

**Matale Municipal Council**

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**Matale District**  
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**1. Financial Statements**

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**1:1 Presentation of Financial Statements**

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The financial statements for the year under review had been presented to audit on 23 March 2012 and the financial statements for the preceding year had been presented on 23 June 2011. The report of the Auditor General for the year under review was issued to the Mayor of the Council on 08 October 2012.

**1:2 Opinion**

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In view of the comments and observations appearing in my report forwarded to the Mayor, I am unable to express an opinion on the financial statements of the Matale Municipal Council for the year ended 31 December 2011 presented to audit.

**1:3 Comments on Financial Statements**

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**1:3:1 Accounting Deficiencies**

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- (a) The value of stocks of stores as at 31 December of the year under review had been understated in the accounts by Rs.2,671,948.
  
  - (b) Revenue amounting to Rs.327,356 received direct to the Bank from the Urban Development Authority had not been brought to account.
  
  - (c) According to the billing of the year under review,. the income from rates amounted to Rs.20,318,195, whilst the rates income had been shown as Rs.22,476,999 thus overstating the income in the accounts by Rs.2,158,804.

- (d) The Commission and tax concessions given for rates for the year under review aggregated Rs.2,745,002 whilst it had been accounted as Rs.4,837,181. Therefore, the rates income receivable for the year under review and the surplus for the year had been understated by Rs.2,092,179.
- (e) The tractor bearing No. RC-1113 received as donation during the year under review had not been valued and brought to account.
- (f) The total of the balances as per control accounts relating to 05 items of accounts aggregated Rs.165,795,039 whilst according to the subsidiary registers/ records the total of the balances of accounts amounted to Rs.159,515,685 thus indicating a difference of Rs.6,279,345.

### **1:3:2 Lack of Evidence for Audit**

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

Replies to 08 audit queries had not been furnished even by 31 December 2011. The value of quantifiable transactions relating to audit queries amounted to Rs.25,654,224.

#### **(b) Non-submission of Information to Audit**

Transactions totalling Rs.287,637,511 could not be satisfactorily vouched in audit due to the non-submission of required information to audit.

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

### **2:1 Financial Results**

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2011 amounted to Rs.13,814,652 as against the excess of recurrent expenditure over revenue amounting to R.235,911 for the preceding year.

## **2:2 Financial Control**

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- (a) Although 02 cheques valued at Rs.8,265 relating to the year 1992, 04 cheques valued at Rs.71,650 relating to the year 2009 and 01 cheque valued at Rs.2,000 relating to the year under review had been dishonoured, necessary action had not been taken on these cheques in terms of Financial Regulation 189 of the Republic of Sri Lanka.
- (b) According to Financial Regulation 371(c) of the Republic of Sri Lanka, advances given should be settled immediately after the completion of the respective activity. Nevertheless, advances amounting to Rs.2,586,042 given on 264 instances during the period 1994 to 2010 and advances amounting to Rs.54,291 given on 06 instances during the year under review had not been settled even by 31 December.
- (c) A provision of Rs.400,000 had been made under Item of Expenditure 13478 by the annual budget and the entire provision had been transferred by Transfer Note No. 7 on 28 September 2011, that is, a sum of Rs.300,000 to Item of Expenditure 12458 and a sum of Rs.100,000 to Item of Expenditure 13458. Meanwhile, a sum of Rs.4,837,181 had been spent on providing concession for rates under vote 13478 by Journal Entry No. FA/12/2011 without the approval of the Sabha while there was no provision available under this Item of Expenditure.

## **2:3 Revenue Administration**

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### **2:3:1 Estimated Revenue, Actual Revenue and Arrears of Revenue**

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Information relating to the estimated revenue, actual revenue and arrears of revenue in respect of the year under review, as presented by the Mayor is given below.

<b>Item of Revenue</b>	<b>Estimated</b>	<b>Actual</b>	<b>Accumulated Arrears as at 31 December</b>
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	<b>Rs.'000</b>	<b>Rs.'000</b>	<b>Rs.'000</b>
(i) Rates and Taxes	16,000	22,938	11,023
(ii) Lease Rent	6,327	15,001	4,694
(iii) Licence Fees	15,231	4,650	47
(iv) Other Revenue	144,524	153,215	13,463

### **2:3:2 Revenue Promotion**

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The revenue that could have been collected from the revenue sources empowered to the Council amounted to Rs.96,078,691 and the recurrent expenditure incurred on the functioning of the Council amounted to Rs.181,988,576. The employees salaries included in the above expenditure was Rs.120,876,768 and the revenue collected was not even sufficient to pay the salaries of the employees. Further, it appeared that necessary strategic steps had been taken to increase the revenue within the revenue sources empowered to the Council.

