

Moratuwa Municipal Council

Colombo District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Audit on 30 March 2016 while financial statements relating to the preceding year had been submitted on 31 March 2015. The Auditor General's Report relating to the year under review was sent to the Mayor on 30 June 2016.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 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 2015 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following deficiencies are observed.

- (a) The sum of Rs.1,915,000 paid to a private institution for converting the ambulance belonging to the Council into a passenger vehicle, had not been capitalized.
- (b) The revenue relating to the year in respect of disposal of garbage from commercial and trade premises had been overstated by Rs.360,000 in the accounts and as such, the revenue for the year and the revenue receivable from commercial and trade premises had been overstated by that amount.
- (c) The provisions made for local authorities relating to the year under review in respect of reimbursement of members' allowances had been inadequate and as such, members' allowances amounting to Rs.4,817,000 incurred by the Council's Fund and which had been rejected reimbursement by the Department of Local Government had been brought to account as a revenue receivable. As such, the revenue of the year under review and the revenue receivable had been overstated by that amount.
- (d) The salary reimbursements of the year under review amounting to Rs.2,820,047 had been overstated in the accounts. As such, the revenue of the year and receivable salary reimbursement had been overstated by that amount.
- (e) A sum of Rs.886,427 due to be recovered from 134 employees who had obtained no-pay leave, had not been adjusted in the financial statements for the year under review.

- (f) Security charges amounting to Rs.784,147 payable for the month of December of the year under review had not been brought to account. As such, the expenditure of the year and the amount payable had been understated by that amount.

1.3.2 Contingent Liabilities

Even though fixed deposits valued at Rs.19,416,309 belonging to the Council had been kept as surety for overdraft facilities that had to be taken through the main current account due to non-maintenance of a proper financial control by the Council, it had not been disclosed in the financial statements.

1.3.3 Unreconciled Control Accounts

Differences were observed as overstatements of Rs.36,329,011 and understatements of Rs.10,951,147 in the financial statements as compared with the total sum of Rs.529,237,518 relating to 13 Items of Accounts shown in the financial statements and the balances shown in the relevant subsidiary registers.

1.3.4 Accounts Receivable and Payable

The following observations are made.

- (a) The sum of Rs.1,899,833 receivable from the Panadura Pradeshiya Sabha relating to the year under review and the period before in respect of disposal of garbage at the Karadiyana Garbage Dumping Site of that Sabha had not been received even by 31 December 2015. Even though the agreement entered into with the Western Provincial Waste Management Authority had terminated on 04 June 2014, action had not been taken in renewing it to date.
- (b) Fines and taxes amounting to Rs.263,350 receivable relating to 129 cases filed in the Mount Lavinia Courts in the years 2011, 2012 and 2013 in respect of the Thelawala and Kaldemulla Divisions within the area of authority of the Council, had not been received to the Council.
- (c) No amount whatsoever had been recovered during the year 2015 in respect of a sum of Rs.841,846 recoverable from 16 employees who had gone on transfer and a sum of Rs.1,572,924 recoverable for employees' loans from 131 employees who had vacated of service and retired.
- (d) Out of the balances receivable, 09 balances totalling Rs.15,569,883 of which no amount whatsoever remained recovered for over a period of 05 years had been brought forward continuously. Moreover, out of that recoverable value, 92 per cent was receivable as maintenance of street lighting, entertainment tax and decentralized advances.

- (e) No amount whatsoever had been recovered during the year review from three Municipal Members as outstanding fuel allowances amounting to Rs.268,600, Rs.268,100 and Rs.49,867 respectively which totalled Rs.586,567.
- (f) The re-payable deposits balance of Rs.19,913,489 at the end of the year under review comprised balances totalling Rs.4,254,578 lapsed over a period of 02 years and action had not been taken to dispose of the lapsed deposits in terms of the provisions in Financial Regulation 571 of the Democratic Socialist Republic of Sri Lanka.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, excess of recurrent expenditure over revenue of the Council for the year ended 31 December 2015 amounted to Rs.17,040,824 as against the excess of revenue over recurrent expenditure amounting to Rs.93,282,206 for the preceding year.

2.2 Financial Control

- (a) Action had not been taken in terms of Financial Regulation 396 of the Democratic Socialist Republic of Sri Lanka, in respect of 10 outstanding cheques to the total value of Rs.34,588 for a period of 06 months after issuing.
- (b) Even though action should be taken to settle the advances immediately after the completion of the purpose for which it is granted in terms of Financial Regulation 371(2) of the Democratic Socialist Republic of Sri Lanka, the settlement of advances amounting to Rs.275,500 obtained in 26 instances during the year under review had been delayed from 27 days to 342 days.
- (c) In terms of Financial Regulation 371(5) of the Democratic Socialist Republic of Sri Lanka, advances should be settled on or before 31 December of the year in which advances were obtained. However, action had not been taken up to 31 December 2015 to settle the advances amounting to Rs.71,402 obtained relating to 19 instances during the period from the year 2000 to the year 2009.

