

## **Matale Municipal Council - 2024**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Matale Municipal Council for the year ended 31 December 2024 comprising with the Balance Sheet as at 31 December 2024 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 sub-section 10 (1) of 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 31December 2024, and of its financial performance for the year then ended in accordance with Generally accepted Accounting Practices

#### **1.2 Basis for Qualified opinion**

Based on the matters described in Paragraph 1.6 of this report, I express a qualified opinion on the financial statements.

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 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 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**

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) The total amount of Rs.10,844,111 spent on the renovation of 09 buildings in the previous year and the year under review had not been capitalized.	The correction will be made when preparing the final account for 2025.	It should be correctly accounted for.
(b) A stock of organic fertilizer worth Rs. 147,662 in the garbage yard and a stock of Ayurvedic medicines worth Rs. 362,786 held as of the end of the year under review, had not been accounted for.	The correction will be made when preparing the final account for 2025.	It should be correctly accounted for.

### **1.6.2 Unreconciled Control Accounts or Records**

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
When comparing the balances of 06 accounting subjects shown in the financial statements with the relevant documents and schedules as at the end of the year under review, a total difference of Rs.25,789,133 was observed.	The correction will be made when preparing the final account for 2025.	Account balances should be corrected.

### **1.6.3 Documentary Evidences not made available for Audit**

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
Due to the non-submission of documents and schedules relating to the balances of 08 accounting subjects totaling Rs.101,837,112 as at the end of the year under review, it was not possible to satisfactorily examine them during the audit.	This balance will be settled in the future.	Files and documents should be maintained to verify each balance.

## 1.7 Non- Compliances

### Non-compliance with Laws, Rules and Regulations

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

Reference to Laws, Rules And Regulations	Non Compliance	Comments of the Council	Recommendation
<b>(a) Parliament Acts</b>			
Section 20 of the Taxation and Assessment Ordinance No. 30 of 1946	Although the assessed property should be assessed once in every 5 years and Assessment tax should be levied, the assessment tax has been levied based on an assessment conducted in 2012 without taking action accordingly.	According to the new assessment, the necessary further action will be taken.	Assessment reports should be obtained every 5 years and assessments should be levied accordingly.
<b>(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka</b>			
F.R. 571(3)	10 lapsed deposits of Rs.1,198,261 relating to the period 2017 – 2022 had not been settled.	It will be resolved in the future.	Financial regulations should be followed regarding lapsed deposits.
<b>(c) Other Circulars</b>			
(i) Section 5 of the Central Province Local Government Commissioner Circular No. 2016/3/2 dated 06 December 2018	Although 11 years had passed since the 146 stalls in the supermarket were assessed in 2013, a new assessment had not been carried out.	Action will be taken accordingly as soon as the new assessment is received.	A new assessment should be obtained and rent should be charged.
(ii) Urban Development Authority Planning Circular No. 15 dated 18th November 1993	The fund of Rs.3,237,659 maintained in the name of the Urban Development Authority had not been utilized for development activities without consulting the Urban Development Authority.	Further works related to this will be carried out under the decision of the Management Committee held on 2025-05-09.	Funds of Urban Development Authority should be used for regional development.

## 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 2024 amounted to Rs. 67,329,320 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 111,343,407 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 by the Commissioner of the Municipal Council relating to 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	2024				2023			
	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	48,556,000	48,745,554	43,441,381	45,618,563	41,643,000	47,077,927	50,895,229	40,314,390
(II) Rent	37,831,487	38,794,172	37,288,099	16,568,748	30,214,000	34,781,588	35,418,548	15,062,675
(III) License Fees	17,731,600	20,336,672	20,525,072	566,600	16,403,000	14,765,290	14,990,930	755,000
(IV) Other revenue	128,216,400	154,516,670	145,993,491	130,210,528	128,784,000	157,054,138	76,686,233	121,687,349
<b>Total</b>	<b>232,335,487</b>	<b>262,393,068</b>	<b>247,248,043</b>	<b>192,964,439</b>	<b>217,044,000</b>	<b>253,678,943</b>	<b>177,990,940</b>	<b>177,819,414</b>

### 2.2.2 Performance in Revenue Collection

	Audit Observation	Comments of the Council	Recommendation
<b>(a) Rates</b>			
	The arrears of assessment as at the end of the year under review were Rs.45,607,785. Out of this, Rs.17,259,098 had not been collected from 46 properties with arrears exceeding Rs.50,000 per unit as per section 252(1) (a) of the Municipal Council Ordinance.	The Revenue Division has issued red notices to recover money.	The arrears of revenue should be recovered.
<b>(b) Rent</b>			
(i)	Two stalls in the supermarket complex were sealed on 18 <sup>th</sup> October 2019, but the outstanding stalls rent totalling Rs.1,189,927 had not been collected by the last day of the year under review.	It had been referred to carry out legal action (to sue)	The arrears of revenue should be recovered.
(ii)	Although a period between 1 to 10 years had passed from the due date for paying the key money in the stalls of the supermarket complex, a total of Rs. 10,035,264, including surcharges calculated based on the key money and the central bank interest rate, and taxes imposed by the government, had not been collected at the end of the year under review.	It will be recovered in the future.	Arrears of revenue, including surcharges and taxes imposed by the government, should be recovered.

