

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Moratuwa Municipal Council for the year ended 31 December 2022 comprising the statement of assets and liabilities as at 31 December 2022 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out 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 provisions of the National Audit Act, No. 19 of 2018 and Section 219 of the Municipal Councils Ordinance (Chapter 252). My comments and observations which I consider should be reported 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 2022, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Government Authorities.

**1.2 Qualified Opinion**

A qualified opinion on financial statements will be expressed based 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 for Local Government Authorities, and for such internal control as management determines 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 Sub-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 to be prepared of the Municipal Council.

#### **1.4 Scope of Audit (Auditor's Responsibility for the audit of the 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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 the Municipal Council's 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

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

- The financial statements of the Municipal Council are consistent with the preceding year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- The recommendations made by me regarding the financial statements for the previous year have been included in the financial statements as per the requirements mentioned of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

## 1.6 Audit Observations on the Preparation of Financial Statements

### 1.6.1 Preparation of Financial Statements

Audit Observation	Comment of the Council	Recommendation
<p>Although it was stated under Paragraph 2.1 of the accounts policy statement that financial statements had been prepared in accordance with the Public Sector Accounting Standard for Local Authorities, necessary formats and code numbers for maintaining accounts as per this new standard had been provided by the Circular No. LGD/09/2019 dated 31 December 2019 of the Western Provincial Local Government Department and the amendments made thereto. Nevertheless, the Moratuwa Municipal Council had not used any of the formats and code numbers introduced by those circulars to maintain accounts for the year 2022 as well. Furthermore, the accounting standard mentioned herein as well as Rules No.84 had not been complied with in the preparation of financial statements.</p>	<p>Accounts for the year 2022 have been prepared using formats introduced by the circulars.</p>	<p>Account books should be maintained in accordance with formats introduced by the Commissioner of Local Government.</p>

## 1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Council	Recommendation
(a) In the preparation of financial statements for the year under review, revaluation and accounting for assets, their depreciations and recognition of capital grants of the year had not been carried out in accordance with the standard.	Assets will be revalued and accounted for after correctly identifying them in the future.	Action should be taken in accordance with the Public Sector Accounting Standard for Local Authorities.
(b) According to the bank reconciliation prepared as at 31 December, 305 unidentified credit balances worth Rs.192,332 had not been identified and brought to account.	The balance that further remained overdue is Rs.192,322 and that balance will be settled in the future.	Unidentified credit balances should be identified and brought to account.

## 1.6.3 Lack of Necessary Evidence for Audit

Audit Observation	Comment of the Council	Recommendation
As the updated registers of assets, age analysis, detailed schedules, balance confirmations and physical stocks had not been made available for audit, 12 items of accounts worth Rs.164,101,841 could not be satisfactorily vouched during the audit.	Action will be taken to check and document the registers that are yet to be submitted.	Necessary schedules for the balance confirmation should be submitted.

## 1.7 Non-compliance

Non-compliance with laws, rules, regulations and management decisions.

Instances of non-compliance with laws, rules, regulations and management decisions are as follows.

Reference to laws, rules, regulations etc.	Non-compliance	Comment of the Council	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulation 156	Surcharges had arisen due to the delay in sending reports and contributions, and the surcharge of Rs. 1,088,565 paid to the Employees Trust	Necessary arrangements are being made.	Action should be taken in accordance with Financial Regulation 156

Fund by the Council during the period from 2015 to 2019 had not been recovered from the responsible parties.

- |       |                                 |                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                          |                                                                                        |
|-------|---------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|
| (ii)  | Financial Regulation<br>156     | A sum of Rs. 11,602,318 paid by the Council as the compensation and legal charges to the complainant as per the court order given on 20 July 2018 for the case filed against the Council in respect of approving the financial plan No.1329, had not been recovered from the relevant parties even during the year under review. | A committee consisting of three officers of the Office of the Commissioner of Local Government has been appointed to conduct a preliminary inquiry regarding the recovery of money paid by the Council and action will be taken according to the recommendations once they are received. | Inquiries should be completed and recommendations should be implemented expeditiously. |
| (iii) | Financial Regulation<br>486 (i) | From 85 dishonoured cheques worth Rs. 473,288 related to the period from 1998 to 2003, any amount had not been recovered even in the year under review.                                                                                                                                                                          | A committee has been appointed to recognize the responsible parties and further action will be taken according to that committee's recommendations.                                                                                                                                      | Action should be taken in accordance with Financial Regulations.                       |

## 2. Financial Review

### 2.1 Financial Result

According to the financial statements presented, the revenue of the Council in excess of the recurrent expenditure amounted to Rs. 90,675,820 as at 31 December 2022 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.136,192,585.

