

Moratuwa Municipal Council - 2023

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 2023 comprising the Statement of Assets and Liabilities as at 31 December 2023, Comprehensive Income Statement, Statement of changes in equity / net assets, Cash Flow Statement 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) and National Audit Act No. 19 of 2018. 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 2023, and of its financial performance and its cash flows for the year then ended in accordance with the Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.2 Basis for Qualified Opinion

I expressed qualified opinion on the financial statements 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 Institutes, 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 skepticism 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 Audit Observations on the preparation of Financial Statements

1.6.1 Non-compliance with Sri Lanka Public Sector Accounting Standard for Local Authorities

Audit Observation	Comment of the Council	Recommendation
(a) The Moratuwa Municipal Council did not use any of the forms and code numbers introduced by the Circular No.LGD/09/2019 dated 31 December 2019 of the Western Province Local Government Department to maintain the accounts for the year 2023 and the preparation of financial statements had also not done in accordance with Chapter No. 03 of the Accounting Standard and Rule No. 84 of Accounts of Local Authorities in the Western Province.	That the 2023 account has been prepared using the formats introduced by the circulars.	Action should be taken as per circular instructions.
(b) Although it is stated under 2.1 of the Statement of Accounting Principles that the financial statements have been prepared in accordance with the Standard, during the preparation of the financial statements of the year under review, revaluation and accounting of assets, depreciation of assets and recognition of capital grants to the revenue for the year had not done as per Chapter No. 06 of the Standard.	That the fixed deposit interest has been adjusted in the surplus for the year, as there has been no provision for depreciation for the year 2023, only depreciation has not been adjusted and therefore the correct amount has been recorded for cash and cash equivalents.	Should be prepared according to the Standards.
(c) According to Chapter No. 3.28 of the Standard, Rs.8,301,300 of fixed deposit interest income should have been adjusted under operating activities but a sum of Rs.7,373,286 had been adjusted.	We agree with these errors and noted for correction in the year 2024.	Cash flow statements should be prepared as per standard.

- (d) According to Chapter No. 3.29 of the standard, while preparing the cash flow statement, the value of fixed deposits should be adjusted under investment activities, but such adjustments had not been done and the purchase of property, plant and equipment had been recorded as Rs. 26,195,386 instead of Rs. 19,800,313. - Do - - Do -

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
A difference of Rs.3,143,089 had been observed when comparing the balance of the employee loan account as at 31 December of the year under review with the corresponding schedule.	The employee loan account has been prepared to adjust the balance according to the financial statements, subject to correctness based on finding the information of the years prior to the year 2021, keeping that difference constant.	The reasons for the change should be investigated and corrected.

1.6.3 Lack of Written Evidences for Audit

Audit Observation	Comments of the Council	Recommendation
10 accounting objects amounting to Rs.94,942,794 could not be satisfactorily verified during the audit as updated asset records, age analysis, detailed schedules, balance confirmations and physical stock verification were not submitted to the audit.	Arrears are being cleared and documents related to arrears can be verified.	Information required for balance verification must be submitted.

1.7 Non Compliance

1.7.1 Non Compliances with Laws, Rules, Regulations and Management Decisions

Instances of Non Compliances with Laws, Rules, Regulations and Management Decisions are shown below.

Reference to the Laws, Rules, Regulations	Non-compliance	Comments of the Council	Recommendation
(a) Financial regulations of the Democratic Socialist Republic of Sri Lanka	A preliminary report should be submitted if more than 07 days have passed since	Not commented.	Action should be taken as per Financial

(i) F.R.104 (3) and (4)	the damage occurred and a full report before 03 months has passed since the damage occurred, but this was not done in relation to 07 vehicle accidents owned by the council.	Regulations
(ii)F.R. 156	Due to the delay in sending reports and contributions to the employees' trust fund from the year 2003 to the year 2015, the council had incurred an obligation to pay a surcharge of Rs.1,549,200and action had not taken to recover the money from the responsible parties.	A committee was appointed to get a detailed report on the payment and the committee has not taken a final decision. The investigations should be completed expeditiously as per the regulation and the recommendations should be implemented.
(iii) F.R. 156	Action had not been taken to recover from the responsible parties the amount of Rs.11,602,318 paid in the year under review by the council as compensation and litigation fees to the complainant pursuant to the court order passed on 20 July 2018 in the case against the council regarding the approval of the plans.	An investigation board has been appointed by the Local Government Department (WP) to investigate this matter. Therefore, the action related to this matter are under investigation. - Do -
(iv) F.R. 189	Action had not been taken as per instructions regarding 86 returned cheques amounting to Rs.491,288 belonging to the period from 1998 to 2003.	It will be corrected in the future Action should be taken as per regulation.

