

Matale Municipal Council - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Matale Municipal Council for the year ended 31 December 2023 comprising with the Balance Sheet as at 31 December 2023 and Income and Expenditure Account, for the year then ended and notes to the financial statements including material accounting policy information was carried out 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 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, 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 31 December 2023, and of its financial performance for the year then ended in accordance with Generally accepted Accounting Practices

1.2 Basis for Qualified opinion

I expressed qualified 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 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 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 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 as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	The value of 02 vehicles which was accounted as Rs.1,730,000 in the previous year was understated by Rs.430,000 to as Rs.1,300,000 in the year under review.	A valuation will be obtained by Valuation department and adjustments will be made to the accounts correctly.	It should be correctly accounted for.
(b)	Rs.421,935 need to be paid to Sri Lanka Railway service on behalf of utilization of railway warehouse was not accounted under creditors.	The arrears will be recognized as creditor and payment will be made in the future.	-Do-

(c)	In relation to the previous years, the total amount paid on 08 occasions in the year under review of Rs.567,308, had been accounted for as expenses in the year under review.	It will be corrected in the future.	It should be correctly accounted for.
(d)	During the year under review, the amount spent on painting the buildings of Rs.433,393, was capitalized under land and buildings.	-Do-	-Do-
(e)	During the year under review, the sum spent on construction and repair of 05 projects amounting to Rs.5,012,184, was not capitalized.	-Do-	-Do-

1.6.2 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
There was a difference of Rs.307,509 when comparing the balances of 02 asset subjects shown in the financial statements with the balances shown in the source documents.	It will be looked into and differences will be corrected	Account balances should be corrected.

1.6.3 Unauthorized Transactions

Audit Observation	Comments of the Council	Recommendation
The stock surplus of Rs.545,237 indicated under the works to be charged in the year 2022, had been removed from the accounts without specific identification.	This balance will be further investigated and corrected in the future.	It should be correctly accounted for.

1.7 Non- Compliances

1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions etc...

Non-compliance with Laws, Rules, Regulations and Management Decisions etc. are as follows..

	Reference to Laws, Rules Regulations etc	Non-compliance	Comments of the Council	Recommendation
(a)	Parliament Acts The Local Authorities (Standard By-Laws) Act No. 06 of 1952 By-laws on Advertisements	For 102 Advertisement in 50 institution, Rs.615,780 was not collected as Advertisement charges.	Legal action will be taken against the non-paying entity.	The provisions of the Act should be followed.
(b)	Municipal Council Ordinance (Chapter 252) Section 247(a).	For 13 business establishments in the area of council identified during the sample investigation, trade licenses amounting to Rs.52,000 had not been obtained.	The license fees for the year 2023 will be collected under mixed revenue.	The provisions of the Act should be followed.
(c)	Other circulars Public Administration Circular No. 13/2008 (vi) dated 29 December 2021	While the fuel allowance related to 135 liters of approved fuel diesel was added to the salary, an amount of Rs.1,042,721 was taken for the travel of the Municipal Commissioner without approval during the period from June 2021 to October 2023 for 4120 liters of fuel.	This fuel was obtained in accordance with the Municipal Council Ordinance.	Circular instructions should be followed.

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 2023 amounted to Rs. 111,343,407 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 79,574,869 in the preceding year.

2.2 Revenue Administration

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

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

Source of Revenue	2023				2022			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(I) Rates and Taxes	40,443,000	46,133,318	50,028,929	40,232,804	38,200,000	43,631,653	46,554,974	44,128,415
(II) Rent	18,987,000	20,246,271	22,340,654	5,499,477	27,062,000	17,461,605	17,455,157	7,593,860
(III) License Fees	11,000,000	9,510,128	9,735,769	755,000	15,401,000	12,573,547	11,793,096	980,641
(IV) Other revenue	42,857,349	28,808,785	20,278,375	20,745,836	42,857,349	36,747,609	33,863,113	12,215,426
Total	113,287,349	104,698,502	102,383,727	67,233,117	123,520,349	110,414,414	109,666,340	64,918,342

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
(a) Rates	<p>There was an arrear assessment balance of Rs.40,232,804 as on the last day of the year under review, out of which 38 properties above Rs.50,000 per unit had an arrear balance of Rs.14,795,541 as on 31st December of the year under review, had not been recovered, proceeding in terms of section 251 of the Municipal Council Ordinance (252 Chapter). Out of this, the outstanding assessment balance due from 17 government properties was Rs.3,632,354, while the outstanding assessment balance due from 21 private properties was Rs.11,163,187.</p>	<p>Warrants have been issued through red notices to the property owners, the property has been foreclosed and further legal proceedings are being taken.</p>	<p>The provisions of the Act should be followed.</p>
(b) Water charges	<p>The water charges of Rs.4,802,812, which had been outstanding for about 19 years, had not been collected.</p>	<p>Letters have been sent to the concerned agency, but no solution has been received yet.</p>	<p>Arrangements should be made to recover the arrears of water charges.</p>

(c) Arrears Key money

As on 31st December of the year under review, key money on Stall rent amounting to Rs.10,909,189 had not been collected.

