

## Moratuwa Municipal Council - 2020

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### 1. Financial Statements

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#### 1.1 Qualified Opinion

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The audit of the financial statements of the Moratuwa Municipal Council including the financial statements for the year ended 31 December 2020 Statement of assets and liabilities as at 31 December 2020, 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) and provisions of the 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 2020, 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

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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

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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)**

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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

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National Audit Act, No. 19 of 2018 include 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

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### 1.6.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local Authorities

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Audit Observation	Comments of the Council	Recommendation
(a) Preparation of Financial Statements as per Sri Lanka Public Sector Accounting Standards-2017 for Local Government Institutions, Rule No. 84 relating to the Municipal Council Financial Accounting imposed by the Extraordinary Gazette Notification No 2155/6 dated 24 December 2019 had not been done and also not introduced forms and code numbers required to maintain the accounts.	Not replied.	Should be act in accordance with the Sri Lanka Public Sector Accounting Standards for Local Government Institutions-2017 and Extraordinary Gazette Notification No. 2155/6 dated 24 December 2019.
(b) For all the values in the financial statements presented for the current financial period, the Council had not provided the comparative information related to the previous comparable period.	Not replied.	Comparative information should be disclosed in financial statements.
(c) Statement of Assets and Liabilities as at 01 January 2020 had not been submitted in accordance with the Sri Lanka Public Sector Accounting Standards for Local Government Institutions.	It was informed that due to the situation prevailing in the country as a result of the Covid 19 epidemic, the staff could not be call for duty during the year 2020, it was unable to follow the 100 pre cent of the Sri Lanka Public Sector Accounting Standards and the Council	Should be act in accordance with the standards and gazette notifications.

could not submit a declaration of assets and liabilities as at 01 January 2020.

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| <p>(d) Although the Council should decide on an acceptable depreciation method in terms of paragraph 6.15 of the Sri Lanka Public Sector Accounting Standards for Local Government Institutions, it should not deviate from the Sri Lanka Public Sector Accounting Standards in Accounting for Fixed Assets and not revalue assets in accordance with Circular Instructions; Depreciation in 2020 for equipment had not been accounted for.</p> | <p>As the Budget 2020 has not been prepared in accordance with the Sri Lanka Public Sector Accounting Standards, provision has not been made for depreciation. Further, depreciation for the year 2020 had not been accounted for due to 100 per cent non-compliance with Sri Lanka Public Sector Accounting Standards. Assets will be revaluated and depreciation will be taken into account when preparing the 2021 account.</p> | <p>Should be act in accordance with accounting standards and circulars</p> |
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### 1.6.2 Accounting Principles

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#### Audit Observation

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The basis and method of depreciation used for the revaluation of property, plant and equipment under the Accounting Policy had not been disclosed in accordance with the Sri Lanka Public Sector Accounting Standards for Local Government Institutions.

#### Comments of the council

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Not replied

#### Recommendation

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Should be disclosed in accordance with accounting standards.

### 1.6.3 Accounting Deficiencies

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#### Audit Observation

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- (a) Although the surplus was Rs.24,003,920 according to the Comprehensive Revenue Statement but the value taken as surplus in preparing the cash flow statement was Rs.92,471,139 then net increase in cash and cash equivalents for the year had been overstated by Rs.68,467,219.

#### Comments of the Council

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Although excess according to the Comprehensive Revenue Statement Was Rs.24,003,920, the cash flow statement is prepared according to the old accounting standards. Accordingly, only Rs.92,471,139 the difference between recurrent expenditure and recurrent income had been taken. This an error occurred while

#### Recommendation

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Should be act in accordance with correct accounting standards

entering data into the new format and will be done correctly when preparing the 2021 account.

- (b) When preparing cash flow statements as per Sri Lanka Public Sector Accounting Standards 03 for Local Government Institutions as adjustments had not been made in the annual depreciation, fixed deposit interest, loan interest, purchase of property, plant and equipment, cash and profit from sale of property, plant and equipment, etc and it was observed that the net increase / decrease in cash and cash equivalents of the year was not correct. An error occurred while entering information into the new format and which did not affect the net increase or decrease of cash and cash equivalents. Because all of those were adjusted by the surplus for the year and, the exact amount of cash and cash equivalent was recorded. However, as no provision for depreciation was made in the year 2020, only the depreciation was not adjusted. Further, the correct format will be used when preparing the 2021 accounts. Should be act in accordance with accounting standards.
- (c) The bank overdraft balance as at 31 December 2020 was Rs.28,158,873. However, it was shown in the declaration of assets and liabilities under short-term payables but was not shown as a separate overdraft balance. Bank overdraft balance was shown under Short Term Payments as per the format given in the Statement of Assets and Liabilities. Bank overdraft will be shown separately when preparing the 2021 accounts. Action should be taken to account correctly.

#### 1.6.4 Unreconciled Control Accounts or Records

Subject	Value as per Financial Statements (Rs.)	Value as per corresponding reports (Rs.)	Difference	Comments of the Council	Recommendation
Staff Loan	49,432,162	46,155,089	3,277,073	The difference between the balance of the employee loan accounts and the balance according to the schedule will be identified and action will be taken to settle in the future.	Identify the differences and the account balance should be corrected after reconciling.

