

Matara Municipal Council

Matara District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2017 had been presented for audit on 20 March 2018 and the report of the Auditor General on the financial statements had been forwarded to the Mayor of the Municipal Council on 09 August 2018.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters shown in paragraph 1.3 of this report, the financial statements of the Matara Municipal Council give a true and fair view of the financial position as at 31 December 2017 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial statements

1.3.1 Accounting Deficiencies

The following deficiencies were observed in audit.

- (a) The value of Rs.804,223 of a bale machine obtained by the Council as donation and the value of a computer and 06 accessories had not been assessed and brought to account.
- (b) Over provision of creditors amounting to Rs. 2,723,314 had been made for 06 work executed during the year under review under the funds of the Council and miscellaneous provisions.
- (c) Over provision for debtors amounting to Rs.486, 293 had been made for 02 work executed during the year under review under the funds of the Council and miscellaneous provisions whilst under provision for debtors amounting to Rs.1,567,144 had been made for 02 other works executed.
- (d) The sum of Rs.17,817,976 payable for 02 work executed from the funds of the Council during the year under review had been omitted in the accounts.
- (e) Provision for creditors had been made for materials purchased for 05 work worth Rs.1,136,291 executed under direct labour basis during the year under review.

- (f) Provision for audit fees Rs..800,400 for the previous year and the audit fees of the year under review had not been made in the accounts.
- (g) Provision for creditors had not been made for contributions totalling Rs. 44,690,057 to be remitted to the Local Government Pensions Fund.
- (h) Interest on loans amounting to Rs.817,221 included in the loan instalments of Rs.1,073,675 paid to the Local Loans and Development Fund for the year under review had been deducted from the value of loans.
- (i) The value of materials issued totalling Rs.2,519,654 payable on behalf of fixed assets,tools and equipment and other materials as at end of the year under review had been omitted in the accounts.
- (j) While adjusting the value added tax receivable amounting to Rs.1,984,740 of the previous year through cross entries, it had been brought to account as revenue of the year under review.
- (k) All taxes payable to the Department of Inland Revenue for the year under review had been paid. However, a sum of Rs.1,782,386 had been shown as payable under the miscellaneous deposits.
- (l) The value of 37 items of fixed assets disposed of during auctioneering of goods during the year under review had not been deleted from accounts by identifying the goods.

1.3.2 Unreconciled Accounts

Differences totalling Rs.30,236,500 were observed between the balances of 10 items of accounts shown in the financial statements amounting to Rs. 60,922,297 and the related subsidiary registers/schedules.

1.3.3 Accounts Receivable and Payable

(a) Accounts Receivable

Eighteen balances totalling Rs.8,378,918 over 03 years had been included in the sundry debtors totalling Rs.278,891,530 as at end of the year under review.

(b) Accounts Payable

The following matters were observed.

- (i) Eighteen balances totalling Rs.93,378,501 over 03 years had been included in the balances of work creditors totalling Rs.119,776,120 as at end of the year under review.
- (ii) Action had not been taken even during the year under review to settle the expenditure payable amounting to Rs.852,341 included in the election advances appearing in the balances of refundable deposits.

1.3.4 Lack of Documentary Evidence for Audit

Thirteen items of accounts totalling Rs.198,524,830 could not be satisfactorily verified in audit due to non- rendition of necessary information.

1.3.5 Non-compliance

1.3.5.1 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with laws, rules, regulations and management decisions appear below.

Reference to Laws, Rules, Regulations and Management Decisions

Non-compliance

- | | |
|--|--|
| (a) Section 254(a) of the Municipal Councils Ordinance representing | All efforts should be made to recover all taxes, fines and payments representing punishment due to the Council and credit them to the funds of the Council. However, action had not been taken to recover the arrears of Rs. 394,501,983 due as at end of the previous year. |
| (b) Paragraph 21:11 and 22.04 of Chapter XI of the Establishments Code of the Democratic Socialist Republic of Sri Lanka | Reports on no pay/half pay leave of 122 officers /employees of the Council had not been furnished for audit. |
| (c) Financial Regulation of the Democratic Socialist Republic of Sri Lanka | |
| (i) F.R.R 102 to 110 | Action on losses and damages had not been reported for audit. |

- | | |
|--|--|
| (ii) F.R.R 1645 and 1646 | Running charts and monthly performance summaries of 81 vehicles of the Municipal Council had not been furnished even by 13 June 2018. |
| (d) Treasury Circular No.2002/02 Of 28 November 2002 | A separate register for computers, accessories and softwares had not been maintained since 2003. |
| (e) State Accounts Circulars- | |
| (i) Circular No.2014/3(1) of 30 December 2014 | Telephone allowance of Rs.35,000 had been paid to Development Officers contravening the circular instructions. |
| (ii) Circular No.2/2015 of 10 July 2015 | Action should be taken to dispose of vehicles beyond usage. However, such action had not been taken even by 02 June 2018 regarding 09 vehicles valued at Rs.11,278,000 set aside without being used. |
| (f) Public Administration Circular No. 30/2016 of 29 December 2016 | All vehicles should be tested for consumption of fuel. However, such action had not been taken regarding 92 vehicles of the Council. |

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 2017 amounted to Rs.157,500,775 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.116,367,859.

