

Moratuwa Municipal Council

Colombo District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2018 had been presented for audit on 29 February 2019 and the summary report of the Auditor General on the financial statements and the detailed management report had been forwarded to the Council on 30 May 2019 and on 01 August 2019.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters shown under the basis for qualified opinion 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 2018 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Basis for Qualified Opinion

(a) Accounting Deficiencies

	Audit Observation	Recommendation	Comments of the Accounting Officer
(i)	Computer and Accessories valued at Rs. 1,076,375 purchased in the year under review, had been accounted under machinery due to that the machinery account has been overstated by that amount.	Should be accounted correctly.	In preparation of the 2019 Final Account, computers and accessories will be accounted separately and will be removed from the machinery account.
(ii)	On the basis of recover from the driver the Council had paid the amount of Rs.3,001,717 imposed to the driver who found guilty for the accident of compactor. From December 2014 to February 2019, the Council had recovered Rs. 112,205	The loss should be recovered and the arrears amount should be accounted.	It is correct that there is a amount of Rs.2,889,512 to be recovered from the convicted driver. As at the General meeting of the Council held on 07 March 2017, the recovery from the salary has been temporarily stopped. Action will be

and after that it was stopped.
The Council had not accounted the balance of Rs.2,889,512 .

taken to account in 2019 according to the decision in future.

(b) Unreconciled Accounts

Audit Observation	Recommendation	Comments of the Accounting Officer
An excess of Rs.28,555,480 and shortage of Rs.10,069,291 had observed, when comparing the balances of five accounts with the related subsidiary registers/ schedules in the financial statements.	Accounts balances should be corrected after reconciling the differenses.	Action will be taken to correct.

(c) Accounts Receivable and Payable

Audit Observation	Value (Rs.)	Recommendation	Comments of the Accounting Officer
Accounts Receivable			
(i) Receivable from the disposal of light garbage	20,101,581	Action should be taken to recover the revenue immediately.	Action Will be taken to correct
(ii) Receivable from the Panadura Pradesiya Sabha for disposal of its garbage to Karadiyana Garbage yard.	1,297,188		
(iii) Receivable from the Lanka Electricity Company (private) for maintenance of street lamps.	10,140,025		
(iv) Arrears of fuel balance	371,167		
(v) Receivable from beef stalls.	653,805		
(vi) Dishonoured cheques	805,180		
(vii) Balance of prepayments	1,293,192		
(viii) Arrears of license fee	2,933,175		
(ix) Receivable from balance of canteen	86,820		
(x) Receivable from the renting of quarters	47,635		
(xi) The loss of Rs.381,969 caused due to	Action had been taken to	Not replied	

misappropriation of rates from a long period had been brought to account as current assets in the financial statements. However, disciplinary orders had been received on 14 February 2011 to recover Rs.241,749 from the officer at the time of his retirement. Action had not been taken to recover it even during the year under review.

- (xii) The Council had deprived of the entertainment tax of Rs.3,228,197 due to the reduction of entertainment tax up to 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.
- Entertainment tax should be accounted correctly. Not replied.

Account 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.

Action should be taken to identify and settle the amount of account payable. Not replied

(d) Lack of Necessary Documentary Evidence for Audit

Audit Observation	Recommendation	Comments of the Accounting Officer
Twelve accounts aggregating Rs.233,243,842 could not be satisfactorily vouched in audit due to non-rendition of necessary information.	Schedule or necessary information should be submitted to confirm the balances.	Not replied.

1.4 Non-compliance

1.4.1 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	Non-compliance	Recommendation	Comments of the Accounting Officer
(a) Section 218 of the Municipal Council Ordinance (Chapter 252)	The Mayor had not been furnished to the detailed report on the administration of the Council in each financial year.	Action should be taken in accordance with Section 218.	Not replied.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) FR.156	Losses caused due to negligence of officers should be surcharged. The Council had paid the surcharge amount of Rs.1,549,201 paid to the Employees' Trust Fund due to reports not sent and delays in the period of 2003 to 2015 and amount of Rs.969,733 paid by the Council in the period of 2015 to April 2019. But action had not been taken to recovered from those who were responsible officer.	Should be act in accordance with the FR156	Not replied.