### **2:3:3 Court Fines and Stamp Fees**

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Money receivable as at 31 December 2011 from the Chief Secretary of the Provincial Council and other authorities are shown below.

	Rs.
(i) Court Fees	2,630,350
(ii) Stamp Fees	4,472,600

### **2:3:4 Water Charges**

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The water supply system owned by the Council had been vested with the National Water Supply and Drainage Board in year 2004 and the water charges outstanding amounting to Rs.4,802,812 existed at the time of vesting had not been vested with the Board. But, action had not been taken to recover these dues from the consumers.

**2:4 Idle and Underutilized Physical Resources**  
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Sample audit checks revealed that physical resources valued at Rs.1,090,455 had remained idle or underutilized.

**2:5 Transactions Not Supported by Adequate Authority**  
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- (a) The Council had constructed a Vehicle Service Station at Higgolla at an expense of Rs.501,451 during 2011. Nevertheless, action had not been taken to carry out a feasibility study, to prepare total cost estimates and to obtain the approval of the Planning Committee and the Council in respect of the above construction. Further, action had not been taken to pass by-laws and publish in the Gazette too. A private house had been constructed on a part of the land on which the service station had been constructed and action had not been taken to remove it.
- (b) A sum of Rs.262,627 had been paid to a private institution on 02 instances to repair and service the vehicle bearing No. KH 4277 without obtaining the approval as required by Section 9:3:1(b) of the Government Procurement Guidelines.
- (c) According to Paragraph 3:4 of the Procurement Guidelines, goods and services should be procured by following market competitive procedure. But, contrary to this requirement, 24 chairs valued at Rs.242,680 had been purchased during the year under review without calling for quotations. Further, according to Section 28 of the Municipal Councils Ordinance, no final action should be taken by the Council with regard to any money involving matter until the Standing Committee on Finance is pre-consider and report to the Council. But, the above purchase had been made without obtaining the approval of the Council or Mayor. A receipt obtained from the recipient or any supporting document had not been made available in terms of the provisions of Financial Regulation 264 of the Republic of Sri Lanka.

## **2:6 Irregular Transactions**

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(a) According to Public Finance Circular No. PF 437 dated 18 September 2009, insurance coverage for property owned by the Local Authorities should be obtained direct from the National Insurance Trust Fund or Sri Lanka Insurance Corporation Ltd. Nevertheless, the vehicles of the Council had been insured at a private insurance company.

(b) According to Paragraph 9:3:1(b) of the Government Procurement Guidelines, the approval of the Secretary to the Ministry should be obtained for repairs exceeding Rs.100,000. But, without acting to accordingly, a sum of Rs.447,013 had been spent on 03 instances to repair the vehicle bearing No. HJ 7628 by using spare parts. A report from the respective Mechanical Engineer had not been obtained to support that the repairs have been done satisfactorily in terms of letter No. CPC/CS/9/4/1/6/55 dated 25 July 2002 of the Chief Secretary of the Central Province, and a certificate had not been obtained to prove that the spare parts had been used for the vehicle. The running charts of this vehicle had not been submitted to audit since July 2009.

### **(c) Purchase of Clothing Material for Uniforms**

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Clothing material for uniforms for officers and employees of the Council had been purchased at Rs.378,217 from 04 institutions on 04 instances. The following matters were observed in this connection.

(i) The closing date and time for receiving quotations had been mentioned in the office copy of the letter calling for quotations regarding this particular purchase as at 10.00 a.m on 30 June 2010, whilst the closing date and time for receiving quotations had been mentioned in the letters sent to the quoting institutions as 10.00 a.m 09 July 2010.