In the future, Actions should be arrangements will be taken to recover the made to collect these arrears.

3. Operational Review

3.1 Fulfilment of functions assigned by the Act

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 4 of the Municipal Councils Ordinance are shown below.

Audit Observation

Due to the filing of a case in the Supreme Court by the nearby residents regarding the disposal of garbage to the Wariyapola Watte land by the Municipal Council without conducting a pre-feasibility study and obtaining an environmental permit regarding whether there is a possibility of maintaining the garbage disposal in a manner that causes minimum damage to the environment, from the year 2008 to December 31, 2022, a total amount of Rs.6,176,475 had to be paid from the council fund as legal fees.

Comments of the Council

As there is no environmental damage, the case is now closed. The decision of this case has not yet been announced and will be informed after receiving it.

Recommendation

Necessary recommendations should be obtained from the relevant institutions before carrying out the projects.

3.2 Visual Irragulities

Audit Observation

(a) As per the charges published in Gazette No. 2256 dated 26 November 2021, Rs.30,000 should be charged for the repair of a memorial in the size of 6' x 4' in the cemetery, due to the fact that Rs.20,000 and Rs.10,000 were charged for the receipts No. 93603 dated 15 December 2022 and No. 97405 dated 16 March 2023, a loss of Rs.30,000 had been resulted to the council fund.

Comments of the Council

The lost amount will be recovered from the applicant.

Recommendation

A formal internal control system should be established.

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| (b) | An amount of Rs.70,000 due for 07 corpse buried from January to March of the year under review, was not credited to the Municipal Council income, an irregularity was committed. | A preliminary investigation will be conducted in this regard and relevant actions will be taken. | Investigations should be done immediately and necessary action should be taken. |
| (c) | During the cremation of the corpses in the Municipal Council crematorium in relation to the period from October 01, of previous year to April 30 of the reviewed year, documents related to receipt of other incomes were falsely presented for the amount charged by the officials as crematorium fees through the alteration of receipts, alteration of entries in the relevant license, non-issue of receipts after receipt of money etc... and An irregularity had been committed by not crediting the collected amount of Rs.620,000 to income. | According to F.R.104 (4) the letters have been directed to recover the money. | -Do- |
| (d) | In the service receipt application for the money charged for providing 57 gully services in the year under review, the receipt numbers issued for other incomes were falsified recorded and Rs.365,125 charged for gully services was collected from receipt number 97403, Rs.6,900 was credited to income instead of Rs.14,250, and Rs.7,900 was also received from receipt number 96251, but the second and third copies were cancelled and not credited to revenue and Having obtained the relevant gully services, without mentioning the receipt numbers in the relevant application, An irregularity of Rs.493,200 had been committed including non-crediting of Rs.113,275 to the council fund. | In this regard, a preliminary investigation has been initiated by the Municipal Council and work is being carried out. | -Do- |
| (e) | An invoice issued by a gas supplier to another company was obtained, the value of the invoice was altered to Rs.92,675, and attached to the voucher number 2439 on 19 December 2022, an irregularity of Rs.92,675 had been committed by settling the advance without obtaining gas falsely. | A Preliminary investigation will be conducted in this regard and relevant actions will be taken. | -Do- |

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| (f) | According to the daily gas receipt card maintained at the crematorium, it was observed that although 330 gas cylinders of 37.5 kg were obtained from January 1, 2022 to December 31, 2022, but 349 were purchased as per the payment vouchers for gas purchase of the Municipal Council. Accordingly, 19 gas cylinders of 37.5 kg worth Rs.285,741 were not received by the crematorium. Also, there was a shortage of a gas cylinder worth Rs.35,000 in the crematorium. | An initial investigation will be conducted in this regard and relevant actions will be taken. | Investigations should be carried out immediately and efforts should be made to recover the lost income. |
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3.3 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Council	Recommendation
Weragama Viharagama watte land with the area of 5 acre which was acquired by paying Rs.2,000,000 on October 03, 2010 to dispose of garbage without a pre-feasibility study and obtaining environmental permits., remained idle as it could not be used for its intended purpose.	Since the crystalline limestone spread over this land has been observed, further work is being done to use it for another project.	A pre-feasibility study should be conducted before executing the projects.

