

## **Matugama Pradeshiya Sabha - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Matugama Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the statement of assets and liabilities as at 31 December 2021, comprehensive income statement , statement of changes in 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 Sub-section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 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 financial statements give a true and fair view of the financial position of the Matugama Pradeshiya Sabha as at 31 December 2021 , and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities .

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

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I express qualified opinion based 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 Sri Lanka Public Sector Accounting Standards for Local Authorities, 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 Pradeshiya Sabha's financial reporting process.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Pradeshiya Sabha 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 scepticism 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 Pradeshiya Sabha, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Pradeshiya Sabha has complied with applicable written law, or other general or special directions issued by the governing body of the Pradeshiya Sabha;
- Whether it has performed according to its powers, functions and duties; and

- Whether the resources of the Pradeshiya Sabha 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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National Audit Act, No. 19 of 2018 include specific provisions for following requirements.

- (a) The financial statements of the Pradeshiya Sabha presented is consistent with the preceding year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The recommendations which I made on financial statements for the preceding year are included as per the requirement of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018 .

## 1.6 Audit Observations on the Preparation of Financial Statements

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### 1.6.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local Authorities

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Non-compliance with Reference to the relevant Standard	Comments of the Sabha	Recommendation
<p>(a) Unrecognized capital expenditure in surplus to be disclosed in the statement of changes in net assets/equity to be prepared in the statement of comprehensive income amounting to Rs. 17,804,230 had not been stated as unrecognized capital expenditure of surplus or deficit in terms of Section 3.13 of the Standard.</p> <p>(b) Although all the assets and liabilities outstanding at the end of the reporting period should be included in the statement of assets and liabilities in terms of Section 3.16 of the Standard, the value of assets had been indicated without removing the values of assets such as books, office equipment, etc., removed from the Sabha , whose values have not been identified so far from the year 2002 even by the year under review.</p>	<p>This will be corrected in the year 2022 .</p>	<p>Actions should be taken in terms of Sri Lanka Public Sector Accounting Standards for Local Authorities.</p>

(c) The following deficiencies were observed in the cash flow statement prepared as per clause 3.26 of the Standard.

- Although the interest income of the year was Rs.1,532,506 in calculating cash flow from operating activities by stating that value as Rs.2,738,431 in the cash flow statement the cash balance generated from operational activities had been understated by Rs.1,205,925.

This will be corrected in the year 2022 .

Actions should be taken in terms of Sri Lanka Public Sector Accounting Standards for Local Authorities.

- Although the purchase of fixed assets in the year under review was Rs.11,245,622, the net cash outflow from investing activities had been overstated by Rs.15,715,237 by stating that value as Rs.26,960,859 .

- Although the interest income received during the year under review amounting to Rs.1,532,506 should be shown as interest income under investment activities, the interest received under investment activities had been by Rs.1,532,506 due to failure to indicate that figure in the cash flow.

- Although the capital expenditure grants received in the year was Rs.17,804,231, receipts under financial activities had been understated due to failure of indicating that figure under financing activities in the cash flow statement.

This will be corrected in the year 2022 .

Actions should be taken in terms of Sri Lanka Public Sector Accounting Standards for Local Authorities.

## 1.6.2 Accounting Deficiencies

----- Audit Observation -----	----- Comments of the Sabha -----	----- Recommendation -----
<p>(a) Although the service contracts had been signed at a cost of Rs. 59,870 to service 03 photo copiers during the year under review, out of that amount, a sum of Rs. 29,641 related to the next year had not been accounted for as payments in advance.</p>	<p>This will be corrected in the year 2022 .</p>	<p>It should be accurately accounted for.</p>
<p>(b) As the capital expenditure grants received in the year 2020 amounting to Rs.81,276,398, equivalent to the depreciation percentage of the assets acquired amounting to Rs.8,128 were not recorded as transfers from the government for non-recurring expenses under the income of the statement of comprehensive income of the year under review, the surplus for the year had been understated by that amount.</p>		
<p>(c) As a result of the arrears of income report as at 31 December 2020, the total arrears of Rs.8,963,068 had been accounted for as Rs.8,660,801 when carrying forward as at 01 January 2021, the rates receivable as at 31 December 2021, had been understated by Rs.302,267 .</p>	<p>This will be corrected in the year 2022 .</p>	<p>It should be accurately accounted for.</p>
<p>(d) Even though the grave shelter of Dippita Cemetery with a book value of Rs.100,000 had been demolished during the year under review, as that value was removed from the books, the value of the property had been overstated by Rs.100,000 at 31 December 2021 .</p>		
<p>(e) Because of the Bodaragama Park public land with a value of Rs.100,000 as at 31 December 2021 was shown in the account as Rs.2,000,000, the property, plant and equipment had been overstated by Rs.1,900,000.</p>		

