

Matara Municipal Council

Matara District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2018 had been presented for audit on 27 March 2019 and the summary report of the Auditor General on the financial statements and the detailed management report had been forwarded to the Chairman on 25 May 2019 and 31 May 2019 respectively.

1.2 Qualified Opinion

In my opinion, except for the effect of matters described in the basis for qualified opinion section 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 2018 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Basis for Qualified Opinion

(a) Accounting Deficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer
(i) Stock of ayurveda medicine amounting to Rs.256,483 and the remaining stock valued at Rs.526,812 at the vehicle cleaning centre as at end of the year under review had not been brought to account.	Should be correctly brought to account.	Direct purchases are used for direct usage.
(ii) Provision for creditors amounting to Rs.200,000 had been made by end of the year under review for the proposed purchase of Daham Pasal equipment for Viharasthanas	Should be correctly brought to account.	Action will be taken to delete from creditors.

(iii) A sum of Rs.6,480,445 had been provided less under creditors' for expenditure on construction work as at end of the year under review.	Should be correctly brought to account.	The estimated amount for the work had been provided. Action will be taken to delete from the register of creditors/debtors.
(iv) Work debtors receivable as at end of the year under review had been understated in the accounts by Rs.3,416,811.	Should be correctly brought to account.	The estimated amount for the work had been provided. Action will be taken to delete from the Register of creditors/debtors.
(v) Provision for creditors had not been made for contributions aggregating Rs.45,992,645 payable to the Local Government Pensions Fund as at end of the year under review.	Should be correctly brought to account.	Will be referred to the Department of Pensions and action will be taken.
(vi) The interest on loan of Rs.397,506 paid for the loan obtained from the Local Loans and Development Fund during the year under review had not been brought to account.	Should be correctly brought to account.	Interest will be brought to account after obtaining the bank reconciliation statement.
(vii) Office equipment amounting to Rs.759,550 purchased during the year under review had not been accounted under fixed assets.	All fixed assets should be brought to account.	Action will be taken to rectify in 2019.
(viii) The cost of fixed assets disposed of by auction during the previous year had been specifically identified and deleted in the accounts on the first in first out basis.	Should be correctly brought to account.	There was no evidence and as such the disposals had been made on the basis of old values.

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| (ix) | Stamps fees revenue receivable for 2015 and 2016 had been understated in the accounts by Rs.331,829. | Should be correctly brought to account. | There was no evidence and as such the disposals had been made on the basis of old values. |
| (x) | Five vehicles and machinery totally valued at Rs.13,701,000 and 04 vehicles and machinery, the value of which had not been identified had not been brought to account under fixed assets. | All fixed assets should be brought to account. | Action will be taken to rectify. |

(b) Unreconciled Accounts

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
Differences aggregating Rs.26,773,192 existed between the balances of 10 accounts aggregating Rs.153,788,163 as per financial statements and the related balances shown in the subsidiary registers/schedules.	Action should be taken to reconcile the differences in the related balances and to rectify accounts.	Action will be taken to rectify subsequent to identification.

(c) Lack of Necessary Documentary Evidence for Audit

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
Eight items of accounts aggregating Rs.108,166,858 could not be satisfactorily vouched in audit due to non rendition of necessary information.	Evidence to confirm balances of accounts shown in the financial statements should be furnished.	Action will be taken to update the register of fixed assets, to obtain and furnish certificates of confirmations and to correctly furnish the detailed schedules.

1.4 Non compliance

1.4.1 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with laws, rules, regulations and management decisions appear below.

Reference to Laws, Rules Regulations and Management Decisions	Non-compliance	Recommendation	Comments of the Accounting Officer
(a) Section 254 (a) of the Municipal Councils Ordinance.	It is the duty of the Municipal Commissioner to take all steps to recover all taxes, fines and penalties due to the Council and to credit it to the Municipal Council Fund. However, action had not been taken to recover the arrears of Rs.443,800,641 as at end of the previous year.	Action should be taken according to the provisions in the Act.	Letters had been sent to the relevant institutions to obtain arrears of stamp fees, court fines due and arrears due on street lamps. Relevant steps had been taken to recover the other revenue.
(b) Public Administration Circular No.30/2016 of 29 December 2016.	Consumption of fuel by 38 vehicles of the Municipal Council had not been tested.	Action should be taken according to the circular.	Action will be taken to carry out fuel tests in June and July 2019
(c) State Accounts circular No.2/2015 of 10 July 2015.	Disposal of 92 vehicles valued at Rs.11,278,000 kept without being used had not been done even by 03 May 2019.	Action should be taken according to the circular.	Action will be taken for disposal by auction.

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 2018 amounted to Rs.132,779,713 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.157,500,775.

