

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 30 March 2017 and the financial statements for the preceding year had been presented to the Audit on 12 August 2016 and the Report of the Auditor General for the year under review was sent to the Municipal Commissioner of the Municipal Council on 04 September 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 2016 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 observed during the course of audit.

- (a) Contingent assets of Rs. 169,360 had been included in current assets.
- (b) It was overstated the creditor balance by Rs. 7,508,872, capital expenditure by Rs. 7,411,746 and debtor balance by Rs. 97,126 in the financial statements.
- (c) Expenditure aggregating Rs. 58,523,808 payable from Council fund for 02 contracts had been accounted as fund receipts.
- (d) The arrears balance of loan taken from Local Loan and Development Fund had been overstated by Rs. 107,918 and the interest of Rs. 55,243,889 in this regard had not been accounted.
- (e) Fixed assets aggregating Rs. 841,786 had not been capitalized.
- (f) Arrears entertainment tax income of Rs. 184,703 and electricity and water charges payable of Rs. 666,096 as at the end of the year under review had been understated in the financial statements.

- (g) A sum of Rs. 1,942,225 payable to Matara Pradeshiya Sabha had not been shown under payable accounts of financial statements.
- (h) Creditor provision had not been made for the Contributions amount aggregating Rs. 43,550,598 which should be remitted to the Local Government Pension Fund.

1.3.2 Unreconciled Control Accounts

Differences totaling Rs. 18,305,109 were observed between the balances of 11 items of account shown in the financial statements totaling Rs. 288,477,942 and the balances appearing in the subsidiary registers / schedules relating thereto.

1.3.3 Suspense Account

Debtor balance of Rs. 157,496 in suspense account which was carrying forward in account continuously without taking steps to settle had been removed from accounts in the year 2015 and it had again been accounted in the year under review without making relevant adjustments.

1.3.4 Accounts Receivables and Payables

The following observations were made.

- (a) Thirty four balances over 03 years period of Rs. 28,691,163 had been included in sundry debtor balance aggregating Rs. 222,508,113 as at the end of the year under review.
- (b) Twenty six balances over 03 years period of Rs. 134,977,051 had been included in industrial creditor balance aggregating Rs. 164,786,803 as at the end of the year under review.
- (c) Three balances over 07 years period of Rs. 111,448,622 had been included in debt capital balance aggregating Rs. 113,421,281 as at the end of the year under review.
- (d) Actions had not been taken even in the year under review to settle election advance balance of Rs. 852,341 included in the balance of refundable deposits.

1.3.5 Lack of Evidence for Audit

In view of failure to produce evidence such as register of fixed assets in respect of fixed assets totaling Rs. 39,865,465, balance of confirmation with relating to loan balances aggregating Rs. 2,341,774, detailed schedules with relating to general stores balances aggregating Rs. 8,033,218, could not be satisfactorily examined in audit.

1.3.6 Non-compliance with Laws, Rules and Regulations

Details of instances of non-compliances shown below were observed in audit.

| Reference to Laws, Rules and Regulations | Non-compliance |
|---|---|
| ----- | ----- |
| (a) Financial Regulation of the Republic of Sri Lanka | |
| ----- | |
| (i) Financial Regulations 156(1) and 210 (2) | Though the loss occurred due to delay in payments should be recovered from the responsible officers, actions had not been taken with relating to surcharge amount of Rs. 476,992 had to be paid due to the delay in settling electricity bills. |
| (ii) Financial Regulations 570 and 571 (1) (2) | Actions had not been taken on 87 deposit balances older than two years totaling Rs. 204,300. |
| (b) Treasury Circular No. IAI 2002/02 dated on 28 November 2002 | A separate fixed asset register had not been maintained from the year 2003 for computer, accessories and software amount aggregating Rs. 4,672,890. |

1.3.7 Unauthorized Transactions

Commission amount of Rs. 1,365,965 had been paid to 11 Municipal Council Officers for collecting revenue of stamp fees by miss interpreting the paragraph 8.1 of the Circular No.1984/19 dated 20 November 1984 of the Commissioner of Local Government.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2016 amounted to Rs. 116,367,859, as compared with the excess of recurrent expenditure over revenue amounting to Rs. 65,804,015 for the preceding year. Accordingly, the financial results for the year under review indicated an improvement of Rs. 50,563,844. The main reason for this improvement of Rs. 50,563,844 in the financial result had been the increase in other revenue and revenue grants.

2.2 Analytical Financial Review

The following observations were made.

- (a) It was observed that the expenditure was in higher level as compared with Council revenue due to the total recurrent expenditure represented more than 75 per cent of the total recurrent revenue of the year under review.
- (b) The recurrent expenditure had been increased more than the self-generated revenue by significant amounts in the year under review as well as the previous two years and it was shown situation where recurrent expenditure could not be recovered at any mean from self-generated revenue.

2.3 Working Capital Management

It was observed in audit that a liquidity position does not exist as per the current and quick ratios due to the existence of unrecovered balances older than 03 years was Rs. 28,691,163 in the debtor balance remained as at the end of the year under review.

2.4 Revenue Administration

2.4.1 Rates

While there was opening arrears amounting to Rs. 58,887,935, and a sum of Rs. 95,850,994 had to be recovered including the billings of Rs. 36,963,058 of the year. The arrears as at the end of the year were higher as Rs. 57,177,598 due to the total recoveries was Rs. 38,673,395.

