

Matara Municipal Council - 2021

1. Financial Statements

1.1 Adverse Opinion

The audit of the financial statements of the Matara Municipal Council including the financial statements for the year ended 31 December 2021 comprising the Statement of financial position as at 31 December 2021, Statement of Financial Operations, 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, because of the significance of the matters described in paragraph 1.6 of this report, the financial statements do not give a true and fair view of the financial position of the Matara Municipal Council as at 31 December 2021 and its financial performance and cash flow for the year then ended in accordance with Generally accepted Accounting Principles.

1.2 Basis for Adverse Opinion

I expressed adverse opinion 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 adverse opinion.

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

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)**

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 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

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 (i) (d) (iv) of the National Audit Act No. 19 of 2018, except the observation (1),(j),(k) and (l) of the Section 1.6.1 in this report 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

1.6.1 Accounting Deficiencies

Audit Observation -----	Comment of the Council -----	Recommendation -----
(a) The fixed assets auctioned during the year under review amounting to Rs. 2,933,103 had been written off on First In First Out basis without specifically identification of the cost.	The adjustments had been made based on the first-in-first-out method as there was no method to accurately identify the values of the respective assets.	Should be properly accounted.
(b) The supplementary estimate value submitted in respect of expenditure of Rs.56,500,000 had been debited to the Accumulated Fund and credited to other income in the year under review. Accordingly, the income of the year under review had been overstated by Rs.56,500,000.	In the presentation of the financial statements of the year under review, the surplus of the year under review and the surplus of the supplementary estimate have been shown separately in the financial performance statement.	

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| (c) | The provision had been made under various creditors for purchases of Rs.15,800,000 which had not been contracted with the suppliers at the end of the year under review. | Regarding the purchase of a bus and a jeep, the quotations have been called and opened on 17 December 2021, and the order for the purchase of a Compactor has been placed with the supplier on 25 November 2021, and the generator purchase process is about 75% completed by the end of the year 2021. Therefore the arrangements had been made to make provisions. | |
| (d) | The under-provision of stamp duty was Rs.22,700,303 in the year 2017, and the over-provision of Rs.38,227,550 in the year 2018 and 2019 had not been adjusted to the financial statements at the end of the year under review. | The under-estimated Rs.2,261,433.70 for the year 2018 and the over-estimated Rs.18,757,026 and Rs.13,394,884 for the years 2017 and 2019 had been adjusted by the financial statements of the year under review. | |
| (e) | At the end of the year under reviewed the Local Government Strengthening Program 2021, the waste water and sewage recycling project at Matara Bus Station valued at Rs. 14,000,000 was not continued in the reviewed year, although the project was not continue for the next year; Rs. 14,730,703 had been shown as debtors in the financial statements. | The contract had been entered in the year under review for this work and have to be commenced on 03 December 2021 therefore the provision for debtors had been done in the year under review. | Should be accounted properly. |
| (f) | The stamp duty amounting to Rs.19,000,000 received during the year under review in a current account maintained by the council in a government bank had not been adjusted in the financial statements. | The 2021 December bank statement was received in January 2022 and therefore the adjustments had not been made until the bank statement was checked and verified as correct. | |
| (g) | At the end of the year under review, the outstanding loan interest of Rs.1,140,000 as on 31 December 2019 in relation to the balance of Asian Development Bank loan (machinery and equipment) of Rs.1,261,530 and the interest related to the previous and the year under review had not been calculated and accounted. | The information regarding the loan amount cannot be found, and the Urban Development Authority, had been recorded interest of Rs. 1,142,000 on 31 December 2019 by the letter dated 06 February 2020 and sent, however notification had not been given in this regard so far, and the payment will be done by discussion in the future. | |