### 2.2 Revenue Administration

#### 2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue, and Outstanding Revenue

Particulars on the estimated revenue, billed revenue, collected revenue and outstanding revenue relating to the year under review and the preceding year, are as follows.

Source of Revenue	2022				2021			
	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.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)
Rates and Taxes	213,357,880	206,930,699	261,364,133	293,898,809	219,250,000	209,908,617	108,074,820	310,103,404
Rents	5,524,400	10,448,312	6,316,645	4,357,667	4,860,000	5,783,533	5,177,498	3,124,678
License Fees	6,500,000	9,462,600	9,503,875	2,933,175	6,000,000	10,063,850	10,022,575	2,974,450
Other Revenue	594,000	669,763	647,957	678,305	544,000	655,423	646,544	658,706
<b>Total</b>	<b>225,976,280</b>	<b>227,511,374</b>	<b>277,832,610</b>	<b>301,867,956</b>	<b>230,654,000</b>	<b>226,411,423</b>	<b>123,921,437</b>	<b>316,861,238</b>

## 2.2.2 Performance in the Collection of Revenue

Observations on the performance related to the collection of revenue of the Council are as follows.

Audit Observation	Comment of the Council	Recommendation
(a) Rate and Tax		
The outstanding rate balance as at 31 December 2022 was Rs. 293,898,809 and it included a value of Rs. 105,603,527 due from 453 rating units with the outstanding Rate exceeding Rs.50,000.	Action will be taken to recover the outstanding Rates in the future.	Action should be taken to recover the outstanding revenue expeditiously.
(b) Rent		
(i) No action had been taken to recover the outstanding balance of Rs. 4,151,326 due from 258 properties given on long-term basis as at 31 December of the year under review in terms of Sections 254 (a) 1 and 2 of Municipal Councils Ordinance (Cap.252).	Approval of the Governor has been sought to write off Rs. 522,679 for the years 2020 and 2021, and a sum of Rs. 2,479,308 could be recovered from the arrears as at 31.03.2023. In order to write off a balance totalled Rs. 1,118,969 continued to exist over a long period, the matter has been forwarded to the Governor for the approval.	Action should be taken to recover the outstanding revenue.

(ii) Out of 258 properties of the Council, which are given on lease, 08 properties had not been leased and lease agreements had not been signed for 28 properties. A decision has been taken at the monthly Council meeting dated 02.12.2021 to not lease 08 trade stalls of the Central Market. Action will be taken to obtain a new valuation for the remaining properties and enter into agreements. Action should be taken to enter into lease agreements.

**(c) Surcharge**

In relation to 02 surcharges imposed by the Auditor General against the responsible parties in preceding years as per the provisions of the Municipal Councils Ordinance, a sum of Rs. 760,173 remained recoverable as at 31 December 2022. Although the 06 members of the Council, who were exempted from the surcharges, were required to pay these total surcharge amount other than the deceased members, since the officers had been released contrary to the provisions of the Urban Councils Ordinance, taking legal action has become problematic. As such, the Municipal Commissioner has sought necessary guidelines and instructions from the Secretary to the Governor. Action should be taken in accordance with the provisions of the Municipal Councils Ordinance.

**3 Operating Review**

**3.1 Management Inefficiencies**

Audit Observation	Comment of the Council	Recommendation
(i) Employees of the Assessment Tax Division had committed a rate irregularity by cancelling bills worth Rs. 105,893 on 10 occasions in 2018 using the common password. The secret password which should be in	The preliminary inquiry report and the draft charge sheet have been referred to the Office of the Commissioner of Local Government on 09.12.2021.	Investigations should be completed expeditiously.

the possession of a staff grade officer had been misused in these cases. The loss had not been recovered even by the end of the year under review.

