

Matale Municipal Council

Matale District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 29 April 2016 and the financial statements for the preceding year had been presented on 28 April 2015. The report of the Auditor General for the year under review had been forwarded to Municipal Commissioner on 15 August 2016.

1.2 Opinion

In my opinion, except for the effects on the financial statements of the matters shown in paragraph 1.3 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 2015 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 Accounting Deficiencies

- (a) Audit fees payable for 1985 to 2014 had been overstated in the accounts by Rs.215,051
- (b) Other revenues and the revenue from stamp fees receivable had been understated in the financial statements by Rs.849,540.
- (c) The expenditure of Rs.278,535 for the year 2015 had not been brought to account on accrual basis. As a result, the expenditure of the year and the creditors had been understated by Rs.278,535
- (d) Licence fees, tax and other revenue totally valued at Rs.122,850 which could be brought to account as revenue of the Sabha had not been identified and adjusted in the accounts. Instead, this had been retained as deposits.
- (e) The water supply system of the Sabha had been vested with the National Water Supply and Drainage Board in 2001. The employees' loans of Rs.80,091 already paid to employees at that time and the compensation of Rs.784,420 due to the Sabha from a contractor in 2004, both totalling Rs.864,511 had been brought to account as advances instead of being shown under debtors. As a result, the debtors' balances and the balances

of advances of the year under review had each been understated and overstated by Rs.864,511 respectively in the accounts.

- (f) Four items of fixed assets valued at Rs.53,882 had been purchased in 2015. These had not been capitalized. A stock of ayurvedic drugs valued at Rs.19,173 too had not been brought to accounts.
- (g) Action had not been taken to delete from the accounts, the cost of 07 vehicles amounting to Rs.1,665,568 which had been auctioned in 2015 and the previous years along with a motor cycle and 02 machines, the cost or purchase price of which could not be identified.
- (h) Aid given for work in 2015 amounting to Rs.16,822,101 and the capital expenditure of Rs.27,470,996 had been understated.
- (i) Receivables and payables amounting to Rs.8,200,000 for the year 2015 on behalf of Pilisaru Project had not been brought to account. under debtors and creditors. As a result, the balances of debtors and creditors had been understated by similar amounts.
- (j) Four works estimated at a value of Rs.1,028,685 had not been carried out. However, these had been shown as creditors resulting in an overstatement of creditors' balance.

1.3.2 Unreconciled Control Accounts

A difference of Rs.1,119,673 was observed between the balances of 5 items of accounts aggregating Rs.319,490,010 as per financial statements and the balances appearing in the related subsidiary registers and reports.

1.3.3 Accounts Receivable

The balances of 05 accounts receivable as at end of 2015 aggregated Rs.57,509,898. Balances of Rs.4,802,812 of over 05 years had been included in this.

1.3.4 Accounts Payable

The balances of 05 accounts payable as at end of 2015 aggregated Rs.106,467,537. Balances of Rs.39,133,182 of over 03 years had been included in this.

1.3.5 Lack of Evidence for Audit

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- (a) Transactions aggregating Rs.113,778,479 could not be satisfactorily vouched in audit due to non rendition of necessary information for audit.

- (b) A sum of Rs.118,435 had been spent on fuel for performing a distance of 9196 kilometres on 41 instances by 2 vehicles on behalf of Municipal Councilors. Meanwhile, acceptable reasons to show that those vehicles had been used for duties pertaining to the Council had not been furnished to audit.

1.3.6 Non-compliance with Laws, Rules, Regulations etc.,

The following instances of non-compliance with laws, rules, regulations etc., were observed in audit.

Reference to Laws, Rules, Regulations etc.,

Non-compliance

- (a) Establishments Code of the Republic of Sri Lanka

Chapter XXIV
Sections 4.1, 4.2 and 4.4

Action had not been taken to recover loan balances totalling Rs.553,807 due from 132 officers who had retired during the period 1999 to 2014.

- (b) Financial Regulations of the Republic of Sri Lanka

571(2)

Action had not been taken with reference to 27 miscellaneous deposits totally valued at Rs.682,747 for the period 28 March 2008 to 08 December 2013 and the 10 per cent retentions of Rs.1,206,522 of over 2 years pertaining to work completed by the Sabha.

- (c) Public Administration Circular No. 25/2014 of 12 November 2014

Two employees had been permanently appointed on 18 November 2014, who have not been confirmed as completed a period of continuous period of 180 days, with reference to the register of attendance, details of salaries paid and personal files maintained at the Council, Salaries were being paid to them from the funds of the Sabha by July 2016.

- (d) Pensions Circular No.04/2010 of 25 May 2010 and No.04/2011 of 01 November 2011 (amendment).

