

**Matara Municipal Council**

**Matara District**

**1. Financial Statements**

**1.1 Presentation of Financial Statements**

The financial statements for the year under review had been presented to audit on 22 May 2013 and the financial statements for the preceding year had been presented on 14 June 2012. The report of the Auditor General for the year under review was issued to the Mayor of the Municipal Council on 19 November 2013.

**1.2 Opinion**

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Matara Municipal Council had maintained proper accounting records for the year ended 31 December 2012 and except for the effects on the financial statements of the matters referred to in my report, the financial statements have been prepared in accordance with Generally Accepted Accounting Principles and give a true and fair view of the state of affairs of the Matara Municipal Council as at 31 December 2012 and the financial results of its operations and cash flows for the year then ended.

**1.3 Comments on Financial Statements**

**1.3.1 Accounting Deficiencies**

The following accounting deficiencies were observed.

- (a.) Revenue amounting to Rs.212,051,507 and expenditure amounting to Rs.204,723,288 had not been included in the trial balance prepared by the Council.
- (b.) The value of books received as donations for 02 Libraries of the Council during the year under review amounted to Rs.3,446,453 whereas only a sum of Rs.480,195 had been capitalized by Journal Entry No.16. Therefore, the value of books had been capitalized less by Rs.2,966,258.

- (c.) The actual value had not been assessed and brought to account in respect of motor vehicles and carts shown in the schedule attached to the financial statements as at end of the year under review and instead, the approximate value of Rs.41,725,000 had been shown in the accounts.
- (d.) Interest income on fixed deposits at the Ruhunu Development Bank in respect of repayment of loans is not an income of the Council according to the Condition 9.03 of the Credit Agreement relating to the construction of the Bus Stand and the Trade Complex and in terms of letter No.7/3/12 dated 20 August 2001 of the Director General of the Urban Development Authority. Nevertheless, interest income amounting to Rs.5,253,127 received for the said deposit had been accounted as revenue for the year under review by Journal Entry 44.
- (e.) According to the Stores Received Notes, the value of purchases during the year under review amounted to Rs.14,599,530 whereas it was Rs.23,907,486 as per stores advance account of the main ledger indicating a difference of Rs.9,307,956.

### **1.3.2 Unsettled Accounts**

Unsettled balances amounting to Rs.27,714,750 relating to 13 accounts had been shown in the financial statements without being settled.

### **1.3.3 Unreconciled Control Accounts**

According to the financial statements presented as at end of the year under review, the value relating to 04 items of accounts amounted to Rs.21,631,942 and according to the Schedules presented the value was Rs.22,844,946 indicating a difference of Rs.1,213,004.

### **1.3.4 Lack of Evidence for Audit**

#### **(a.) Non-submission of Information**

Transactions totaling Rs.225,511,938 could not be satisfactorily vouched in audit due to non-submission of required information to audit.

(b.) Unanswered Audit Queries

Replies to 22 audit queries had not been supplied as at end of the year under review. The value of quantifiable transactions relating to the audit queries amounted to Rs.63,647,092.

**2. Financial and Operating Review**

**2.1 Financial Results**

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2012 amounted to Rs.7,328,218 as compared with the excess of revenue over recurrent expenditure amounting to Rs.19,066,243 for the preceding year.

**2.2 Revenue Administration**

**2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue**

Information on the estimated revenue, actual revenue and the arrears of revenue relating to the year under review as presented by the Mayor is given below.

Item of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
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	Rs.'000	Rs.'000	Rs.'000
(i.) Rates and Taxes	37,203	13,734	35,341
(ii.) Lease Rent	17,036	6,662	13,713
(iii.) Licence Fees	9,950	3,669	1,035

**2.2.2 Court Fines and Stamp Fees**

Court fines amounting to Rs.1,018,449 and stamp fees amounting to Rs.4,881,365 had been receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2012.

**2.2.3 Rates and Taxes**

The following observations are made.