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| (h) | Although an agreement had been made with the contractor for the construction of the Municipal Commissioner's official Quarters for an amount of Rs.12,923,273, due to the provision of creditors based on the engineering estimate value of Rs.15,673,438, the surplus of the year under review was under stated by Rs.2,750,165 and the creditors over stated. | The creditor provision had been made on the engineer's estimate value. | Should be accounted properly |
| (i) | The interest had not been calculated and accounted on the balance of Rs.49,774,022 held at the end of the year under review, in the bus stand Shopping complex loan account in the year under review. | The action will be taken to account after resolving the problematic situations in the agreements and reaching an agreement between the two parties. | Interest on loans should be accounted. |
| (j) | Although 35 percent of the amount spent for the construction of the commercial complex or Rs. 37,871,539 should be paid from Key Money obtained by tendering the shops, the amount was not paid by the end of the year under review and had not been shown in the financial statements in the year under review. | The further action will be done according to the decisions discussed in this regard | The amount spent should be paid by the key money. |
| (k) | The cost of petrol station valued at Rs. 4,576,000 in the year under review which was built in the previous year had not been accounted under Machinery and Equipment. | The council does not account building and construction, the value of the fuel pump which was Rs. 950,000 will be taken into account under machinery and equipment through journal entries in the year 2022 | The relevant capital expenditure should be accounted under machinery and equipment. |
| (l) | The credit provision for the Local Government Pension Contributory Fund payable amounting to Rs.47,949,392 at the end of the year under review had not been made. | The payments have not been made for the Local Government Service Pension Fund so far, information on whether the relevant pensioners are alive has been brought by the Divisional Secretariat and submitted to the Pension Department, and no provision has been made for creditors until that decision will be received. | The Credit provisions should be made. |

1.6.2 Non-reconciled Account or Records

Audit Observation

There was a difference of Rs.184,902,984 between the value in the financial statements and the value in the documents/schedules relating to 05 accounting items.

Comment of the Council

The action will be taken to correct in the future.

Recommendation

The differences in the respective balances should be reconcile and correct the accounts.

1.6.3 Lack of Documentary evidence for Audit

Audit Observation

Due to non-submission of information such as updated fixed assets register, detailed schedules and list of single balances, 10 accounting items totaling Rs.449,948,532 could not be satisfactorily checked during the audit.

Comment of the Council

The action will be taken to correct in the future.

Recommendation

Evidence should be submitted to confirm the account balances shown in the financial statements.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December amounted to Rs. 142,443,317 as compared with excess of revenue over recurrent expenditure amounted to Rs. 91,331,461 in the preceding year.

2.2 Performance of revenue Collection

(a) Assessment

Audit Observation

There was a arrears of Rs. 60,689,595 for 20821 assessed units out of 34121 assessed units at the end of the year under review, out of that Rs. 7,067,688 had to be collected from 442 properties belonging to government institutions.

Comment of the Council

No comments were made on the recovering the arrears

Recommendation

Arrears of Income should be collected promptly.

(b) Entertainment tax

Audit Observation

There was an arrears of Rs.316,247 remained at the end of the year under review.

Comment of the Council

Due to the situation in the country, cinema halls were closed so it was not possible to collect the outstanding balance at the beginning of the year, however the billing related to the year was collected as scheduled.

Recommendation

Arrears of Income should be collected promptly.

(c) Shop Rent

Audit Observation

By the end of the year under review, 463 shops owned by the council and 106 shops were leased, out of those 436 lessees received Rs. 60,716,741 in arrears of revenue and the legal action had not been taken to recover the said arrears.

Comment of the Council

The action will be taken to aware the lessees about the arrears time to time and arrears will be recovered in installments.

Recommendation

Arrears of Income should be collected promptly.

(d) Ground Rent

Audit Observation

The council had to recover as at 31 October 2021 a sum of Rs. 8,132,980 from 283 land lessees who had leased property owned by the council.

Comment of the Council

The arrears of registered lessees were referred to the Resolution Board.

Recommendation

Arrears of rent should be collected promptly

3. Operational Performance

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 Management inefficiencies

Audit Observation

In the year 2019, Rs. 177,212 had been paid to a telephone company to install GPS systems in the tractors and Galley Browsers used for the garbage transportation of Matara Municipality, and Rs. 171,670 was spent on monthly bills from July 2019 to September 2020. however even though two years have passed since the system was started, this system has not been used to identify the existing weaknesses in the waste management activities and correct them.

