

Moratuwa Municipal Council – 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Moratuwa Municipal Council including the financial statements for the year ended 31 December 2021 Statement of assets and liabilities as at 31 December 2021, Income Comprehensive 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). 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 financial statements give a true and fair view of the financial position of the Moratuwa Municipal Council as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.2. Basis for Qualified Opinion

I expressed qualified opinion 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

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, 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)**

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 scepticism 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

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) The financial statements of the Municipal council presented is consistent with the preceding year as per the requirement of section 6(1)(d)(iii) of the National Audit Act, No. 19 of 2018.
- (b) The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6(1)(d)(iv) of the National Audit Act, No. 19 of 2018.

1.6 Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation -----	Comment of the Council -----	Recommendation -----
(a) According to the Asset Management Circular No. 4/2018 dated 31 December 2018 of the Ministry of Finance and Mass Media, and as per the letter of the Local Government Assistant Commissioner dated 1 February 2021 and No. LGD/10A/4/N.A/2019 all fixed assets owned by the institution should be revaluated for at the time of submission of financial statements for the year 2020, but the Municipal Council had also not been revaluated the assets in the year 2021. As a result, depreciation had not been accounted for in 2021 for property, plant and equipment.	Due to the situation in the country as a result of the Covid 19 pandemic, it had not been possible to revalued all the fixed assets because employees had to be called for work intermittent in the future, the assets will be revaluated and depreciation will also be accounted for.	All fixed assets should be revalued and depreciation should be accounted for as per circular instructions.
(b) As at 31 December 2019, the balance of the property, plant and equipment account and the balance of the income contribution to capital account should be transferred to the reserve and allocation account, a new property, plant and equipment account and a revaluation reserve account should be created after	As assets could not be possible to revalue in the year 2021, it was unable to create a revaluation reserve account, and action will be taken to create an revaluation reserve account in the future.	Transactions should be accounted for as per the new system of accounts as per circular instructions.

revaluation of the assets. However, this new accounting had not been done due to the fact that the property of this municipality had not been re-valuated even as at 31 December 2021.

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| (c) | A percentage equal to the depreciation rate for the projects carried out with the capital grant value of Rs.82,983,929 related to the last year should be shown under assignments from the government for non-recurring expenses in the comprehensive income statement. However not recording the assets and apply the new accounting system. So Capital grant adjustments had not been shown in financial statements. | This did not relating to the year 2021. Since this amount was Rs.82,983,929 received from the Provincial Council for recurring expenses (for road repairs), accorded as per accounting standards, and it had not been shown as capital grants under Note No. 05 of the Comprehensive Income Statement. | The value of capital grant should be accurately identified and accounted for. |
| (d) | Although Rs.301,473 and Rs.130,084 had been written off from the central market shop rent balance and public market shop rent balance respectively during the year under review, due to the non-settlement of the said balances, there was an excess of Rs.431,557 under receivables from exchange transactions. | Not replied. | Transactions should be properly accounted for. |

1.6.2 Unreconciled Control Accounts or Records

----- Audit Observation -----	----- Comment of the Council -----	----- Recommendation -----
An excess of Rs.2,712,048 and shortage of Rs.22,973,032 had observed, when comparing the balances of two accounts with the related schedules in the financial statements.	We are currently taking action to identify the difference between the balances of the employee loan accounts and the balances as per the schedule and we will identify the difference and settle it in the future.	Differences should be identified and balances settled.

1.6.3 Lack of Necessary Documentary Evidence for Audit

Audit Observation -----	Comment of the Council -----	Recommendation -----
Detailed schedules for 09 accounting subjects totalling Rs.84,802,768, had not been submitted and it was unable to satisfactorily vouched during the audit.	Although in the year 2020, the missing documents of several years were checked, this deficiency could not be observed so for. Hence missing documents should be checked further.	Necessary schedules should be submitted for balance verification.

1.7 Non-compliances

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

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

Reference to laws, rules, regulations and management decisions -----	Non-compliance -----	Comments of the Council -----	Recommendation -----
Financial Regulations of the Democratic Socialist Republic of Sri Lanka -----			
(a) Financial Regulations 104(3) and (4).	A preliminary report should be submitted if more than 07 days passed since the damage occurred and a comprehensive report should be submitted before 03 months passed since the damage occurred, however action had not been taken of vehicle accidents in the case owned by the Council.	Action will be taken to correct in the future.	Action should be taken as per Financial Regulations 104 (3) and (4).
(b) Financial Regulations 128	The council had paid an overdraft interest of Rs.1,296,602 for the overdraft facilities obtained in the year 2021 due to not maintaining a proper financial administration.	As per Section 206 (a) of the Municipal Council Ordinance (252 chapter) bank overdraft facility had been obtained	Action should be taken to as per Financial Regulations 128.

and interest has to be paid on the bank overdraft facility obtained.