1.7.2 Transactions without Authority

Audit Observation	Comments of the Council	Recommendation
Even though a total of Rs. 2,040,522 as Rs.953,715 and Rs.1,086,807 respectively had been paid from the council fund in the years 2015 and 2016 for accident and health insurance for 27 council members, which is a transaction that cannot be used by the council fund according to sub-section 188 (1) of the Municipal Council Ordinance (252 Authority), the amount of Rs.1,703,022 due to the council had not been recovered by the end of the year under review.	I inform that a part of the relevant amount has been collected according to the letter issued by the Municipal Secretary.	The council should take action to recover the balance due.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over expenditure of the Council for the year ended 31 December 2023 amounted to Rs.67,100,827 as compare with the excess of revenue over expenditure amounted to Rs.90,675,820 in the preceding year.

2.2 Revenue Administration

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

According to the information presented by the Municipal Commissioner, the information about the estimated income, billed income, collected income and arrears related to the year under review and the previous year are shown below.

Source of Revenue	2023				2022			
	Estimated Revenue (Rs.)	Revenue billed (Rs.)	Revenue Collected (Rs.)	Arrears as at 31 December (Rs.)	Estimated Revenue (Rs.)	Revenue billed (Rs.)	Revenue Collected (Rs.)	Arrears as at 31 December (Rs.)
Rates and Taxes	213,519,600	211,280,756	142,594,779	300,320,232	213,357,880	206,930,699	261,364,133	293,898,809
Rent	10,090,400	13,969,315	11,958,248	2,011,064	5,524,400	10,448,312	6,316,645	4,357,667
License Fee	9,000,000	6,861,100	6,790,275	70,825	6,500,000	9,462,600	9,503,875	2,933,175
Other revenue	1,500,000	6,087,002	6,087,002	-	594,000	669,763	647,957	678,305
Total	234,110,000	238,198,173	167,430,304	302,402,121	225,976,280	227,511,374	277,832,610	301,867,956

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
(a) Due to failure to collect rates and taxes as per section 252(1) (a) and (b) of the Municipal Ordinance Act, the outstanding rates and taxes balance as at 31 December 2023 was Rs.300,320,232 and the arrears to be collected from 406 assessment units exceeding Rs.50,000 had been Rs.99,053,321.	Compared to 30 September 2023, the number of properties with arrears of more than Rs.50,000 has been reduced from 431 properties to 406 properties and the arrears related to those properties has been reduced from Rs.105,048,972 to Rs.99,053,321.	Arrangements should be made to recover the arrears of income promptly.
(b) Although, the outstanding rates and taxes balance as at 01 January 2023 was Rs. 293,898,809, of which Rs.73,939,630 or 25 per cent had been collected in the year under review, but the council had failed to collect Rs.219,959,179 or 75 per cent.	That the arrangements have been made to collect rates and taxes through mobile services.	- Do -
(c) A sum of Rs.43,116,235 had to be collected from 264 government institutions as at 31 December 2023.	That the relevant government institutions will be informed in writing and the next steps will be taken to recover the arrears.	- Do -
(d) Action has not been taken as per the by-laws, to recover fees of Rs.56,514,058 to be charged from the year 2012 to the year 2022 from the organizations that do not pay fees for the collection of light garbage in the council area.	That the arrangements are being made to collect garbage charges for the removal of light waste.	Arrangements should be made to recover the due amount promptly.
(e) Action had not been taken even in the year under review to recover Rs.1,297,188 (with taxes) due from the PanaduraPradeshiyaSabha for the disposal of waste to the Karadiana garbage center for the period from 2013 to 2015.	That the efforts are being made to find a solution for this through the intervention of the Western Provincial Council.	-Do-

