

Matale Municipal Council - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Matale Municipal Council including the financial statements for the year ended 31 December 2022 comprising the Balance sheet as at 31 December 2022, Income and Expenditure account, 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 and with the provisions of the National Audit Act No. 19 of 2018 read in conjunction with Section 219 of the Municipal Councils Ordinance (Chapter 252). My comments and observations which I consider should be report to parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Matale Municipal Council as at 31st of December 2022, and of its financial performance for the year then ended in accordance with generally accepted accounting practises.

1.2. Basis for Qualified Opinion

I expressed qualified opinion regarding financial statement 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 qualified 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 practises, 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 Urban 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 include 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 as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.6 Audit observation on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) According to the employee loan register, as on 31 st December of the year under review, the outstanding loan balance of an officer was Rs.42,923, but as the employee loan account stated a negative balance of Rs.44,988, the employee loan account had been understated by Rs.87,911.	That will be corrected by the account 2023.	Should be properly accounted.
(b) Rs.340,068 paid on 13 times in the year 2023 related to the year under review had not been accounted under the creditors of the year under review.	That has not been recorded as a credit in the final account due to non-identification and omissions of the exact bill values.	-Do-
(c) Rs.1,318,130 paid on 12 times in the year under review relating to the previous year, had been accounted as expenses of the year under review.	That has not been recorded as a credit in the final account due to non-identification and omissions of the exact bill values.	Should be identified correctly.
(d) The fixed deposit interest for the year under review was Rs.568,078 less and the receivable fixed deposit interest on 31 st December of the year under review was Rs.23,072 had been accounted more.	That will be corrected by the account 2023.	Should be properly accounted.

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| (e) An old community hall building worth Rs.1,000,000 which was demolished in the year 2020 had been stated under fixed assets. | -Do- | -Do- |
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1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
(a) There was a difference of Rs.219,537 as compared to the balances stated in the financial statements of 05 asset subjects.	That the non-comparability will be corrected in the future.	Account balances should be corrected.
(b) There was a difference of Rs.266,057 in 11 stores units between the stores ledger and the schedules presented with the account as on 31 st December of the year under review.	That the schedule has been checked and value has been corrected.	-Do-

1.6.3 Unauthorized Transactions

Audit Observation	Comments of the Council	Recommendation
Which was billed as stamp duty in July 2017 but was not collected Rs.3,225,700 had been written off without obtaining the approval of the minister in charge according to 266 (a) of the Municipal Council Ordinance (252 Authority).	That it will be forwarded to the management committee and based on those approvals, action will be taken to forward it to the Honorable Governor.	The provisions of the act should be followed.

1.6.4 Un availability of written evidence to Audit

Audit Observation	Comments of the Council	Recommendation
An asset subject of Rs.26,549 and a liability subject of Rs.545,237 stated in the financial statements of the year under review could not be satisfactorily verified due to non-submission of balance confirmations, schedules and disciplinary action files to the audit.	That the balance will be investigated and corrected in the future.	Registers/ schedules and files should be prepared.

1.7 Non- Compliances

1.7.1 Non-compliance with Laws, Rules and Regulations

Non-compliances with Laws, Rules and Regulations as follows.

	Reference to Non-compliance Laws, Rules Regulations etc.	Comments of the Council	Recommendation	
(a)	The Municipal Council Ordinance Section 267(1)	By-laws had not been adopted for the purpose of giving an outside party to collect fees using play equipment in the children's parks, for regulating private tutoring classes and for ambulance services.	Letters have been forwarded to obtain information regarding the by-laws of the Colombo/ Kandy Municipal Councils.	The provisions of the Act should be followed.
(b)	Urban	A development permit should be obtained while constructing a building but 6 buildings that were observed that were used for residence without obtaining such a permit.	That they have informed through letters to obtain development permits.	-Do-
(i)	Authority Act No. 41 of 1978 published in the Special Gazette of the Democratic Socialist Republic of Sri Lanka No. 2235/5 dated 08 th of July 2021 Order 4 (1) of Part II			
(ii)	According to the order 83(3) of Part VI in terms of Schedule 2 and Schedule V of the Urban Development Authority Act published in the Special Gazette of the Democratic	The fines had not been collected from 14 persons who did not obtain certificate of compliance which were observed during the period from 2014 to 31 st of August 2022.	That letters have been sent asking to pay fines.	-Do-

