

Matale Municipal Council

Matale District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to Audit on 30 April 2014 while Financial Statements relating to the preceding year had been submitted on 02 April 2013. The Auditor General's Report relating to the year under review was sent to the Mayor of the Council on 18 December 2014.

1.2 Opinion

It was not possible for me to obtain adequate and appropriate audit evidence, due to important matters referred to in paragraphs 1.3.3, and 1.3.6 in this report to express an opinion. Accordingly, I do not express an opinion on these financial Statements.

1.3 Comments on Financial Statements

1.3.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Financial Statements had not been prepared in accordance with Public Sector Accounting Standards of Sri Lanka.

1.3.2 Accounting Policies

Accounting Policies adopted in preparation of the financial statements had not been disclosed with the financial statements.

1.3.3 Accounting Deficiencies

Following accounting deficiencies were observed in audit.

- (a.) A sum of Rs.992,387 being the total of amount to be remitted to the Department of Inland Revenue on account of Value Added Tax, Stamp Duty, and Nation Building Tax had been overstated in the Accounts.

- (b.) A sum of Rs.270,838 due to be reimbursed by the Commissioner of Local Government as Interest on Property Loans, Trainee Allowances, Arrears of Salaries and Temporary Pension for the period from the year 1995 to the year 2013 had been accounted as Pre-payments.

- (c.) Five Items of Plant and Machinery valued at Rs.149,800 relevant to the preceding year and 13 Items of Inventory purchased for Rs.646,749 in 18 instances during the year under review had not been capitalized.
- (d.) Action had not been taken to delete from accounts the cost of Dolphin Van amounting to Rs.605,500 which did not physically exist at the end of the year under review.

1.3.4 Non-reconciled Control Accounts

The total of balances relating to 04 Items of Accounts shown in the Financial Statements was Rs.16,293,153. When those balances are compared with relevant subsidiary registers and records, differences totalling Rs.229,901 was observed.

1.3.5 Accounts Receivable and Payable

Following matters were observed.

(a.) Accounts Receivable

While the total of 05 balances of Accounts Receivable as at end of the year under review amounted to Rs.62,775,839, balances amounting to Rs. 6,244,360 which had exceeded more than 05 years were included therein.

(b.) Accounts Payable

While the total of Creditors' Balances Payable as at the end of the year under review amounted to Rs.65,956,415, balances amounting to Rs.40,993,675 which had exceeded more than 03 years were included therein. .

1.3.6 Lack of evidence for audit

Written evidence such as Annual Board of Survey Reports, relevant Registers and Schedules, Confirmation Letters and Inquiry Reports etc. in terms of Financial Regulation 104, were not submitted relating to two categories of Debtors totalling Rs.16,027,967, Creditors Balances amounting to Rs.10,747,587, Deposits Payable Balances amounting to Rs. 9,442,248, Shortages of Stocks amounting to Rs.545,237, four Fixed Deposits Balances amounting to Rs.287,186 Value of Stocks balances totalling Rs.5,236,521, value of Library Books totalling Rs.1,503,892, Deposits of Rs.140,400 in the Railway Department Staff Security Deposits of Rs.38,911 and cash defrauded by

the Shroff amounting to Rs.26,549 were not submitted. Due to that, those items could not be satisfactorily examined in audit.

1.3.7 Non-compliance with Laws, Rules, Regulations etc.

Following instances of non-compliance with Laws, Rules, Regulations and Management Decisions were observed in audit.

<u>Reference to Laws, Rules, Regulations etc.</u>	<u>Non-compliance</u>
(a.) Clause 228 of the Municipal Councils Ordinance and Municipal Councils Bylaws	- A sum of Rs. 1,427,370 had been paid out of Council Funds as charges for an Excavator Machine utilized improperly, without repairing the Excavator Machine belongs to the Council.
(b.) Standard Bylaws published in the Extra Ordinary Gazette No. 541/17 dated 20 January 1989- (Part V(c))	- One hundred and twenty five Bridge Flags had been purchased for a sum of Rs.268,750 having selected a supplier on the basis of hand quotations, without adhering to the directions referred to in the Bylaws.
(c.) Letter No. CPC//CMC//01/06/01/4-7 dated 08 May 2013 of the Chief Secretary to the Central Province	- Allowances amounting to Rs. 94,000 had been paid to Municipal Council Members for Participation at General Council Meetings during the period from April to December of the year under review without complying with the directions referred to in the letter.
(d.) Circular No. 7/1/2000 of November 2000 without date of the Commissioner of Local Government	- Holiday Pay amounting to Rs.66,061 had been paid to the Municipal Secretary during the year under review without complying with the directions referred to in the Circular.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2013 amounted to

Rs.31,773,038 as compared with the excess of revenue over recurrent expenditure for the preceding year amounted to Rs.20,915,559. When compared with the preceding year, an improvement of Rs.10,857,479 was shown in the financial results for the year under review.