2.2 Financial Control

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) Action had not been taken in terms of Financial Regulation 189 of the Republic of Sri Lanka with regard to 10 dishonoured cheques of Rs.34,943 relating to a period of 10 to 27 years.	Action should be taken according to the Financial Regulation.	Unable to find out specified information. As such, will be referred to the Council for future action.
(b) As a result of including confiscated money under the current assets, fictitious assets of Rs.169,360 had been included in the current assets. Further action had not been taken regarding the amount confiscated.	Action should be taken to rectify.	There are no clear information regarding these confiscations. As such, these balances continue from previous years.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Revenue Billed, Revenue Collected and the Arrears of Revenue

Information relating to the estimated revenue, revenue billed, revenue collected and the arrears of revenue furnished for the year under review and the previous year appear below.

Source of Revenue	2018				2017			
	Estimated Revenue	Revenue Billed	Revenue Collected	Total arrears as at 31 December	Estimated Revenue	Revenue Billed	Revenue Collected	Total arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	41,384,570	38,481,722	43,527,300	56,075,504	37,073,065	38,595,208	37,544,395	60,368,667
Rent	26,381,440	30,606,691	29,824,618	58,759,275	27,671,963	28,038,858	27,203,800	63,668,754
Licence Fees	26,874,700	30,135,817	25,683,882	1,386,660	18,802,100	27,103,902	24,387,784	1,386,660
Other Revenue	93,542,300	113,606,910	4,791,667	327,579,202	84,102,800	118,580,281	5,514,055	236,999,202
Total	188,183,010	212,831,140	103,827,467	443,800,641	167,649,928	212,318,249	94,650,034	362,423,283

2.3.2 Performance in collection of Revenue

Audit Observation	Recommendation	Comments of the Accounting Officer
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<p>The estimated revenue of the year under review amounted to Rs.188,183,010. The arrears at the commencement of the year under review amounting to Rs.362,423,283 and the billings of Rs.212,831,140 had resulted in receivables of Rs.575,254,423. A sum of Rs.103,827,467 had been totally recovered during the year. As such, the arrears receivable as at 31 December of the year under review amounted to Rs.443,800,641.</p>	<p>Recovery of arrears of revenue should be intensified.</p>	<p>Arrears receivable as at end of the year under review had been shown as Rs.443,800,641. Of these, stamp fees, court fines receivable and dues on street lamps amounts to a bigger sum of Rs.333,686,089. The other revenue collections shows clear progress as compared with the billings.</p>

2.3.3 Rates and Taxes

Audit Observation	Recommendation	Comments of the Accounting Officer
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<p>Rates</p> <p>-----</p> <p>The balance at the commencement amounting to Rs.59,939,093 added to the billings of the year had resulted in receivables of Rs.96,635,529. Total recoveries during the year amounted to Rs.40,780,935 representing 42 per cent resulting in an extensive arrears of Rs.55,854,594 as at end of the year.</p>	<p>Recovery of arrears of revenue should be intensified.</p>	<p>This had occurred due to accounting errors. Will be identified and rectified.</p>

2.3.4 Rent

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
Stall Rent ----- The balance at the commencement amounting to Rs.51,760,590 added to the billings of the year of Rs.22,411,271 had resulted in receivables of Rs.74,171,861. Total recoveries during the year amounted to Rs.20,600,086 representing 27 per cent resulting in a higher level of arrears of Rs.53,571,775 as at end of the year.	Recovery of arrears of rent should be intensified.	Action is being taken to recover arrears.

2.3.5 Licence Fees

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Accounting Officer -----
(a) Trade Tax ----- The balance at the commencement amounting to Rs.812,900 added to the billings of the year of Rs.6,340,400 had resulted In receivables of Rs.7,153,300. The total recoveries during the year amounted to Rs.5,483,550 resulting in an arrears of Rs.1,669,750 as at end of the year.	Recovery of arrears of revenue should be intensified.	Out of the arrears, 48 per cent had been recovered. Legal action had been taken to recover the balance.
(b) Notice Board Fees ----- The arrears at the commencement amounting to Rs.3,233,175 added to the billings of the year amounting to Rs.18,522,908 had resulted in receivables of Rs.21,756,083. Total recoveries during the year amounted to Rs.14,927,823 representing 25 per cent resulting in an arrears of Rs.6,828,260 as at end of the year.	Recovery of arrears of revenue should be intensified.	Out of the arrears 48 per cent had been recovered. Legal action will be taken regarding the balance.

2.3.6 Other Revenue

Audit Observation	Recommendation	Comments of the Accounting Officer
<i>Court Fines and Stamp Fees</i>		
Court fines of Rs.764,995 and stamp fees of Rs.332,178,721 were due from the Chief Secretary of the Provincial Council and other authorities at the end of the year under review.	Recovery of court fines and stamp fees should be intensified.	Arrears of court fines is due to be received in future. Receipt of stamp fees had been limited and as such it appears that the Council may not get it.