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1597/8 dated 17th
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| (c) | Section 9 a (1)(a) and(b) of the Slaughter Ordinance 09 in 1983 | The temporary licenses had been issued for conducting private slaughterhouses continuously for more than 06 years without constructing slaughterhouses under the administration of the Municipal Council. | The allocations will be allocated through the budget and the related construction work will be carried out as soon as a suitable land can be found. | -Do- |
| (d) | Financial Regulations of the Democratic Socialist Republic of Sri Lanka F R 571(2) | The 83 lapsed deposit balances of Rs.1,297,600 related to the period 2018 to 2021 had not been settled. | That general deposit balances will be credited to the relevant account or government revenue. | Financial regulations should be followed. |
| (e) | Procurement Guidelines of the Democratic Socialist Republic of Sri Lanka Section 5.3.13(d) | Four bidders had refused to accept the tender who had been selected for the lease of Gonggawela bus stand stalls, but their bid security deposit of Rs.40,000 had been released. | That the bidders have been informed to pay money. | Procurement Guidelines should be followed. |
| (f) | Circulars of the Commissioner of Local Government in Central Province | | | |
| (i) | Circular 3/2016 on dated 17 th of March 2016 | Although sub-lease or sub-rent is completely prohibited, the parties who have leased 20 stall in the Amgahamula and Gonggawela public markets belonging to the Municipal council had been sub-leased from Rs.5,000 to Rs.22,000. | It has been confirmed that sub leases have been granted and further action will be taken according to the agreements. | Instructions of the circulars should be followed. |
| (ii) | Paragraph 5 of Circular No. 3/2017 dated 03 rd | A case register had not been maintained in relation to all the cases of the Municipal Council. | That the updated case register will be maintained after appoint an officer in | -Do- |

of August 2017

charge for the legal subject.

1.7.2 Non-compliance with Tax Requirements

Audit Observation

The balance at the end of the year should be shown under the creditors if the Nation Building Taxes collected from the clients were not sent to the Inland Revenue Department, but as of the last day of the year under review Rs.71,436 as Nation Building Taxes had been shown as a negative balance under the creditors.

Comments of the Council

Only the balance is paid after deducting the value received and the value payable to the council. That these values are arranged to be accounted for under debtors and creditors.

Recommendation

Accounts should be prepared correctly.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the council for the year ended 31 December 2022 amounted to Rs.79,574,869 as compared with the excess of revenue over recurrent expenditure amounted to Rs.74,897,187 in the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

According to the information presented the Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Revenue sours	Estimated revenue (Rs)	2022			Estimated revenue (Rs)	2021		
		Billed revenue (Rs)	Collected revenue (Rs)	Total arrears as at 31 st December (Rs)		Billed revenue (Rs)	Collected revenue (Rs)	Total arrears as at 31 st December (Rs)
(i) Rates & tax	38,200,000	43,631,653	46,554,974	44,128,415	37,340,000	40,100,988	36,550,564	47,051,737
(ii) Rent income	27,062,000	27,299,964	26,488,416	15,517,135	26,401,667	22,309,090	17,483,218	14,705,587
(iii) License Fees	15,401,000	12,573,547	11,793,096	980,641	22,239,000	14,327,107	15,022,596	201,000
(iv) Other Revenue	<u>95,030,000</u>	<u>100,412,155</u>	<u>111,314,931</u>	<u>41,740,752</u>	<u>105,957,949</u>	<u>89,777,804</u>	<u>90,180,147</u>	<u>52,643,527</u>
Total	<u>175,693,000</u>	<u>183,917,319</u>	<u>196,151,417</u>	<u>102,366,943</u>	<u>191,938,616</u>	<u>166,514,989</u>	<u>159,236,525</u>	<u>114,601,851</u>

2.2.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the council are given below.

Audit Observation	Comments of the council	Recommendation
<p>(a) Rates and Taxes</p> <p>As at 31st December of the year under review the outstanding balances from 30 properties of more than Rs.50,000 per unit was Rs12,097,338.</p>	<p>That the warrants have been issued through red notices and property of that cannot be recovered for a long time has been banned and further legal action will be taken.</p>	<p>Arrears revenue should be collected according to the provisions of the act.</p>
<p>(b) Trade License</p> <p>An income of Rs.431,641 had been lost due to the licenses had not been issued to 82 of organizations whether the 698 organizations had been identified in the trade license survey related to the year under review.</p>	<p>There were 82 business organizations that did not obtain trade licenses and further Rs.431,640.85 should be charged.</p>	<p>The trade license should be issued.</p>
<p>(c) Industrial Tax</p> <p>An income of Rs.562,000 had been lost due to the licenses had not been issued to 162 of businesses whether the 1464 businesses had been identified in the industrial tax survey related to the year under review.</p>	<p>That chargeable industrial tax fee to be collected is Rs.562,000.</p>	<p>The industrial license should be issued.</p>
<p>(d) Water Chargers</p> <p>The water charges of Rs.4,802,812 which was outstanding for about 18 years had not been collected.</p>	<p>That the arrears unable to settled when the water project was handed over to the Water Supply Board and that action would be taken to recover it in the future.</p>	<p>The arrears water charges should be charged.</p>

