
Matale District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year under review had been submitted to the Audit on 28 April 2015 while Financial Statements relating to the preceding year had been submitted on 30 April 2014. The Auditor General's Report relating to the year under review was issued to the Mayor of the Municipal Council on 06 August 2015.

1.2 Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Matale Municipal Council as at 31 December 2014, its financial performance for the year then ended and cash flows in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

Following deficiencies are observed.

- (a) Stamp Fees Revenue Receivable amounting to Rs.2,825,440 and Other Revenue amounting to Rs.15,888,399 had been understated in the financial statements.

- (b) Lump Sum Payments Charges Revenue amounting to Rs.14,094,990 of the Market Complex, Value of Works Grants amounting to Rs.5,087,601 and Work Debtors Balance amounting to Rs.980,000 had been overstated in the financial statements.
- (c) A sum of Rs.117,822 recovered for un-authorized connections and value of Ayurvedic Drugs amounting to Rs.169,457 had not been accounted.
- (d) Value Added Tax and Nation Building Tax to be remitted to the Commissioner General of Inland Revenue had been overstated in a sum of Rs.968,787 in the accounts.
- (e) The sum of Rs.2,918,284 received for the Suneya Project had been accounted in the Development Account instead of accounting in that account.
- (f) Security Deposits amounting to Rs.139,000 obtained from 42 officers had not been accounted.
- (g) Values of the Tipper Vehicle, the Crew Cab and the Tractor received from the Provincial Councils and Regional Development Ministry had not been accounted.
- (h) Revenue amounting to Rs.132,500 received in 11 instances as Trade Licenses, Business Tax and Entertainment Tax relevant to the year under review and the preceding year had been accounted as Deposits without being made adjustments.
- (i) Although the sum of Rs.350,000 spent for fixing security nets in the Hockey Playground during the year 2010 had been reimbursed during the same year, it had been accounted under deposits up to now.

1.3.2 Non-reconciled Control Accounts

A difference of Rs. 15,421,201 was observed between the sum of Rs. 68,643,485 relevant to 07 items of accounts shown in the financial statements and the balances shown in the subsidiary registers and records relevant to those.

1.3.3 Accounts Receivable

While the total of value of 05 Accounts Receivable Balances as at 31 December of the year under review was Rs.63,232,413, 02 account balances that had elapsed more than 05 years totaling Rs.5,514,124 was included therein.

1.3.4 Accounts Payable

While the total of value of 05 Creditors Accounts Payable Balances as at 31 December of the year under review was Rs.123,077,753, 04 account balances that had elapsed more than 03 years totaling Rs. 61,748,803 was included therein.

1.3.5 Lack of evidence for audit

Transactions totaling Rs. 16,903,615 relevant to 09 items of accounts could not be satisfactorily vouched in audit due to non-submission of required Information to Audit.

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

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

**Reference to Laws, Rules, Regulations
etc.**

Non-compliance

(a.) **Financial Regulations of the Republic of
Sri Lanka 1992**

(i.) Financial Regulation 371 (2) (c)

- Advances amounting to Rs.335,623 granted in 17 instances during the period from the year 1997 to 2013 to officers of the Council had not been got settled.

(ii.) Financial Regulation 571 (2)

- Action had not been taken with regard to 69 Deposit balances totaling Rs.2,579,741.

(b.) **Public Administration Circular
No.25/2014 dated 12 November 2014**

- While recruitments had been made for 23 posts not approved in the Cadre Plan, permanent posts had been awarded to 5 Vehicle Controllers and 11 Pre-school Matrons who were receiving allowances.

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 2014 amounted to Rs.15,503,620 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs.31,773,038. When compared with the preceding a year, a decline of Rs.16,269,418 was observed in the financial results.

2.2 Analytical Financial Review

Certain significant information with regard to the financial position and financial performance of the Municipal Council during the year under review and 02 preceding years are given below.

- (a) While the total expenditure is taken as a percentage of the total revenue an upward trend is indicated, and a satisfactory position is not shown with regard to financial control.
- (b) While there was a dearth of working capital position in a sum of Rs. 33,561,458 during the year under review, there had been a growth in a sum of Rs. 8,728,295 more than that for the preceding year.
- (c) When Current Assets Ratio is taken to consideration, it was observed that the current assets were not at an adequate level to meet current liabilities.
- (d) While the balance of the Accumulated Fund had taken a minus value further, it had been growing continuously at a higher rate.

2.3 Revenue Administration

2.3.1 Rates

While the Balance of Rates in Arrears was Rs. 23,966,803, it was seen that it included balances amounting to Rs. 10,568,111 coming from prior years more than the amounts for the under review due to non-implementation of a systematic procedure for collection of arrears of revenue.