Comment of the Council

Due to the reasons such as service breakdowns and delays in the activation of the service, since November 2019, it has not been possible to maintain records related to this system.

Recommendation

The GPS system should be maintained in working condition.

3.2 Operational inefficiencies

Audit Observation

(a) The council had not taken any legal action by the end of the year under review regarding 07 unauthorized shops running without the approval of the council inside the Matara bus station and expressway bus station.

(b) **Solid Waste Management**

In order to manage the garbage collected on a daily basis in the area of the council, the production of organic fertilizers using decomposable waste was not done formally, and a system was not introduced to produce biogas and generate electricity from waste and dispose of non-decomposable garbage and electronic waste in a formal manner. In order to dispose of the garbage collected daily without classifying it to the Kotawila garbage yard and bury the garbage by soil, an excavator machine was rented and employed for 7537.30 hours during the period from 18 May 2018 to the end of the year under review, and an expenditure of Rs.36,568,262 had been incurred by the council fund.

Comment of the Council

Regarding these unauthorized constructions, relevant activities are being carried out on the instructions of the law enforcement officers.

Recommendation

Urgent action should be taken.

The waste will be classified and collected as perishable and non-perishable waste, compost fertilizer will be produced from the perishable garbage taken to the Kotawila solid waste management center according to the available capacity, waste like polythene, plastic will be sent to the recycling center, and the remaining garbage will be thinned and ground in a selected special place.

A formal waste management program should be implement.

3.3 Transaction in Contentious Nature

Audit Observation	Comment of the Council	Recommendation
<p>(a) Although the loan and interest payable by the end of the year 2019 is Rs. 55.06 million from the loan amount for the construction of the bus station, shopping mall and machinery and equipment by the Urban Development Authority to the Matara Municipal Council by the Asian Development Bank however as per the letter No. 07/03/12/Rev/Matara dated 06 February 2020 of the Deputy Director General of Urban Development Authority, the balance was Rs.148.5 million and the action had not been taken to find out the reasons for difference and settle in the year under review.</p>	<p>The discussions are underway to take further action regarding the settlement of this loan amount.</p>	<p>The reasons for the changes should be investigated and resolved.</p>
<p>(b) According to the letter of the Director General of the Urban Development Authority No. 07/03/Rev/Matara and dated 14 May 2001, 35 percent of the money spent on the shopping complex or Rs. 37,871,539 Should be paid at once from the pre-payment amount (Key Money) obtained by tendering the shops, even though more than 20 years have passed, the action had not been taken in this regard in the year under review. An amount of Rs.42,314,532 obtained from the shops of the shopping complex was invested in fixed deposits in 02 banks on 7 occasions.</p>	<p>The future action will be taken according to the decisions made there after discussing the related money.</p>	<p>The action should be done in accordance with the letter.</p>
<p>(c) An additional consultant was hired and paid Rs.313,333 as consultant allowances when the Mayor and Councilors of Matara Municipal Council had qualified staff to understand the Municipal Council Ordinance, Code of Institutions, Financial Regulations and other circulars.</p>	<p>Recruited on the council's decision and that there is no objection from the Southern Province Governor</p>	<p>Duties should be performed using existing staff.</p>

3.4 Deficiencies in Contract Administration

Audit Observation

The rate of Rs.841 introduced under CT-036 by the Southern Province Engineering Services Office as a rate with the same work description in payment for the use of seasoned planks (Plywood) boards for formwork in relation to 42 concrete drain processing industries that had been implemented under various programs. Instead of the rate of Rs.1,108 which was introduced under ST-057 for making formwork using 01 inch (55 mm) thick second class wood planks by the Southern Provincial Road Development Authority and 25 mm thick first class timber and 02 inch (50x50 mm) plywood and using Tongue & Grooved to create a smooth finish and using the rate of 1,377.85 which was introduced under ST-112 for payment for a square meter Rs. 267 and 536.85 respectively, for 7232.56 square meters, an amount of Rs. 3,121,281 had been overpaid.

Comment of the Council

No comments.

Recommendation

Appropriate and favorable rates should be used