(ii) FR.156	Rs.43,822 loss incurred for a period 15 to 17 years has not been recovered from the responsible officers up to now as those were not been properly recovered in that period.	Should be act in accordance with the FR156	It has been difficult to determine the officers responsible of the loss caused to the Council as the preliminary documents were misused.
(iii) FR.156	A sum of Rs. 919,512 as legal fees, other expenses had been paid and Rs. 10,275,362 as compensation for the case filed against the Council relating to the approval of the Plan No. 1329 / money. Action had not been taken to recover the amount incurred from the relevant responsible officer.	Should be act in accordance with the FR156	Not replied
(iv) FR.396	Action had not been taken in relating with 5 cheques valued at Rs.25,479 issued but not presented for payment for more than 6 months.	Should be act in accordance with the FR 396	Action will be taken to correct.
(v) FR 570 and 571	Action had not been taken lapse deposit over two years amounting to Rs.2,002,862.	Should be act in accordance with the FR 570 and 571	Action will be taken to settled and get to the income.
(vi) FR 756	Board of survey had not been carried out for fixed assets and stock valued at Rs.386,497,140.	Should be act in accordance with the FR 756	Board of survey was completed and list had been given to the miscellaneous income section for auction. Committee had been appointed for other

			disposal.
(vii) FR 1653	Milo meters of 33 vehicles belonging to the Council were not working for the period of 1 to 10 years.	Should be act in accordance with the FR 1653	Not replied
(c) Motor Traffic (Amendment) Act No.08 of 2009			
----- Paragraph 16	Three vehicles had been repaired at a cost of Rs.3,713,500 ,as to change the original nature of the vehicle without the prior written approval of the Commissioner of motor traffic .	Action should be taken in accordance with paragraph 16	Not replied.
Section (2) A of paragraph 5 of the Act	Although the modified vehicles should not be used, the above three vehicles are being used by the Council.	Action should be taken in accordance with paragraph 5.	Not replied.

1.4.2 Transaction without Adequate Authority

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
Payments amounting to Rs.953,715 and Rs.1,086,807 respectively had been made in 2015 and 2016 from the Council Fund to 27 members of the Council for accidents and health insurance coverage for which provision had not been made in terms of sub –section 188(1) of (chapter 252) of the Council Ordinance. Action had not been taken to recover the loss Rs.1,703,022 even by end of the year.	Loss incurred in against the sub-section 188 (1) of the Municipal Council Ordinance (Chapter 252) should be recoverable.	Not replied.

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 2018 amounted to Rs.503,990 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.36,705,215.

2.2 Revenue Administration

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

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

Source of Revenue	2018				2017			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December
	Rs. 000'	Rs. 000'	Rs. 000'	Rs. 000'	Rs. 000'	Rs. 000'	Rs. 000'	Rs. 000'
Rates and Taxes	126,700	113,828	116,384	157,037	122,200	114,307	97,474	158,037
Rent	13,024	12,676	12,780	2,786	13,373	13,752	14,504	2,313
Licence Fees	22,976	24,308	24,482	2,933	21,450	22,027	21,228	2,933
Other Revenue	680,265	508,316	524,686	109,828	642,832	507,038	509,751	114,719

2.2.2 Performance in Collection of Revenue

The Council had failed to earn Revenue estimates should be Not replied.
21.8 per cent of the budget prepared accurately.
recurrent revenue and 63.8 per
cent of the budgeted capital
revenue for the year 2018. The
total revenue not earned during
the year under review amounted
to Rs.238,192,820.

2.2.3 Rates and Taxes

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) Due to not taking action to recover rates and taxes under Section 252 of the Municipal Council Ordinance, the Council could not recover rates and taxes amounted to Rs.153,808,391 of which a sum of Rs.91,333,962 pertaining 152 unit of rates over Rs.50,000 as at 31 December 2018.	Action should be taken to recover the outstanding rates and taxes.	Not replied
(b) Although property has to be assessed once in 5 years and tax should be collected Council had not assessed the properties after 2008.	Properties should be assessed in every five years.	Not replied

2.2.4 Rent

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) Shops have been leased out in 39 occasions without entering into agreements. The rent to be recovered from those shops was Rs.663,366.	Action should be taken to recover the outstanding rent and signed the agreements immediately.	Not replied.

