

## **Matale Municipal Council**

### **Matale District**

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#### **1 Financial Statements**

##### **1.1 Presentation of Financial Statements**

Financial statements for the year under review had been presented for audit on 23 June 2011 and the Financial Statements for the preceding year had been presented for audit on 10 March 2010.

##### **1.2 Opinion**

In view of the comments and observations appearing in this report, I am unable to express an opinion on the Financial Statements of Matale Municipal Council presented for audit for the year ended 31 December 2010.

##### **1.3 Comments on Financial Statements**

###### **1.3.1 Accounting Deficiencies**

- (a) Provisions had not been made under creditors in respect of expenditure of Rs. 209,747 payable for the year 2010 in that the expenditure for the year and creditors had been understated by that amount.
- (b) Arrears of revenue amounting to Rs. 3,296,496 had not been accounted for under revenue debtors.
- (c) The value of stock as at the end of the year under review had been understated by Rs. 1,519,058.

- (d) Rent amounting to Rs. 10,000 settled through the deposit account concerned in respect of outstanding trade stall rent for the year 2009 had been accounted for as revenue of the year 2010 in that the outstanding stall rent had been understated by Rs. 10,000 and overstated the revenue of the year by that amount.
- (e) Provision had not been made in the accounts for audit fees of Rs. 1,286,867 payable for preceding 06 years. Audit fees of Rs. 300,000 had only been allocated for the year under review, i.e. less than half of the audit fees of Rs. 612,561 billed for the preceding year.
- (f) Action had not been taken to compute and take in to account the interest payable for a sum of Rs. 134,431,087 due to Local Loan and Development Fund and for a sum of Rs. 5,819,753 payable to a private company.
- (g) According to the bank reconciliation statements prepared as at 31 December of the year under review in respect of bank accounts No. 22710986 and No. 72710984 there had been cash balances of Rs. 165,813 and Rs. 14,913 respectively not deposited in the bank. Nevertheless , it had not been disclosed in the notes to the balance sheet under cash in officers hand.
- (h) The value of library books purchased during the year under review had been understated by Rs. 8,572 in that the balances of library book account and revenue contribution to capital outlay account had been understated by that amount.
- (i) A sum of Rs. 98,750, being the value of a bowzer bearing No. 49-9306 sold by auction in the year 2009 and a sum of Rs. 4,204,895, being the value of a gully bowzer bearing No. WPGL 9357 sold on the basis of making monthly recoveries had not been eliminated from the motor vehicles and carts account.
- (j) A sum of Rs. 5,000,000, being value of excavator belonging to the Council had not been accounted for under motor vehicles and carts account.

- (k) Lease rent of Rs. 1,883,700 payable to the Department of Railway as at 31 December 2010 in respect of a railway store obtained on monthly lease basis had not been accounted for.
- (l) A sum of Rs. 202,242 , being charges for the road roller, tumbal coach and rent of the town hall recovered during the year under review had not been taken in to revenue of the year.
- (m) Revenue of Rs. 609,200 received on sale of compost barrel during the year under review and preceding years had been shown in the balance sheet under accumulated fund and reserves without being taken in to revenue of each year.
- (n) An ambulance belonging to the Council had been sold on monthly recovery basis and a sum of Rs. 1,384,876 received out of that had been shown under creditors without being taken in to revenue.

### **1.3.2 Unreconciled Control Accounts**

According to control accounts relating to 05 items of accounts, balances totalled Rs.175,159,228 where as according to subsidiary registers/ reports account balances totalled Rs.164,815,545.

### **1.3.3 Accounts Payable**

The value of account balances payable remaining for over a period of 01 year as at 31 December 2010 was Rs. 28,747,937.

### **1.3.4 Lack of Evidence for Audit**

#### **(a) Unanswered Audit Queries**

Replies to 36 audit queries had not been submitted as at 31 December 2010 and the quantifiable value of transactions referred to in those queries was Rs.103,177,903.

**(b) Non - rendition of Information for Audit**

Transactions totalling Rs. 121,380,235 could not be satisfactorily vouched due to non - availability of required information for audit.

**(c) Maintenance of Registers**

The following registers had not been maintained.

- (i) Debtors registers
- (ii) Fixed Assets Registers
- (iii) Register of Losses

**1.3.5 Non-Compliance**

The following non-compliances with laws, rules, regulations and management decisions were observed in audit.

Reference to Laws, Rules and Regulations

Non-compliance

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**(a) Municipal Council Ordinance  
(Chapter 252)**

- (i) Section 186

An account should be opened in a bank specified by the Minister by Order published in the Gazette. Nevertheless, four bank accounts had been opened without such requirement.