- (ii) Specifications such as the type of material, quantity etc. had not been mentioned in detail while calling for quotations and therefore, the institutions which quoted prices had furnished various clothing materials as samples.
- (iii) The Purchasing Committee had selected and approved the samples without any basis and purchases had been made at higher prices on 02 instances without accepting lower prices.
- (iv) Although the Sample Selection Committee consisted of 04 persons, the recommendations for purchases had been made by participation of only two committee members.
- (v) 09 metres of KHAKI clothing material valued at Rs.4,536 had been purchased for a Revenue Inspector who had not yet reported for duty on transfer.
- (vi) A sum of Rs.278,216 had been approved for purchase of clothing materials for uniforms as per Council decision No. 08:01:25 dated 31 August 2010, whilst a sum of Rs.378,217 had been spent for the purpose thus spending a sum of Rs.100,000 more without the approval of the Council.
- (vii) Although 375 metres of orange colour clothing material valued at Rs.142,500 was available at the Stores, 375 metres valued at Rs.157,500 had again been purchased for the year 2011.

## **2:7 Identified Losses and Damages**

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A shortage of 99 items of stocks the value of which had not been computed was observed at sample audit checks; according to the information maintained by the Council and Goods Verification Reports.

## **2:8 Operating Inefficiencies**

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- (a) A stock shortage amounting to Rs.546,237 had been brought forward for over several years without proper action being taken.
  - (b) No action had been taken in respect of the balance of Rs.26,549 shown in the financial statements as money defrauded by the cashier and this amount had been carried forward from prior to year 2005.
  - (c) The Kandy Municipal Council had made payments based on a letter of the Chief Secretary of the Central Province for writing and checking Registers of Rates and Taxes in terms of the letter No. CPC/CMS/1/11/11/1 dated 19 April 2008 of the Chief Secretary and the Circular No. CPC/CLG/03/01 dated 04 November 1999 of the Commissioner of Local Government of the Central Province. Although the Kandy Municipal Council had based the said letter only for the payments for the year 2008, payment had been made for writing and checking Registers of Rates and Taxes for the year 2011 and for the following years based on the said letter. However, these registers had been written during the year 2003. But, a sum of Rs.153,292 had been paid for writing and checking these registers for the year 2009, 2010 and 2011.
  - (d) At a physical check carried out on 29 July 2011 on the deployment of employees of the Council on daily paid basis, it was observed that a female employee who should have worked at the V.T. Nanayakkara Garden had been working in a Government Quarters. Although the above employee had been deployed for work in the said Garden from 05 June 2010 to 29 July 2011, she had not worked in the Garden even for a single day and salaries amounting to Rs.286,495 i.e. a sum of Rs.135,180 for the period June to December 2010 and a sum of Rs.151,315 for January to July 2011 had been paid from the funds of the Council without obtaining any service.



- (e) A check carried out on 29 July 2011 on deployment of night watcher shift revealed that the watcher deployed for the Somasundaram Community Hall was not in the work place and it was further observed that he was working in a private house.
- (f) According to Paragraph 09 of the Accounts Circular No. 95/9 dated 27 December 1995 of the Chief Secretary of the Central Province, all necessary steps to recover the loan balances due from an officer who retires should be taken by the Accounts Unit in which the officer served at the time of his retirement. Nevertheless, action had not been taken to recover loan balances amounting to Rs.829,381 recoverable from 130 retired officers.
- (g) Action had not been taken to get reimbursement for the interest on property loans amounting to Rs.2,586,042 relating to the period 1994 to 2010 from the Commissioner of Local Government.
- (h) Although a provision of Rs.1,330,000 had been made for development work proposals under 03 Items of Expenditure by the annual budget for the year under review, a sum of Rs.1,041,500 from this provision had been transferred to purchase equipment for the auditorium of the Council without carrying out the intended purposes.

## **2.9 Recovery of House Rent**

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The following matters were observed.

- (a) Although the rent of the labour quarters should be assessed by the Department of Valuation, it had been done by a committee consisting of the Urban Engineer, Chief Revenue Inspector and the Divisional Health Inspector that had been appointed by the Secretary of the Urban Council. There were instances where the houses had been provided without entering into agreements.

(b) House rent and electricity bills amounting to Rs.45,487 was due from the officers and employees' who had left the government quarters owned by the Sabha and a sum of Rs.48,080 was due from retired labourers who had occupied the labour quarters at Higgolla owned by the Sabha. Action had not been taken to recover the dues.

(c) According to Paragraph 6.1 of Chapter xiv of the Establishments Code of the Democratic Socialist Republic of Sri Lanka, the maximum period of occupation of a non-listed government quarters is limited to 5 years. But, 06 instances were observed where these quarters had been occupied exceeding the said time limit.

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

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Special attention is needed in respect of the following areas of systems and controls.

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