

## **Matara Municipal Council - 2020**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the Matara Municipal Council including the financial statements for the year ended 31 December 2020 comprising the Statement of financial position as at 31 December 2020, Statement of Financial Operations, statement of changing equity, Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, under my direction in pursuance of provisions in Article 154 (1) of the constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 219 of the Municipal Council Ordinance (chapter 252) and the provisions of the National Audit Act No 19 Of 2018. My comments and observations which I consider should be report to parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Matara Municipal Council as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Principles.

### **1.2 Basis for Qualified Opinion**

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My opinion is qualified on the matters described in paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Municipal Council's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Municipal Council is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements.

#### **1.4 Audit Scope (Responsibility of the Auditor for the audit of Financial Statements)**

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercised professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of its internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Municipal Council, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Municipal Council has complied with applicable written law, or other general or special directions issued by the governing body of the Municipal Council
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources of the Municipal council had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Report on Other Legal Requirements

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The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Municipal Council as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

## 1.6 Audit observations regarding the preparation of financial statements

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### 1.6.1. Accounting Deficiencies

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<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) There was a balance of bus stand market complex credit account Rs.49,774,022 as at the end of the year under review and the loan installments and the interest of the loan facility had not been accounted.	The problems related to the agreements will be resolved and the interest will be taken into account	Should be properly accounted.
(b) The total donations received as fixed asset during the year under review amounting to Rs. 337,405 had been accounted as Rs. 1,290,598.	Corrections will be made in the preparation of final accounts for the year 2021.	Should be properly accounted.
(c) Books received as discount amounting to Rs. 185,230 had not been accounted.	Corrections will be made in the preparation of final accounts for the year 2021.	Should be properly accounted.
(d) The filling station, which was built at a cost of Rs. 4,576,000, had not been capitalized.		
(e) Due to the credit of Rs.100,750 to both miscellanies and warehousing creditors accounts, the surplus and warehousing creditors had increased by that amount.		

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| <p>(f) The employee loan account for the year under review was shown less by Rs. 2,000,561 and the cash transfer account was shown more than that amount.</p> |  | <p>(g) 35 percent of the cost of construction cost of the Market complex was Rs.37,871,539 and this money should be paid in advance by tenders obtained from the shops in the complex, however the money was not settled and shown in the financial statements.</p> | <p>An interest relief has been requested to repay the loan and no reply has been received.</p> | <p>Should be properly accounted.</p> |
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**1.6.2 Non-reconciled Account or Records**  
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**Audit Observation**  
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There was a difference sum of Rs. 3,979,333 in between a balance of Rs. 62,219,663 in the value of 05 accounting items in the financial statements and value of Rs. 58,240,330 in relevant utility registers/sub registers

**Comment of the Council**  
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Actions will be taken to correct

**Recommendation**  
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Action should be taken to correct the accounts by comparing the changes in the relevant balances.

**1.6.3 Lack of Documentary evidence for Audit**  
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**Audit Observation**  
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A total of Rs. 67,037,964 of 05 accounting balance could not be satisfactorily vouched during the audit due to non-submission of required information.

**Comment of the Council**  
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Now it is being updated.

**Recommendation**  
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Evidence confirming the account balance shown in the financial statements should be submitted.

## 1.7 Non compliances

### 1.7.1 Non compliances with laws rules and regulations

Instances of non-compliances with laws rules and regulations are as follows.

Reference to laws rules regulations	Non compliance	Comment of the Council	Recommendation
xix of the Establishments Code Chapter			
Section 5: 4: 1 and Public Administration Circular No. 04/2016 dated 16th August 2016	During the period from September 2012 to July 31, 2019, Rs. 289,872 had not been collected from the Municipal Commissioner's official quarters owned by the Council.	The powers vested in him under the Municipal Council Ordinance No. 16 of 1947 have been decided by the Council.	Should act in accordance with the Establishments Code

## 2. Financial Review

### 2.1 Financial Result

According to the Financial Statements presented, revenue over recurrent expenditure of the Council for the year ended 31 December 2020 amounted to Rs. 91,331,461 as compared with against the revenue over recurrent expenditure amounted to Rs. 122,101,310 in the preceding year.

### 2.2 Revenue Administration

#### 2.2.1 Performance of revenue Collection

Audit Observation	Comment of the Council	Recommendation
(a) The Arrears of assessment at the end of the year under review was Rs. 55,075,936.	All efforts have been made to collect the arrears on a quarterly basis and deploy revenue inspectors and prohibition officers.	Arrears of Assessment Tax should be collected promptly.

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| (b) | There was a balance of shop rent arrears of Rs. 49,608,219 as at the end of the year under review. | The every effort had been made to recover the arrears of rent and that the Covid epidemic had prevented the closure of businesses and the inability to recover taxes. | Arrears of rent should be collected promptly.        |
| (c) | The arrears of Business tax Rs. 7,723,418 as at the end of the year under review.                  | That the arrears increase due to non-payment of taxes as businesses are closed or paralyzed due to the Covid epidemic.  | Arrears of Business tax should be collected promptly |

**3. Operational Review**

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**Performance**  
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Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Council under Section 4 of the Municipal Council Act are shown below.

**3.1 Operational in Efficiencies**

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**Audit Observation**  
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An area of 7,744 square feet of the Mahanama Memorial Community Hall at Kopparawatta owned by the Matara Municipal Council has been leased to an outside party and It was given to run a private bodybuilding center without the approval of the council and without paying any fees to the council.

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**Comment of the Council**  
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Action will be taken to submit a report to the next Standing Committee on Finance and Policy as per the decision of the Council.

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**Recommendation**  
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The Fixed Assets of the Council should be leased out in a proper manner.

**4. Accountability and Good governors**

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**Environment Issues**  
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**Audit Observation**  
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About 35 tons of garbage collected daily by the Matara Municipal Council was sorted and disposed of without any segregation at the Kotawila Garbage Yard and During the period from 18 May 2018 to 31 December 2020, a scavator was hired for thinning garbage at a cost of Rs. 5,671 per hour and Rs.26,934,997 had been spent however, by the end of the year under review, projects to generate biogas from waste and generate electricity from it and produce organic fertilizer had not been implemented.

**Comment of the council**  
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The excavation service will be discontinued as soon as the construction work of the garbage power generation project is completed and the project begins to receive garbage.

**Recommendation**  
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A formal Waste Management project should be initiated.