2.2 Analytical Financial Review

Following matters were revealed with regard to the financial position and the financial performance of the Municipal Council during the year under review and the preceding two years.

- (a.) When the surplus is taken as a percentage of the operating revenue, a continuous decline is shown in that percentage.
- (b.) When the total expenditure is taken as a percentage of the total revenue, a continuous decline is shown in that percentage.
- (c.) When the Working Capital is taken to consideration, it had come down gradually and had fallen to a position of deficiency in the Working Capital in a sum of Rs.24,833,163 during the year under review.

2.3 Revenue Administration

2.3.1 Rates

While the balance of Arrears Rates as at the end of the year under review amounted to Rs.21,738,580 balances amounting to Rs. 8,973,463 brought forward prior to one year were included therein.

2.3.2 Water Charges

The balance of Rs.4,802,812 that had to be recovered at the time of year 2004 handing over the water supply to the Water Resources Board, had not been settled even up to the end of the year under review.

2.3.3 Lease Rent

While the balance of Lease Rent in arrears as at the end of the year under review amounted to Rs. 3,399,832, balances amounting to Rs. 624,442 brought forward prior to five years were included therein.

2.3.4 Court Fines and Stamp Fees

A sum of Rs. 2,566,773 on account of court fines and a sum of 15,257,107 on account of stamp fees were due to be recovered as at 31 December of the year under review, from the Chief Secretary of the Provincial Council and other authorities.

2.3.5 Surcharges

Surcharges imposed in terms of Municipal Council Ordinance (Chapter 252) by me against persons responsible remained to be recovered as at 31 December 2013 amounted to Rs.45,861.

3. Operating Review

3.1 Management Inefficiencies

Although an independent Internal Audit should be carried on in terms of paragraph 13 in Part III of the Standard Bylaws published in the Part (b) of the Extra Ordinary Gazette No. 541/17 dated 20 January 1989 of the Democratic Socialist Republic of Sri Lanka, it had not been complied with. Internal Audit Programme too had not been prepared in terms of the Financial Regulation 134(2).

3.2 Operational Inefficiencies

Following matters were observed.

- (a.) Action had not been taken during the year under review too, to recover arrears of loan balances outstanding amounting to Rs.775,005, due from 131 employees who had gone on transfers after service in the Municipal Council.
- (b.) Occupation of six quarters belong to the Council exceeding one year to five years over the agreed period without complying with the conditions in the agreements entered into and the provisions in Clause 6.1 of Chapter XIX of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.
- (c.) Out of 481 applications received for approval of building plans in terms of Clause 21 of the Urban Development Authority Act No. 41 of 1978, approval had been granted to 324 applications. However, Certificates of Conformity had been issued only for 27 applications out of those applications.
- (d.) Advances amounting to Rs. 635,965 given in 34 instances to 16 officers who were in service of the Municipal Council during the period from the year 1999 up to October of the year under review had not been settled.

- (e.) Advances amounting to Rs. 295,671 given in 17 instances to outside parties for various works during the period from the year 1994 to the year 2007 had not been settled.
- (f.) Although 711 trade stalls had been identified for the recovery of Trade Licenses, Trade Licenses had been issued only for 208 trade stalls. Accordingly, 503 trade stalls had been carrying on business without obtaining Trade Licenses.

3.3 Transactions of Contentious Nature

Although the land belongs to the Council situated in Diya Bubule had been transferred 2005 to the Police Department for the construction of the new Police Building Complex, action had not been taken to get two blocks of land to be transferred to the Council in lieu of that land.

3.4 Identified Losses

Following matters were revealed.

- (a.) House Rent had been under recovered in a sum of Rs. 62,380 from the Secretary to the Municipal Council for the period from April 2010 to April of the year under review due to non-compliance with Clause 5.4 Chapter XIX of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.
- (b.) Although 04 private homes had been provided on rental basis having spent a sum of Rs.510,000 out of Council Funds for the Police Officers in occupation of Police Quarters situated in the old Police Station building in order to get back the land to the Municipal Council again, they had not commenced occupation in those homes.

3.5 Idle/Under-utilized Assets

While 14 units of Assets totalling to a value of Rs. 5,552,191 and 12 units of assets value of which could not assessed remained idle or underutilized, 2 houses belong to the Municipal Council too remained idle.

