

## **Matara Pradeshiya Sabha - 2022**

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### **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 2022 comprising the Statement of financial position as at 31 December 2022, 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 2022, 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

<b>Audit Observation</b> -----	<b>Comment of the Sabha</b> -----	<b>Recommendation</b> -----
(a) The value of motor vehicles and carts has been understated by Rs.22,398,100 at the end of the year under review,	Will be rectified.	Should be accounted correctly.
(b) The provision had not been made under sundry creditors for sundry expenses amounting to Rs.105,979 at the end of the year under review.	Will be rectified.	Should be accounted correctly.
(c) 03 plots of land valued at Rs. 2,291,507 owned by the Sabha had not been accounted at the end of the year under review.	Will be rectified.	Should be accounted correctly.
(d) The cost of Rs.1,896,966 incurred in the previous year, for the development of the Kanattagoda crematorium owned by the sabha had not been capitalized under land and buildings.	Will be rectified.	Should be accounted correctly.
(e) An amount of Rs.225,501 due from an officer serving in the sabha for no pay leave had been credited to the unpaid salary account without showing it as receivable income during the year under review.	Will be rectified.	Should be accounted correctly.
(f) In making provisions for creditors for the expenses to be paid at the end of the year under review, an additional provision of Rs.172,628 had been made.	Will be rectified.	Should be accounted correctly.
(g) The receivables amounting to Rs.478,216 for the development of Diyagaha West Power road during the year under review, had not been accounted under construction debtors.	Will be rectified.	Should be accounted correctly.
(h) 26 inventory items valued at Rs.431,466 which were not in the form of fixed assets were accounted under Machinery and Equipment and furniture and fittings.	Will be rectified.	Should be accounted correctly.

### 1.6.2 Non-reconciled Account or Records

<b>Audit Observation</b> -----	<b>Comment of the Sabha</b> -----	<b>Recommendation</b> -----
There was a difference of Rs.1,108,449 between the balance mentioned in the Motor Vehicles and Carts account of Rs.55,051,901 included in the	Will be rectified.	The action should be taken to correct the accounts by

financial statements and the balance in the relevant registers/schedules.

reconciling the differences in the relevant balances.

### 1.6.3 Lack of Documentary Evidence for Audit

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
Due to non-submission of updated fixed asset register, survey reports, assessment reports and schedules etc., 24 accounting items totaling Rs. 111,236,456 could not be satisfactorily vouched during the audit.	The action will be taken to provide information.	Evidence should be submitted confirming 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 Sabha for the year ended 31 December amounted to Rs. 7,180,069 as compared with excess of revenue over recurrent expenditure amounted to Rs. 26,218,678. in the preceding year.

### 2.2 Financial Control

<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
It was observed that Rs.5,000,000 in the constructions current account maintained by the Sabha in the bank remained idle for many years without proper investment.	The action will be taken to identify in the future.	Surplus money should be invested.

### 2.3 Revenue Administration

#### 2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

According to the information presented by the chairman, estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year are given below.

	Source of Revenue	2022			2021			Arrears as at 31 December (Rs)	
		Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)		
(i)	Rates and Taxes	9,126,000	5,031,253	4,912,719	9,319,424	8,136,000	13,254,550	12,241,359	9,200,890
(ii)	Rent	4,880,100	1,936,974	2,173,620	612,400	3,390,100	2,074,093	1,881,140	849,046
(iii)	License Fees	4,117,100	1,410,800	1,466,484	161,800	3,671,950	1,340,384	3,045,673	217,484
(iv)	Other Income	7,698,000	3,015,369	3,292,893	6,599,252	10,694,000	13,173,487	8,199,334	6,876,776
		25,821,200	11,394,396	11,845,716	16,692,876	25,892,050	29,842,514	25,367,506	17,144,196

### 2.3.2 Performance in Revenue Collection

Following observations were made regarding the Performance of Collection of revenue of the sabha.