3. Operating Review

3.1 Performance

The following matters were revealed regarding functions to be performed by the Council in terms of Section 4 of the Municipal Councils Ordinance such as, regularization and administration of public health, public utility services and public highways, health of the public, facilities and welfare etc.

Sustainable Development Target

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) Delays in Execution of Tasks		
An agreement had been entered into with a private institution on 08 August 2014 to commence a project valued at Rs.249,834,000 to manufacture bio-gas from garbage and to generate electricity. The project which was to be completed on 01 January 2015 could not be completed even by end of the year under review due to the following reasons.	Necessary arrangements should be made and completion of project should be intensified.	Construction activities of the project had been halted on various instances. The investment company had not received the legal documents and approval needed for the project. As such, the construction activities of the project had been abandoned halfway since February 2018.

- (i) A letter of intent from the Electricity Board showing consent to purchase electricity had not been obtained.
- (ii) An energy permit had not been obtained upto now from the Atomic Energy Authority allowing permission for electricity generation.
- (iii) A power purchasing agreement had not been entered into with the Electricity Board.
- (iv) The price per unit of electricity expected to be sold as per project report in terms of the agreement entered into had not been quoted. As a result, the consent for sale of electricity had ended in a problem.
- (v) Lack of a clause specifying conditions in the second agreement regarding the time frame within which the construction of this project would be completed
- (vi) A sum of Rs.64,356,400 had been released without any technical evaluation been made by the Central Environmental Authority.

(b) Solid Waste Material Management

The amount spent during the year under review for collection of garbage and waste material management aggregated Rs.214,700,340 made up of Rs.112,261,450 and Rs.102,438,890 respectively. The garbage collected within the area had been identified as 9,414 tractor load. Of this, 8,810 tractor load had been disposed of, in the environment and 604 tractor load only had been recycled. 27 to 39 per cent of the operating revenue had been incurred on

Garbage should be properly disposed of.

Expenditure should be incurred according to No.129 of the Municipal Councils Ordinance.

expenditure from 2014 to the year under review. However, management had not been carried out to minimize the daily collection of garbage.

(c) Environmental Problems

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| (i) Degradable garbage of 30,725 tractor loads which could have been recycled and non degradable garbage of 1,661 tractor loads both totalling 32,391 tractor loads had been disposed of, at Kotawila garbage sector in a non methodical and irregular manner. This had created a garbage cliff and in order to diffuse this garbage cliff, evenly an expenditure of Rs.1,305,907 on fuel for the Becko Machine of the Council for 2,703 hours and a payment of Rs.2,632,745 for a private becko machine had been paid from 2015 to October of the year under review. | Disposal of garbage should be done without causing environmental problems. | The compost sector which existed previously and the garbage segregation place had been handed over to a private institution. As a result, production of compost had been stopped. The problem of the garbage cliff would be solved after completion of construction. The becko machine of the Council was inadequate and as such a private becko machine had been hired. |
| (ii) The risk of dengue diseases had increased with the origination of the garbage cliff. The protests from the public had developed by and by as a result of the fluid originating from the garbage mixing with the environment resulting in environmental pollution, air pollution and mixing of unclean water in the stream polluting the stream roots. | Disposal of garbage should be done without causing environmental problems. | It had been planned to diffuse the heap of garbage fumigating every 3 days and to purchase chemical spraying machine to control bad smell. |

3.2 Management Inefficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>A sum of Rs.2,680,000 had been spent to purchase 10 motor cycles for the Solid Waste Material Management Programme during 2012.06 of those motor cycles had been kept aside as at end of the year under review due to various faults. Purchase of spare parts, servicing etc., had not been taken into consideration during the purchase of these motor cycles. As a result, 06 motor cycles valued at Rs.1,608,000 kept aside were getting corroded due to lack of spare parts.</p>	<p>All aspects should be considered during purchases. Necessary action should be taken against those who were responsible.</p>	<p>There was no response from the agency for repairs. Action will be taken in future after testings carried out by examiners of motor vehicles.</p>

3.3 Human Resources Management

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>(a) Vacancies and Excesses in the Cadre</p> <p>Action had not been taken even by end of the year under review to fill 03 posts in the senior level, 01 post in the tertiary level and 20 posts in the secondary level and 73 posts in the primary level and to regularize 131 excesses including 09 additional posts existent in the actual cadre.</p>	<p>Action should be taken to fill vacancies in the cadre and to regularize excesses.</p>	<p>Action is being taken to fill vacancies in the primary level. Approval had been sought from the Commissioner of Local Government for the additional posts. Recruitments for 122 posts on contract basis had been made by the Mayor by virtue of powers vested with him in terms of Sub Section (1)(a) of Section 40 of the Municipal Councils Ordinance.</p>

(b) Employees' Loans

Audit Observation

A sum of Rs.330,229 was recoverable by end of the year under review from employees who had retired, expired, vacated posts and gone on transfers 10 years ago.