2.2 Financial Control

The balance of the confiscated cash account had been accounted under current assets. As such, a fictitious asset of Rs.169,360 had been included in the current assets. Further, action had not been taken regarding the said confiscation.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Revenue Billed, Revenue Collected and the Arrears of Revenue

Information relating to the estimated revenue, revenue billed, revenue collected and the arrears of revenue furnished for the year under review and the previous year appear below.

Source of Revenue	2017				2016			
	Estimated Revenue	Revenue Billed	Revenue Collected	Total Arrears as at 31 December	Estimated Revenue	Revenue Billed	Revenue Collected	Total Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	37,073,065	38,595,208	35,948,877	60,368,667	42,000,100	38,286,323	39,997,350	57,722,336
Rent	27,671,963	28,038,858	26,065,886	63,668,754	18,762,300	25,509,278	20,729,916	61,695,782
Licence Fees	18,802,100	27,103,901	24,440,033	14,151,953	15,310,100	17,937,208	18,002,208	11,488,085
Other Revenue	142,574,400	169,049,081	103,044,750	256,312,609	178,914,600	145,521,560	78,606,299	190,308,278
Total	226,121,528	262,787,048	189,499,546	394,501,983	254,987,100	227,254,369	157,335,773	321,214,481

2.3.2 Performance in collection of Revenue

The total estimated revenue of the year under review amounted to Rs.226,121,528 and the amount billed was Rs.262,787,048. The total arrears at the commencement of the year under review amounted to Rs.321,214,481 along with which the total amount receivable amounted to Rs.394,501,983. Recoveries from arrears was at allow level. Recoveries due from warrant charges and fines which needed legal action for recovery had increased. Action had not been taken to recover the arrears of the previous year and the year under review.

2.3.3 Rates and Taxes

(a) Rates

The opening arrears Rs.57,177,599 added to the billings of the year amounted to Rs.34,017,144 had resulted in recoverables of Rs.91,194,743. The total recoveries were Rs.31,255,650. As such, the arrears as at end of year amounted to Rs.59,939,093. Of these, arrears of over Rs.10,000 from 759 units amounted to Rs.26,129,098.

(b) Entertainment Tax

The opening arrears of entertainment tax of Rs.544,737 added to the billings of the year amounting to Rs.4,578,063 resulted in Rs.5,122,800 to be recovered. The total recoveries during the year amounting to Rs.4,693,226 had resulted in an arrears of Rs.429,574 as at end of the year.

2.3.4 Rent

The following matters were observed.

- (i) The opening arrears of Rs.61,695,782 added to the billings of the year amounting to Rs.28,038,858 resulted in an arrears due amounting to Rs.89,734,640. The total recoveries were Rs.26,065,886. As such, arrears as at end of the year amounted to Rs.63,668,754.
- (ii) Action had not been taken to recover the rent of Rs.51,759,550 from 19 institutions and 21 ground tax centres belonging to the Council. The recovery of arrears from 68 Kotuwagoda stalls appeared to be at risk as agreements had not been signed.

2.3.5 Licence Fees

(a) Trade Licences

The opening arrears of Rs.5,938,895 added to the billings of Rs.9,234,970 of the year resulted in recoverables amounting to Rs.151,173,865. The total recoveries were Rs.8,692,170 and as such the arrears as at end of the year resulted in an extensive amount of Rs.6,481,695 as per Control Account and the Trade Licence Fees Account relating to which legal action had been taken.

(b) Advertisement Board Charges

The opening arrears of Rs.5,549,190 added to the billings of the year of Rs.16,565,251 resulted in recoverables of Rs.22,114,441. The total recoveries were Rs.14,444,183 and as such the arrears as at end of the year was an extensive amount of Rs.7,670,258.

2.3.6 Court Fines and Stamp Fees

Court fines amounting to Rs.308,840 and stamp fees amounting to Rs.253,033,985 were due from the Chief Secretary of the Provincial Council and other authorities .

3. Operating Review

3.1 Performance

The following matters were revealed with regard to duties to be fulfilled by the Council in terms of Section 4 of the Municipal Councils Ordinance, such as regularization and control of matters relating to public health, common amenities and public highways, healthy environment of the public, facilities, welfare etc.