3.4 Management inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The total of 09 accounts receivable balances as on the end of the year under review was Rs.77,397,241, out of which the outstanding balance of more than 1 year and less than 5 years of Rs.33,044,383 and the balance of more than 5 years of Rs. 22,786,810 had not been recovered.	Further work is being done to collect the money.	Accounts receivable balances should be collected.
(b) As on December 31 of the year under review, the balance of various creditors was Rs.105,745,130, out of which the outstanding balance between 1 and 5 years of Rs.2,265,905 and the balance over 5 years of Rs.71,182,486 had not been settled.	The long standing balance will be settled in the near future by appointing a committee and submitting the committee's reports to the General Assembly/Council	Balances should be settled.

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| (c) | Value Added Tax (VAT) amounting to Rs.937,033 relating to 03 cases of payments made by the Municipal Council for purchases and projects in the year under review, had been remitted to the Inland Revenue Department without offsetting the VAT revenue collected by the Council. As a result, the amount of Rs.937,033 that should have been received by the council in the year under review was not reimbursed. | The arrangements will be made to adjust and correct the VAT control account and recover it from the Inland Revenue Department. | Officers in charge of the subject should fulfil their duties responsibly. |
| (d) | In renting out the stalls of the super mall belonging to the Municipal Council to third parties on the basis of rent, the arrears key money of Rs.452,115 and fines of Rs.4,308,287 were not collected and the contracts were not renewed every 5 years. | The relevant letters for taking legal action have been prepared and forwarded to the accountant's recommendation, and legal action will be taken as soon as recommendation received. | Actions should be taken to recover the revenue in arrears. |
| (e) | Although the tennis playground, which is run on a land belonging to the Matale Municipal Council, has been administered by a private organization called the Matale Tennis Association, no formal lease agreement or information on how to collect rent was provided. The control was done on the promise of payment of Rs.10,000 per month based on the oral agreement, and the arrears of Rs.112,000 which should have been charged for the year under review had not been recovered. | The tendering procedure will be implemented in the future by taking the advice of the National Tennis Association and including the relevant conditions. | Arrangements should be made to recover the lost income and properly lease it. |
| (f) | The plot of land, which was allocated to the Municipal Council by sub-division, located at Matale Kandy Road No. 18, was being tenured by a third party without permission and was sub-leased to another party and no action was taken to get back its possession. Also, the ownership of the respective land was not taken over. | Action will be taken to legally transfer this plot of land to the Municipal Council by deed as soon as possible. | Arrangements should be made to take over the rights and remove the illegal residents immediately. |

3.5 Operational inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) According to the assessment register, during the inspection of 56 lands which are assessed at Rs.100 each, although buildings had been constructed on those lands and used for residence and business activities, accordingly, necessary measures were not taken to collect the relevant assessment of Rs.510,780 from the unauthorized buildings constructed	That the property will be inspected and the necessary information will be obtained by the development officer and technical officers in charge of the division.	Arrangements should be made to remove or regularize illegal constructions.
(b) Assessment revenue of Rs.146,626 was not collected from the building of National Water Supply and Drainage Board in Matale and building number 91 Raja Street, Matale, as Rs.96,000 and Rs.50,626 respectively, based upon unauthorized construction without approved plan. Due to non-obtaining of the Certificate of Conformity a total of amount of Rs 177,100 as Rs 104,100 and Rs 73,000 respectively had not been Collected.	The property will be inspected and further action will be taken.	The revenues due to the council should be collected immediately.
(c) People had illegally built houses on paddy land and settled, at Pipe Line Road and Dora Road in Matale, without land reclamation and approving plan.	According to the observations given by the officials after inspection the relevant fields, the necessary activities are currently being carried out.	Arrangements should be made to remove or regularize illegal constructions.
(d) Out of the 12 transmission towers that were inspected, there was no building plan formally approved by the municipal council for 08 houses where the towers were installed, no approved structural plan obtained from qualified structural engineers with chartered engineering certificates or compliance certificates for the building.	That the development officers in charge of the division have been informed in writing to inspect the land and buildings where these towers are installed and provide a report.	The provisions of the Urban Development Authority Act should be followed.
(e) According to the assessment documents related to the property at 21 M.C. Road, Matale, although the assessment had been levied on an old assessment to the effect	That a field inspection report will be obtained and sent to the Valuation department	Efforts should be made to recover arrears revenue and remove or regularize

