

1. Financial Statements

1.1 Adverse opinion

The audit of the financial statements of the Matale Municipal Council including the financial statements for the year ended 31st December 2021 comprising the Balance Sheet as at 31st December 2021, Income and Expenditure Account for the year and Significant Accounting Policies and other explanatory information was carried out, for the year then ended, under my direction in pursuance of provisions in Article 154(1) of the constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 219 of the Municipal Councils Ordinance (Chapter 252) and provisions of the National Audit Act No.19 of 2018. My comments and observations which I consider should be report to parliament appear in this report.

In my opinion, because of the significance of the matters described in paragraph 1.6 of this report, the financial statements do not give a true and fair view of the financial position of the Matale Municipal Council as at 31st December 2021 and its financial performance for the year then ended in accordance Generally Accepted Accounting Practices.

1.1 Basis for Adverse Opinion

I expressed adverse opinion on the matters described in paragraph 1.6 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my Adverse opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Practices, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Municipal Council's financial reporting process.

As per Section 16(1) of the National Audit Act No.19 of 2018, the Municipal council is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements.

1.4 Audit Scope (Responsibility of the Auditor for the audit of Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an

auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercised professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of its internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Municipal council, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Municipal Council has complied with applicable written law, or other general or special directions issued by the governing body of the Municipal Council;
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources of the Municipal council had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Report on Other Legal Requirements

National Audit Act, No.19 of 2018 includes specific provisions for following requirements.

- (a) The financial statements of the Municipal Council presented is consistent with the preceding year as per the requirement of section 6(1)(d)(iii) of the National Audit Act, No.19 of 2018.
- (b) The financial statements presented includes all the recommendations made by me in the previous year except the audit matters of (k),(l) and (m) described in paragraph 1.6.1 of this report as per the requirement of section 6(1)(d)(iv) of the National Audit Act, No.19 of 2018.

1.6.1 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

| Audit Observation | Comments of the Council | Recommendation |
|---|---|---|
| ----- | ----- | ----- |
| (a) At the end of the year under review, the cash in hand of Rs.526,148 held with the Cashier had not been shown under current assets in the balance sheet. | That this error will be rectified in future preparation of bank reconciliations. | Financial statements should be prepared accurately. |
| (b) Since the sum of Rs.2,760,820 of Value Added Tax and Nation Building Tax was deducted from the creditors at the end of the year under review, the creditors had been understated by that amount. | That this value will be accounted for in future under debtors and creditors | Financial statements should be prepared accurately |
| (c) The Rest House rent receivable for the year 2019 was over-accounted by Rs.1,334,567, while the Rest house rent receivable for the year 2020 was under-accounted by Rs.155,700. Due to this, the Rest house rent and accumulated fund receivable as at the end of the year under review are overstated by Rs.1,178,867 each. | That will be corrected in the year 2022. | |
| (d) The stamp duty of Rs. 5,547,205 received for the previous year was considered and accounted as income of the reviewed year. | According to the schedules received from the Land Registrar's Offices, it was accounted as billing in the current year. | |

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|-----|--|--|
| (e) | Although it has been stated that Rs.168,308 will be debited to the Value Added Tax (VAT) account and credited to the Accumulated Fund as per Journal Note No. 92 to correct the errors in the Value Added Tax account of previous years Accumulated Funds account had not been credited to. Due to keeping the accounts like this, it was not clear to the audit how the accounts were balanced. | That the difference between the balance of the Value Added Tax account and the Accumulated Fund will be settled and accounted for. |
| (f) | In a project related to disposal of waste to Viharagama Watta land belonging to the Municipal Council, Rs.400,000 paid to the University of Peradeniya in the year under review for the feasibility study, should have been accounted for as recurrent expenses due to the non-implementation of the project, but instead, it was accounted under land and buildings. | |
| (g) | The 300 garbage collection bins purchased for distribution to the residents of the Municipal area on a concessional basis with a value of Rs.1,134,000 had not been accounted for as inventory and were accounted for under Furniture and Fixtures. | That will be corrected by journal entries in the year 2022. |
| (h) | The amount Rs. 48,510,286 paid in the year under review for the construction of the Mayor's Quarters, the upper floor of the vehicle yard, the fire rescue unit and the driver's and electrical section's rooms and 25 fixed assets subjects worth of Rs.7,532,630 purchased during the year under review were not capitalized. | |
| (i) | The value of the Indoor Stadium and Swimming Pool which was constructed by the Department of Sports Development and handed over to the Municipal Council in the year under review was not identified and accounted for. | That valuation reports for fixed assets are obtained and accounted for |
| (j) | The amount of Rs.633,433 in parking fees due for the month of December of the year under review from a private company contracted to collect parking fees in Matale city had not been accounted for. | That will be corrected by journal entries in the year 2022. |
| (k) | although the last year's Journal Note No.14 has debited the supply purchase account and credited the supply creditor account, In order to account for the supply creditors of Rs.19,123,258 in the previous year, the error of not debiting the supply purchase account had not been corrected in the year under review. | No answers |

Financial statements should be prepared accurately.