(a) Bye - Laws

- (i) Bye –laws needs to be enacted for 32 main functions in terms of Section 272 of the Municipal Councils Ordinance, But, bye-laws had not been enacted for 03 main and ancillary matters by 31 December 2017.
- (ii) Proper action had not been taken regarding the following matters as per Bye-laws enacted.
- Allowing waste water to the roads
 - Sale of fish at each and every place.

(b) Action Plan

Twenty one development proposals estimated at Rs.29,323,135 to be executed from the funds of the Council which had been integrated in the Action Plan 2017 based on the functions enacted as per bye-laws had not been executed during the year.

(c) Non achievement of the Expected Output Level

A sum of Rs. 695,738 had been spent to fulfil 06 various functions shown in the Action Plan. However, the expected output level had not been achieved.

(d) Non achievement of the Expected Outcome

Money had been allocated to convert the Kumaratuंगा Munidasa Library Into an electronic library under the funds of the Council and the Provincial Specific Development Grant of the Southern Provincial Council Development Plan 2017. Of this, 07 computers only had been purchased for Rs.10,025,000 and 02 of those computers had been offered to other divisions. The Project concerned had not been executed and as such the expected outcome could not be achieved.

(e) Work abandoned

A sum of Rs.6,435,644 had been spent by end of the previous year to construct a Bio Gas unit by utilizing the provisions of the Central Environmental Authority for garbage management. But, the expected results had not been obtained even by 12 June 2018 and the work had been abandoned.

(f) Solid waste Material Management

A sum of Rs.442,188,985 had been spent on collection of garbage during the recent 05 years. Of the garbage collected, 90 per cent of the garbage that could not be recycled had been disposed of, irregularly, which had resulted in a heap of garbage

getting collected. As the public faces difficulties due to irregular disposal of garbage, the police had filed a case in the court of law. However, the Council had not prepared a proper method for the garbage management.

3.2 Management Inefficiencies

The following matters were observed.

- (a) A sum of Rs.14,500,000 due from 29 car park centres which had made alterations contravening Paragraph 05 of the Gazette Notification No.1597/8 of 17 April 2009 of the Ministry of Urban Development and Religious Land Development had not been recovered.
- (b) Recoveries had not been made for Fort Lawyers' office complex constructed without the approval of the Municipal Council and 02 applications relating to buildings not constructed according to the plans which amounted to Rs.1,250,600 and Rs.7,996,000 respectively. These were not in accordance with paragraph 6 (ii) of the Gazette Notification No.1597/08 of 27 April 2009 of the Ministry of Urban Development and Religious Land Development.
- (c) Fines had not been imposed and proper action taken regarding unauthorized structures less than 4,000 sq.metres which comes within the administration of the Municipal Council.
- (d) The fire extinguishing unit of the Matara Municipal Council had issued 166 fire protection licences during the recent 03 years as at 31 December 2017. Action had not been taken against non renewal of 107 fire protection licences for the year 2017 which had been issued in 2015 and 2016.
- (e) The repairs to the public latrines at the Polhena Sagara Sevana Common Amenities Centre had been delayed. As a result, the car park could not be given on lease in 2017 which had caused a loss of Rs.502,063. The car park charges of the Council had been collected by external parties and the Council had not adopted proper procedures relating to this. The amount due for the year 2016 amounting to Rs.277,833 too had not been recovered.

3.3 Human Resources Management

(a) Vacancies and Excesses in the Cadre

- (i) A sum of Rs.30,486,713 had been paid to 104 employees as salaries and overtime who had been recruited in contravention of the Public Administration Circular No.25/2014 of 12 November 2014.

- (ii) Labourers had not been assigned with work and lack of supervision of duties had occurred in spite of the fact that there were excess employees.

(b) Acting Appointments

An officer had been recruited to act in the post of officer-in-charge of the Fire Protection Unit of the Matara Municipal Council and a sum of Rs.1,012,500 had been paid as allowances as at end of the year under review.

(c) Employees' Loans

Out of the distress loans, festival advances, special loans, vehicle loans and flood advances granted to employees who had retired /expired /vacated post/gone on transfers 10 years ago amounting to Rs.459,687 was still due as at end of the year under review.

3.4 Operating Inefficiencies

The following matters were observed.

- (a) Arrears of ground tax had not been recovered from 154 properties of 06 housing schemes for 03 to 33 years. Agreements had not been entered into with these lessees. Sale and transfer of properties had taken place without the permission of the Council. But, the Council had not paid attention in this regard.
- (b) Material and labour cost estimates had not been prepared for work estimated at Rs.2,225,390 in terms of the Circular No.03/2015 of the Chief Secretary (Finance) dated 15 October 2014. Estimates for purchase of materials only had been done. Further, the approval of the Council had not been obtained to perform the work on this basis.
 - (i) Report on expenditure had not been prepared for work executed with an estimated value of Rs.2,114,382.
 - (ii) A sum of Rs.4,066,830 had been spent for purchase of 11 items of materials for work executed on direct labour basis. Of this, materials for Rs.3,783,162 had been issued and there were no reports to show for which work the balance materials amounting to Rs.1,905,929 had been issued.