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| (f) | According to Sections 254 (a) 1 and 2 of the Municipal Council Ordinance (252 Authority) the rent due to the Municipal Council is to be recovered, but action had not been taken to recover the outstanding balance of Rs.5,303,156 due on 31 December 2023 from 179 long term leased properties. | Not commented. | Actions should be taken to recover the arrears |
| (g) | Action had not been taken to recover a sum of Rs. 3,616,450 for long-term leased properties from 50 properties with more than 10 installments as at 31 December 2023. | - Do - | Actions should be taken to recover the arrears income. |
| (h) | Action had not been taken to recover Rs.7,874,293 of 06 income receivable balances which has being existing for a long time. | - Do - | - Do - |

2.2.2 Surcharges

Audit Observation	Comments of the Council	Recommendation
A sum of Rs. 760,173 had not been recovered as at 31 December 2023 from 02 surcharges imposed by the Auditor General against the parties responsible as per the provisions of the Municipal Council Ordinance Act.	That the actions had been taken for requests related to the stamp allowances and as the former chairman, former vice-chairman, former secretary and former acting internal audit officer of Moratuwa Municipal Council have passed away, it will be informed and sent to the National Audit Office and that the arrangements are being made to recover the remaining amount of Rs.17,875/- from the former Internal Audit Officer.	Action should be taken according to the provisions of the Municipal Council Ordinance.

3 Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Although bills worth Rs. 105,893 had been canceled on 10 occasions in the year 2018 and rates and taxes irregularity was committed by forging the Secret Password that should be held by a staff officer and using the Common Password by the employees attached to the computer service of the assessment department, but the loss had not been recovered even at the end of the year under review.	That the internal audit department will take action to confirm the information and promptly prepare and submit reports.	Investigations should be completed promptly.
(b) A sum of Rs.75,000, which was the outstanding fuel balance due from a member, had not been recovered during the year under review.	That the legal action has been taken to recover the money.	Actions should be taken to recover.
(c) Salaries amounting to Rs.29,688,127 due for the period from 2019 to 2023 had not been reimbursed.	As the approval of the Department of Management Services has not been received for 112 employees confirmed on 08 November 2019, the annual salary and allowances are not reimbursed.	Arrangements should be made to reimburse the wages.

3.2 Operating Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The fire truck that was received by the council on 18 March 2022 was not handed over to the council even by 31 December 2023, and the fire truck with tanks that was received by the council on 22 March 2006 was also not registered by 31 December 2023.	Not commented.	Arrangements should be made to take over and register the fire truck.

- (b) The 0.7063 hectare land owned by the council, where the Lunawa Inn was located, had been transferred by the President to the Urban Settlement Development Authority on 06 December 2021 under Section 06 of the Government Land Ordinance (Authority 454) without any payment.

Accordingly, the Urban Settlement Development Authority had built an apartment complex there and sold those houses to the public. Even though the people of 175 houses are citizens of the city area, action had not been taken to assess the rates for these houses, give numbers and collect rates and taxes. Due to this, the municipal council has not provided the services that should be provided to this urban community, and the council has also lost a large assessment income.

Although it was decided by 2 cabinet memoranda to pay the compensation amount of 102 million (the government's assessment amount) for this land by recognizing it as a main project of the government, no compensation has been paid so far, that the requests for issuing the relevant assessment numbers, documenting the new ownership and issuing certificates of ownership/non-repudiation certificates have not been taken and that legal advice is being taken from the legal officers of the Chief Secretariat of the Western Province.

The rates and taxes should be collected and services should be provided to the urban community.

3.3 Transaction with Contentious Nature

Audit Observation	Comments of the Council	Recommendation
While Rs.3,515,000 has been paid as uniform allowances to the staff in the year 2022 based on a decision of the General Meeting dated 01 September 2022, a council decision had not been observed by the audit, to purchase 864 T-shirts and 800 bottoms, which had been purchased a sum of Rs.2,289,600 from a private company on 10 January 2023 and received in the warehouse on 03 June 2022, and the stock of uniforms had not been distributed and was piled up in the warehouse by 31 January 2024. Further, a sum of Rs. 3,390,000 had been paid for it in the year 2023 also.	Not commented.	Government procurement guidelines should be followed.