Recommendation

Action should be taken to recover employees' loans promptly.

Comments of the Accounting Officer

Irrecoverable loan balances over 10 years had been referred to the Hon. Minister in charge of the subject for approval to write off from the books as per Council's decision.

3.4 Operating Inefficiencies

Audit Observation

(a) A sum of Rs.582,790 had been spent on 4,200 litres of fuel for usage of 22 grass cutting machines during the year under review. A register had not been maintained in this connection and as such fuel issued to each machine, how long it had been used and the particulars regarding the balance of fuel could not be computed.

Special forms for issue of fuel and a register including particulars of usage of fuel by each vehicle had not been maintained.

(b) The Municipal Council possessed 203 vehicles with insurance coverage during the year under review. Duties relating to those 39 vehicles had been assigned to

Recommendation

Distribution of fuel should be carried out with proper internal control.

Vehicles should be assigned with letters in writing.

Comments of the Accounting Officer

A specimen form had been introduced for issue of fuel. A register of fuel had been introduced from May 2019. It is being updated and maintained now.

A census of vehicles will be done and deficiencies, other than technical, will be identified and action will be taken to hand over in writing by preparing an

permanent drivers without handing over letters.

appropriate specimen form.

(c) The expenditure incurred on fuel during the year under review amounted to Rs.9,619,157. The maximum limit of fuel usable for vehicles on duty had not been specified. Efforts had been made to obtain special approval whenever the limit had exceeded which shows that action had not been taken to control consumption of fuel.

Action had not been taken to control consumption of fuel by attempting to obtain special approval whenever the limits had exceeded.

Action will be taken in future to maintain maximum limits for fuel and to obtain special approval whenever the limit exceeds.

3.5 Irregular Transactions

Audit Observation

The District Pricing Committee had informed that tar should be purchased from the Petroleum Corporation. However, a sum of Rs.2,025,000 had been spent to purchase 175 barrels of tar from a private institution during the year under review and the previous year.

Recommendation

Action should be taken according to the decision of the pricing committee. Approval should be obtained for any deviations.

Comments of the Accounting Officer

Purchases had been made on the approval of the procurement committee and the administrative committee.

3.6 Identified Losses

Audit Observation

A loss of Rs.678,018 had been caused to the funds of the Council due to purchases made in excess of the prices approved by the District Pricing Committee while purchasing 05 items of material for work carried out on direct labour basis.

Recommendation

Purchases should be made on the basis of district prices. Approval should be obtained for any deviations.

Comments of the Accounting Officer

There were no institutions to supply block stones on district prices.

3.7 Contract Administration

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>(a) Various building materials had been purchased for Rs.6,177,479 to carry out 43 works on direct labour basis during the year under review. Of these, materials valued at Rs.5,968,045 had been used. The following activities had not been carried out and as such it could not be confirmed in audit whether the materials and labour for the work carried out on direct labour basis had been properly utilized.</p> <ul style="list-style-type: none">(i) Non-availability of estimates and labour analysis reports for each work.(ii) Non-inclusion of copies of issue orders of materials issued from stores for the related work, in the job file.(iii) Check rolls of skilled and unskilled labour for each work not being annexed to the job file.(iv) Work completion reports had not been prepared at end of the work and the balance materials returned to the stores.	<p>All details should be included in the job files. Proper estimates should be prepared.</p>	<p>Estimates for materials and labour required for items of work are being prepared. Copies of issue orders of work are immediately filed of record. Action had already been taken to include checkrolls of skilled and unskilled labour in the work files. Work completion reports will be annexed to the related files after completion of work. Work completion reports would be prepared and annexed to the file in the case of works where such reports are not available.</p>
<p>(b) Three roads had been concreted for a distance of 16.23 cubic metres during the year under review. However,</p>	<p>Strength testing report should be obtained within the required time consequent to completion</p>	<p>Action will be taken in future to obtain strength testing reports.</p>

the strength of the road had not been tested and a report obtained within the required period. of work.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
Savings in 04 objects aggregated Rs.57,627,766 which ranged from 12 to 46 per cent.	Feasible estimates should be prepared	Expenditure had been incurred within the limits of the budget, on an overall basis.

4.2 Unresolved Observations and unreplied Audit Queries

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
Commission amounting to Rs.1,365,965 had been paid to 11 officers of the Municipal Council for collection of stamp fee revenue on a wrong interpretation made regarding section 8.1 of the Circular No.1984/19 of 20 November 1984 of the Commissioner of Local Government.	Attention should be paid by the Council with regard to unresolved audit paragraphs.	Action had not been taken to obtain stamp fees receivable from other areas after stoppage of payment of commission.