- (l) In order to deduct Rs.5,541,043 from the last year's supply creditors, it was stated in Journal Note No.13 of that year; that the supply creditors will be debited and the Stores Advance Account will be credited, but the error of not crediting the Stores Advance Account was not corrected in the year under review. No answers
- (m) In each month of 2019, the total value of Rs.16,673,586 to be credited to the Accumulated Fund Account had been debited to that account, and the total value of Rs.2,372,791 to be debited to that account had been credited to that account in each month. In order to correct the erroneously accounted balances, according to last year's Journal Note No.16, due to debiting the Accumulated Fund Account and crediting the same account the double of those values that is, Rs.33,347,172 and Rs.4,745,582 respectively; said error had not been corrected. And also said mistake was not rectified during the year under review. No answers

Financial statements should be prepared accurately.

1.6.2 Unreconciled Control Accounts or Records

| Audit Observation | Comments of the Council | Recommendation |
|--|---|---|
| A difference of Rs.4,103,664 was observed between the balances related to 04 asset subjects shown in the financial statements and the balances shown in the related schedules. | That the differences related to mismatch will be identified and the accounts will be corrected in the future. | Differences between the balances of the accounts and the balances of the schedules should be identified and the account balances should be corrected. |

1.6.3 Documentary Evidences not made available for Audit

| Audit Observation | Comments of the Council | Recommendation |
|--|---|--|
| The information in relation to 05 account subjects with a total of Rs.89,585,589 required for the audit had not been submitted | Documents and Schedules related to these subjects will be identified and submitted for audit in the future. | Relevant documents and Schedules should be prepared and submitted for audit. |

1.7 Non- Compliances

Non-compliance with Laws, Rules, and Regulations

Followings are the non-compliance with Laws, Rules, and Regulations.

| Reference to Laws, Rules and Regulations | Non-compliance | Comments of the Council | Recommendation |
|--|---|---|---|
| (a) Ministry of Health Circular No. MH/Add/Sec/Admin1/ 16/202 dated 16 th June 2021 | Although it is stated that a special monthly allowance of Rs.7,500 can be given to the officers and employees of the health service and health staff who are actively intervening in the control of the spread of the Covid-19 virus, In contrary to that, 14 officers and 53 employees working in sections outside the health section of the Municipal Council were paid allowances of Rs.7,500 each amounting to Rs.502,500 for the month of June of the year under review, | Although inquiries have been made to the Chief Secretary about the possibility of giving the special monthly allowance, but no reply has been received, the allowances have been paid subject to surcharge with the approval of the General Assembly on the request of the employees. | As per the circular instructions only allowances should be paid to health staff. |
| (b) Central Provinces, Local Government Commissioner's Circular No. 2016/3 dated 17 th March 2016 Paragraph 5(i). | After 01 st January 2013, the rent of 84 shops in the super market was not assessed and the lease agreements had not been renewed as per clause 4(iii). | Although the Provincial Chief Assessor was informed on 24 th December 2021 to revise the assessment values for the shops, the said assessment has not been received. | According to the circular instructions, the assessment reports should be obtained within the prescribed period, the rents should be revised and the agreements should be renewed. |

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure for the year ended 31st December 2021 amounted to Rs.74,897,187 as compared with the excess of revenue over recurrent expenditure amounted to Rs.59,242,057 in the preceding year

2.2 Revenue Administration

2.2.1 Court fines and Stamp duties

| Audit Observation | Comments of the Council | Recommendation- |
|--|--|---|
| As of 31 st December of the year under review, court fines and stamp duty of due from the Chief Secretary of the Provincial Council and other authorities were Rs.9,157,277 and Rs.35,528,800 respectively. | That the letters have been sent to recover the amount due. | Arrears of court fine and stamp duty should be recovered. |

2.2.2 Surcharges

| Audit Observation | Comments of the Council | Recommendation---- |
|---|--|--------------------------------|
| An amount of Rs. 536,781 was to be recovered as on 31 st December of the year under review as per the surcharges imposed by me against the persons responsible as per the provisions of the Municipal Council Ordinance. | Although instructions have been requested from the Provincial Councils and the Ministry of Local Government to recover the surcharge, no instructions have been received so far. | Surcharge should be recovered. |

3. Operational Review

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Council under Section 04 of the Municipal Councils Ordinance are shown below.