2.3 Revenue Administration

2.3.1 Performance in Revenue Collection

Information as furnished by the Mayor relating to estimated Revenue, Actual Revenue and Arrears of Revenue for the year under review and the preceding year was as follows.

Source of Revenue	Estimated Revenue	2015		2014		
		Actual Revenue	Arrears for the year	Accumulated Arrears as at 31 December	Actual Recovery	Accumulated Arrears as at 31 December
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Rates and Taxes	110,290	58,701	51,589	149,204	87,722	111,884
Lease Rent	12,622	11,159	1,463	3,194	10,973	3,395
License Fees	12,726	11,083	1,643	54,045	14,370	53,304
Other Revenue	152,924	152,924	-	10,140	195,256	10,140
	288,562	233,867	54,695	216,583	308,321	178,723

2.3.2 Rates

Action had not been taken by the Municipal Commissioner in terms of Section 252 of the Municipal Councils Ordinance, to recover the Rates in arrears. As such, according to the financial statements at the end of the year under review, there was an outstanding balance of Rates amounting to Rs.145,975,458. This balance comprised balances of Rs.56,313,028 relating to 128 places exceeding Rs.50,000.

2.3.3 Taxes and Licenses

- One hundred and thirty lessees of 291 stalls which had been rented out, had not paid the rents due by 31 December 2015 and the arrears of rent amounted to Rs.3,057,788.
- Even though the waive of a certain amount recoverable to the Council should be made through a resolution in terms of provision 266 "A" of the Municipal Councils Ordinance, submission of appeals, petitions and complaints addressed to the Council without resolution, had been discussed and tax and licences receivable to the Council in the year under review from 2175 institutions within the area of authority of the Council in the year under review had been waived and as such, the Council had been deprived of the revenue receivable from tax and licence fees in the year under review.
- The cases filed on behalf of the businessmen who had not obtained licenses for the year 2014 and the businessmen who had evaded paying business tax in the year 2013, had been withdrawn. As such, the Council had been deprived of revenue from license fees and court fines recoverable from 52 businesses that had evaded paying tax and 117 businesses that had not obtained licenses.

2.3.4 Court Fines

A difference of Rs.10,341,899 was observed between the reports prepared in the year 2015 on fines receivable and the money received.

3. Operating Review

3.1 Operating Inefficiencies

- (a) Even though contributions totalling Rs.13,825,119 had been sent from 2012 to 2015 to the Public Services Provident Fund on behalf of 208 employees, the Council had not taken action to submit the required applications for registering those employees in the Fund and to obtain membership numbers up to now.
- (b) According to the physical verification carried out on 15 February 2016, information on 4546 garbage bins valued at Rs.1,110.133 had not been revealed to Audit and no signatures had been obtained in respect of confirming the identity of those who had distributed those garbage bins.
- (c) Cheques valued at Rs.2,095,581 returned by the Central Bank of Sri Lanka after making payments for contributory pensions in the year 2006 due to the employees of the Council becoming entitled to pension, had been taken into the revenue without taking any action whatsoever in that respect.

3.2 Uneconomic Transactions

The following observations were made.

- (a) Loans had been obtained for making payments for Maga Neguma Projects and Internal Highways Development Projects before receiving money for those projects. As such, a loan interest of Rs.1,646,442 and an usury of Rs.8,068 had to be paid by the Moratuwa People's Bank on the delay of payment.
- (b) Even though a proper financial control should be maintained in terms of Financial Regulation 128 of the Democratic Socialist Republic of Sri Lanka, action had not been taken accordingly. As such, a continuous overdraft in the main current account from June to December in the year 2015 and an overdraft in the Provincial Council and Decentralized Fund Account in August, October and December of the year 2015 existed. As a result, an overdraft interest of Rs.817,908 had to be paid.

3.3 Irregular Transactions

In terms of Section 188 (1) of the Municipal Councils Ordinance (Cap.252), the Council had paid sums of Rs.194,130 and Rs.221,350 in the years 2014 and 2015 respectively as expenditure not covered by provisions on expenditure for purchase of clothes for 17 officers to participate in the Annual General Meetings.

3.4 Identified Losses

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- (a) There had been a shortage of 164 bulbs in the replacement of burnt CFL bulbs during the period of guarantee by the institution from which they were bought. As such, a loss of Rs.52,480 had been sustained by the Council.
 - (b) A surcharge of Rs.22,655 had been paid in the year under review due to delay in paying the electricity charges.

3.5 Utilization of Motor Vehicles

The following matters are observed.