## 1.6.5 Unauthorized Transactions

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Description of unauthorized transaction	Comments of the Council	Recommendation
Payments amounting to Rs.953,715 and Rs.1,086,807 totalling Rs.2,040,522 had been incurred in 2015 and 2016 respectively from the Council Fund for accidents and health insurance coverage of 27 members of the Council but for this transaction provision had not been made according to the sub –section 188(1) of (chapter 252) of the Council Ordinance. Action had not been taken to recover the Rs.1,703,022 the amount recoverable even by end of the year under review.	Not replied.	Loss incurred due to violation of sub-section 188 (1) of the Municipal Councils Ordinance (Chapter 252) should be recovered.

## 1.7 Non- Compliances

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

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Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
FR 156	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 as amount of Rs.1,088,565 had been paid by the Council from 2015 to 2019. But action had not been taken to recover the balance from the parties who were responsible.	Not replied.	Action should be taken to as per FR 156.

## 2. Financial Review

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### 2.1 Financial Result

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According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2020 amounted to Rs.24,003,920 as against excess of revenue over recurrent expenditure amounted to Rs.36,007,882 in the preceding year.

## 2.2 Performance in Revenue Collection

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<b>Audit Observation</b> -----	<b>Comments of the council</b> -----	<b>Recommendation</b> -----
<b>Rates and Taxes</b> -----		
(a) The outstanding assessment tax balance as at 31 December 2020 was Rs.210,216,132 out of which Rs.85,434,110 was pertaining 372 unit of rates over Rs.50,000.	Not replied.	Action should be taken in accordance with Section 252 (1) (b) of the Municipal Council Ordinance.
(b) Arrears of Rs.38,305,771 due from 722 institutions in the Council area for light garbage disposal (tax free) had not been recovered during the year under review. This balance included Rs.25,663,826 due for the period from 2012 to 2019.	Not replied.	Action should be taken immediately to recover the receivable revenue.
(c) Action had been taken to recover Rs.1,297,188 (taxable) by even at the end of the year under review from that sabha relating to the disposal of garbage of Panadura Pradeshiya Sabha to Karadiyana Garbage Yard from 2013 to 2015 .	Not replied.	Action should be taken immediately to recover the receivable revenue.
(d) It was unable to recover the outstanding fuel balance of Rs.133,100 due as at 31 December 2020 from two Members of Municipal Council.	A sum of Rs.75,000 in to the recovered from a former Municipal council member and the file had been referred to the legal division. He is not in the country. It is informed that the relevant properly is not in his name. A letter was then sent to the Department of Immigration and Emigration to confirm whether he had gone abroad. But so far no answer has been received. The balance amounts are being recovered.	Action should be taken to immediately recover the receivable revenue.

## 2.3 Surcharges

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
In terms of the provisions of the Municipal Council Ordinance Rs.760,173 was to be recovered as at 31 December 2020, in respected of surcharges imposed by me in previous years against the responsible parties. Those had not been recovered even as at 31 December 2020.	Steps are being taken to recover the surcharges imposed due to the payment of stamp duty to Municipal Councilors. As we do not have the information regarding the payment of acting salaries for the post of Chief Internal Auditor, and action will be taken to submit the relevant information after verification.	Action should be taken to recover responsible parties.

## 3. Operational Review

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Council under Section 4 of the Municipal Councils Ordinance Act are shown below.

### 3.1 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) 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 disciplinary inquiry had been held.	Not replied.	Action should be taken to prevent irregularities.
(b) The Council had paid the amount of Rs.3,001,717 imposed to the driver who was found guilty for the accident caused to compactor vehicle on 10 August 1999. By28 February 2019, the Council had recovered only Rs.112,205 from the driver it was stopped from	Following the court proceedings of the accident, action was taken to recover the compensation in premium from the driver in accordance with the	The Office of the Assistant Commissioner of Local Government has commenced a formal disciplinary inquiry into the matter and will take further action once its



March 2019. The Council had not taken action to recover the balance of Rs.2,889,512 .

Council approval. Later the Establishment Committee had recommended to the General Assembly that the premium to be stopped and relief be granted.

decision is received.

A formal disciplinary inquiry has been conducted and the following recommendations have been made accordingly.

Referring to Sections 302 and 310 of the Municipal Council Ordinance, it is recommended that the Council sympathize with the driver and give him the necessary justice and that no disciplinary action to be taken against him.

### 3.2 Operational Inefficiencies

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#### Audit Observation

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A two storied building named 'Moratuwa Sports Club' had been constructed in De Zoysa Stadium and given on lease and Moratuwa Sports Club had sub leased to a third-party to a club house and fitness center without Council approval for a monthly rental of Rs.25,000 and a sum of Rs 30,000 respectively and earned Rs.55,000 monthly. Also observed that the Moratuwa Sports Club earns a large amount of money during the days of cricket matches and the income that the Council could have earned is thus earned by outside parties.

#### Comments of the Council

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As the De Zoysa Stadium is a legal property owned by the Moratuwa Municipal Council, the Moratuwa Sports Club has been asked to remove all existing equipment owned by the Moratuwa sport club and hand over the ownership of the building to the Municipal Council. Since then, due to the outbreak of the Covid 19 epidemic in the island, work on this has been temporarily halted. If they do not leave the area once the situation calms down, legal action will be taken.

#### Recommendation

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Should not be leased out illegally to third parties.