3.1 Informal Transaction

| Audit Observation | Comments of the Council | Recommendation |
|--|---|--|
| In accordance with paragraph 02 of the Central Province, Local Government Commissioner's Circular No.2018/05 dated 24 th April 2018, without obtaining the approval of the Central Province, Chief Secretary, A person was recruited on a daily allowance of Rs.1,600 for a period of 06 months for announcing in Matale Municipal Council and paid total allowances of Rs.115,200 for the period from 23 rd August to 31 st December of the year under review. | According to the circular instructions, the approval of the Central Province Chief Secretary had not been obtained, and for such emergency recruitments, approval will be obtained in the future as per the circular. | Recruitment should be done according to circular instructions by following formal methods. |

3.2 Management Inefficiencies

| Audit Observation | Comments of the Council | Recommendation |
|--|---|---|
| <p>(a) At the end of the year under review, the total of 11 accounts receivable balances amounting to Rs.120,420,979 had not been recovered and The balance of Rs.68,587,536 of which the period of uncollected for less than 01 year, the balance of Rs.33,790,168 more than 1 year and less than 05 years, and the balance of Rs.18,043,275 more than 05 years were also included.</p> | <p>That the arrears will be recovered in the future.</p> | <p>Receivables should be collected.</p> |
| <p>(b) At the end of the year under review, the total of 02 accounts payable balances amounting to Rs.127,936,704 had not been settled and balance of Rs.24,277,933 of which the balance was unsettled for less than 1 year the balance of Rs.32,453,572 more than 1 year and less than 5 years was, and the balance of Rs.71,205,199 more than 05 years were also included.</p> | <p>That the balances that have been bringing forward for a long time will be settled in the future.</p> | <p>Loan payables should be settled.</p> |

3.3 Operational Inefficiencies

| Audit Observation | Comments of the Council | Recommendation |
|--|---|---|
| <p>(a) Without considering the provisions of section xxii, section 1(2) of the Local Government (Standard Bye-laws) Act (Municipal council) Act No.06 of 1952 and the provisions of section 229(b) of the Municipal Council Ordinance (Authority 252); 32 and 03 A of the Super market and Gonggawela Public market Complex without following the Butchers' shop tender procedure, added 10 percent to the annual rent of the previous year and leased to the lessees who are carrying on business for Rs.1,991,194 and Rs.1,989,874 respectively from 01st January to 01st November of the reviewed year.</p> | <p>As there was a delay in getting the valuation reports, 10 percent of the annual rent has been added to the rent.</p> | <p>The tender procedure mentioned in the Municipal council Ordinance and the standard by-laws should be followed and arrangements should be made to lease the butcher shop.</p> |

- (b) Although in the year 2014 and 2015, a refundable deposit of Rs.180,000 that obtained from 18 applicants and a security deposit of Rs.241,068 equivalent to 3 months' rent that obtained from 07 applicants for the lease of the second floor of the super market in Matale city with an area of 12,774 square feet, had been retained in the General deposit Account without implementation of it, the second floor of the super market remained idle.
- That bids will be called upon and qualified bidders will be selected and the stalls will be handed over.
- Shops on the second floor should be constructed and used by following proper procedures.

3.4 Controversial transaction

Audit Observation

An area of 1000 square feet on the third floor of the Super market in Matale was leased in May 2016 without a formal lease agreement to a private institution for running private tuition classes at a monthly rent of Rs.40,500. However, 1250 square feet were used from May to December 2016 and 5000 square feet from January 2017 to the last day of the year under review. A total of Rs.9,801,000 was not collected as rent from the year 2016 to the last day of the reviewed year for the land that had been used more. Also, for the use of 1000 square feet, the total rent in arrears of Rs.786,119 for 2017, 2020 and the year under review had not been recovered.

Comments of the Council

That It has been notified to remove the belongings of the square feet used outside the contracted square feet.

Recommendation

Rent should be charged according to the amount of square feet used, and arrangements should be made to enter into formal lease agreements.