3.5 Assets Management

3.5.1 Safety of Assets not secured

Six properties of the Council had been allowed for construction of unauthorized private houses and for usage.

3.5.2 Idle and under utilized Assets

The following matters were observed.

(a) Land and Buildings

The community centre building at the rate payers No.01, Market Road, lying unused had not been repaired and beneficially made use of.

(b) Vehicles and Machinery

Five vehicles and machinery valued at Rs.26,192,856 remained idle/under utilized.

3.5.3 Annual Board of Survey of Goods/Stocks

It had been reported that 282 units of goods of 09 divisions shown as shortages during the annual board of survey 2016 had been included in the goods of 2017. A sum of Rs.559,219 had been paid for the board of survey 2016 as daily pay for 768 man days and for 200 hours of overtime. However, the board of survey had not been properly done and the amount paid for board of survey had become fruitless.

3.5.4 Vehicle Utilization

The following matters were observed.

(a) An expenditure on fuel amounting to Rs.7,901,059 had been incurred on 42 vehicles of the public health department of the Council in 2017. Balancing of fuel had not been done for 21 out of 42 of these vehicles according to the milometer reading. A sum of Rs.2,779,087 had been paid for issue of 27,017 litres of diesel and 1816 litres of petrol.

(b) A sum of Rs.2,996,260 had been paid to repair the becko loader and for fuel. The period of performance of the vehicle had not been properly entered. The vehicle had not been used for any purpose other than the period of work done and the time spent on travel to and fro from the Council.

3.6 Irregular Transactions

The following matters were observed.

- (a) Holiday pay amounting to Rs.509,219 had been paid to officers for work on week days who had been released from the office of Assistant Commissioner of Labour during 2014, 2015 and 2016 contravening Section 3.2 of Chapter v111 of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.
- (b) The Municipal Council had spent Rs.1,539,096 on fuel for fumigation in order to avoid spread of Dengue disease during the year under review. However, Rs.1,215,882 had been spent to fumigate places without identifying specific places or places where there were patients. Of this , Rs.311,140 is supposed to have been spent on places of fumigation without any reference.

3.7 Identified Losses

The Council had been deprived of a revenue of Rs.689,664 during the year under review due to non-completion of repairs to the latrine at Matara bus stand on the due date and for not handing over the completed work to the lessee.

3.8 Apparent Irregularities

Two officers of the fire extinguishing unit had earned Rs.412,500 by conducting training programmes in other institutions during office hours and after office hours without any approval by the Municipal Council. They had used the letter heads of the Municipal Council and the welfare association of the fire extinguishing unit. Necessary action had not been taken in terms of provisions in the Establishment Code in this connection.

3.9 Contract Administration

A contract to construct the Matara Weligama North Kings garden road and the drainage system had been handed over to a contractor for Rs.992,448. Seven items of agreed work valued at Rs.295,432 had not been completed. The gross estimate and the survey done for construction had not been furnished along with the estimates.

4. Accountabilty and Good Governance

4.1 Budgetary Control

Significant variances were observed between the budgeted and actual revenue and expenditure of the year under review as shown below. It was thus observed that the budget had not been utilized as an efficient instrument of management control.

- (a) Savings on 07 items of expenditure amounting Rs.76,303,081 ranged from 05 to 61 per cent.
- (b) An adverse variance of Rs.990,251, representing 48 per cent was observed in one item of expenditure.
- (c) Adverse variances of 03 items of revenue aggregating Rs.37,238,737 ranged from 03 to 15 per cent.

4.2 Internal Audit

Attention had not been paid to assign adequate officers to the Internal Audit unit according to the transactions and operations of the Municipal Council. Adequate internal audit had not been carried out in terms of provisions in Financial Regulations 133 and 134 and the circular of the Southern Commissioner of Local government No.දපසා/යහ/01/න.ව.ලේ 24 February 2014.

4.3 Unresolved Observations

-
- (a) Commission amounting to Rs.1,365,965 had been paid to 11 officers of the Municipal Council for collection of stamp fees due to misinterpretation of Section 8.1 of the Circular No.1984/19 of 20 November 1984 of the Commissioner of Local Government.
 - (b) Non recovery of arrears of entertainment tax as 31 December 2013.
 - (c) Non recovery of rent from offices of Notaries.

5. Systems and Controls

Deficiencies observed during the course of audit were brought to the notice of the Council from time to time. Special attention is needed in respect of the following areas of control.

- (a) Fixed assets
- (b) Control over vehicles
- (c) Collection of revenue
- (d) Accounting
- (e) Staff Administration
- (f) Budgetary Control
- (g) Debtors and creditors control
- (h) Contract administration