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| (b) | Although the billed income for 2018 from long-term leased out stalls was Rs.5,135,955 the Council had failed to recover Rs.400,526 from that amount . | Action should be taken to recover arrears lease of rent. | Not replied |
| (c) | The accumulated arrears of rent to be recovered from the shop was Rs. 2,416,341 as at 1 January 2018 of it Rs.898,208 of 34 properties were in arrears for more than 10 years. The Council had recovered Rs.887,214 or 36.7 per cent of it during the year under review. | Action should be taken to recover arrears of rent. | Not replied |
| (d) | According to condition No. 4, if the rent is delayed for more than three month, the ownership of the shop will be taken over by the Council. There are 65 shops which have not paid rents amounted Rs.1,263,653 for a period of 3 to 113 months, but action had not been taken as per agreements. | Action should be taken to recover the arrears of rent. | Not replied |

2.2.5 Stamps Duty

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
The stamps duty revenue billed for the year under review amounted to Rs.128,000,000. However, action had not been taken to recover amounting to Rs.74,049,705 or 57.85 per cent.	Action should be taken to recover stamps duty of the year.	Not replied

3. Operating Review

3.1 Performance

(a) Action Plan

Audit Observation

Recommendation

Comments of the Accounting Officer

An Action Plan had not been prepared and approved before the commencement of the year under review, and action Plan for 2018 did not provide sufficient information clearly to identify the period and performance of each activity.

An action plan should be prepared clearly, including activities and the time frame.

Not replied.

(b) Solid Waste Material Management

Audit Observation

Recommendation

Comments of the Accounting Officer

(i) Although budgeted garbage revenue for the year 2018 was Rs.15,000,000 the actual garbage revenue was Rs.9,282,165.

Action should be taken to meet budget income.

Not replied.

(ii) The arrears of garbage tax as at 31 December 2017 amounted to Rs.10,629,723 and had been recover only Rs.1,423,177 even by the end of the year.

Action should be taken to recover the amount of garbage tax,

Not replied

(iii) The amount paid to the garbage yard for the disposal of garbage in 2018 was Rs.23,698,320 but further a sum of Rs.7,910,002 was to be paid.

Waste disposal costs should be paid.

Not replied

(iv) The waste management authority (Western Province) had informed an amount of

Focus on observation and action should be taken to settle.

Not replied

Rs.22,063,395 to be paid as at 31 December 2018. But this was not recovered in the books of the Council had not been settle even as at the end of the year under review.

3.2 Management Inefficiencies

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
<p>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 ordered in 2014 and 2017. 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 an appeal. Further the Council had agreed to pay the time imposed Rs.421,328 for the defaulting of Value Added Tax for the years 2005,2006 and 2008.</p>	<p>The relevant tax should be paid as at the due date.</p>	<p>Not replied</p>

3.3 Human Resources Management

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
<p>(a) Vacancies as at the end of the year under review were 81. The activities of the Council could not be carried out efficiently and effectively due to the 3 vacancies in the senior level posts.</p>	<p>Action should be taken to fill the vacancies.</p>	<p>Not replied</p>

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| (b) | In addition to the approved permanent staff, 118 employees had been recruited for the projects, on contract, casual and substitute basis by the Council and paid Rs.42,422,094 as salaries and allowances. | The approval should be obtained from the governor of the Western Province to recruit and provision should be made, at the beginning of the year. | Not replied |
| (c) | There were 45 employees not performing their regular duties and had been engaged in some other duties during the year under review. | Employees should be deployed in their regular posts. | Not replied |
| (d) | Thirty-eight employees had left the workplace without permission from March to August 2018. When several employees including a health administrator, had gone to have bathe outside the area without permission in February 2019 and One employee drowned. | There should be proper staff management. | Not replied. |
| (e) | Loan balance totaling Rs.2,000,091 included, Rs.1,198,358 from 33 officers who had been interdicted and left the service, Rs. 450,312 from 17 deceased and retired person, Rs.351,421 form 08 transferred officers remained without been received during the year under review. | Action should be taken to recover loan balances. | Action will be taken to recover in due course. |
| (f) | Action had not been taken to settle the outstanding balance of Rs.1,545,627 included in the Non-Performing loan register. | Action should be taken to recover from the surety in the event of default. | Action will be taken to recover the balance of the 127 officers included in the NPL balance sheet. |