The Council's contributions of Rs.974,498 of 15 employees due to the Public Service Provident Fund for a period of 1 to 7 years and the Councils contributions of Rs.4,898,065 of 35 employees who had been integrated to the provincial public service in 2105 for a period of 01 to 10 months had not

been remitted to the Department of Pensions as per circular instructions. Instead, these had been retained as deposits.

- (e) Paragraph 4.3 and 2.2 of the Pensions Circular No. 02/2011 of 24 February 2011 and No.02/2011 of 20 July 2011 (Amendment 01) Balances of contributions payable to the Local Government Pensions from prior to 2013 amounted to Rs.16,024,895.
- (f) Paragraph 8.1 of the Circular No. 1984/19 of 20 November 1984 of the Commissioner of Local Government Incentive allowances of Rs.323,106 had been paid for collection of arrears of rates and taxes contravening the provisions in the circular. Incentive allowances of Rs.102,916 paid to 09 officers who cannot be classified under this category as per circular had been included in this.

2. Financial 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 2015 amounted to Rs.25,024,503 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.15,503,620 showing an improvement in financial results of the year under review by Rs.9,520,883.

2.2 Analytical Financial Review

The current ratios of the year under review and the 2 previous years were not satisfactory which showed that the Sabha was not in possession of adequate current assets to settle the current liabilities.

2.3 Revenue Administration

2.3.1 Rates and Taxes

The balances of rates and taxes as at 31 December 2015 amounted to Rs.24,265,610 This included the balances of rates and taxes of Rs.23,308,753 further receivable by 30 June 2016.

2.3.2 Water Charges

The balance of water charges recoverable at the time of vesting the Water Supply System to the National Water Supply and Drainage Board by the Sabha in 2001 amounted to Rs.4,802,212. Action had not been taken to recover this even by end of the year under review.

2.3.3 Court Fines and Stamp Fees

Court fines of Rs.1,424,944 and stamp fees of Rs.24,892,330 were due from the Chief Secretary of the Provincial Council and other authorities at 31 December of the year under review.

2.3.4 Other Revenue

The Sabha had received revenue amounting to Rs.2,206,275 Rs.1,441,650 and Rs.1,086,825 respectively from 2013 to the year under review to install and maintain sports equipment at the Kiddies Paradise. Children's Park which belongs to the Sabha and for usage of those equipment. The Sabha had received revenue amounting to Rs.2,206,275 Rs1,441,650 and Rs1,086,825 respectively from 2013 to the year under review But, it was observed that there was a rapid decline in revenue. The Sabha had not paid attention to review the decrease in revenue w and to increase the revenue.

2.4 Surcharge

A sum of Rs.45,861 was due as surcharge as at 31 December 2015 as per surcharge imposed in terms of provisions in the Municipal Council's Ordinance (Chapter 252).

3. Operating Review

3.1 Management Inefficiencies

The following matters were observed.

- (a) Tender deposits aggregating Rs.123,150 deposited on 27 instances from 12 June 1998 to 13 December 2007 had been retained in the Deposit Account for 08 to 15 years.
- (b) Action had not been taken by the Sabha to acquire ownership of 03 machines valued at Rs.26,598,040 received as donation in 2015.
- (c) Action had not been taken to confirm the ownership of the Thamagawa Holiday Resort and the Ambagahamula Trade Complex used by the Municipal Council by a title deed or a vesting order.
- (d) Advances amounting to Rs.209.875 had been granted to external parties on 15 instances from 1994 to 31 December 2014 and advances amounting to Rs.322,118 had been granted to officers of the Sabha on 24 instances from 2003 to 2014. Action had not been taken to settle these even by 31 May 2016. Advances amounting to Rs.47.544 given to an officer on 12 instances at Rs.3,962 per instance too had been included in this balance.

- (e) Action had not been taken to settle the audit fees of Rs.3,503,344 for the period 1985 to 2013 even by June 2016. Balances of Rs.3,114,737 relating to a period 2 to 28 years since the date of billing also had been included in this.
- (f) Loan balances of Rs.505,050 were due from 3 officers of the Sabha who had gone on change of station transfers. Action had not been taken to recover these balances.
- (g) The pension of a retired labourer of the Council for the period January 2012 to May 2014 amounting to Rs.87,120 had been retained in the General Deposit Account as he is domiciled in India. Action had not been taken to pay the amount or to bring it to the revenue of the Council.
- (h) Unidentified creditors' balances as at 31 December 2015 amounted to Rs.8,699,455. This continued to be brought forward for many years and action had not been taken to identify the parties to whom payments should be made and to settle the balances.
- (i) Twenty two balances amounting to Rs.7,605,288 relating to 2013 and 2014 had been brought to account under creditors. These had not been settled even by 10 June 2016.

