

Polonnaruwa Municipal Council
Polonnaruwa District

1. Financial Statements

1.1 Presentation of Financial Statements

The Financial Statements for the year 2019 had been presented for the Audit on 20 April 2020 and the Summary Report of the Auditor General on the Financial Statements and the Detailed Management report had been forwarded to the Mayor on 28 July 2020 and 29 July 2020 respectively.

1.2 Adverse Opinion

In my opinion, because of the significance of the matters discussed in the basis for Adverse Opinion section of my report, the accompanying financial statements do not give a true and fair view of the financial position of the Polonnaruwa Municipal Council as at 31st December 2019 and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Basis for the Adverse Opinion

(a) Accounting Policies

Audit Observation -----	Recommendation -----	Comments of the Accounting Officer -----
(i) Although the cash balance as at 31 st December in the year under review was Rs.18, 285,781 according to the MC-10 receipts and payments book, it had been overly shown by Rs.434,807 in the statement of financial position as Rs.18,720,588.	Correct balance should be accounted.	Agreed. Actions will be taken to correct that balance.
(ii) The court fines income out of Rs. 8,463,225 owned to Municipal Council relevant to the 07 months from January to July 2018 recovered by the name of Thamankaduwa Pradeshiya Sabha had not been identified and accounted.	Court fines income relevant to Municipal Council should be identified and accounted.	Accepted. Actions will be planned to identify court fines income owned to Municipal Council relevant to 2018.
(iii) Arrears of court fines income of Rs. 1,353,471 relevant to the period from August to December 2018 had been accounted as a income of the year under review.	Should be accounted clearly.	Accepted. Understated arrears of income relating to 2018 was identified and it will be corrected in the year ending 31 st December 2020.

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| (iv) | Arrears of court fines income of Rs. 512,333 relevant to 06 months from June to November in the year under review had not been accounted and arrears of court fines income for the month of December had not been identified and accounted. | Should be correctly accounted by identifying arrears of money. | Accepted. An accounts statements from June to November has been received in year 2020 while account statement for the December had not been received. |
| (v) | Receivable stamp duty income relevant to year under review had not been identified and accounted. | Should be correctly accounted by identifying arrears of money. | Accepted. Accounts statements had been received in June 2020. It has been documented. |
| (vi) | Provision had not been made for the Audit fees for the year under review in the financial Statements. | Provisions should be made for the Audit Fees. | Accepted. Actions will be taken to make provisions for the Audit fees. |
| (vii) | Rs,450,000 for letting the two stories building near the Polonnaruwa roundabout had not been accounted. | Should be correctly accounted. | Accepted. Actions will be taken to revise. |
| (viii) | Actual value of the Polonnaruwa shopping complex had not been shown by the financial statements and a Rs.264,101,707 had only been accounted without identifying and accounting total expenses beard by the North Central Chief Secretary office at various occasions. | Correct value as at 31 st December 2019 should be accounted. | Since 1 st stage had only been completed, it had been accounted. By 2020 all works has been completed and value of that of Rs.660, 125,829 will be accounted. |
| (ix) | A value of Rs.8, 475,000 of solar panel, fixed in the territory area of the Polonnaruwa Municipal Council in the year under review and previous years had not been accounted. | Should be accounted under the fixed assets. | It was missed because of lateness of giving category numbers and actions will be taken to document in the year 2020. |
| (x) | A value of Rs.7, 671,276 of the places of garbage discarding, constructed in territory area in the year under review had not been accounted. | Should be accounted under the fixed assets. | Actions will be taken to enter in fixed assets in the financial statements in the year of 2020. |
| (xi) | Value of 05 items of land, buildings and other assets handed over to Polonnaruwa Municipal Council under the various projects and laws had not been identified and accounted. | Should be identified and accounted under the fixed assets. | Actions will be taken to enter to the financial Statements of 2020 by appointing a fixed assets board of survey, to finish the survey within the next month and to update fixed assets register. |

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| (xii) | A value of Rs.9,939,115 of equipment given by the Local Government Department in the month of June 2017 and holding in the garbage management Center had not been accounted. | Should be accounted as assets. | Actions will be taken to enter to the financial statements of 2020 by completing the survey within next month through appointed board of survey. |
| (xiii) | Rs.2,573,110 of arrears of court fines relevant from October to December 2017, belonged to Polonnaruwa Municipal Council had not been accounted as assets. | Should be correctly accounted. | Given answer is not relevant to the paragraph. |

