

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 the Audit on 12 August 2015 and the financial statements for the preceding year had been presented to the Audit on 11 November 2015 and the Report of the Auditor General for the year under review was sent to the Municipal Commissioner of the Municipal Council on 20 April 2017.

1.2 Qualified Opinion

In my opinion, except for the effects 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 Matara Municipal Council as at 31 December 2015 and its financial performance for the year then ended in accordance with the Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following accounting deficiencies were made during the course of audit.

- (a) A Creditors Balance of Rs.15,756,111 and a debtors balance of Rs.9,125,116 settled during the preceding year had been shown in the accounts as further remaining for settlement.
- (b) Provision for Creditors had not been made for the Contributions totalling Rs.42,346,881 due to be remitted to the Local Government Services Pension Fund.
- (c) The Stamp Duty Revenue for the year under review had been understated by a sum of Rs.15,007,881.
- (d) Provision had not been for electricity charges amounting to Rs.1,465,550 and water charges amounting to Rs.499,463 payable as at the end of the year under review.

1.3.2 Suspense Accounts

The balance of the Suspense Account amounting to Rs.157,496 had been written off to the Excesses and Shortages Account and closed the Suspense Account without specifically identifying the balance.

1.3.3 Unreconciled Control Accounts

Difference totaling Rs.39,758,330 were observed between the balances of 15 items of account shown in the financial statements and the balances appearing in the Subsidiary Registers relating thereto.

1.3.4 Accounts Receivable and Payable

The balances of 115 Accounts Receivable older than 03 years as at the end of the year under review totalled Rs.43,487,457 whilst the balances of 47 accounts payable older than 03 years totalled Rs.90,384,646.

1.3.5 Lack of Evidence for Audit

The evidence relating to the balances of 03 classes of assets totalling Rs.122,471,201 and the Creditors balance totalling Rs.20,280,359 included in the financial statement had not been produced and as such those could not be satisfactorily examined in audit.

1.3.6 Non-compliance with Laws, Rules and Regulations

Instances of non-compliance given in detail below were observed during the course of audit.

- (a) Action in terms of the Financial Regulations 570 and 571(1) and (2) of the Republic of Sri Lanka had not been taken on 87 deposit balance older than 02 years totalling Rs.8,603,187.
- (b) Action in terms of the Public Finance Circular No.2/2015 dated 10 July 2015 had not been taken on 06 Motor Vehicles costing Rs.5,250,250 taken off from use.

1.3.7 Transaction Without Authority

The following observations are made.

- (a) Contrary to Section 188(m) of the Municipal Councils Ordinance (Cap,252) a sum of Rs.638,251 had been spent on the Victory Day Celebration for which no provisions had been made in the budgets for the years 2014 and 2015.
- (b) Contrary to the provisions in the Notification published in the Gazette Extraordinary No.1807/2 of the Republic of Sri Lanka dated 22 April 2013, traveling expenses amounting to Rs.126,000 had been paid to the Members of the Council in the years 2014 and 2015 without assigning any specific activities.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over the recurrent expenditure of the Council for the year ended 31 December 2015 amounted to Rs.65,804,015 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounting to Rs.57,385,639. Accordingly, the financial results for the year under review indicated an improvement of Rs.8,418,376.

2.2 Analytical Financial Review

A Summarized Statement of the total Revenue Grants, the Self-generated Revenue and the total Recurrent Expenditure relating to the year under review and the two preceding years is given below.

Year	Total Recurrent Revenue	Revenue Grants	Self- generated Revenue	Total Recurrent Expenditure	Recurrent Expenditure exceeding the Self- generated Revenue
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	Rs.	Rs.	Rs.	Rs.	Rs.
2015	397,383,993	201,238,921	196,145,072	331,579,978	(135,434,906)
2014	315,793,322	112,760,224	203,033,093	258,407,653	(55,374,585)
2013	262,254,101	103,914,324	158,239,777	227,123,264	(68,663,487)

The following observations are made in this connection.