<p>that a textile factory was being maintained, it was observed that a Buddhist school was being constructed without its approval and a Buddhist school was being maintained, by the inspection date of November 24, 2023. Meanwhile, it was not possible to collect the assessment of Rs.218,400 for three buildings that were constructed without approval.</p>	<p>and the assessment report will be collected and the assessment money will be collected.</p>	<p>unauthorized constructions.</p>
<p>(f) Although a council had obtained approval to obtain a key money of Rs.2,340,000 and a monthly rent of Rs.5,000 per square foot for the unauthorized construction of 468 square feet on the premises reserved for the parking lot of the Super Mall, without having the approved building plan of the Urban Development Authority, Due to the fact that only Rs.1,320,000 was charged at Rs.5,000 per 264 square feet, an amount of Rs.1,020,000 had been undercharged to the council's income.</p>	<p>The letters have already been sent to the Chief Urban Engineer asking him to provide the relevant building plan and related information and the necessary further work will be done immediately to collect the money and stall rent income from the council.</p>	<p>Efforts should be made to recover revenue and remove or regularize unauthorized constructions.</p>
<p>(g) Rs.707,900, which should have been further received as stall rent by leasing the unauthorized portion in front of stalls No. 34 and 36 of the super mall, had not been recovered.</p>	<p>The necessary further work to collect the rental income to the council will be carried out immediately.</p>	<p>Efforts should be made to recover arrears revenue and remove or regularize unauthorized constructions.</p>
<p>(h) In case of not obtaining a new assessment of the monthly rent at any time after October 2010 and by charging rent based on the old assessment, An income of Rs.651,750, which should have been received by the council had been lost.</p>	<p>Due to non-receipt of new valuation report, old stall rent has to be charged further.</p>	<p>A new assessment should be taken, once in 5 years and the rent should be collected.</p>
<p>(i) According to a survey conducted for the year under review, an income of Rs.531,000 was not collected in the form of industrial tax, trade license and business tax from 144 business establishments. Also, no measures were taken to stop the business activities of 4 businesses that had refused to give health recommendations in relation to obtaining trade licenses or to seal the stalls.</p>	<p>Arrangements will be made to collect this arrears income in the year 2023 under the various income, in paying the license fees for the year 2024</p>	<p>action should be taken as per the law. In respect of establishments carrying on business without licenses,</p>

3.6 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
(a) As of December 31 of the year under review, there were 117 vacancies in 31 approved staff positions and 09 excess in 02 positions.	The concerned institutions have been notified to fill up the existing vacancies in the posts.	Arrangements should be made to maintain approved staff.
(b) By stating as an urgent and necessary matter, five employees had been recruited on temporary basis to serve as health workers required for creation of a clean green city, but they were employed in office services outside of that purpose and paid allowances under the subject of health expenditure (21415-11) while they were performing services under other departments.	These employees will be deployed for dengue prevention activities and will be deployed for service in the office only during urgent essential duties.	Staff should be employed for the duties recruited.

3.7 Contract Administration

Audit Observation	Comments of the Council	Recommendation
Development of Vihara Road - 12,443,189 The following matters were observed		
(a) Under Subject No. 09, Rs.273,561 for application of Tack Coat was estimated at Rs.134 per square meter, for 2041.50 square meters each, but this subject was not physically fulfilled.	The areas where the tack coat was not applied are advised to be redone.	Industries should perform as per estimates.
(b) The project was contracted to be completed on April 8, 2023, extended to June 23, 2023 and completed on September 18, 2023. Accordingly, a late fee of Rs.348,000 should have been deducted at the rate of Rs.4,000 per day for 87 days of delay, but due to the charging of Rs.99,546, the late charges of Rs.248,454 had been under charged.	The work could not be completed on the due date and an amount of Rs.99545.60 has been levied as late charges on payment.	Late charges shall be charged as per agreement.

(c) Although Rs.980,706 for 237 cubic meters is estimated at Rs.4,138 per cubic meter for supply of 37.5 mm ABC under Subject No. 05, but on physical inspection compared with the measurements taken by filing ABC at the work site, there was an ABC stock shortage of 31.84 cubic meters worth Rs.131,754.

The technical officer has been informed in writing to reduce the amount while making the payment.

Payment should be made only for materials supplied to the work site.