3.4 Operational Inefficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer
3.4.1 Dengue Eradication Programme		
<p>A dengue eradication action plan had not been prepared for the municipal area in the years 2016,2017 & 2018. But a sum of Rs.1,430,310 had been incurred for dengue eradication programme in the year 2018.The number of red notices issued in 2018 were 1371 and 208 cases had been filed in the courts out of 327 places, where mosquitoes had been detected. The number of patients reported were 581 and one death was reported during 2018.</p>	<p>An action plan should be prepared and dengue eradication Program Implemented properly.</p>	<p>Not replied</p>

3.4.2 Administration of the De Soysa Stadium

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) The Council had lost Rs.234,500 in seven instances of the allocation of De Soysa Stadium, due to not recovering based on the permanent charges .	<p>The loss should be recovered from the responsible parties.</p>	<p>Not replied</p>
(b) The security deposit charged at the stadium reservation must be duly documented, but there were 40 instances amounted Rs.289,000, which were not documented	<p>Security deposits should be properly documented when they are released.</p>	<p>Not replied</p>

properly as at 20 September 2018.

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| (c) | In order to recover potential damages from the use of the stadium, it is required to obtain a deposit, from the relevant parties. But deposit of Rs. 115,000 had not been obtained in 23 occasions. | Allocation of stadium should be done in accordance with relevant regulations. | Not replied |
| (d) | Two strips of the indoor stadium's cricket practice had not been used for a period of two years, and the nets fitted to separate the three columns were in a state of dilapidated. Further 10 mercenary bulbs fitted to on the either sides of the strips were not working and as inability to use these strips for training purposes there was a loss of revenue to the Council. | Revenue from the indoor stadium should be taken up. | Not replied |

**3.4.3 Moratuwa Sports Club
Constructed two storied building
in the De Soysa Stadium**

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
(a) A two storied building named 'Moratuwa Sports Club' had been constructed in De Soysa Stadium and the ground floor and upper floor club house and to fitness center had been leased to a third-party by the Moratuwa Sports Club for Rs. 25,000 and a sum of Rs 30,000. It was also revealed that the Moratuwa Sports Club is making a lot of money at the time of cricket matches are held.	Should not be leased out illegally to third parties.	Not replied

(b)	The club was not registered under the Club Act No. 17 of 1975 and the fitness center had not obtained a trade license.	The club should be registered and a trade license should be obtained for the fitness center.	Not replied
(c)	Although the funds had been obtained from the Sri Lanka Cricket Institute to improve the club premises, the approval of the Council had not been obtained.	The consent of the Council should be obtained.	Not replied
(d)	According to the tax laws of the Council, there is no legal provision for the lessee to lease any property owned by the Council to a third party and in a situation like that the lease, the agreement should be canceled and the property should be taken over by the Council, but not so done by the Council. The Council had not paid attention to obtain a maximum revenue using their property.	Due to the interim lease, the agreement has to be canceled and the property be handed over to the Council.	Not replied

3.4.4 Fire Extinguish Service

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) The posts of 09 approved fire brigade officers in the three main service categories such as Basic Fire Brigade, 1st Class Fire Brigade and Mechanical Fire Brigade have been vacant since 2014.	Action should be taken to fill the vacancies.	Not replied
(b) The fire department did not have 256 equipment relating to 26 items needed to run the fire department.	Arrangements have to be made to provide to necessary equipment to the fire brigade, which is an essential service.	Not replied

(c)	The fire service was also provided to locations outside the council area, but necessary steps had not been taken to make the fire service more effective and widespread by coming agreements with other Council, of the area and fire safety permits were not issued for tall buildings.	Steps need to be taken to expand the agreed fire services more effectively and comprehensively, and that fire safety licenses should be issued for tall buildings.	Not replied
(d)	The Council not taken action to provide life insurance for firefighters.	Life Insurance Cover should be given.	Not replied
(e)	There is no methodology of checking their health condition and evaluating services of the Fire Brigade employees.	A system of health and performance appraisal should be implemented.	Not replied
(f)	Two fire vehicles valued at Rs.2,600,000 received by the Council in 1985 and 2006 were not registered even by the end of 2018.	Fire vehicles should be registered.	No replied