2.3.2 Water Charges

Water Charges balance in arrears due from the National Water Resources Board brought forward without a change since the year 2001 was Rs.4,802,812.

2.3.3 Lease Rent

While Lease Rent arrears was Rs.3,679,075, balances outstanding for more than 05 years included therein had been Rs.711,312.

2.3.4. Lump Sum Payments Charges (Key-money)

While Lump Sum Payments Charges (Key-money) in arrears of the Shopping Complex was Rs.15,318,499, balances brought forward during a period of more than one year amounting to Rs. 9,870,827 were included therein.

2.3.5 Court Fines and Stamp Fees

Court Fines amounting to Rs.1,604,950 and Stamp Fees amounting to Rs.13,732,530 were due from the Chief Secretary to the Uva Provincial Council and other authorities as at 31 December of the year under review.

2.4 Surcharges

A sum of Rs.41,859 relevant to a surcharge imposed in terms of the provisions in section 226(1) of the Municipal councils Ordinance (Chapter 252) was outstanding to be recovered.

3. Operating Review

3.1 Performance Evaluation

Following matters are observed.

- (a) Although provisions had been made available by the Municipal Council during the year under review for construction of a Garbage sorting Centre, construction of a Slaughter House, Land Improvements and Design, those works had not been performed.
- (b) Although the expenditure on Salaries and Wages was Rs.144,643,766, a sum of Rs.109,517,612 only had been reimbursed by the Provincial council and therefore expenditure amounting to Rs.35,126,154 had to be incurred from the Council Fund for Salaries and Wages.

3.2 Management Inefficiencies

Following matters are observed.

- (a) Six dishonoured cheques valued at Rs138,538 received by the Municipal Council during the period from the year 2009 to the year under review had not been correctly identified and adjusted in the relevant accounts.
- (b) The grant at Rs.190,000 proved by the Commissioner of Local Government for the price awarding function at the library performance competition had been held in the Deposits Account.
- (c) While an office peon had been attached to the post of pharmacist of the Free Ayurvedic Dispensary, a female Ayurvedic dispensary employee appointed during the year 2010 too had been attached to another section of the Municipal Council.

- (d) While a sum of Rs 992,700 had been spent for the purchase of body building equipment without being reimbursed, those equipment had been kept in a pre-school building without being used for any purpose.

3.3 Operational Inefficiencies

Following matters were observed.

- (a) Advances amounting to Rs.345,670 granted to outside parties in 17 instances relevant to the period from 1994 to 2007 had not been got settled.
- (b) Foreign Pension Payment totalling Rs.87,119 payable for 17 months on behalf of an employee retired and went abroad had been withheld in the Deposits Account without being settled.
- (c) Contributions amounting to Rs.985,539 for the period from the year 2008 up to the year under review to be remitted to the Employees Provident Fund on behalf of employees who got permanent appointments after serving as casual laborers, had been withheld in the Deposits Account.
- (d) Out of the 749 applications received for getting approval for building plans in terms of Section 21 of the Urban Development Authority Act No. 41 of 1978 during the year under review and previous two years, although approval had been granted for 502 applications, Certificates of Conformity had been issued only for 49 applications out of that.
- (e) Loan balances amounting to Rs.1,072,483 outstanding to be recovered from 132 officers left on transfers and retired during the period from the year 1999 up to the year 2013 had not been recovered during the year under review too.

- (f) The ownership of the Tamagawa Holiday Home and the Land where Ambagahamula Trading Complex is located had not been conformed though an ownership deed or a transfer orders.
- (g) Action had not been taken to physically identify 13 lands belong to the Council according to deeds of land and transfer orders.
- (h) Although a part of land had been provided to the Department of Trade, Commerce and Tourism to construct a Hotel Schools since the year 2002, action had not been taken to earn an income through that while the sum of Rs.20,000 due for the part of land given on lease to the All Ceylon Buddhist Ladies Conference had not been recovered.

3.4 Idle and Under-utilized Assets

While 10 Vehicles costing Rs. 7,755,414 had been kept idle, 5,986 Block Stones valued at Rs.179,580,16,397 block Stones valued at Rs.787,056 and Block Stones Production Machine valued at Rs.168,789 of the defunct block stones Project remained un-utilized.

3.5 Un-economic transactions

375 Meters of light red color of 60 inches width clothing material valued at Rs. 157,500 purchased for the uniforms of the employees during the year 2012 remained in the in stores even as at the end of the year under review without being issued.