- (ii) Section 216

Provision required for reducing , increasing or transferring of money assigned under any head of expenditure. but, should be made before such occurrences But an expenditure of Rs. 1,715,257 had been incurred in respect of 49 heads of expenditure contrarily. Also, an expenditure of

Rs. 35,494 had been transferred in 02 instances to other expenditure items exceeding the provisions made.

**(b) Financial Regulation Code of the Republic of Sri Lanka**

(i) F.R. 371(c)

Even though ad- hoc imprest granted should be settled immediately after completion of the purpose concerned, advances of Rs. 144,280 granted in 09 instances during the period 07 February 2008 to 29 December 2009 had not been settled even as at the date of audit i. e. 25 August 2010. There had been a delay of 19 to 172 days in settling advances of Rs. 96,627 granted in 09 instances in the year 2010.

(ii) F.R. 571

Even though action should be taken in respect of lapsed deposits, action had not been taken accordingly with regard to deposits amounting to Rs. 4,880,683.

(iii) F.R. 1646

Daily running charts and monthly summaries for 28 vehicles relating to year 2009 and for 31 vehicles for the period up to 31 July 2010 had not been forwarded to audit up to 15 September 2010.

**(c) Establishment Code of the Republic of Sri Lanka**

Sub - section 10:4 of Chapter XXIV

Sureties who had completed their required period of service had not been introduced in paying distress loans of Rs. 435,000 to three officers

during the year under review.

(d) **Financial Regulation 880 and  
Circular No.  
CPC/CS/06/06/02 dated 11  
April 2003 of the Chief  
Secretary**

Securities had not been placed by any officer who are required to place securities through a bank account or insurance bond.

(e) **Public Finance Circulars**

Circular No. P.F/437 dated 18  
September 2009

Insurance coverage for vehicles of Government sector should be obtained directly from National Insurance Trust Fund or Sri Lanka Insurance Corporation and payments thereon should not be made through agents. Fifty vehicles belonging to the Council had been insured in private insurance companies in the year under review and payments had been made to an insurance agent contrarily.

(f) **Public Administration  
Circulars**

(i) **Circular No. 41/90 dated  
10 October 1990**

Even though fuel combustion of vehicles should be checked in every 06 months, action had not been taken accordingly in respect of any vehicle of the Council.

(ii) **Circular No. 26/92 dated  
19 August 1992**

Even though Government emblem and name of the institution should be affixed on vehicles, action had not been taken accordingly in respect of 04 vehicles of the Council.

## 2. **Financial and Operating Review**

### 2.1 **Financial Results**

According to the Financial Statements presented, the recurrent expenditure over the revenue of the Council for the year ended 31 December 2010 was Rs. 235,911 as against the revenue over the recurrent expenditure for the preceding year amounting to Rs.12,493,973.

### 2.2 **Revenue Administration**

#### 2.2.1 **Estimated Revenue, Actual Revenue and Arrears of Revenue**

Particulars of estimated revenue, actual revenue and arrears of revenue submitted by the Mayor in respect of the year under review and the preceding year are given below.

Item of Revenue	2010			2009		
	Estimated	Actual	Accumulated arrears as at 31 December	Estimated	Actual	Accumulated arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
	'000	'000	'000	'000	'000	'000
(i) Rates and Taxes	16,225	16,861	(636)	17,500	16,401	1,099
(ii) Lease Rent	12,898	10,885	2,012	15,510	13,021	2,489
(iii) License Fees	3,860	3,794	66	3,870	4,075	(205)
(iv) Other Income	43,647	40,645	3,602	46,448	43,006	3,442

#### 2.2.2 **Court Fines**

Court fines of Rs. 2,367,426 collected by a Magistrate Court up to 31 December 2010 under various Ordinances and rent to the Provincial Commissioner of Revenue had remained as receivable to the Council.

### 2.2.3 Stamp Fees

Action had not been taken to recover stamp fees amounting to Rs. 7,533,193 from the Registrar General as at 31 December 2010.

## 2.2

A balance of Rs. 4,802,812 remained as at the time of handing over of the water supply system of the Council i.e. in 2004, to the National Water Supply and Drainage Board had been shown under current assets without action being taken to recover from the consumers concerned.

## 2.3 Expenditure Structure

Estimated and actual expenditure of the Council for the year under review and the preceding year along with the relevant variances are given below.

Item of Expenditure -----	2010			2009		
	Budgeted -----	Actual -----	Variance -----	Budgeted -----	Actual -----	Variance -----
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<u>Recurrent Expenditure</u>						
Personal Emoluments	111,359	112,022	(663)	107,503	111,400	(3,897)
Other	45,295	61,005	(15,710)	55,696	57,619	(1,923)
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Sub Total	156,654	173,027	(16,373)	163,199	169,019	(5,820)
Capital Expenditure	7,620	7,162	458	19,595	4,241	15,354
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Grand Total	164,274	180,189	(15,915)	182,794	173,260	9,534

2.4 **Surcharges**

According to surcharges imposed by me against the officers responsible under Municipal Council Ordinance (Chapter 252) the value of surcharges remained as recoverable as at 31 December 2010 was Rs. 50,857.