3. Operational Review

3.1 Informal transactions

Audit Observation	Comments of the Council	Recommendation
<p>A vehicle belonging to the Municipal Council using 61 litters of fuel worth of Rs.10,736 had been driven 441 kilometres outside the area for non-duty work on 12th and 13th of March 2022.</p>	<p>That the invitation letter or attendance certificate has not been received for this trip.</p>	<p>The legal actions should be taken.</p>

3.2 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The total of 8 receivable accounts balances as on the last day of the year under review was Rs.75,340,140.	That the receivable accounts balances will be recovered and legal action will be taken against defaulters.	Receivable accounts balances should be collected.
(b) The total of 2 payable accounts balances as on the last day of the year under review was Rs.107,254,465.	That the balances which have been going on for a long time will be settled in the future.	Payable accounts balances should be settled.
(c) Advances amount of Rs.491,080 issued on 35 times between from 6 to 28 years had not been settled as at 31 st December of the year under review.	Even though it has been settled, it has been missed to remove from the account and will be removed it.	The advance balances should be settled.
(d) A security deposit of 140,400 should be received from the Railway Department before year of 2012 and action had not been taken to release at 31 st December of the year under review.	The railway department has informed in writing that the due balance has been set off. Accordingly, action will be taken to adjust the accounts.	The balances should be settled.
(e) Without proper feasibility study 136 concrete garbage bins worth Rs.514,080 purchased in the year 2020 had been piled idle on 31 st December of the year under review. The 07 bins value of Rs.26,460 were broken and there was a shortage of 18 bins worth Rs.68,000.	Actions will be taken to purchase with proper feasibility study when re-purchase and that the distribution system will be formalized.	The purchasing should be done with the formal feasibility study.
(f) Although the upper floor of the super market complex had been contracted and leased of 2000 square feet for a 3D cinema and it was observed in the inspection conducted at 11 th of November 2022 that 3972 square feet had been used beyond the contracted amount. Accordingly, the council had lost revenue of	That the municipal engineer has been informed to report whether a construction of 191 square feet has been done from the stairs to the cinema hall.	Action should be taken to formalize the agreements and collect the rents.

Rs.3,719,191 as at 31st of December 2022.

3.3 Assets Management

Audit Observation	Comments of the Council	Recommendation
4 buildings built by external parties at their own expense of Rs.195,000,000 in a land belonging to the Municipal Council had been accounted for as an asset owned by the municipal council without transferred to the municipal council formally.	That has been corrected through the journal entries.	Action should be taken to take over.

3.4 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Council	Recommendation
(a) As at the last day of the year under review 05 vehicles and one machine worth Rs.1,970,000 remained idle for between 1 and 11 years.	That repairable vehicles are being repaired and non-repairable vehicles are being auctioned.	Action should be taken to repair and utilize of disposed of.
(b) The Viharamawatta land which was purchased without conducting a feasibility study on Rs.2,000,000 on 18 th of August 2010 for garbage disposal remained idle.	That work is being done to obtain licenses for limestone mining	Assets should be utilized effectively.

3.5 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
(a) There were 144 vacancies in 31 posts and 10 excess in 02 posts in the approved carder of the Municipal council as at 31 st December of the year under review	That all recruitments have been suspended based on a policy decision taken by the government.	Action should be taken to fill the vacancies.

- (b) Disaster loans, festival advances and special advances totaling of Rs.2,638,155 had not been recovered from 34 officers who were transferred, retired and suspended for a period of 1 to 5 years.
- That employee loan collections and payments will be checked and maintained in the future.
- Actions should be taken to recover.

3.6 Defects in Contract Administration

Audit Observation	Comments of the Council	Recommendation
(a) Construction of auditorium at Edward Stadium - Rs.1,935,633	That the entire roof had to be re-covered with new asbestos sheets as many of the asbestos sheets on the roof had explosives during the roof repairs.	The estimates should be revised and approved.
In the estimate that was prepared for the construction of the auditorium of Edward Stadium, the approved estimate was not revised and Rs.404,876 additional work heads had been completed without complete the 16 work heads worth of Rs.1,132,237 which should be completed. Rs.32,623 was paid for applying lime putty on the walls under work subject no. 14, but the lime putty had not been applied according to the physical inspection.		
(b) The concrete road constructed on the Hulangamuwa Nidahas Mawatha, which was built on an estimate of Rs.473,786, could be used of 27.3 meters out of 31 meters for access only to the house of a former member of the Municipal Council.	That the remaining part is not developed due to lack of provision.	Funds should be used for projects that can be used to more beneficiaries .