3.6 Improper Transactions

Foreign Aids amounting to Rs. 10,204,165 had been obtained from the European Union having entered into direct agreements with a Non-Governmental Organization by the Matale Municipal Council without consulting the Director General of the Department of Foreign Resources, Treasury in terms of the financial regulation 610. A balance of

Rs.5,132,798 remained idle in the bank current account relevant to the Sunya Project, due to inability in getting approval to incur expenditure for the relevant works at the time of termination of this Project during the period from the year 2012 to the year 2014.

3.7 Identified Losses

Following matters are observed.

- (a) A surcharge of Rs. 111,078 had to be out of the Council Fund due to the delay in remitting contributions to the Employees Trust Fund for the period from 1991 to 2013.
- (b) A loss of Rs. 57,480 had occurred to the Council due to failure in purchasing the school books on the basis of the minimum quotations. While 20,329 books had been issued without following a proper procedure, a stock of books valued at Rs 80,175 had been kept in store without being distributed.
- (c) Case No. S.C.F.R. 290/2008 had been filed against the Council on the grounds of damages to the environment due to deposal of garbage to a private land named Wariyapolawatta. Although a sum of Rs. 1,855,818 had been paid out of the Council Fund as Lawyers' Fees during the period from the year 2008 to 2014, case had not been finalized.

3.8 Contract Administration

Following matters are observed.

Provision	Name of the Work	Amount Spent Rs.	Date of Physical Inspection	Deficiency
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(a) Rural Bridges and Access Roads Grants	M.C. Road Development of balance part of the	394,000	13.01.2015	(i.) Although concrete of 1:2:4 (3/4) Mixture should be laid to a

road in front of the
Gravel Play
Ground

thickness of M.M. 0.125,
thickness was M.M.
0.0889,

(ii) Although payments of
Rs. 352,000 had been
made for 27.5 Cubic
Meters, only 18.9 Cubic
Meters of concrete had
been laid overpayment of
Rs.110,080 had been
made for 8.6 Cubic
Meters.

(b) Gamaneguma
Development
Grants

Construction of the
Drain System on
two sides from the
place beginning
near Diana Work-
Shop on the
Pulleyar Kovil
Road up to the
Main Road

980,000

13.01.2015

(i) Although 10 M.M Wire
should be used with a space
from 9 to 9 inches to
strengthen in constructing the
drain system under work item
03, strengthening had been
made with spaces such 8, 10,
11 and 12 inches.

(ii) Although 1:2:4 Mixture
should be laid under work
item 02 for construction of the
drain system, concrete in
mixture of 1:12;15 had been
laid.

3.9 Solid Waste Management

While out of about 28 tons of garbage collected daily in the area of authority of the Municipal Council a quantity between 5-6 tons is utilized for manufacture of compost by a private entity named Sevenatha, balance quantity is being dumped into a land named Wariyapolawatta and spread. While a sum of Rs. 3,616,166 had been paid out of the Council Fund during the year under review, as hire charges for the excavator Machines used for spreading garbage, any income had not been derived to the Municipal Council, although income had been earned by a private entity through sale of compost manufactured.

4. Accountability and Good Governance

4.1 Internal Audit

While an independent continuous internal audit system had not been conducted in the Municipal Council in terms of Section 13 in Part iii of Standard By-laws published in the Extra Ordinary Gazette Notification No. 541/17 dated 20 January 1989, internal audit programs too had not been prepared in terms of the Financial Regulation 134(2) of the Republic of Sri Lanka.

4.2 Audit and Management Committee

Steps had not been taken to establish the Audit and Management Committee as per Letter No. CPC/CLG//1/9/1/4 dated 08 August 2014, even up to the end of the year under review.

4.3 Budgetary Control

Even after amendments of the budget during the year under review, material differences were observed between the budgeted and actual revenue and expenditure as per

particulars given below. Accordingly it was observed that, the Budget had not been made use of as an effective tool of management.

- (a) There were variations in a range of 2 to 68 per cent between the estimated and actual revenue in 18 Items of Revenue.
- (b) While the entire provision of Rs. 30,523,700 made available for 27 Items of Expenditure has been saved, there were variations in a range 01 to 69 per cent between the net provision and actual expenditure in another 71 Items of Expenditure.

4.4 Audit Queries not resolved and not replied

While replies had not been furnished to 10 queries out of the audit queries issued to the Council as at 31 December 2014, value of transactions which could be worked out, subject to those queries was Rs. 17,404,219.

5. Systems and Controls

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

- (a) Accounting
- (b) Revenue Administration
- (c) Assets Management
- (d) Debtors and Creditors Control
- (e) Store Control
- (f) Contracts Administration
- (g) Human Resources Management