- (f) As the other comprehensive income was Rs.17,804,230 and surplus for the year was Rs.26,494,865, although the comprehensive income for the year should be Rs.44,299,095 the comprehensive income for the year had been understated by Rs.8,690,634 due to that value was stated as Rs.35,608,461 .
- (g) The depreciation expense of Rs. 14,590,027 which should be deducted against the income of the year as per the rates of depreciation for the year under review had not been accounted for.
- This will be corrected in the year 2022 .
- It should be accurately accounted for.

### 1.6.3 Unreconciled Control Accounts or Records

Audit Observation -----	Comments of the Sabha -----	Recommendation -----
A difference was 41,653,801 observed in between the value shown in the financial statements and the value shown in the corresponding reports in relation to 11 accounting items.	This will be corrected in the year 2022.	Financial statement balances and schedule balances should be the equal.

## 2. Financial Review

- 2.1 The revenue exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2021 in the financial statements submitted was Rs. 26,494,865 and the corresponding revenue exceeding the recurrent expenditure for the preceding year was Rs. 79,856,740 .

### 2.2 Performance on Revenue Collection

Audit Observation -----	Comments of the Sabha -----	Recommendation -----
Out of the arrears of rates at the end year under review, there were Rs.4,290,926 to be received from 01-03 years and Rs.1,523,774 to be received from 03-10 years .	A sum of Rs. 741,081 has been received from the arrears as at 30 September 2022 .	Actions should be taken to recover arrears of rates promptly.

## 3. Operating Review

The matters observed in respect of executing of functions that should have been performed by the Council such as regulation and control, wellbeing of the public, facility and welfare regarding the matters public health, public utility services and public roads under Section 03 of the Pradeshiya Sabha Act are as follows.

### 3.1 Assets Management

Audit Observation -----	Comments of the Sabha -----	Recommendation -----
<p>(a) When surveying the Batamullakanda land of 12 acres, 02 roods and 36 perches in extent with a book value of Rs.12,500,000 on 21 August 2012 an extent of 02 roods 12.72 perches had occupied land by a government agency, a temple and three house owners. Although the government agencies and individuals were only notified to hand over that part to the Sabha after 04 years, in November 2016, actions had not been taken to acquire the said land to the Sabha even by 23 August 2022 and it was observed that the 12 acres and 23 perches of this land is underutilized without being used by the Sabha.</p>	<p>The Urban Development Authority has proposed to develop it as a wild park.</p>	<p>The ownership of the lands belonging to the Sabha should be ascertained and used for productive purposes.</p>
<p>(b) Unauthorized constructions had been made in the Matugama estate with 07 acres, 01 rood and 11.4 perches with a book value of Rs.20,000,000 and the Sabha had not acted on it. Further, although the Foreign Employment Bureau building was constructed on this land without paying any fee to the Sabha, it was observed that the Bureau had not paid lease to the Sabha. Although the veterinary office had also been built on this land it was observed that lease was not charged from that institution.</p>	<p>This is a land handed over to Matugama Municipal Council in 1962 by Kalutara District Agent. Those who worked there at that time have been allowed to be settled. Foreign Employment Bureau has paid taxes for 05 years since 2003. Not after that and the plot of land has been given to the Foreign Employment Bureau based on a Decision of a Cabinet of Ministers.</p>	<p>The lands owned by the Sabha should be properly identified and documented.</p>

### 3.2 Management Inefficiencies

Audit Observation -----	Comments of the Sabha -----	Recommendation -----
<p>Four plots of land in 08 perches in extent belonging to the Sabha had not been accounted for.</p>	<p>That will be corrected in the year 2022.</p>	<p>Actions should be taken to assess and account for lands of the Sabha.</p>