

Matara Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Matara Pradeshiya Sabha 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 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 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 accompanying financial statements give a true and fair view of the financial position of the Matara Pradeshiya Sabha as at 31 December 2021, 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

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

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 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)**

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 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

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

- (a) Financial Statements of the Pradeshiya Sabha 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, 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
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(a) The machinery and equipment valued at Rs.4,748,609 purchased during the year under review, for the new building had been capitalized under land and buildings.	The action will be taken to correct in the financial statement prepared for the year 2022.	Should be accounted correctly.
(b) The value of tires amounting to Rs.458,000 removed during the year under review, from vehicles and machinery had been debited to the Cars and Carts account.		
(c) The provision had not been made at the end of the year under review, under sundry creditors for sundry expenses amounting to Rs.215,769.	The action will be taken to correct in the financial statement prepared for the year 2022.	Should be accounted correctly.
(d) Rs.6,983,362 spent in the year under review, on building development from the council fund had not been accounted under land and buildings.		
(e) Rs.5,256,728 incurred during the year under review for air-conditioning of Kekanadura Swarna Pura building had not been capitalized under mechanical equipment.		
(f) The Creditors' settlement of Rs.3,335,100, which had been provided in previous years, was accounted as an expense in the year under review.		

1.6.2 Non-reconciled Account or Records

Audit Observation	Comment of the Council	Recommendation
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There was a difference of Rs.626,961 between the balances of 03 creditor balances of Rs.361,330 included in the schedule of industrial creditors submitted with the financial statements and the balances shown in the related schedule.	The action will be taken to correct in the financial statement prepared for the year 2022.	Action should be taken to correct the accounts by reconciling the differences in the relevant balances.

1.7 Non - compliances

1.7.1 Non - compliances with Laws, Rules, Regulations and Management Decisions etc.

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

Reference to laws, rules regulations etc	Non - compliance	Comment of the Council	Recommendation
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F.R 571 of The financial Regulation of the Democratic Socialist Republic of Sri Lanka	The action had not been taken in accordance with the Regulation regarding 105 different deposit balances valued at Rs.1,935,910 exceeding 02 years.	Actions will be taken to settle in future.	The action should be taken in accordance with the Regulation.

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. 26,218,678 as compared with excess of revenue over recurrent expenditure amounted to Rs. .64,194,533 in the preceding year.

2.2 Performance of revenue Collection

Assessments

Audit Observation

The number of assessment units was 5161 in the year under review and at the end of the year there was an outstanding balance of Rs.9,176,031 from 5128 assessment units.

Comment of the Council

Conducting mobile services for recovery of arrears and going to the field to collect arrears.

Recommendation

Arrears of Assessment Tax should be collected promptly.

3. Operational Review

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 3 of the Pradeshiya Sabha Act are shown below.

3.1 Management Inefficiencies

Audit Observation

In the year under review, Rs.1,658,250 had been paid for the construction of the back wall of the land where Kumbalgama Clinic is located, however the construction of the side wall was done without settling the fence of the land.

Comment of the Council

The side wall construction was carried out by taking into account the old fence boundary which was used as a fence boundary until now.

Recommendation

Immediate action should take.

3.2 Operational Inefficiencies

Audit Observation

While providing water supply to various parties in the council's jurisdiction, an amount of Rs.1,482,690 had been collected from 196 water consumers for the restoration of road damage, however a arrangement had not been made for the restoration of the road.

Comment of the Council

The money will not be released in cases where the reconstruction of the respective roads is not correct during the field inspection, and that in such cases, the reconstruction of the respective road is to be done as a council work.

Recommendation

A formal work schedule should be prepared.

3.3 Procurement Management

Audit Observation

Although Rs.5,931,355 was spent on carpeting and curtains for the new office building of the Sabha and Rs.1,650,900 on the purchase of computer equipment and wooden furniture, open bids were not invited in accordance with the Local Council (Financial Administration) Rule No. 178(5) of 1988. The prices received were not referred to a Technical Evaluation Committee.

Comment of the Council

Inform that the action will be taken care to avoid such defects in the future

Recommendation

The action should be taken in accordance with the rules

3.4 Deficiencies in contract administration

Audit Observation

- (a) The Provincial Engineering Service Office had used the ST-057 rate instead of the CT-036 rate in the preparation of formwork related to 18 works of concrete drains and sidewall construction which had been implemented on the council funds allocation in the year under review. Therefore, according to the prices of the first half of 2019, Rs. 267 per square meter for 2,105.19 square meters, Rs. 562,086 and according to the prices of the first half of 2021, Rs. 889.70 per square meter for 898.41 square meters, Rs.799,315, an overpayment of Rs.1,361,401 had been done for the contractor.

Comment of the Council

It will be ensured that such omissions will not make in the future.

Recommendation

Appropriate and favourable rates should be used.

(b) In relation to 03 works which were built on the council fund allocation in the year under reviewed, Formwork had not been used in the construction of drains connected to the boundary walls and side walls however Rs.87,095 for 5,956 square meters of Form work had been paid.

(c) Although it was included in the bills that 272.10 meters of concrete side drains were constructed in relation to two concrete drain construction work implemented from the Council fund in the year under review, during the field audit inspection, it was revealed that the length of 263.80 meters of concrete side drains, therefore Rs. 70,893 had been overpaid for 8.3 meters of concrete drain.

It will be ensured that such omissions will not make in the future.

Payment should be made only for work performed.