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| (c) | Financial
156 | Regulations | The Council had a responsibility of paying a surcharge amount of Rs.1,549,200 to the Employees' Trust Fund due to not sending reports and delays in payment in respect of the period 2003 to 2015 and an amount of Rs.1,088,565 had been paid by the Council from 2015 to 2019. But action had not been taken to against the parties who were responsible. | Not replied. | Action should be taken to as per Financial Regulations 128. |
| (d) | | | According to the court order issued on 20 July 2018 the case filed against the Council relating to the approval of the Plan No. 1329 / money, a sum of Rs.11,602,308 paid by the Council on compensation and legal fees, but action had not been taken to recover the amount from the relevant parties responsible even at the end of the year under review. | In relation to this, an investigation was carried out by the Local Government Commissioner's Office and the results had not been reported so far. | Action should be taken to as per Financial Regulations 128. |
| (e) | Financial
756 | Regulations | Annual board of survey had not been conducted for fuel stocks valued at Rs.964,975. | Annual survey regarding fuel stocks will be conducted in the next year. | Action should be taken to as per Financial Regulations 756. |

2. **Financial review**

2.1 **Financial Results**

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2021 amounted to Rs.136,192,585 as compared with excess of revenue over recurrent expenditure amounted to Rs.24,003,920 in the preceding year.

2.2 **Performance in Revenue collection**

The following are the observations regarding the performance in revenue collection of the council.

Audit observation	Comment of the Council	Recommendation
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(a) Rates and taxes		

(i) As of 252(1)(a) and (b) of the Municipal Council Ordinance, due to failure to recover the rates and tax, the outstanding assessment tax balance as at 31 December 2021 was Rs.257,771,441 out of which Rs.91,369,427 was pertaining 361 unit of rates over Rs.50,000.	There are some arrears of rates and tax relevant to government property as well as property that should give tax concession. At present, the tax relief committees are functioning and they are working to provide tax relief for possible properties, so the arrears will be reduced. The arrears from government properties are in a long-term irrecoverable situation. However, it is inform action will be taken to recover the arrears formally.	Action should be taken to recover the arrears of income.
(ii) The outstanding rates and tax balance as at 31 December 2020 was Rs.222,516,941, of which Rs.50,817,283 or 23 per cent had been recover in the year under review, however the Council had failed to recover Rs.171,699,658 or 77 per cent.	These arrears include arrears on government property as well as arrears of assessed taxes on closed businesses. Also, the assessment tax deficits of the property that should be given tax relief are also represent in this outstanding assessment balance. The arrears will be reduced during the current tax relief.	-do-

Also, the arrears for government properties are in a state of non-recovery for a long time. But further actions are being taken to inform the relevant government agencies to recover the arrears. Action will be taken to recover the arrears by conducting mobile services and retraining the property, and accordingly it will be possible to recover arrears.

(b) Rent

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| (i) | Although according to Sections 254(a) 1 and 2 of the Municipal Council Ordinance (252 Chapter) the payments due to the Municipal Council are to be recovered, the outstanding balance of Rs.3,124,678 due on 31 December 2021 from 181 long-term leased properties had not been recovered. | The amount to be written off under the Covid relief for the years 2020 and 2021 is Rs.522,679. The outstanding amount to be written off from the documents is Rs.457,453. The amount to be recovered in instalments was Rs.60,000. So far, the amount recovered from the deficit in the year 2022 was Rs.294,882. Accordingly, the remaining amount of Rs.1,358,105 will be recovered in the future. | Action should be taken to recover the arrears of income. |
| (ii) | Lease agreements had not been signed for 32 properties out of the 250 leased properties owned by the council. | It had been decided in the monthly council meeting dated 02.12.2021 not to lease 08 shop rooms in the central market out of the 258 leased properties owned by the council. A contract was entered into and an appraisal was obtained and the contract is entered into. | Action should be taken to enter into a lease agreement. |

2.3 **Surcharges**

Audit Observation	Comment of the Council	Recommendation
In terms of the provisions of the Municipal Council Ordinance Rs.760,173 was to be recovered as at 31 December 2021, in respect of surcharges imposed by the Auditor General in previous years against the responsible parties.	Not replied.	Action should be taken to recover responsible parties.

