres where mosquitoes had been detected had increased from 155 to 712 during the year 2017 as compared to the previous year. The number of patients reported in the area had increased by 84.6 per cent, that is, from 500 to 923. Meanwhile, deaths due to dengue had not been reported in the area in 2015 and 2016 whereas two deaths had been reported during 2017.

(b) Land and Crematoriums belonging to the Council

- (i) Vesting details or title deeds of one hundred and fourteen freehold land, 47 land acquired, donated, given on lease and other land etc., and 05 crematoriums consisting of 31 acres, 03 roods and 25.14 perches used by the Moratuwa Municipal Council had not been furnished to audit.
- (ii) Details of 04 cremetoriumsof 560.86 perches of the Council had not been entered in the register of fixed assets while the extent of 06 land had not been identified.
- (iii) According to the register of fixed assets, the extent of land of the Rawathawatte public cemetery is 01 acre, 02 roods and 4.9 perches. However, according to the information furnished to audit the extent of the land is 03 acres and 14.05 perches. The difference observed was 01 acre, 02 roods and 9.15 perches.

(c) Pre School Performance

Nine pre-schools to be registered in terms of Section 13 of the Pre School Enactments No.01 of 2013 of the Western Provincial Council published in Part IV of the Gazette Extraordinary No.1826/23 of 04 September 2013 of the Democratic Socialist Republic of Sri Lanka had not been registered. 26 lady

teachers who had not fulfilled the requirements as per Part V11 of the Enactments had not been registered.

(d) Assessment of Properties

Properties should be assessed every 05 years and rates recovered accordingly. However, the Council had not assessed properties after 2008.

3.5 Assets Management

3.5.1 Idle / Under utilized Assets

- (a) A generator which was in usable condition had been set aside on 28 July 2010 with the idea of obtaining a new generator. But, it remained idle in the premises of the Council.
- (b) There had been no transactions in the savings account during the year which had a balance of Rs.4,175,495. This account has been maintained at the National Savings Bank on behalf of the Urban Development Authority.
- (c) Sixteen vehicles, machinery and equipment valued at Rs.21,580,865 and other vehicles and 10 vehicles and other items the values of which had not been identified were lying idle/under utilized in the premises of the Council for 01 to 07 years and for many years respectively.
- (d) Action had not been taken to give on lease the second floor of the Central Market building after 31 October 2010.
- (e) Twenty six categories of vehicle spare parts consisting of 154 units obtained from the Lunawa project and 305 categories of other items consisting of 1277 units remained idle/under utilized since 2010.
- (f) A theatre in the midst of the Moratuwa town remained idle for many years without being completed and used.
- (g) Four official quarters of the Council remained idle/under utilized without being used.
- (h) Action had not been taken to credit to an ordinary account the balance of Rs.6,820 of the Lunawa Development Project which had been completed.
- (i) The bailing machine valued Rs.632,500 handed over to the Council by the Department of Local Government on 13 September 2017 remained idle without being used.

3.5.2 Vehicle Utilization

- (a) The registered certificate necessary to confirm ownership of 04 vehicles of the Moratuwa Municipal Council had not been furnished to audit.
- (b) Three vehicles registered in the name of external institutions and 2 fire engines namely, PR Petrol and UR Diesel included in the vehicle fleet had been received in 1985 and 2006 respectively. But, these had not been registered in the name of the Council.
- (c) Alterations had been made to 03 vehicles in 2014, 2015 and 2016 without obtaining the approval of the Commissioner of Motor Traffic. Documentary evidence to show that accessories and engines removed from those 03 vehicles had been handed over to the stores had not been furnished to audit.
- (d) Three vehicles had been sold according to the Register of Fixed Assets and the registered certificate had been furnished for audit. However, documentary evidence to confirm sale of vehicles had not been furnished for audit.
- (e) Revenue licences and insurance certificates of vehicles of the Council for 2017 issued in terms of Section 25(1) and Section 99(1) of the Motor Traffic Act No.14 of 1951 had not been furnished to audit.

3.6 Uneconomic Transactions

A computer software system had been purchased by spending Rs.850,556 in 2007 for management of revenue from rates and an annual payment of Rs.111,945 had been made for service agreement. However, attention had not been paid to rectify deficiencies in the information obtained from the computer software even by end of the year under review.

3.7 Identified Losses

According to the agreement entered into to repair the compactor vehicle, a sum of Rs.255,000 was recoverable for the delayed period of 85 days. This had not been recovered even by end of the year under review.

3.8 Procurement

- (a) Newspaper advertisements for registration of suppliers for the year 2017 had been published on 28 September 2016 by spending Rs.137,085. However, no suppliers had registered for 10 items and less than 02 suppliers had registered for 18 items.
- (b) Quotations had been called for, from 07 suppliers and 4 items valued at Rs.639,998 had been purchased on 23 occasions. These were external suppliers who had not been registered to supply goods and services in 2017.

4. Accountability and Good Governance

4.1 Budgetary Control

- (a) Subsequent to the transfer of provisions among items of revenue and expenditure during the year, 16 instances of variations ranging from 2.69 per cent to 82.28 per cent were observed between the budgeted and the actual revenue and expenditure showing that the budget had not been utilized as an efficient instrument of management control.
- (b) During the year 2017, 19.68 per cent of the budgeted recurrent expenditure and 82.28 per cent of the budgeted capital expenditure had not been used. The unused capital expenditure amounted to Rs.421,788,242.
- (c) Subsequent to the transfer of provision among expenditure heads, no expenditure had been incurred from 150 recurrent expenditure heads amounting to Rs.60,732,314 and 38 capital expenditure heads amounting to Rs.232,584,152.
- (d) Subsequent to the transfer of provision among expenditure heads, the actual expenditure of 44 expenditure heads amounted to Rs.119,287,141 whereas the net provision amounted to Rs.96,342,879 resulting in an excess of expenditure over the budgeted provision by Rs.22,944,262
- (e) Subsequent to the transfer of provision among capital expenditure heads, the actual expenditure of 04 expenditure heads amounted to Rs.30,434,037 whereas the net provision amounted to Rs.8,824,848 resulting in an excess of expenditure over the budgeted provision by Rs.21,609,189

4.2 Internal Audit

The activities of the internal audit unit had not been properly organized and copies of internal audit reports had not been furnished to the Auditor General.

4.3 Unresolved and unreplied Audit Queries

Replies for 09 audit queries furnished to the Municipal Council during the year under review had not been furnished even by 12 May 2018 and the computable transactions relating to those queries were valued at Rs.226,222,826. Also, replies had not been furnished for 02 audit queries issued during 2015 and 2016.

5. Systems and Controls

Deficiencies observed during the course of audit were brought to the notice of the Commissioner from time to time. Special attention is needed in respect of the following areas of systems and controls.

System -----	Deficiency -----
(a) Financial Control	(i) Cash belonging to the Council not being beneficially invested. (ii) Proper action not being taken with regard to losses and damages.
(b) Revenue Administration	(i) Non recovery of arrears of revenue. (ii) Assessment of tax not done on the due dates.
(c) Budgetary Control	(i) Allocation of provision not done according to the needs. (ii) Lack of feasibility in the revenue estimates.
(d) Fixed Assets and Stock Control	(i) Non maintenance of registers and registers not being updated. (ii) Lack of proper action being taken regarding safety of assets and lack of beneficial management of assets.
(e) Staff Management	Recruitments being made without proper approval.
(f) Debtors and Creditors Control	Non settlement of arrears of balances.