

Matara Municipal Council
Matara District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 09 May 2014 and the financial statements for the preceding year had been presented on 22 May 2013. The report of the Auditor General for the year under review was issued to the Mayor of the Municipal Council on 23 December 2014.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Matara Municipal Council as at 31 December 2013 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

- (a) In terms of the Circular No. PED/54 dated 19 January 2010 of the Director General of Public Enterprises, the local government authorities should prepare financial statements in accordance with the Sri Lanka Public Sector Accounting Standards with effect from 01 January 2011. Nevertheless, those standards had not been complied with.
- (b) The cash flow statement had not been furnished along with the financial statements of the year under review.

1.3.2 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a.) Value of 8 assets purchased at a cost of Rs.206,357 by the Council during the year under review had not been brought to account.
- (b.) Although the stock shown in the financial statements amounted to Rs.9,748,721 by the end of the year under review, it was Rs.5,251,786 according to the schedules. Accordingly, a sum of Rs.4,496,935 had been overstated in the accounts.
- (c.) Although the purchased price of 195 units belonging to 20 items eliminated from the assets after auctioning on 22 October 2013 should have been credited to the Fixed Assets Account and debited to the Contributed Capital Input Income Account, it had not been so done.
- (d.) Although the receipts in excess amounted to Rs.19,697 according to the Employees' Loan Register of the year under review, that amount had not been brought to account under current liabilities.
- (e.) Although contribution of the Council Rs.2,658,411 made in respect of the contribution of the Employees Fund of 22 casual and substitute employees confirmed

in the year under review should be received by the Council again, that amount had not been shown under the current assets in the accounts.

- (f.) Value of 08 issuing orders amounting to Rs.277,550 issued from the stores of the Council, had been brought to account as an expenditure of the year under review.
- (g.) The value of 10 tricycles amounting to Rs.2,680,000 purchased by the Council under the Southern Province Development Plan during the year under review had not been brought to account under motor vehicles and carts.

1.3.3 Omission from the Accounts

Although the vehicle repair expenditure amounting to Rs.225,290 that had been approved at the Council meeting held on 05 June 2011 should be paid to the Matara Motor Service and Motor Works had not been paid in the year under review, provisions had not been made for debtors in respect of the said value.

1.3.4 Unreconciled Control Accounts

According to the financial statements presented as at end of the year under review, the value relating to 07 items of accounts amounted to Rs.51,918,049 and according to the details and schedules presented the value of those accounts was Rs.43,397,144 indicating a difference of Rs.8,520,905.

1.3.5 Receivable and Payable Accounts

- (a) The value of the receivable account balances older than a period of 01 year as at 31 December 2013 amounted to Rs.147,664,731.
- (b) The value of the payable account balances older than a period of 01 year as at 31 December 2013 amounted to Rs.199,546,027.
- (c) Seven accounts balances amounting to Rs.7,705,655 had been shown in the financial statements without being settled.

1.3.6 Lack of Evidence for Audit

Evidence relating to 09 items of accounts valued at Rs.284,689,953 had not been made available to audit.

1.3.7 Noncompliance with Laws, Rules and Regulations etc.

Instances of noncompliance with Laws, Rules and Regulations observed at the audit test check are given below.

Municipal Council Ordinance

- (i) Section 171 Formal action had not been taken to recover all the income receivable to the Municipal Council.
- (ii) Section 218 Having prepared statements indicating the nature and the amount of the receipts collected to the Municipal Council Fund and the payments made from the Fund within each financial year, the Mayor should forward them to the Council and the Minister in charge of the relevant subject. However, it had not taken place.

2. Financial and Operating Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2013 amounted to Rs.35,030,836 as compared with the excess of revenue over recurrent expenditure amounting to Rs.7,328,218 for the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue

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

Item of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
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	Rs.'000	Rs.'000	Rs.'000
(i.) Rates and Taxes	38,311	32,487	43,732
(ii.) Lease Rent	14,319	16,994	11,138
(iii.) Licence Fees	11,980	8,174	914
(iv.) Other Income	184,453	100,583	54,698

2.2.2 Rates and Taxes

The following observations are made.

- (a.) There were 17313 consumer locations comprising domestic, commercial, public institutions, religious places, technical and education institutions within the area of authority of the Council and the outstanding rates as at the end of the year under review was Rs.43,732,995. The percentage of the increase in the arrears was 23.7 per cent. Further, preparation of prohibitory orders on properties, signing of orders and serving warrants for the officers whose properties were prohibited had not taken place and as a result the outstanding amount had increased up to that level.
- (b.) There was no computer software package to indicate the arrears amount in each year, the amount recovered and the amount remained outstanding during year under review out of the billed amount.