3.5 Idle or underutilized Property, Plant and Equipment

Audit Observation

06 vehicles with a total of Rs.4,970,000, a road crusher, a land, 02 vehicles of which value was unrecognized and a building remained idle for a period ranging from 01 year to 10 years.

Comments of the Council

That, it will be repaired the repairable assets, disposed of non-repairable assets and followed appropriate measures.

Recommendation

Action should be taken to utilize land and buildings, to repair repairable assets, and to dispose of other assets.

3.6 Soil Waste Management

| Audit Observation | Comments of the Council | Recommendation |
|---|--|---|
| <p>The council collects 16.5 tons of garbage daily, of which 01 ½ tons of non-decaying and non-decaying garbage was informally disposed of at Wariyapolawatta garbage yard. Also, It was observed that the sewage collected in the Wariyapolwatta garbage yard was added to the natural water bodies during rainy days. According to a case in the Supreme Court related to Wariyapolawatta Garbage Disposal Land, the recommendation given on February 20 last year and the previous hearings regarding waste management had not been implemented by the end of the year under review. Due to this, the environmental protection license was not granted by the Environmental Authority, and the case in the court was not over. For that, a total attorney fee of Rs.5,639,975 had to be paid between 15th September, 2018 and 06th April 2018.</p> | <p>The Environment Authority is working on this case and is working to get another land to dump the garbage. That proper waste management will be implemented in the future.</p> | <p>According to the recommendations of the court and according to the instructions of the Environment Authority, proper waste management should be maintained in a manner that does not harm the environment.</p> |

3.7 Procurement Management

| Audit Observation | Comments of the Council | Recommendation |
|--|---|---|
| <p>Without following the tender procedure mentioned in Section-V of the Local Government Authority (Standard By-laws) Act No.06 of 1952, without the request of the welfare societies; 13 huts made of canvas fabric worth Rs.648,700 had been purchased to be distributed to welfare societies in 13 divisions of the Municipal area of authority on 10th December of the year under review.</p> | <p>As it was decided to distribute the hut by the hand of the governor it had to be bought immediately.</p> | <p>The need should be recognized and those needs should be prioritized and purchase should be done following the prescribed tender procedure.</p> |

3.8 Defects in Contract Administration

| Audit Observation | Comments of the Council | Recommendation |
|---|---|--|
| <p>Development of the side road near the Bogahakotuwa BK – 09, electricity post with concrete paving - Rs.902,769</p> <p>Construction was awarded under contract for Rs.902,769 with a contract society for concreting and development of side roads near Bogahakotuwa BK - 09 electricity post. The water collection area covered by an old anvil built to cross a main canal and collect water for agricultural purposes and distribute water to farmlands and a part of the main canal where water travels up to that anvil was filled with gravel and concrete was laid on it and the said road had been built to reach a member's house. However, the relevant payment has not been made till now.</p> | <p>Due to the public protests related to the project, the work has been temporarily stopped and investigations have been started and since an audit query has been received in this regard and the investigations have not been completed, no payment has been made so far.</p> | <p>The need should be identified, feasibility studies should be carried out correctly and projects should be implemented without harming the environment by prioritizing so as to get more benefits.</p> |

3.9 Human Resources Management

| Audit Observation | Comments of the Council | Recommendation |
|---|--|---|
| <p>Distress loans, festival advances and special advances of 18 officers who were transferred and suspended between 1 to 5 years amounting to Rs.2,182,686 had not been recovered</p> | <p>It is acknowledged that the loan balances settled through the provincial treasury have not been included in the books, and other loan balances will be settled in the future.</p> | <p>The loan balances of the transferred and suspended officers should be recovered.</p> |

4. Accountability and Good Governance

4.1 Unanswered Audit Quarry

| Audit Observation | Comments of the Council | Recommendation |
|--|--|---|
| In relating to the year under review, 10 audit queries that were submitted to the Municipal Council, which were issued more than 03 months ago, were not answered. The computable value of the transactions subject to those queries was Rs.31,955,993 | That, unanswered audit queries will be answered in the future. | All audit questions should be answered. |

4.2 Environmental Observations

| Audit Observation | Comments of the Council | Recommendation |
|--|---|---|
| Sewage and waste water from 09 fish shops and 03 butcher shops on the ground floor of the Super market had been released into the city's public drainage system of the City. | Although there are 04 pits for disposal of waste, the shopkeepers have released waste parts into it, and a related plan will be prepared in the future. | The gutters should be properly maintained to release the sewage without releasing it into the public drain. |