2.5 **Human Resources Management**

**Approved and Actual Cadre**

(a) Information relating to approved and actual cadre of the Council as at 31 December 2010 is given below.

**Category**

-----	<b>Approved</b>	<b>Actual</b>
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Staff	10	09
Secondary	97	93
Primary	296	294
Other (Casual/ Temporary)	-	81

(b) Eighty one casual / temporary employees had been recruited without formal approval.

(c) A sum of Rs. 135,180 had been paid to a labourer for the period June to December 2010 without obtaining any service from him.

2:6 **Assets Management**

2:6:1 **Idle and Underutilized Physical Resources**

It was revealed at audit test checks carried out that there had been idle and underutilized physical resources to the value of Rs. 553,750.

2:6:2 Accounts Receivable

The value of accounts receivable balances as at 31 December 2010 was Rs.33,549,586 and the account balances remained for over a period of 01 year totalled Rs.13,981,516.

2:6:3 Staff Loans Recoverable

The value of staff loan advance balances to be recovered as at 31 December 2010 was Rs.8,181,032 and the value of outstanding account balances remained for over a period of 01 year was Rs.856,422. Due to failure to take follow up action until the loan balances due from officers retired and who were transferred out are settled in terms of paragraph 5 of Central Province Account Circular No. 95/9 dated 27 December 1995, loan balances of Rs. 829,791 due from 131 officers transferred out and who had retired had remained as unrecoverable.

2:6:4 Non-moving Current Assets

The value of non-moving assets remained for a period of 01 year as at 31 December 2010 was Rs.5,488,449.

2:6:5 Assets not Verified

The value of assets not confirmed by physical check / board of survey reports, but taken in to account on book value as at 31 December 2010 was Rs.82,386,147.

**2.7 Identified Losses and Damages**

There were no police complains and police reports in respect of accidents occurred to vehicles bearing No. 301-3445 and No. KH- 4277 on 30 October 2008 and 30 March 2009 respectively. Enquiries had not been commenced in terms of Financial Regulation 104(i) (a) Republic of Sri Lanka to determine the persons responsible for the loss even as at the month of August 2010.

## **2.8 Uneconomic Transactions**

The following observations are made.

- (a) A sum of Rs. 129,500 had been paid on 18 December 2009 out of Development Fund for printing of 4000 copies of the Citizen Service Enactment books. Even though 09 months had elapsed after printing of books as at the date of audit , i.e. 17 September 2010, 3205 out of 4000 copies printed had been kept in the stores without being distributed and the manner in which 795 copies had been distributed were not made available for audit. A sum of Rs. 261,600 had been given by the Asian Foundation for printing of those books. The unspent sum of Rs. 132,100 had been retained in the Deposit Account even as at 31 December 2010.
- (b) Lease rent payable for the period November 2007 to 31 December 2010 for the Railway Good Shed obtained on monthly lease basis to carry out a daily fair was Rs. 1,883,700 and the revenue gained for that period was Rs. 467,651. Accordingly loss sustained by the Council during that period amounted to Rs. 1,416,049.

## **2.9 Irregular Transactions**

- (a) A sum of Rs. 35,325 had been spent out of Council Fund during the year under review for printing of visiting cards and new year greeting cards for which legal provisions had not been made for utilizing Municipal Council Fund in terms of Section 188 of the Municipal Council Ordinance. (Chapter 252)
- (b) According to provisions in paragraph 4(a) of part (v) of the Municipal Council by – laws, all the purchases exceeding Rs. 50,000 should be made through open tender procedure published in that regard in news papers. Nevertheless, action had not been taken accordingly in purchasing school materials and books valued

at Rs. 247,311 in the year under review. These purchases had been made on quotations received only from three registered suppliers.

- (c) Payments for translations should be made according to number of words translated in terms of Circular No. 11/309 E 83/v of 11 December 2003. Nevertheless, a sum of Rs. 135,000 had been spent during the year under review for translating minutes of the Council to tamil language on the basis of monthly fixed charges approved by the Municipal Commissioner.
- (d) Even though 3% from the total targeted collection of rates exceeding 75% could be paid as incentive allowance in terms of paragraphs 4:2 and 6:1 of Circular No. 1984/19(h) dated 20 November 1984 of the Commissioner of Local Government, a sum of Rs. 239,240 had been over paid by computing incentive allowance on the total collection of rates during the period January to October 2010 contrarily.