3.4.5 Pre-school performance

	Audit Observation	Recommendation	Comments of the Accounting Officer
(a)	Nine pre-schools to be registered in terms of Section 13 of the Pre School charter No.01 of 2013 of the Western Provincial Council published in Part IV of the Gazette Extraordinary No.1826/23 on 04 September 2013 of the Democratic Socialist Republic of Sri Lanka had not been registered. 26 female teachers who had not fulfilled the requirements 24,vii of the charter and not been registered and not issued identity cards..	According to the preschool charter no 01 of 2013	Not replied
(b)	According to Article 12 (d) of the Charter, registered teachers were to be employed in the ratio of 20: 1 for children, but only 14 registered teachers were employed for 480 preschool children.	To comply with Section 12 (d) of the Charter.	Not replied

(c)	In terms of Part II of the Pre-School charter No. 01 of 2013 of the Western Provincial Council, the Director of the Preschool Unit should involve in the administration, supervision and direction, but not so done.	Action should be taken according to the preschool Charter No 01 of 2013	No replied
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3.5 Asset Management

3.5.1 Idle and Underutilized Assets

	Audit Observation	Recommendation	Comments of the Accounting Officer
(a)	Moratuwa Municipal Council has 19 large plots of land in extent of 2 acres, 11 perches and those were kept idle without being used.	Lands owned by the Council should be used.	Not replied
(b)	No transactions were carried out in the savings account during the year maintained at the National Savings Bank on behalf of the Urban Development Authority, which had a balance of Rs.4,664,460.	The normal savings account should be transferred to a fixed deposit.	Not replied
(c)	Seventeen vehicles had been removed from operation for 2 years to 18 years due to engine failure.	Action should be taken to repair.	Not replied
(d)	A theatre in the middle of the Moratuwa town remained idle for many years without being completed and used.	Action should be taken to utilize non-performing assets	Not replied
(e)	Seven official quarters of the Council remained idle/under utilized without being used since of 2009 to 2017.	Action should be taken to utilize idle quarters	Not replied
(f)	Action had not been taken to give on lease the second floor of the Central Market building after 31 October 2010 and therefore income of the Council had been deprived.	The central market building should be leased out and the income should be earned	Not replied

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| (g) | A generator which was in usable condition had been set aside from 28 July 2010 with the idea of obtaining to purchase a new generator. The old one remained idle in the premises of the Council. | Action should be taken to utilize idel assets. | Not replied |
| (h) | The bailing machine valued at Rs.632,500 handed over to the Council by the Department of Local Government on 13 September 2017 remained idle without being used. | The bailing machine should be used or given to a institute in need. | Not replied |
| (i) | Vehicle spare parts consisting of 1711 items received from the Lunawa project remained idle/underutilized since 2010. | Action should be taken to utilize idel assets. | Not replied |

3.5.2 Utilization of Vehicles

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
Seven vehicles received by the Council from 11 to 31 years, had not been registered in the name of the Council.	Action should be taken to registered.	Not comments.

3.5.3 Apparent Misappropriation

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
Employees attached to the Assessment Section Computer Service had used a common password and had cancelled a bill valued at Rs.105,893 and misappropriated assessment tax in ten instances. The secret password of a responsible staff officer also had been misused.	Disciplinary action should be taken against the officers involved in the misappropriation.	Not replied

4 Accountability and Good Governance

4.1 Budgetary control

	Audit Observation	Recommendation	Comments of the Accounting Officer
(a)	Budgeted recurrent expenditure of 21.82 per cent and 57.13 per cent of the budgeted capital expenditure of the year 2018 were not utilized during the year and the total unutilized provision was Rs.250,597,904.	Estimates should be prepared correctly.	Since capital income had not been received, capital expenditure had not been made during the year.
(a)	After transferring the allocation between expenditure heads, any expenditure from 141 recurrent expenditure heads amounted to Rs.11,220,000 and amounted to Rs.62,279,800 from 43 head of capital expenditure head had not been made the year under review.	Provision should be transferred only from the heads required.	Heads 127 or 90 per cent were nominal provisions.
(b)	Rs. 50,000,000 had been allocated under the Provincial Councils decentralized assistance Code No 33528 II for construction and land planing , but the actual expenditure was Rs. 22,463,772 and the remaining balance amounted Rs.27,536,228 was over 55 per cent.	Estimates should be prepared correctly.	Due to not received the expected income for the construction, cost of construction and land planning under the Provincial Council decentralized assistance. No expenditure was incurred for construction.
(c)	No any income generated from 30 budgeted income heads amounting Rs.24,134,000 during the year of under review.	Budget estimates should be prepared correctly.	Reasons for not earning income have been informed.