(b) Unreconciled Accounts

Audit Observation	Recommendation	Comments of the Accounting Officer
(i) A difference of Rs.8, 351,406 in the value of land and buildings had been appeared between the schedule presented with the financial statements and fixed assets register as at 31 st December in the year under review.	Should be compared and accounted correctly.	Accepted. Actions had been taken for correction.
(ii) A difference of Rs.33, 657,556 in industrial creditors was observed according to the schedules presented with financial statements of Rs.35, 798,649 and statement of financial position of Rs.69,456,205 as at 31 st December in the year under review.	Correct schedules should be presented with financial statements.	Accepted. Creditors cannot be identified due to disability of finding reports for the industrial creditor balances divided between pradeshiya sabha and municipal council.
(iii) A difference of Rs.23, 909,764 in industrial debtor balance was observed according to the balance between the schedule presented with financial statements of Rs.30, 124,998 and statement of financial position of Rs.54, 034,762 as at 31 st December in the year under review.	Correct schedules should be presented with financial statements.	Accepted. Debtors cannot be identified due to disability of finding reports for the industrial debtors balance divided between pradeshiya sabha and municipal council.
(iv) A difference of Rs.993, 378 in sundry creditors were observed according to the schedules presented with financial statements of Rs.4, 093,812 and statement of financial position of Rs.3, 100,434 as at 31 st December in the year under review.	Correct schedules should be presented with financial statements.	Accepted. Actions will be taken to correct.

- (v) A difference of Rs.3,178,629 in income received in advance was appeared according to the schedules presented with financial statements of Rs.1,301,997 and statement of financial position of Rs.4,480,626 as at 31st December in the Year under review.
- Correct schedules should be presented with financial statements.
- Accepted. Actions will be taken to correct.

(c) Lack of documentary evidences necessary for audit

Non presenting of information to the audit

Audit Observation	Recommendation	Comments of the Accounting Officer
Necessary information for the audit of accumulated value of Rs.807, 701,344 on 06 items of accounts had not been presented to the audit.	Evidences for the confirming in the account balances should be furnished.	Actions will be taken to update fixed assets registers, inventory registers and other registers by appointing and doing a board of survey.

1.4 Non Compliances

Non-Compliances with Laws, Rules, Regulations and Management Decisions are as follows.

Reference to Laws, Rules, Regulations and Management Decisions	Value	Non-Compliance	Recommendation	Comments of the Accounting Officer
	Rs.			
(a) Municipal Council ordnance				
(i) Clause 35 and 37		Lands and other properties like parks, roads, common buildings, street lamps assigned to the Polonnaruwa	Properties should be identified and entered to the assets registers.	Accepted. Board of survey had been appointed on 22.05.2020 and actions will be taken to finish the survey within next month and to update fixed assets register.

			Municipal Council under the Municipal Council ordinance had not been identified and entered to the assets register.		
(ii)	Clause 247(2)	-	Up to 1 percent fees from 08 hotels registered in the tourism board had not been charged.	Actions should be taken to charge the fees.	Unpaid hotels have been informed over the telephone and in writing.
(iii)	Clause 253(1)	2,626,375	Rent income of Rs.2,626,375 from 148 stalls was in arrears.	Actions should be taken to recover arrears or to act according to the standard by laws.	Majority has been recovered by the February 2020. Charging of arrears and monthly rent for the months of March, April and May had been stopped on the approval of the governor due to corona out break and arrears will be charged after getting approval again.
(b)	Consolidated service circular No 2 /2017 of the Ministry of public Administration and Management.		Actions had not been taken regarding the shortages of 640 library books valued to Rs.42,484 of Pulathisi Buddhi Mandapa library and unvalued 122 books of the Newtown library.	Action should be taken regarding the missed and shortage of library books.	Action was being already taken as per the circular.
(c)	Assets Management circular No 2/2017 dated 21 st December 2017 issued by the Ministry of Finance and Mass Media.		Actions had not been taken to transfer 23 vehicles in the name of Municipal Council.	Actions should be taken to transfer the ownership of the vehicles.	Necessary documents to the transfer have been presented to the commissioner of Motor Traffic. It will be able in the future to transfer said 23 vehicles by the name of Polonnaruwa Municipal Council.

(d)	Circulars of the Commissioner of Local Government, North Central Province				
(i)	Circular No NCP/LG/9/7/19 dated on 18.07.1994				
	Clause 2		Although rent should be valued once in every 05 years, fees had been charged from 151 stalls belonged to Sabha on the assessment relevant to year 2007.	Charges should be recovered according to the valuation done within the specified period.	Higher rents were charged by a temporary valuation from the year 2020 and valuation department has been informed by the letter dated 09.10.2019
(ii)	Letter No. NCP/LG/AC/01 dated 25 th March 2019				
	Explanation No 01		Fixed assets register regarding lands and buildings had not been prepared.	Fixed assets register should be made by doing a land and building survey.	Board of survey has been appointed and actions will be taken to finish the survey within the next month and to update the fixed assets register and to enter in to the financial statements of year 2020.
(e)	The Extra ordinary Gazette No 2086/15 of Democratic Socialist Republic of Sri Lanka dated 29 th August 2018	748,720	Actions had not been taken to recover Rs.748,720 allowances paid in the years of 2018, 2019 contrary to the gazette.	Actions should be taken to recover back.	It was decided at the General Assembly held in 14.01.2020 to recover the allowances paid, from the members in 12 installments. Action had been made to charge above balance from the members allowances from January 2020. A confirmation had been taken from the son for the balance

which should be charged from the deceased deputy Mayor.