## **2.10 Operating Inefficiencies**

The following observations are made.

- (a) Advances of Rs. 91,800 granted in 03 instances to private parties in the years 2008 and 2009 had not been settled even as at 31 December 2010. These moneys could not be recovered due to failure to obtain suitable securities. Out of advances granted since 1994, there had been an unsettled balance of Rs. 2,660,909 remained as at 31 December 2010.
- (b) While interest for overdraft obtained from the official bank account of the Council is being paid, a sum of Rs. 4,400,000 had been spent on 01 April 2008 to acquire a land in the Divisional Secretary's area Ukuwela for disposal of garbage. Acquisition of said land had been stoped subsequently. After 02 years i.e. in May 2010, the money had been returned to the Council. In this period a sum of Rs. 1,036,551 had been paid as interest on bank overdraft.

- (c) Nine employees who had been recruited to labour posts had been recruited to driver posts subsequently. In making recruitment to these posts, it had not been confirmed as to whether they possessed driving licences for heavy vehicles.
- (d) Action had not been taken to settle unpaid pension and salary balances of Rs. 4,892,000 retained in the deposit account as at 31 December 2010.
- (e) Even though minus advance balance for garbage containers amounting to Rs. 545,237 is being carried forward under recoverable utility services since several years, any action what so ever had not been taken in this regard.
- (f) A sum of Rs. 26,549 had been shown in the balance sheet under cash balance as cash misappropriated by the shrof. But any action what so ever had not been taken in this regard.
- (g) A sum of Rs. 154,181 is being carried forward under Accumulated fund and Reserves since several years as Development Fund.
- (h) Paper advertisements had been published in sinhala, tamil and english news papers spending a sum of Rs. 56,700 for registration of suppliers for the purchase of goods and services during the year 2010. Nevertheless, purchases had been made in 12 instances during the year under review spending a sum of Rs. 3,132,500 on the basis of quotations of the year 2009, without purchases being made from registered suppliers.
- (i) Due to non- payment of electricity bills by the traders of the fair at railway stores, electricity connection had been disconnected. A sum of Rs. 20,000 had been paid out of Council Fund for reconnection of electricity supply and also it had been agreed to pay the balance sum of Rs. 107,219 out of Council Fund in instalments. Electricity bills for Rs. 43,281 for the period of closure of the fair had also been included therein.

## **2:11 Stores Control**

- (a) Physical verification of stores carried out revealed excesses and shortages of Rs. 597,825 and Rs. 60,637 respectively.
- (b) Action should be taken in terms of Financial Regulation 715(i) (b) in respect of proper custody of stores, keeping them good condition and methodically arranged, so as to admit of easy location and verification at any time. But such procedure had not been followed in respect of sand, metals and bricks kept at building material site of the Municipal Council at Rose street.
- (c) It is the responsibility of the Officer in charge of stores concerned to keep adequate stocks in terms of F.R. 762, But stock levels had not been maintained accordingly.

## **2.12 Performance**

- (a) Revenue that could be gained from the revenue sources entrusted to the Council was Rs. 72,185,643 and the recurrent expenditure incurred for the maintenance of the Council was Rs. 173,027,919. Out of this, the expenditure incurred for the payment of salaries for Council employees was Rs. 112,022,400. The revenue collected by the Council was not sufficient even for the payment of salaries. Further, it was observed that what soever methodology had not been adopted to get increased the revenue from the revenue sources entrusted to the Council. Even after taking in to account the revenue grants of Rs. 100,606,364 received from the Provincial Council, the expenditure over the revenue amounted to Rs. 235,912 and it was observed that recurrent expenditure could not be settled even after it. A sum of Rs. 7,162,108 had been spent as equipment outlay during the year under review and the deficit in the Income and Expenditure account as at the end of the year was Rs. 6,231,529. A sum of Rs. 16,373,369 had been spent

exceeding the provision made by the annual budget. The budgeted revenue for the year under review was Rs. 171,831,500 and budgeted expenditure was Rs. 156,654,550. But the Council had not taken effort to perform activities within the limits and to incur expenditure for improvements of the Council and for the development activities. Also it was observed that the Council had not encouraged to prepare plans to fulfil development activities.

- (b) Even though provision had been made in the annual budget for the year under review for development proposals under 07 expenditure items, those proposals had not been implemented.
- (c) Three development proposals for which budget approval had not been obtained had been completed.

### **2.13 Internal Audit**

An adequate internal audit had not been carried out in the institution.

### **3. Systems and Controls**

Special attention of the Council is drawn to the following areas of systems and control.

- (a) Internal Control
- (b) Financial Control
- (c) Accounting
- (d) Revenue Administration
- (e) Assets Management
- (f) Stock Control
- (g) Debtors and Creditors Control