(iii)	As of 31 <sup>st</sup> December, of the year under review, the arrear's rent income was Rs.4,745,428, therein Rs.931,961 outstanding rent income for more than 05 years and Rs.2,310,746 outstanding rent for 02 to 05 years had not been collected.	It had been referred to take legal action against taxpayers who do not pay their arrears.	The arrears of revenue should be recovered.
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**(c) Court fines and Stamp duty**

The court fines and stamp duty due from the Chief Secretary of the Provincial Council and other authorities as on 31 <sup>st</sup> December of the year under review were Rs.731,462 and Rs.112,941,480, respectively.	Letters have been sent to the Chief Secretariat to recover the money.	The arrears of revenue should be recovered.
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**2.3 Surcharges**

**Audit Observation**

In accordance with the provisions of the Municipal Council Ordinance, I had imposed 03 surcharges worth Rs.2,373,614 against the responsible persons during the previous year. Out of the surcharges imposed, an amount of Rs.2,355,761 was to be recovered at the end of the year under review.

**Comments of the Council**

The actions are being taken to recover the surcharge.

**Recommendation**

Surcharges in arrears should be collected promptly.

**3. Operational Review**

**3.1 Management Inefficiencies**

**Audit Observation**

(a) The total of 04 accounts receivable balances at the end of the year under review was Rs.5,834,932. Therein Rs.2,084,486 of the balance relating to the period between 1 to 5 years and Rs.2,770,390 of the balance relating to more than 5 years had not been collected.

**Comments of the Council**

Further action will be taken to recover outstanding amounts.

**Recommendation**

Receivable balances should be collected.

(b) As of 31<sup>st</sup> December of the year under review, the balance of various creditors was Rs.98,018,348. Therein, the balance between 1 to 5 years was Rs.6,246,345 and the balance more 5 years was Rs.71,083,509.

The actions will be taken immediately to settle the creditor balances.

Action should be taken to settle outstanding balances.

(c) In accordance with Section 254 (a) (i) of the Municipal Council Ordinance No. 16 of 1947 (Chapter 252), the management fee of Rs. 11,540,577 from Rest house belonging to the Matale Municipal Council had not been collected for a period of about 05 years.

It had been referred to take Legal action in order to recover this amount.

The arrears of revenue Should be recovered.

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| (d) | Although four stalls in the supermarket had been sealed for a period of 1 to 2 years, due to the failure to follow the relevant legal procedures, collect the arrears of rent and re-tender, the council fund had lost an income of Rs. 341,115 up to the last date of the year under review. | Further action will be taken legally. | The arrears revenue should be collected and it should be tendered again. |
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### 3.2 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
31 stalls in the supermarket complex had been rented out by lessees and had not been operating for a long time, but paying rent.	Further action will be taken in accordance with Article 30 of the by-laws of the Matale Public Market.	Efforts should be made to utilize the stalls effectively.

### 3.3 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Council	Recommendation
As at the end of the year under review, 07 vehicles worth a total of Rs.7,143,750 as shown in the financial statements had been idle for a period of between 1 to 6 years.	Action is being taken to auction or dispose of it.	Action should be taken to utilize or dispose of it.

### 3.4 Delays in Project Activities or Capital work

Audit Observation	Comments of the Council	Recommendation
Although it was estimated that 14 development projects worth Rs.18,342,842 would be carried out by allocating provisions from the Municipal Council Fund by the end of the year under review, work on 06 projects worth Rs.8,871,471 had not been commenced and the physical progress of 08 projects worth Rs.9,471,371 was between 0 percent and 85 percent.	The industrial work will be completed promptly.	Approved development projects should be promptly initiated, completed, and used for their intended purpose.

### 3.5 Human Resources Management

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
When comparing the approved staff of the Council with the actual staff, there were 108 vacancies in 32 posts and 08 excess in 02 posts.	The relevant institutions have been notified on several occasions to fill the existing vacancies.	Vacancies should be filled.

### 3.6 Management of Vehicle fleet

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
The ownership of the Rs. 2,500,000 motor vehicle used by the council had not been taken over.	It will remain in effect until the final recommendations and orders of the committee, including the Mechanical Engineer, are received.	The ownership should be taken over.