<b>Audit Observation</b> -----	<b>Comment of the Sabha</b> -----	<b>Recommendation</b> -----
(a) The outstanding assessment and tax balance was Rs.9,200,890 at the beginning of the year under review, and the bills related to 5,209 assessment units were Rs.5,031,253 and Rs.14,232,143 should have been charged. Due to the total receipts during the year being Rs.4,912,719, there was an outstanding balance of Rs.9,319,424 at the end of the year.	The action will be taken to recover outstanding balances.	Arrears of income should be collected as soon as possible.
(b) At the end of the year under review, there were 21 rent-paying shops owned by the sabha, out of which 11 shops earned Rs. 399,895 should have been charged as arrears.	The action will be taken to recover the outstanding balances.	Arrears of income should be collected as soon as possible.
(c) The opening license fee arrears was Rs. 217,484 in the year under review and at the end of the year it was Rs.161,800.	The legal action has been taken to recover the arrears.	The arrears of income should be collected as soon as possible.
(d) The arrears of miscellanies amount was Rs.6,599,252 as at 31 December of the year under review.	The action will be taken to recover the outstanding balances.	Arrears of income should be collected as soon as possible.
(e) The Court fines and Stamp fees to be received by the Chief Secretary of the Provincial Council amounted to Rs.3,000,000 and Rs. 27,386,848 as at 31 December of the year under review.	The balance shown is the amount estimated to be received for the year at the time of preparation of the final account.	The arrears of income should be collected as soon as possible.

## 3. Operational Review

### 3.1 Performance of functions assigned by the Act

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 Sabha under Section 3 of the Pradeshiya Sabha Act are shown below.

<b>Audit Observation</b> -----	<b>Comment of the Sabha</b> -----	<b>Recommendation</b> -----
In terms of Section 126(viii) of the Pradeshiya Sabha Act No. 15 of 1978, by-laws containing planning and development regulations regarding the construction of buildings in non-urban Pradeshiya Sabha areas had not been enacted.	The action had been taken to prepare the by-laws.	Arrangements should be made to prepare by-laws as per the Act.

### 3.2 Management inefficiencies

<b>Audit Observation</b> -----	<b>Comment of the Sabha</b> -----	<b>Recommendation</b> -----
(a) As per the provisions of Section 82 (1) of the Pradeshiya Sabha Act No. 15 of 1987, the sabha passed resolutions on 03 June 2022, and from the sabha fund, Rs. 172,537 was spent and a drain was built on a private land. Half of it was charged from one private party. The other party had taken legal action against the Sabha, as the Sabha did not provide alternative solutions to the problem.	The legal action has been taken to recover from one party in relation to the construction done at the expense of council funds.	The action should be taken according to the Act.
(b) Although the audit observed that there is a balance of 7,514 plants value Rs. 129,383 out of the plants purchased according to the list of plants distributed to the people of Matara Pradeshiya Sabha area. The balance plants were not submitted to the audit for physical inspection.	The percentage of such damages will be reduced in future projects.	The actions should be taken to minimize the damage.
(c) Due to non-installation of street lights in accordance with the Circular No. PR/01/01 dated 17 August 2010 of the Secretary of the Ministry of Power and Energy, the expenditure of Rs.236,400 incurred for street lights in the year under review was not reimbursed by the Electricity Board.	The requests have been made to the Electricity Board.	The arrangements should be made to reimburse it.
(d) The amount of Rs.1,465,913 received from the year 2018 for the restoration of the roads damaged by a third party for the laying of water pipes on the roads owned by the Sabha had not been completed and settled.	The part of the deposit has been paid.	The arrangements should be made for immediate settlement.

### 3.3 Operational inefficiencies

<b>Audit Observation</b> -----	<b>Comment of the Sabha</b> -----	<b>Recommendation</b> -----
4 constructions had been done without obtaining a development permit in the council area. In this regard, according to the 2nd sub-schedule in the Gazette Notification No. 2235/54 dated 08 July 2021, which includes the planning and development orders/regulations of the Urban Development Authority, Rs. 336,110 had not been charged and regularized or removed by the council.	The legal proceedings will be carried out.	The action should be taken according to the Gazette Notification.

### 3.4 Deficiencies in contract administration

<b>Audit Observation</b> -----	<b>Comment of the Sabha</b> -----	<b>Recommendation</b> -----
(a) Rs.1,213,968 had been paid to the contractor society under Phase I of the development of Talpawila Kurunduwatta Stadium under the 2021 Public Stadium Development Programme. Meanwhile, for items 1:1 and 1:2 of the bill, Rs.236,567 had been overpaid due to non-use of the prescribed rates introduced by the Southern Provincial Road Development Authority.	The facts will be investigated and dealt with in the future.	Appropriate rates should be used.
(b) The sabha had informally incurred an expenditure of Rs.253,069 for the development of a private road using Interlocks under the Rural Road Development Program 2021.	The facts will be investigated and dealt with in the future.	Contracts should be executed properly.