3.2 Irregular Transactions

Tenders had been called for, in the year 1988 to construct a trade complex in a land at Nagolla which belongs to the Matala Municipal Council without the written consent of the President in terms of Paragraph (iii) of sub Section 36(i) of (Chapter 252) of the Municipal Councils Ordinance. 11 blocks of land had been given on lease for an aggregated amount of Rs.446,117 to 10 persons by calling for tenders without entering into proper agreements as required by the Circular No.1977/2 of 12 January 1977 of the Commissioner of Local Government.

The Municipal Council had allotted Assessment numbers to 09 out of 11 lessees for the buildings constructed without approving the plans. The assessment rent for the land had not been recovered even by end of the year under review.

3.3 Delay in Projects

Construction of a Public Market at the Matala Railway Goods Shed

Action had not been taken to cancel the old agreements or to enter into new agreements with the Department of Railways before commencing the modernization of the Matala Railway goods Shed by renovating it for usage as a public market for payment hawkers. It was informed that the Memorandum of Understanding entered into among the Mayor, Municipal Secretary, the Chairman and the Director General of the Urban Development Authority in the year 2013 would cease when all the construction activities are completed within 12 months and handed over as referred to in Section 11 of the undated Memorandum of Understanding. But, action had not been

taken to extend the period of agreement as per section 13 10 items of work with an estimated value of Rs.1,615,003 had not been completed even by end of December 2015.

3.4 Solid Waste Material Management

The following matters are observed.

- (a) The garbage collected within the authoritative area of the Sabha had been disposed of, in a land named Wariyapola Waththa. As a result, the residents of the area had filed a case against the Council for which a sum of Rs.2,880,728 had been paid as legal fees from 2008 to 2015. A judgment regarding the case had not been delivered even by end the year under review. In order to solve this problem, the disposal of garbage had been entrusted to a private institution under the Supply of Services. Agreement No.477 dated 31 December 2014, without using the resources of the Council for garbage management. According to that agreement, garbage should not be disposed of in the place where it had already been disposed of, However, garbage had been disposed of, by the institution in the same place where there were problems. In spite of the breach of conditions in the agreement, the entire sum of Rs.5,640,826 had been paid to the institution concerned. during the year 2015.
- (b) The land where the compost division had been established at Dola Road constructed with the UNESCAP provision of 4,500,000 belonged to the Department of Railways. Action had not been taken to acquire the ownership of the land. Instead, the division had been given on lease to an institution named "Sevanatha" for 30 years from 01 May 2007. According to the agreement, the agreement should be renewed every 5 years However, the agreement had not been renewed and the rates revised after the lapse of 5 years.

4. Accountability and Good Governance

4.1 Budgetary Control

Significant variances were observed between the budgeted and actual revenue and expenditure consequent to the transfer of provisions among items of revenue and expenditure during the year under review showing that the budget had not been utilized as an effective instrument of management control.

- (a) None of the estimated revenue of Rs.2,050,000 relating to 02 items of revenue had been recovered. Variances ranging from 42 to 86 per cent were observed between the estimated and actual revenue of 07 items of revenue.
- (b) None of the provision of Rs.6,455,500 made for 46 objects had been made use of. Variances of 32 to 99 per cent existed between the net provision and the actual expenditure relating to 79 objects.

- (c) The excess of expenditure over the approved budgeted provision of 23 objects during the year under review amounted to Rs.31,446,159. The approval of the Mayor had not been obtained in this regard it terms of Section 216 of the Municipal Councils Ordinance.

4.2 Internal Audit

A continuous independent internal audit procedure had not been maintained in the Council in terms of Section 13 of Part III of the Accepted Interim Article published in the Gazette Extra Ordinary No.541/17 of 20 January 1989.

4.3 Audit and Management Committees

Although Audit and Management Committees had been established in terms of the letter No.CPC/CLG/1/9/1/4 of 08 August 2014 of the Commissioner of Local Government, only one meeting of the Committee had been held during the year under review.

4.4 Assets Management

Idle and Under Utilized Assets

The following matters are observed.

- (a) Action had not been taken to repair and make use of 02 vehicles valued at Rs.340,000 which were not in running conditions.
- (b) The block stone project commenced in 2011 had ceased functioning on 08 July 2013. The block stone producing machine valued at Rs.168,789 used for the purpose remained idle.

5. Systems and Controls

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

- (a) Accounting
- (b) Revenue Administration
- (c) Debtors' and Creditors' Control
- (d) Assets Management