- |       |                                                                                                                    |                                                        |                                                                         |
|-------|--------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|-------------------------------------------------------------------------|
| (ii)  | Outstanding fuel balance of Rs. 75,000 due from a member had not been recovered even during the year under review. | Legal proceedings are in progress to recover the dues. | Action should be taken to recover the recoverable amount expeditiously. |
| (iii) | Salary amounting to Rs. 27,172,234 receivable for the period from 2019 to 2022 had not been reimbursed.            | Not commented.                                         | Action should be taken to reimburse the salary.                         |

### 3.2 Human Resource Management

Audit Observation	Comment of the Council	Recommendation
(a) Employees' loan balances totalling Rs. 3,671,001, including Rs. 258,303 due from 06 interdicted officers and Rs. 678,818 due from deceased and retired officers as at 31 December of the year under review had not been recovered.	Action is being taken to recover the outstanding balances.	Outstanding loan balances should be recovered expeditiously.
(b) Action had not been taken to settle loan balances of Rs. 1,565,677 due from 104 officers included in the Register of Non-performing Loan Balance.	Action is being taken to recover the outstanding balances.	Outstanding loan balances should be recovered expeditiously.
(c) Posts of 06 approved Fireguard Officers belonging to 02 main service categories of Primary Fireguard, and First Ranking Fireguard and Mechanical Fireguard of the Fire Extinguish Divisions which is providing services both in day and night, remained vacant from the year 2014.	Approval has been sought to fill the vacancies of the posts. The posts of Primary Fireguard and the First Ranking Fireguard are the promotions of the Mechanical Fireguards currently working in the institution, action will be taken to fill the vacancies formally on completion of their period of service.	Action should be taken to fill vacancies.

### .33 Assets Management

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) Eleven vehicles had been removed from using due to not attending to engine repairs and those vehicles remained dysfunctional over a long period of time.	Not commented.	Action should be taken to repair or dispose of vehicles.
(b) There is a balance of Rs. 7,137,020 in the account maintained on behalf of the Urban Development Authority in the National Savings Bank and that money had not been invested in a productive purposes with the concurrence of the Urban Development Authority.	A decision has been made to use this money for the renovation of crematorium at Egodaunya, Korawella and Angulana, and currently, arrangements are being made to reimburse a sum of Rs. 1,860,879.46 spent from the Council funds for the renovations of the Korawella cemetery from the account maintained on behalf of the Urban Development Authority.	Measures should be taken to use the money on productive purposes.
(c) Although the land owned by the Council containing of 0.7063 hectares on which the Lunava Inn was situated had been taken over by the Urban Development Authority for a storied housing project, the Authority had not paid compensation to the Authority even by 31 December 2022.	Although approval has been granted by the Cabinet Note dated 17.11.2014 to the Urban Settlement Development Authority to obtain Treasury funds as per the valuation of the Government Chief Valuer in order to pay compensations for the Lunawa storied housing complex, we have not received those funds thus far. The Urban Development Authority and the Attorney General has been informed in this connection.	Receivable compensations should be obtained.
(d) Although equipment worth Rs. 237,599 had been purchased in the years 2019 and 2021 to establish a library on the upper floor of the child and maternity building of the Lakshapathiya area, the library had not been established and the building remained idle.	Not commented.	Action should be taken to utilize idle assets.

- (e) Although it has been 2 ½ years since handing over the Weerapuranappu vehicle park belonging to the Council area on completion of its work, the Council had not taken steps to lease the vehicle park and earn income. Wages had been daily paid to three employees for maintenance activities and to two security guards. According to the Management Committee decision dated 28.03.2023, measures are being taken to prepare a methodology to reserve a section of this venue to park vehicles of the employees and to reserve the remaining area of the park for external parties by issuing a ticket by an employee of the Council. Action should be taken to utilize idle assets.
- (f) The pavilion of the Dickson J Pieris Playground was dilapidated and the children's park constructed adjacent to this building had not been utilized since a long period of time. Action will be taken to renovate the playground according to the receipt of provisions in the future. -Do-

#### .34 Vehicle Usage

Audit Observation	Comment of the Council	Recommendation
(a) Although revenue licences should be obtained for running vehicles, revenue licences had not been obtained for 03 vehicles owned by the Council.	The fact that the number of vehicles relating to which the revenue licence had not been obtained is 03.	Revenue licences should be obtained.
(b) In handing over the vehicles owned by the Council to the driver, action should be taken to hand over them in writing. Nevertheless, no such written transfers had been carried out in handing over the vehicles of the Municipal Council to the drivers.	Not commented.	Action should be taken to hand over vehicles to the drivers in writing.