2.4.2 Lease Income

Following observations were made.

- (a) While there was opening arrears amounting to Rs. 44,041,863, and a sum of Rs. 64,781,147 had to be recovered including the billings of Rs. 20,739,284 of the year. The arrears as at the end of the year were higher as Rs. 43,784,396 due to the total recoveries was Rs. 20,996,751.
- (b) A sum of Rs. 3,985,260 was in arrears from more than 30 years which was receivable from 24 lessees in housing scheme belonging to Council at old Tangalle road. The ownership of these properties had not been taken for personal name of the occupant.

2.4.3 Courts Fines and Stamp Duty

Courts fines amounting to Rs. 114,280 and the Stamp Duty amounting to Rs. 119,474,040 had been remained as receivable from the Chief Secretary to the Provincial Council and other Authorities as at the end of the year under review.

3. Operating Review

3.1 Management Inefficiencies

Following observations were made.

- (a) Actions had not been taken to earn extra income by investing the amount of Rs. 10,858,969 in normal saving account in to fixed deposits.
- (b) Though a sum of Rs. 5,196,930 had been paid during the year under review as salaries and allowances for 15 female labors recruited as female field labors, sufficient field works had not been achieved from them.
- (c) Actions had not been taken even in the year under review to recover 80 loan balances aggregating Rs. 277,670 remained arrears from transferred out, retired and dead employees.

3.2 Uneconomic Transactions

A sum of Rs. 238,966 had to be over paid during the year under review for water charges due to non-identifying and repairing water leak occurred in water meter.

3.3 Human Resources Management

Actions had not been taken even as at the end of the year under review to fill 37 vacancies and to streamline excess in 127 tertiary, secondary and primary posts in approved staff cadre plan.

3.4 Idle and Underutilized Assets

(a) Motor Vehicles and Cart

- (i) Two vehicles belonging to Council at a cost of Rs. 7,092,856 were in underutilized and milometers had not been worked in further 17 vehicles. A sum of Rs. 3,631,351 had been incurred during the year under review for fuel expenditure for these vehicles.

- (ii) Actions had not been taken in directions of Public Finance Circular No. 2/2015 of 10 July 2015 with relating to 07 vehicles at a cost of Rs. 5,592,000 which was taken off from running by the Council.

(b) Plant and Machinery

Two road roller machines belonging to Council at a cost of Rs. 3,300,000 were kept idle.

(c) Dormant Bank Account

No action had been taken even in the year under review with relating to the idle balance of Rs. 169,630 remaining in the bank account No.15182 at People's Bank.

3.5 Constrictions Contracts

Following observations were made.

- (a) Out of the material procured for construction during the year under review on direct labor basis, materials of Rs. 5,577,524 had not properly been issued and materials of Rs. 696,015 had been issued from the stores without mentioning the place of the contract.
- (b) Two estimates had been approved for cost of Rs. 410,808 and Rs. 1,789,428 to develop 600 liner meters of a road with bitumen treatment. The prices of the second estimate had been increased more than 335 per cent of the first estimate. Material more than the approved quantity for Rs. 248,132 had improperly been issued from the stores.

3.6 Contract Administration

Though estimates had been prepared for Rs. 20,860,241 to implement 52 contracts in the previous year and in the year under review on direct labor basis from Council fund, the completed works reports had not been prepared for implemented 41 contracts amounting to Rs. 14,536,877.

3.7 Solid Waste Management

A sum of Rs. 103,918,785 had been spent in the year 2016 for garbage collection of the Council. The project had been abandon by spending a sum of Rs. 64,356,614 on the building given in the year 2011 to construct bio gas manufacturing center which was situated in organic fertilizer center constructed by spending a sum of Rs.13,598,762 from the provisions of Central Environment Authority from the year 2009 to the year 2011. 12,600 tones of annually collected garbage had improperly been dumped due to the utilizing organic fertilizer center for the above purpose. The Environment License had not been obtained for that land after the month of October 2014.

3.8 Environmental Impact

According to the Gazette Notification No.16/1533 dated on 25 January 2008, Environment Protection License should be issued for 25 Industries by the Municipal Council. Council had lost an income of Rs. 426,800 due to non-taking Environment Protection License by 97 out of 161 business tax paying Institutions.

4. Accountability and Good Governance

4.1 Budgetary Control

It was observed that the budget had not been made use of as an effective instrument of financial management control due to the savings aggregating Rs. 49,604,800 in 07 expenditure votes, adverse variation of Rs. 2,137,533 in an expenditure vote, non-achieving targets aggregating Rs. 43,314,487 in 02 revenue votes included in the budget for the year under review.

4.3 Internal Audit

An adequate internal audit had not been carried out as specified in the Financial Regulations 133 and 134 of the Financial Regulations of the Republic of Sri Lanka and the Circular No. SPLA/G/01/MCC dated 24 February 2014 of the Commissioner of Local Government of the Southern Province. A sum of Rs. 980,784 had been spent for salaries and allowances of two Officers engaged into Internal Audit Unit of the Municipal Council.

5. Systems and Controls

Special attention of the Council should be drawn to the following areas of systems and controls.

- (a) Assets Management
- (b) Accounting
- (c) Revenue Collection
- (d) Budgetary Control