1.5 Receivable and Payable Accounts

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) Actions had not been taken to identify and settle Rs.2,699,839 of works to be charged which is shown as receivables in the financial statements as at 31 st December 2019 and board forwarded from long time period.	Actions should be taken to identify and recover.	Accepted. It is a receivable balance from Polonnaruwa Pradeshiya Sabha. Actions will be taken to identify and recover.
(b) Actions had not been taken to identify and settle the Rs.997,128 of general supply creditors shown as the payables in the financial statements as at 31 st December 2019 and board forwarded for a long period.	Actions should be taken to identify and settle.	Accepted. Creditors can't be identified as disability of finding information for the industrial creditors divided proportionately between Pradeshiya Sabha and Municipal Council. Future actions will be taken after discussion with the accountant of Local Government.
(c) A key money of Rs.1,370,000 that should be recovered from year 2018, had shown in the financial statements without recovering.	Actions should be taken to recover arrears.	Accepted. It is kindly informed that actions had been taken by this to recover.
(d) Actions had not been taken to settle Rs.2,512,622 due from Plonnaruwa Pradeshiya Sabha from year 2018	Actions should be taken to recover arrears.	It is recoverable from Plonnaruwa Pradeshiya Sabha. There are no schedules.

2 Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure for the year ended 31st December 2019 amounted to Rs.24,871,603.

2.2 Financial Control

(a) Idle Bank Accounts

Audit Observation	Recommendation	Comments of the Accounting Officer
Three bank accounts existed before the establishing of Municipal Council comprising a balance of Rs.629,587 were in idle.	Should be utilized for a fruitful activity.	Accepted. Actions are being taken by this moment to close the accounts and get cash by getting recommendation of Polonnaruwa Pradeshiya Sabha and approval of commissioner of Local Government.

2.3 Revenue Administration

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

Information relating to the Estimated Revenue, Billed Revenue, Collected Revenue and Arrears of Revenue for the year under review and previous year appear below.

Source of Revenue	2019				Total arrears as at 31 st December
	Estimated Revenue	Billed Revenue	Collected Revenue		
	Rs.	Rs.	Rs.	Rs.	
(i) Rates and Taxes	23,507,188	19,906,477	15,770,299	19,133,917	
(ii) Rent	18,823,558	7,706,622	6,503,056	2,626,375	
(iii) License fees	7,200,000	5,127,000	5,127,000	-	
(iv) Other income	13,000,000	10,116,550	-	40,015,201	
Total	62,530,746	42,856,649	27,400,355	61,775,493	

2.3.2 Rates and taxes

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) Opening arrears of rates income in year 2019 of Rs.12,233,286 with billed rates income as at 31 st December 2019 of Rs.16,924,977, the total income should be collected was Rs.29,158,263 and out of that Rs.13,467,349 had been collected. Arrears of income according to the information furnished was Rs.15,690,914.	Actions should be taken to collect arrears of rates.	A portion of this arrears can't be recovered due to the billing of rates for the government and semi government buildings broken-down and removed under the Pibidemu Polonnaruwa project road development. Rs.663,286 from the arrears had been approved by the General Assembly and actions are being taken to identify and write off rates for the properties removed.
(b) Action had not been taken to identify new unit of rates and to impose rate for the developed areas for which rates can be imposed.	Rates should be collected after identifying the suitable areas.	Temporary valuation was done at the end of year 2018 and new valuation had been requested from valuation department.

2.3.3 Rent

Audit Observation	Recommendation	Comments of the Accounting Officer
Receivable rent for the building near the Polonnaruwa roundabout was Rs.514,000 by giving for monthly rent of Rs.50,000 from March 2019.	Actions should be taken to charge arrears of rent.	Agreement had been signed. Actions will be taken to charge arrears in future.

2.3.4 Court fines and Stamp Duty

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) According to the financial statements, arrears of court fines income due from Chief Secretary and other officers in North Central Provincial	Correct arrears should be identified and recovered according to	Accounts statements for Rs.682,928 of court fines has been received by 05.12.2019

Council as at end of the year under review was Rs.6,829,928 but it should be revised.

the recommendation of the audit.

and accounts statement up to the November of year under review has been received in year 2020.

(b) According to the financial statement presented, arrears of stamp duty income for the year 2018 was Rs.33,185,273 and receivable stamp duty income for the year 2019 had not been identified.