- (c.) A sum of Rs.4,130,220 had been due from 17 state institutions and 22 commercial institutions of which the arrears were over Rs.50,000. Nevertheless, action had not been taken to recover that amount.
- (d.) Although the recovery of outstanding rates of 15 assessment divisions as mentioned bellow in each quarter in terms of Paragraph 252(1)(b) of the Municipal Council Ordinance had been entrusted to 14 tax collectors, the progress of the recovery of the rates had been unsatisfactory.

Quarter	Amount entrusted to be recovered	Amount recovered	Percentage of the recovery
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	Rs.		%
First Quarter	16,089,268	909,952	5.6
Second Quarter	28,454,218	Nil	-
Third Quarter	30,427,402	710,883	2.3
Fourth Quarter	35,580,461	198,649	0.55

			2.11
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Further, schedules for the recovery of outstanding rates of 06 divisions during the first and second quarters of the year under review had not been made available.

- (e) Although the area of authority of the Council had been developed with the construction of new buildings, the delays in the assessment of the properties had affected the recovery of rates from those properties. In parallel to the development occurred with the construction of buildings disposal of garbage had increased and as a result Council had to incurred a colossal expenditure for disposal of garbage. Nevertheless, attention of the Council had not been focused on the increase of the income of the rates.

2.2.3 Court Fines and Stamp Fees

Stamp fees amounting to Rs.52,478,134 had been receivable from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2013.

3. Operating Review **Management Inefficiencies**

The following observations are made.

- (a) A sum of Rs.331,219 granted to the employees who retired, died and vacated the service a number of years ago as Festival Advance, Distress Loan, Special and Flood Advances remained recoverable as at the end of the year under review. Action had not been taken to recover those loans from the pension gratuity or death gratuity at the time of retirement of these employees and it had not been possible to submit the age analysis reports relating to the loans.

(b) Although a sum of Rs.1,587,558 was recoverable from 96 employees who had obtained no-pay leave and half pay leave in the year under review, action had not been taken to recover that amount.

3.2 Operating Inefficiencie

In terms of Section 11.5 of the Public Administration Circular No.08/2005 dated 31 March 2013, the difference between the bank interest rate applicable to the property loan and 4 per cent interest rate recovered from the employee is borne by the Government and accordingly, a sum of Rs. 1, 391,714 receivable to the Council as at the end of the year under review had not been got reimbursed.

3.3 Imposition of Tax on Sales of Lands

The following observations are made.

In terms of the Sub-section 247 (e) of the Municipal Council Ordinance, it had been adopted in the Council that, if any land situated within the area of authority of the Council is sold, a 1 per cent tax from the proceeds of the relevant sale should be recovered. However, as a Register of Revenue in support of the recovery of 1 per cent tax income by the Council had not been maintained, it could not be established as to whether the tax had been properly recovered from the land sales conducted within the area of authority.

3.4 Human Resource Management

The details on the position of the cadre of the Council as at 31 December 2013 are given below.

Category of Employees	Approved	Actual	Vacant	Excess
Executive	09	04	05	
Secondary	138	92	46	
Primary	343	320	23	
Casual/Temporary/ Contract basis	-	214		214
	490	630	74	214
	=====	=====	=====	=====

A sum of Rs. 94,399,000 had been reimbursed by the Commissioner of Local Government as the salaries of staff and the Members' allowances in the year under review. The expenditure on salaries and Members' allowances for the year amounted to Rs.103,555,953, thus resulting in an additional expenditure of Rs. 9,156,953for the Sabha Fund

3.5 Solid Waste Management

The following observations are made in connection with the construction of Composts yard at the Kandaketiya Watta land at Kotawila owned by the Council.

- (i) The provision made amounted to Rs.13,513,230 and the expenditure amounted to Rs.6,164,145. Accordingly, the savings had been Rs.7,349,085.
- (ii) Despite the ability to manufacture 3.5 Tons of fertilizers per day, due to the issues arisen with regard to the sale, the manufacturing had been confined. Nevertheless, action had not been taken to increase the sales.

4. Accountability and Good Governance **Budgetary Control**

According to the budget presented for the year under review, a significant variance was observed between the budgeted and actual income and expenditure. As such the budget had not been made use of as an effective instrument of management control

5. Systems and Controls

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

- (a.) Accounting
- (b.) Revenue Administration
- (c.) Assets Management