- (a) In terms of Section 228 of the Municipal Councils Ordinance, a sum of Rs.975,100 had been paid during the year under review to the relevant institution without entering into any agreement whatsoever for carrying out servicing purposes of motor vehicles.
- (b) An ambulance belonging to the Council, registered on 29 March 2003 had been converted into a passenger vehicle by incurring a cost of Rs.1,915,000 without a proper methodology or an approval or informing the Commissioner of Motor Traffic. The relevant file was not presented to Audit.
- (c) The Cab motor vehicle costing Rs.4,500,000 belonging to the Council had been misplaced from a period of about 02 years.
- (d) The registration certificates relating to 9 motor vehicles belonging to the Urban Council had not been made available to Audit.
- (e) Thirty seven motor vehicles running in the Council, valued at Rs.15,873,045 had not been included in the Schedule of Motor Vehicles.
- (f) Daily Running Charts relating to 13 motor vehicles, annual revenue licences relating to 27 motor vehicles and annual revenue licences and insurance certificates relating to 17 motor vehicles were not made available to Audit.
- (g) Two fire extinguisher vehicles received to the Council in the years 1985 and 1997 had not been registered even by 31 December 2015.
- (h) Even though it is mentioned that accidents relating to motor vehicles, however slight, should be reported to Police in terms of Financial Regulation 1642 of the Democratic Socialist Republic of Sri Lanka, it had not been so reported in respect of 03 accidents for which a sum of Rs.219,750 had been incurred for repairs of motor vehicles in the year under review.
- (i) Even though Daily Running Charts and Monthly Performance Summaries should be presented to the Auditor General before the 15th day of the following month in terms of Financial Regulations 1645 and 1646 of the Democratic Socialist Republic of Sri Lanka, it had not been so done and Monthly Performance Summaries had not been prepared in respect of any motor vehicle whatsoever of the Council.

- (j) In terms of Financial Regulation 1653 of the Democratic Socialist Republic of Sri Lanka, it is mentioned that the Milometers of the motor vehicles running, should be in function and if not in function, should be immediately repaired. Nevertheless, the Milometers of 35 motor vehicles belonging to the Council had not been in function for a period from 1 to 5 years.
- (k) According to paragraph 02 of Public Administration Circular No.90/41 of 10 October 1990, the fuel consumption relating to motor vehicles should be checked every once in 06 months by an independent officer. However, it had not been so checked by the Council in respect of the fuel consumption of motor vehicles.
- (l) Contrary to the Office Circular No.01/2016 of the Chief Secretary (Western Province) of 29 February 2016, the Deputy Mayor of the Council who is not entitled to an official motor vehicle had used a Cab motor vehicle belonging to the Council for his duties and to travel to and from the residence.
- (m) The Council had not taken action in terms of provisions in Financial Regulations 103,104,105 and 110 of the Democratic Socialist Republic of Sri Lanka to determine the responsible parties relating to 04 motor vehicle accidents occurred in the year under review and to recover the relevant losses from the responsible parties.

3.6 Contract Control

In terms of provisions in Section 3.2 (iv) of the Public Finance Circular No.01/2012 of 05 January 2012, sub-contracts cannot be awarded to community based organizations. However, contrary to it, a sum of Rs.1,999,000 had been paid to external institutions for 06 projects.

4. Accountability and Good Governance

4.1 Budgetary Control

The following matters are observed.

- (a) Seventeen instances were observed in which variances from 5 per cent to 38 per cent existed in budgeted and actual revenue and expenditure even after transferring the provisions between Items of revenue and expenditure and obtaining a supplementary estimate during the year under review thus observing the budget had not been made use of as an effective instrument of control.
- (b) No revenue whatsoever had been received in the year under review from 08 Heads of Revenue from which a revenue of Rs.335,720,000 was expected.
- (c) Even though the Council had taken action to purchase 40,000 plastic bins of 18 litre capacity valued at Rs.8,800,000 for collection of decayed waste, no money had been allocated thereon by the Budget of the year 2015 or by a supplementary estimate.

4.2 Unresolved and Unanswered Audit Queries

Replies or explanations had not been given even by 30 April 2016 for 23 audit queries issued for the year under review and the value of computable transactions subjected to the said queries amounted to Rs.77,628,008. Out of the audit queries issued for the year 2014, 11 audit queries had not been replied even by the above mentioned date as well.

4.3 Assets Management

Idle and Underutilized Assets

The following matters are observed.

- (a) One hundred and fifty four units relating to 26 types of motor vehicle spare parts and 1,277 units relating to another 305 types received from the Lunawa Project without any issuing whatsoever since the year 2010, had been stacked in the stores without being used.
- (b) The Council had not taken action after 31 October 2010 to rent out the second floor of the Central Super Market building to any person or institution so as to earn an income and the Council had not carried out a whitewash or repairs of any stall building whatsoever belonging to the Council from a period of about 10 years. As such, they were in a dilapidated condition.
- (c) Twelve motor vehicles costing Rs.10,417,864 included in the Register of Assets had remained idle for a period from 1 year to 7 years.
- (d) A balance of Rs.7,460,159 remained as at 31 December 2015 in the normal savings account maintained in the name of the Council in the National Savings Bank on behalf of the Urban Development Authority and only a normal savings interest rate is received for this balance. However, it had remained underutilized for a long period.

4.4 Internal Audit

In terms of provisions in Financial Regulation 133(1) and (2) of the Democratic Socialist Republic of Sri Lanka, the activities of internal audit had not been organized.

5. Systems and Controls

Special attention is needed in the following areas of systems and controls.

- (a) Financial Control
- (b) Budgetary Control
- (c) Accounting
- (d) Revenue Administration
- (e) Assets Management
- (f) Debtors/Creditors Control
- (g) Contract Control