3.4 Idle/ Underutilized Assets

Audit Observation	Comments of the Council	Recommendation
(a) 11 vehicles were taken out of service due to non-repair of engines and those vehicles remained idle for a long time.	Not commented.	Vehicles should be repaired or disposed of.

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| (b) | The upper floor of the children and maternity clinic building in Lakshapathi area has been idle and had not been used for productive purposes. | -Do- | Efforts should be made to utilize the idle assets. |
| (c) | Although it has been 3 ½ years since the completion of the work and handed over in writing to the council on 13 March 2020 of the WeeraPuranAppu car park under the area of the Moratuwa Municipal Council, but the council had not taken steps to generate income by providing parking facilities to the people of the area by leasing the car park. | -Do- | -Do- |
| (d) | The two-storied building which has been built in 2020, with the North MoratumullaSiriSasanawansa Memorial Library and Free Ayurvedic Dispensary, had not been used for a long time and was decaying. | That it is proposed to completely demolish and construct a new building after made allocation subject to the approval of the National Building Research Institute. | -Do- |
| (e) | The sports hall building at Dixon J. Peris Stadium was dilapidated, and the adjacent children's park also remained idle. | The sports hall at Dixon J. Peris Stadium has been reported unfit for use by the National Building Research Institute and it is proposed to remove it and allocate funds for a new building. | Efforts should be made to utilize idle assets. |
| (f) | The old sports pavilion building at Douglas Fernando Stadium was in a very dilapidated condition, while the new sports hall building was idled. | Due to the new sports building at the Douglas Fernando Stadium has not been formally constructed by the Urban Development Authority, the Municipal Council has not taken over and although the old building has been renovated in the past, as drug users often | Efforts should be made to utilize idle assets. |

hang around in this area and suffer frequent losses from them, the renovation is appropriate after the deployment of security forces.

- (g) The Villorawatta sports pavilion building had been idled and piled with rubble. Although the old Villorawatta sports pavilion has been cleaned several times, it has been used for various purposes by the residents of the surrounding areas due to the non-use of sports clubs and as it is appropriate to deploy security forces, it is currently proposed for modernization activities. -Do-
- (h) The machine at Angulana Crematorium was unusable for a long time and had not been repaired. Not commented. -Do-

3.5 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
(a) A total amount of Rs.684,481 had not been recovered during the year under review, as Rs. 238,903 from 05 suspended persons and Rs. 445,578 from 22 deceased and retired officials.	That the loan arrears are being recovered.	Arrangements should be made to recover outstanding loan balances.
(b) The loan balance of Rs.1,565,677 due from 104 officials included in the non-performing loan balance register had not been settled.	That the loan arrears are being recovered.	Arrangements should be made to recover outstanding loan balances.

3.6 Vehicle Fleet Management

Audit Observation	Comments of the Council	Recommendation
(a) Even though revenue licenses should be obtained for driving vehicles, the council had not obtained revenue licenses for 20 vehicles.	Not commented.	Revenue license must be obtained.
(b) 09 vehicles used by the council had not been transferred to the council.	Not commented.	Arrangements should be made to take over.
(c) 02 tractors which were sent to an outside garage in the year 2022 had not been repaired even on 30 January 2024.	Not commented.	Repairs should be done promptly.

4. Accountability and Good Governance

4.1 Procurement Plan

Audit Observation	Comments of the Council	Recommendation
According to section 4.2.1 of the National Procurement Guidelines, a detailed procurement plan should be prepared and approved, but the council had not prepared a detailed procurement plan for the procurement plan that had been estimated at Rs.38,835,132 for the year 2023.	Not commented	Action should be taken as per National Procurement Guidelines.

4.2 Budgetary Control

Audit Observation	Comments of the Council	Recommendation
The budget document of the year 2023 of the Municipal Council had estimated Rs.195,048,100 for the total capital expenditure, but the expenditure was Rs.50,124,251, therefore the utilization of the provision has been only 26 per cent.	After the dissolution of the Council in the year 2023, the practical implementation of the programs proposed by the political authority did not happen as expected.	The budget should be used as a control tool.