

Matara Municipal Council - 2024

1. Financial Statements

1.1 Adverse Opinion

The audit of the financial statements of the Matara Municipal Council for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024, statement of financial and operational performance, statement of changes in net assets and cash flow statement for the year then ended, and notes to the financial statements including material accounting policy information was carried out 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 (Authority 252) Section 219 of the Municipal Councils Ordinance and the Sub Section 10 (1) 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 statement of financial positions as at 31 December 2024 of the Matara Municipal Council, and of its financial performance and its cash flows for the year then ended in accordance with the 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 to be prepared.

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 exercise 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 the 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 Industry;
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources 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 includes special provisions regarding the following requirements.

- (a) The financial statements of the Municipal Council 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 financial statements presented included all the recommendations made by me in the previous year described in paragraph 1.6 of this report 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

1.6.1 Accounting Deficiencies

Audit Observations	Comments of the Council	Recommendation
(a) The loan amount of Rs.37.9 million and interest of Rs.1.5 million, which was obtained by the Urban Development Authority for the construction of the Matara Bus Stand Upper Floor Shop Complex and the bus stand, and later transferred to the Matara Municipal Council had not been accounted under liabilities in the financial statements.	Action will be taken to account in the 2025 financial statement.	Unrecorded loan balances, annual interest, and unrecorded interest up to now should also be recorded accurately.
(b) Creditor provisions had not been made for Rs.9.3 million in respect of 06 industries for which agreements had been signed and work had been completed during the year under review.	Creditor provisions have not been made for industries that have not submitted bills.	Creditor provisions should be made for Rs.9.3 million in relation to the industries that have been implemented during the year under the agreement.
(c) Creditor provision of Rs.3.3 million for the purchase of 21 computers to the council during the year under review had been overstated.	It will be corrected in next year's accounts.	Action should be taken to remove the overstated credit provision.
(d) The plate compactor machine purchased at a cost of Rs.1 million during the year under review had not been accounted as an asset.	Answers have not been given.	Accounts should be taken under machinery and equipment.

(e)	The value of the Bobcat machine belonging to the council had not been identified and accounted, and the value of the Gully Bowser had been overstated by Rs.1.8 million.	That the actions will be taken to include in the fixed assets register and financial statements, and that the value of the Gully Bowser will be assessed and the difference will be corrected.	The correct values of machinery and vehicles should be included in the financial statements.
(f)	To correct the Noticeboard Fee Control Account, an amount of Rs.703,350 was debited to the Surplus and Deficit Account through a journal entry without formal approval and resulting in an understatement of the balance of that account.	Expenses were incurred through supplementary estimates and accounts were kept in this manner also in the previous years.	Supplementary Estimated Expenditures should not be debited to the Surplus and Deficit Account.
(g)	Due to a journal entry debiting Rs.2.3 million to the Surplus and Deficit Account to correct the opening balance of the fund transfer account, the balance of that account was under accounted by that amount.	This was done to correct the debiting to the fund transfer account due to the settlement of employee loan balances from stamp duty receipts in the year 2022.	Action should be taken to correct the under-accounted amount.
(h)	In parallel with obtaining additional provisions through a supplementary estimate in the year under review, although Rs.67.5 million had been debited from the surplus and deficit account and credited to the other revenue account in the year under review through a journal entry, it was observed that this was an accounting entry relating to a transaction that did not take place in the Council.	Adjustments were made through journal entries using the accumulated fund for the expenses related to the supplementary estimate.	The incorrect accounting entries should be adjusted correctly in the year 2025.

1.6.2 Un-reconciled Control Account

Audit Observations

A difference of Rs.5.3 million was observed between the balances relating to 06 accounting subjects shown in the financial statements as at 31 December of the year under review and the balances shown in the relevant supporting documents.

Comments of the Council

It will be corrected in the 2025 financial statement.

Recommendation

The reasons for the difference should be examined and corrections should be made accordingly.

1.6.3 Documentary Evidence not made available for Audit

Audit observations	Comments of the Council	Recommendation
Due to the failure to submission of written evidence such as balance confirmation letters, detailed schedules, investigation reports and police reports for audit, the balances of 03 accounting subjects totaling Rs.9.9 million could not be satisfactorily examined.	That the 02 account balances have been referred to the Governor for write-off and that the schedules relating to the Council's deposit account will be submitted with the 2025 financial statements.	Relevant written evidence to support account balances should be submitted to the audit.