- (a.) The amount in arrears had been increased from 2008 to 2012 and the arrears of Rs.30.8 million for the year 2011 had been increased to Rs.35.3 million during the current year and the percentage of increase was 14.6 percent.
- (b.) There was no computer software package to indicate the amount recovered out of the amount billed during each year.
- (c.) A total sum of Rs.6,693,046 had been due as at end of the year under review from 11 state institutions, 09 commercial consumer locations and 23 house-hold consumers of which the arrears are over Rs.50,000.
- (d.) The Municipal Commissioner, in terms of Paragraph 252(1)(b) of the Municipal Council Ordinance had entrusted 14 tax collectors to recover the opening balance of arrears of the year under review and the amount billed totaling Rs.47,321,931 on quarterly basis. The recoveries made by the said tax collectors during 03 quarters amounted to Rs.4,217,129 only. The percentage of recovery of 12 collectors except 02 was low as 15%.
- (e.) Action had not been taken in terms of Sub-section 252(1)(a) of the Municipal Council Ordinance to recover taxes in arrears amounting to Rs.35,341,291 carried forward during the period 2008 to 31 December 2012.

#### **2.2.4 Stall Rent**

Rent in arrears amounting to Rs.19,702,109 from 378 stalls at 08 trade locations owned by the Municipal Council and key-money amounting to Rs.19,909,620 from 99 stalls totaling Rs.39,611,729 had been due during the year under review.

#### **2.3 Construction of Trade complex at the Bus Stand**

A loan amounting to Rs.49,774,022 had been obtained from the Urban Development Authority on 03 January 1995 for the above construction and 120 stalls had been constructed at the Trade Complex. According to the loan agreement, the loan should be completely repaid by 31 December 2018 and the total of loan and interest payable amounted to Rs.126,480,000.

None of the loan instalments had been paid in terms of the agreement up to 31 December 2012 and a sum of Rs.9,556,612 had been paid as interest.

I requested the Mayor on 06 October 2010 to submit a detailed report on key-money and monthly stall rent recovered from the lessees of these stalls, but no reply received up to 22 May 2013.

#### **2.4 Construction of Pavement Trade Complex**

A loan amounting to Rs.9,500,000 had been obtained from the Ruhunu Development Bank, Matara on 20 April 2007 placing the fixed deposits owned by the Council as a security. None of the loan installments had been paid up to 31 May 2013 as per the loan agreement and a sum of Rs.5,012,242 had been paid as interest. As the loan installments had not been paid as agreed, the fixed deposits of the Council had been acquired by the Bank. The nominal value of the fixed deposits (including interest) was Rs.15,971,619 at the time of acquisition. If the loan instalments and interest paid according to the agreement the amount to be paid after making adjustments for total loan and interest amounting to Rs.12,757,462 payable as at 31 May 2013 amounted to Rs.7,745,220. As the nominal value (including interest) of fixed deposits at the time of acquisition of fixed deposits on 31 May 2013 was Rs.15,971,619, the financial loss suffered by the Council due to non-payment of loan instalments and interest promptly amounted to Rs.8,226,399.

#### **2.5 Purchase of a Motor Vehicle for the Mayor**

A motor vehicle had been purchased for the Mayor in 2007 at Rs.5,625,000 placing the fixed deposits amounting to Rs.5,600,000 at Ruhunu Development Bank as a security. Loan instalments and interest payable as at 31 May 2013 amounted to Rs.7,550,208 and none of the loan instalments had been paid at that date, and the interest of Rs.3,324,260 as at that date had been paid. If the loan instalments and interest paid promptly according to the agreement, the balance payable was Rs.4,225,748. The fixed deposits had been acquired by the Bank on 31 May 2013 due to non-payment of loan installments and the nominal value of the fixed deposits at that time was Rs.8,969,917. Therefore the Council had suffered a financial loss of Rs.4,744,169 due to non-payment of loan promptly.

#### **2.6 Construction of the Drainage System at the Matara Bus Stand**

The Council had received provisions amounting to Rs.3,675,376 on 28 February 2012 under Urgent Development Programme implemented under the Ministry of Economic

Development. An agreement had been signed with a private company for the construction of the Drainage System at Rs.3,675,376 and a sum of Rs.2,061,097 had been paid to the contractor company on 10 August 2012.

The following observations are made.