Actions should be taken to identify the correct value and to account.

Accounts statements relating to year 2019 had been received on 18.06.2020 and arrears was Rs.4,555,650.

2.3.5 Visual Dysfunction

Audit Observation

Recommendation

Comments of the Accounting Officer

When handing over the license fees collected at the field, lesser income had been handed over by changing duplicate of the receipts in 04 occasions of value of Rs.8,750.

Actions should be taken to charge relevant money and get disciplinary actions.

Preliminary inquiry is being conducted.

3 Operating Review

3.1 Performance

The following matters were revealed with regards to duties to be fulfilled by the Sabha in terms of section 4 of the Municipal Council Ordinance such as regularization and control of matters relating to public health, common amenities and public roads healthy environment of the public, facilities, welfare etc.

(a) Action Plan

Audit Observation

Recommendation

Comments of the Accounting Officer

Action plan had not been prepared for the year under review for the activities should be performed by the Municipal Council according to the imposed by laws.

Action plan should be prepared.

Action plan had been prepared for the year 2020.

(b) Sustainable Development Goals

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>Although Sabha had been aware about Sustainable Development Goals introduced by the United Nations Organization, goals relating to Sabha had not been identified correctly out of that goals and there was no methodology for collecting data to measure goals and targets. Financial Provisions for achieving the sustainable development targets in year 2017, 2018, 2019 had not been identified. Methodology for training the personnel of the entity for achieving targets and other state institutions which should be get connected to achieve targets had not been identified.</p>	<p>Identifying the goals relevant to Sabha, making a methodology for collecting data, financial allocation, identifying connected entities should be done.</p>	<p>Agreed.</p>

(c) Shortages of expected output level

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>Estimated 22 projects valued to Rs.12,100,000 out of 24 projects valued to Rs.15,100,000 proposed by the budget of the year under review had not been implemented.</p>	<p>Actions should be done according to the budget.</p>	<p>Development plan in the budget prepared for the year 2020 has been presented through action plan.</p>

3.2 Human Resources Management

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) Deficits and Surplus of Employees

<p>(i) Five posts including municipal commissioner, deputy municipal Commissioner, Medical officer, veterinarian, municipal engineer belonged to senior level were in vacant.</p>	<p>Actions should be taken to fill the necessary positions.</p>	<p>North Central Local Government Department and Polonnaruwa Municipal Council have informed to the public service commission at various time.</p>
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| (ii) | 22 vacancies in various positions and surplus in 03 positions belongs to secondary level were existed. | Actions should be taken to fill the necessary positions. | North Central Local Government department and Polonnaruwa Municipal Council have informed to the public service commission at various time. |
| (iii) | 23 vacancies and 08 surpluses in various positions belonged to primary level were existed. | Actions should be taken to fill the vacancies and to regularize surplus. | Although actions were taken to recruit for the primary level as decision taken by the General Assembly held in 27 August 2019. It was unable to recruit due to stop of the recruitment by the circular No DMS/POLICY/Recruitments and dated 05.02.2020. |

3.3 Assets Management

3.3.1 Idle Assets

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| (a) Land in which tractor corporation existed, Dayata Kirula stalls, and Polonnaruwa city center had been in idle from 06 months to 06 years without using commercial activities. | Should be fruitfully utilized. | Actions had been planned to implement a development activity in the land in which tractor corporation existed after as soon as conflicts are settled. Dayata Kirula stalls are not in a usable condition. Repair has been started. It will be tendered after finishing repairing. Polonnaruwa city center has been tendered by this moment and action had been taken to open for the public in July 2020. |
| (b) Three machineries valued to Rs.10,743,000 existed in the garbage management center of Municipal Council had been idle from 01 to 05 years. | Should be fruitfully utilized. | It had been removed from the usage since operating expenses are very high. North Central Local Government Department had been |

inquired about the things to do for these.

3.4 **Controversial Transactions**

Audit Observation

Recommendation

Comments of the Accounting Officer

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| (a) | Procurement procedures had not been regularly followed for the selection to create official web for the Municipal Council and action had not been taken to transfer the ownership of it. | Actions should be taken to follow the procurement procedures regularly and to transfer the ownership. | Procurement decision had not been entered due to a mistake since it was a urgent activity and action will be taken to transfer the ownership in the future. |
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4 **Accountability and Good Governance**

4.1 **Internal Audit**

Audit Observation

Recommendation

Comments of the Accounting Officer

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| (a) | Internal Audit plan prepared for the last 06 months of the year under review had not been implemented. | Internal Audit Plan should be implemented. | Accepted. Audit plan had been prepared for the year 2020. |
| (b) | Recommendations given by the Internal Auditor regarding a narrow area had not been implemented by the management. | Recommendations in the internal audit reports should be implemented. | Accepted. Actions will be taken to correct in 2020. |