1.7 Non-Compliance

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

The following are examples of non-compliance with laws, rules, regulations and management decisions.

Reference to Laws, Rules and Regulations etc.	Non- Compliance	Comments of the Council	Recommendation
Regulation 571 of the of Financial Regulations of the Democratic Socialist Republic of Sri Lanka	The 191 retention deposit balances as at the end of the year under review, with a total value of Rs.6.7 million which were over 02 years old had not been settled.	The value of 191 balances exceeding 02 years should be retained for payment in the next year.	Deposit balances that have exceeded 02 years should be released promptly, otherwise they should be taken as council revenue in accordance with the financial regulations.

2. Financial Review

2.1 Financial Results

According to the financial statements submitted, the recurrent income exceeding the recurrent expenditure of the Council for the year ended 31 December of the year under review was Rs.163.7 million, and correspondingly, the recurrent income exceeding the recurrent expenditure of the previous year was Rs.143.1 million.

2.2 Revenue Administration

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

According to the information submitted by the Municipal Commissioner, the estimated revenue, billed revenue, collected revenue and arrears of revenue for the year under review and the previous year are shown below.

Source of Revenue		2024			2023				
		Estimated Revenue	Billed Revenue	Source of Revenue	Estimated Revenue	Billed Revenue	Source of Revenue	Estimated Revenue	Billed Revenue
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i)	Assessments and Taxes	91,617,628	88,370,228	65,536,231	84,225,917	36,775,793	43,920,938	49,573,197	61,391,920
(ii)	Rent	53,985,500	49,666,983	43,696,488	90,501,180	30,939,750	37,538,384	43,587,093	84,530,685
(iii)	License fee	33,405,000	37,607,152	37,812,961	12,213,248	23,250,000	32,849,221	32,221,121	12,419,057
(iv)	Other Revenue	162,046,900	227,133,416	218,008,769	35,711,970	171,660,800	181,702,095	189,212,113	26,587,323
	Total	<u>341,055,028</u>	<u>402,777,779</u>	<u>365,054,449</u>	<u>222,652,315</u>	<u>262,626,343</u>	<u>296,010,638</u>	<u>314,593,524</u>	<u>184,928,985</u>

2.2.2 Performance in collecting Revenue

The following are observations regarding the revenue collection performance of the council.

Audit Observations	Comments of the Council	Recommendation
(a) Assessment The assessment and tax arrears balance of Rs.61.39 million at the beginning of the year under review had increased to Rs.84.2 million by the end of the year under review. Out of which Rs.30.8 million was overdue for more than 05 years, and the total of arrears of assessment balances exceeding Rs.100,000 was Rs.17.2 million.	That the values stated are correct.	Arrears of assessments and taxes should be collected promptly within a specific time frame.
(b) Shop Rent (i) Out of 655 shops belonging to the Municipal Council, 603 were leased and the total arrears shop rent for 479 of them was Rs.79.7 million as at 31 December 2024. Of these, although 161 shops had a arrears of Rs.17.4 million for over 05 years, action had not been taken to recover or repossess the arrears shop rent.	That the rent has not been collected for a long time.	Arrears of rent should be collected within a specific time frame, otherwise action should be taken according to the agreement.

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| (ii) | Although according to paragraph 05 of the Circular No.SLG/LGC/2010/01/ dated 27 December 2010 of the Southern Province, Local Government Commissioner, lease agreements should be updated once every 03 years, the lease agreements relating to 130 shops belonging to the Matara Municipal Council had not been updated for a period ranging from 09 months to 92 years, and 05 shops had been leased without entering into agreements. | That the Finance Committee has taken decisions and initiated actions to take over the said shop to the council, and that the action will be taken promptly to enter into an agreement. | New lease agreements should be made for the shops and these agreements should be updated every 3 years. |
| (iii) | Although the assessed tax amount should be revised through a new assessment at every 05 years, 33 shops in Kotuwegoda had not been assessed for over 4 years. | That the actions were taken to take over the shop to the council that final notices were sent but did not respond. | The assessment should be carried out within a specific period and agreements should be made regarding the rent. |
| (iv) | The Municipal Council Fund had lost Rs.1.7 million in revenue due to non-collection of rent according to the 2019 valuation report for the shop premises acquired by the Multipurpose Cooperative Society Limited. | A new assessment will be made and action will be taken to recover the arrears amount from the date the original assessment was received, regardless of the assessment. | Arrears should be collected promptly within a specific time frame. |
| (v) | As of 31 December 2024, there was an arrears key money of Rs. 16.3 million in respect of 71 shops. | As of 31 May 2025, Rs.1.22 million of key money has been collected. | Arrears key money should be collected within a specific time frame or otherwise, action should be taken as per the agreements. |