- Even though the Revenue Grants had indicated an improvement in the year under review, a decrease of Rs.6,888,026 was shown in the self-generated revenue.
- The recurrent expenditure of every year had increased continuously in considerable measure, and such increase in the year under review, as compared with the preceding year had been very high as Rs.73,172,295. Nevertheless, the attention of the Council had not been paid to that position.
- If revenue grants are not received, it indicates that it would not have been possible in any manner whatsoever, to cover the recurrent expenditure from the self-generated revenue of the Council.
- In view of the above information, it is observed that the attention of the Council should be paid for increasing the revenue position of the Council, that a formal course of action for that purpose should be prepared and implemented and if such action is not taken, it would create problems relating to the financial position of the Council, thereby causing adverse impacts on the going concern of the Council.

2.3 Revenue Administration

2.3.1 Rates and Taxes

In view of the failure to take action in terms of Section 250(1) (a) and (b) of the Municipal Councils Ordinance, arrears of the Rates and Taxes totaling Rs.58,943,438 existed as at the end of the year under review.

2.3.2 Rent Revenue

In view of the failure to take action in terms of provisions in Section 254(b)(1) and (2) of the Municipal Councils Ordinance for the recovery of the balances of Rent Revenue in arrears, balances of arrears totaling Rs.59,284,003 existed as at the end of the year under review.

3. Operating Review

3.1 Unauthorized Constructions

Even though 82 unauthorized constructions had been identified in the years 2014 and 2015, action in terms of Section 42(a)(1) of the Municipal Councils Ordinance had not been taken in that connection.

3.2 Staff Loans

Even though the loan balances remaining without being recovered over periods exceeding 03 years totaled Rs.6,802,967, action had not been taken for the recovery of those balances even during the year under review.

3.3 Human Resources Management

Action had not been taken to fill 46 vacancies in Executed Grade and the Tertiary Grade and for formalizing the posts of 205 employees deployed in excess.

3.4 Solid Waste Management

The Land allocated for sorting of garbage had been vested in the Central Environmental Authority for the purposes of a Biogas Project and the Authority had abandoned the Project after spending a sum of Rs.64,356,400 for constructions and machinery. As such, above 12,600 tons of garbage collected annually had not been sorted whilst the garbage management had also not been done properly.

3.5 Contract Administration

Even though proposals had been made for the completion of 15 works costing Rs.3,374,375 out of Council funds during the year 2015, out of those 07 works only had been implemented.

4. Good Governance and Accountability

4.1 Budgetary Control

The total provision of Rs.6,630,100 made under the budget for the year under review had been saved whilst a sum of Rs.303,209,941 out of the estimated provisions of 06 other items of expenditure had been saved. The expenditure under 03 other items of expenditure had exceeded the limits of the estimated provisions by a sum of Rs.9,371,820. The non-achievement of the targeted revenue of 02 items of revenue amounted to Rs.311,850,127.

4.2 Assets Management

The following matters were observed.

(a) The implementation of the recommendation made in the Reports of the Boards of Survey for the year 2015 had been delayed up to October 2016 whilst no action whatsoever had been taken on the excesses of 208 units of articles and the shortages of 267 units of articles that existed in different Divisions.

(b) Idle Assets

Four Motor Tricycles costing Rs.107,200 purchased on 04 April 2013 for the collection of solid waste had not been used even by February 2016.

4.3 Unsettled Liabilities

Action had not been taken even during the year under review for the settlement of liabilities totaling Rs.112,522,297 payable to 05 external parties and for the settlement of the arrears of Audit Fees totaling Rs.11,496,185 relating to the period from the year 2002 to the year 2014.

6. Systems and Controls

The special attention of the Council is drawn to the following areas of systems and controls.

- (a) Accounting.
- (b) Internal Audit
- (c) Budgetary Control.
- (d) Revenue Administration
- (e) Assets Management.
- (f) Human Resources Management.
- (g) Motor Vehicles Control
- (h) Creditors and Debtors Control.