- (a.) A physical check carried out on 28 June 2013 revealed that the waste water of the toilets at the Bus Stand does not flow direct to the pit, but gather to the pit through the tank constructed by the Council as per the plan (Septic tank and up flow filters) submitted by the Sri Lanka Land Reclamation and Development Corporation for the drainage system.
- (b.) It was observed that the waste water of the new tank 7 meters long and 4.4 meters wide had been connected to the main drain through a pipe line. As the water was smelly, the water had been referred to the Sri Lanka Land Reclamation and Development Board on 30 October 2012 requesting a test report. However, this report had not been received even as at 28 June 2013.
- (c.) The toilet waste had been connected to a main drain in the city of Matara contrary to the provisions of Section 62 of the Gazette notification No.392/6 dated 10 March 1986 of the Urban Development Authority and that drain also had been broken. Further, the walls of few stalls at the Bus Stand had been removed without authority and that waste water also had been connected to the main drain resulting a very unpleasant surrounding at the place.
- (d.) The bid bond and the Risk Insurance Performance bond submitted by the contractor had been lapsed on 30 May 2012 and the respective authorities had not taken action to update bonds.
- (e.) Charges for delay amounting to Rs.126,341 should have been recovered as the contract period had not been extended after 20 March 2012.
- (f.) Progress reports relating to the construction had not been submitted as per the Memorandum of Understanding signed between the Municipal Council and the District Secretary's Office, Matara on 22 November 2012.

## **2.7 Uneconomic Transactions**

The Central Environmental Authority had given sum of Rs.12,989,500 to the Council for the Project of reconstruction of waste disposal location near by Nilwala River and the Council had spent the money on the said project. The project had been abandoned in 2012 and therefore the expenditure incurred had become fruitless.

## **2.8 Solid Waste Management**

An agreement had been entered into with the Central Engineering Consultancy Bureau on 15 October 2012 for a sum of Rs.4,828,236 for the Polythene/ Waste Recycling Project at the Kandaketiya Watta land at Kotawila owned by the Council. A sum of Rs.1,296,903 had been paid on 13 June 2013 for works completed.

- (a.) According to the agreement the project should be completed as at 30 June 2013, but the works had not been completed as at that date and the walls of the building had been constructed as at that date and H-iron are being fixed for the roof.
- (b.) A physical examination carried out on 28 June 2013 revealed that the polythene, plastic gathered at the compost center, Kotawila maintained by the Council had to be dispose of without recycling as the Project has not been completed within the target period.

## **2.9 Operating Inefficiencies**

The following observations are made.

- (a.) A sum of Rs.339,253 was due as at end of the year under review from 110 officers and employees of the Council that had been transferred, retired, deceased and vacated posts.
- (b.) According to the Board of Survey Report for the year under review there was a shortage of 315 items of goods at 07 offices and action had not been taken to identify the persons responsible for the shortage and to recover the loss.

- (c.) A sum of Rs.1,391,712 had not been get reimbursed from the Government for property loans, in terms of Public Administration Circular No.08 dated 31 March 2005.
- (d.) Statements of Assets and Liabilities had not been furnished by 13 Members including the Mayor, Deputy Mayor and 04 officers in terms of the Declaration of Assets and Liabilities Act no.01 of 1975 as amended by Act No.74 of 1988.
- (e.) The Council had not taken action to pay outstanding audit fees amounting to Rs.6,945,647 to the Auditor General in respect of the period 2002 to 2010.
- (f.) Although salaries amounting to Rs.1,149,674 had been paid during the year under review to the staff of the Ayurvedic Dispensary, it had not been referred to the Commissioner of Ayurvedic for obtaining aid.

## **2.10 Human Resource Management**

- (a.) Recruitment of, employees to the Local Authorities on casual, subsidiary and contract basis had been suspended by Management Services Circular No.14 of 03 January 2002 and No.28 of 10 April 2006 of the Secretary to the Treasury. But, 120 employees had been recruited in contrary to the above provisions and salaries amounting to Rs.10,744,092 had been paid from the Council funds during the year under review.
- (b.) According to the Annual Report of the Municipal Council, there were 143 vacancies. These vacancies included the post of Municipal Secretary, Municipal Medical Officer of Health, Town Planning Officer, Legal Officer, Librarian, Technical Officer- Mechanical, Public Health Inspector, Family Health Services Officer and Revenue Inspector.



- (c.) There were vacancies of 01 post of Base Fire Officers, 03 posts of Fire Officers-Class1, 15 posts of Mechanical Fire Officers and 15 posts of Fire Officers and as such there is an issue in the capacity of handling a fire situation.

**2.11 Internal Audit**

An internal audit programme had not been prepared and implemented.

**2.12 Procurement Plan**

The Council had not prepared a procurement plan for the year under review.

**3. Systems and Controls**

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

- (a.) Accounting
- (b.) Internal Control
- (c.) Revenue Administration
- (d.) Assets Management
- (e.) Control over Vehicles