3. Operational Review

3.1 Performance

The following are the observations made regarding the performance of the functions that the Council was required to perform under Section 4 of the Municipal Council Ordinance, namely, the regulation and control of matters relating to public health, public utility services and public roads, and the enjoyment, convenience and welfare of the people.

Audit Observations	Comments of the Council	Recommendation
(a) Failure to obtain development permits for buildings that had been constructed or were under construction.		
(i) Development permits had not been obtained for 07 buildings and 02 boundary walls that had been constructed and were being constructed at 07 locations within the Municipal Council area of authority contrary to Section 28(1) of Gazette Notification No.2235/54 dated 08 July 2021 containing the Planning and Development Orders/Regulations of the Urban Development Authority.	Final notices have also been sent to the places where unauthorized notices were posted, and further actions will be taken.	If unauthorized constructions can be regularized within a specific time frame, action should be taken to do accordingly or otherwise, action should be taken to remove them.
(ii) The Council had not taken actions to regularize the construction of 07 buildings that had been constructed without obtaining development permits in accordance with Schedule V of Volume II that included the planning and construction regulations of the 2010-2030 Development Plan for the Matara Municipal Council area by charging a fee of Rs. 2.7 million, or to take legal action in this regard.	Final notices have been sent to the places notified by the letter regarding the unauthorized posting of notices, and further actions will be taken.	If unauthorized construction can be regularized within a specific time frame, it should be regularized, or otherwise legal action should be taken.
(b) A tripartite agreement was entered into in 2014 between the Municipal Council, the Central Environmental Authority and a private company for a project to produce biogas from the waste collected by the council and thereby generate electricity, and 05 acres of the compost production land in the Kotawila area was allocated for the project. Although the construction of the project was to be completed within 6 months, the project had not been completed by the end of the year under review and due to the slowdown in compost production, the compost production machines were lying idle and decaying.	According to the discussions held with all the institutions related to this project, the Municipal Council will carry out waste management activities at this location until the close of this project and the commencement of the new project at Charlie Mountwatte, which is proposed for the new Solid Waste Management Center.	The new waste management project should be implemented within a specific period of time, and until then, a systematic waste management system should be implemented promptly in the Kotawila yard, where waste is currently managed.

3.2 Assets Management

Audit Observations	Comments of the Council	Recommendation
(a) Unclaimed Assets		
Action had not been taken to transfer legal ownership to the Council in relation to 38 lands totaling approximately 43 acres and 41 land plots whose size was not specified.	It is difficult to identify whether any details are included related to the 41 land plots whose size is not specified and separately identify.	Action should be taken to specifically identify the lands owned by the council and to ensure the legal ownership of the relevant lands.
(b) The roof of the sports pavilion at the Sanath Jayasuriya Stadium had decayed and the mesh fence used for security at the stadium had decayed and collapsed in some places. Also, although the toilet system at the stadium was in a very dirty condition, formal action had not been taken in this regard.	It is stated that a contract has been signed with the District Cricket Association to repair the roof of the sports hall, and that the works administrator in charge of the stadium has been assigned in writing to supervise the cleaning of the toilet system.	The sports pavilion and security fence should be constructed within a specific time frame. It should be ensured that the toilet system is cleaned regularly.

3.3 Human Resource Management

Audit Observations	Comments of the Council	Recommendation
According to the staff plan, 62 positions remained surplus at the end of the year under review.	The positions have been forwarded to the Commissioner of Local Government for approval.	Staff requirements should be reviewed and appropriate action taken accordingly.