3 **Operational Review**

3.1 **Management Inefficiencies**

Audit Observation	Comment of the Council	Recommendation
Employees attached to the Assessment Division computer service had used common password and cancelled bill value at Rs.105,893 and misappropriated assessment tax in ten instances in 2018 .The secret password of a responsible staff officer also had been misused. By the end of the year under review, no formal investigation inquiry had been held and recover the loss.	Not replied.	Investigations should be carried out promptly and losses should be recovered from the responsible parties.

3.2 **Idle or Underutilized Property, Plant and Equipment**

Audit Observation	Comment of the Council	Recommendation
(a) Fourteen vehicles had been removed from operation for long time due to not repairing of the engine and those vehicles remained idle.	No replied.	Vehicles should be repaired or dispose.

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| (b) | The Weera Puran Appu Park, which was developed as an underground car park and an elevated public park by the Urban Development Authority under the supervision of the Moratuwa Municipal Council, was handed over in writing to the Council on 13 March 2020, but remained unused even as at 31 December 2021. | As the building in which the Moratuwa Central Market is currently run is in a dilapidated condition, and the Urban Development Authority had prepared plans for the installation of a new building for its modernization activities. During the construction of the building as it had been proposed, the existing stalls in the Central Market will be temporarily installed in the underground car park of the Weerapuran Appu Public Park, the park had not been opened to the public. | Action should be taken to use utilize assets. |
| (c) | Although the Housing Development Authority had taken over the 0.7063 hectare land owned by the Council, where the Lunawa rest house was located, for an apartment project the Council had not yet received compensation from the authority, even by 31 December 2021,. | Not replied. | Action should be taken to recover compensation. |

3.3 Solid Waste Management

Audit Observation -----	Comment of the Council -----	Recommendation -----
The Council had not paid an amount of Rs.20,405,393 to the Waste Management Authority for the year under review and accordingly the total outstanding balance as at 31 December 2021 was Rs.56,839,195.	Not replied	Action should be taken to pay the amount due.

3.4 Human Resources Management

Audit Observation -----	Comment of the Council -----	Recommendation -----
(a) Addition to the approved staff, Rs. 23,464,948 were paid during the year under review as salaries and allowances to 83 employees who were recruited on 29 May 2014 for the project needs and due to the non-existence of those positions in the approved staff, the salaries had not been reimbursed and accounted as an expense of the council.	For the safety of the properties and buildings owned by the council, security guards have been recruited on additional project basis to the approved staff for the Lunawa lagoon and dengue project, medical laboratory projects, assessment revision project, etc., which are being implemented with a view to improving the health of the people of the area, and as the government does not reimburse the salaries for project recruitment. Salary payment had been made by the Council.	Recruitment should be done on the approval of the Local Government Commissioner.
(b) Loan balance totalling Rs.1,233,552 included, Rs.843,324 from 31 officers who had been interdicted and left the service, Rs.390,228 from 14 deceased and retired officers, had not been recover during the year under review.	Action will be taken to recover the balances of the suspended, retired and deceased officers and the 7 retired officers.	Action should be taken to recover outstanding loan balances.
(c) Action had not been taken to settle the outstanding balance of Rs.1,567,846 from 107 officers included in the Non-Performing loan register.	In order to recover the loan balance due from the 107 employees/officers mentioned in the inactive loan register, the necessary files are being looked up from the archive and further work is being done.	Non-performing loan balances should be settled.
(d) An amount of Rs. 99,486 was overcharged from 14 officials during the recovered of employee loans.	In order to recover the overcharged amount from 14 officers in the recovered of employee loans, information had been requested from them and obtained from the establishment Division and further work is being done.	Action should be made to pay the overcharged amount.

3.5 Utilization of Vehicles

Audit Observation	Comment of the Council	Recommendation
Although revenue licenses and insurance certificates should be obtained for driving vehicles, 19 vehicles for revenue licenses and 13 vehicles for insurance certificates had not been obtained for owned by the Council.	Twenty two vehicles which had not been obtained vehicle revenue licenses have been mentioned. There are 19 vehicles that have not obtained vehicle revenue licenses.	Income licenses and insurance certificates should be obtained.