3.6 Un-economic transactions

Uniform Material purchased having a paid a sum of Rs. 250,454 during the year 2012 for distribution among the officers and the employees of the Municipal Council had not been issued to the relevant individuals. Due to that, 375 meters of clothing material valued at Rs.157,500 were in the stores even as at 25 August 2014.

3.7 Contract Administration

Following matters were revealed at the physical verification carried out on 18 September 2014 with regard to the works performed under Maga Neguma Development Programme- 2013.

Name of Work	Amount Spent	Observations
	Rs.	
(a.) Development of Matale Nagolla Road near the Technical College by Fixing Concrete Rubble	1,198,696	Although payments had been made for spreading concrete rubble with stone dust to the extent of 475 square meters, only 471 square meters had been completed and therefore a sum of Rs.8,020 had been over paid for 04 square meters.
(b.) Development of Malwaththa Road 4 th Lane by Fixing Concrete Rubble	600,173	Although payments had been made for 238 square meters, only 232 square meters had been completed and therefore a sum of Rs.12,030 had been over paid for 06 square meters.
(c.) Development of Road from Kings Street to Maha Devata by Fixing Rubble	501,009	Although payments had been made for 240square meters, only 218 square meters had been completed and therefore a sum of Rs.44,110 had been over paid for 22 square meters.
(d.) Development of Devale Road by Fixing Rubble	601,507	Although payments had been made for spreading rubble in 238 square meters, only 175 square meters had been spread and therefore a sum of Rs.126,315 had been over paid for 63 square meters.
(e.) Development of Matale Harasgama Road, Richard Pamunuwa Avenue Sub-road by Fixing Rubble	575,237	Although payments had been made for spreading rubble in 240 square meters, only 232 square meters had been spread and therefore, a sum of Rs. 16,040 had been over paid for 08 square meters.
(f.) Development of Road beginning	656,670	Although payments had been made for

from Hussain Lane, near Dole
Public Well, onward by Fixing
Rubble

spreading rubble in 250 square meters,
only 242.55 square meters had been
spread and therefore, a sum of
Rs.14,937 had been over paid for 7.45
square meters.

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| (g.) | Development of Hussain Lane
behind from the Railway,
Station, onward by Fixing
Rubble | 648,241 | Although payments had been made for
spreading rubble to the extent of 245
square meters, only 218 square meters
had been spread and therefore, a sum
of Rs.54,135 had been over paid for 27
square meters |
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3.8 Solid Waste Management

Following matters were observed.

- (a.) The Building belong to the Council had been transferred to a private firm for a period of 30 years for the production of fertilizer, having transported about 1.5 tons of garbage daily from the Municipal Council and having engaged a Laborer of the Municipal Council on fulltime basis therein. Although the Private Firm had earned income by sale of Fertilizer Products December 2010 onwards, the Municipal council had not received any income.

- (b.) After spending a sum of Rs. 425,000 only for the relevant Project, out of the financial assistance of Rs.704,539 received during the year 2011 for the Bilan Carbon Project from the Institute of Higher Studies called “Asian Institute of Technology” in Thailand, the Project had been abandoned in-between.

3.9 Environmental Problems

While It was observed that there is a tendency of spreading infectious diseases within the Municipal Council Limits, according to the Register maintained in the Health Division, containing the particulars of infectious diseases, 21, 70 and 48 Dengue Patients had been identified during the year under review and the two preceding years respectively.

4. Accountability and Good Governance

4.1 Budgetary Control

It was observed that the Budget had not been used as an effective tool of management ,on the basis of transfer of provisions amounting to Rs. 6,746,800 made available under 48 Items of Expenditure to other Items of Expenditure without incurring any expenditure, a variation in a range from 10.7 percent to 98.8 percent between the net provision in other 105 item of Expenditure and the expenditure, a variation in a range from 73 percent to 100 Percent between the estimated revenue and the actual in 07 Items of Revenue and non-earning any income from another 04 Item of Estimated Revenue.

4.2 Audit Queries not replied and un-resolved

Replies had not been furnished to 10 audit queries out of the queries issued to the Council. Value of transactions that could be computed subject to those audit queries amounted to Rs.21,706,937.

5. Systems and Controls

Special attention of the Sabah is needed in the following areas of controls.

- (a.) Accounting
- (b.) Revenue Control
- (c.) Budgetary controls
- (d.) Assets Management
- (e.) Debtors and Creditors Control
- (f.) Stores Control