

## **Auradhapura Municipal Council - 2021**

### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Anuradhapura Municipal Council, for the year ended 31 December 2021 comprising the statement of assets and liabilities as at 31 December 2021 and the statement of comprehensive income, statement of changes in net assets/equity, cash flow statement, and other explanatory information, including a summary of significant accounting policies, 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 Section 219 of the Municipal Council Ordinance (Cap.252) and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Anuradhapura Municipal Council, as at 31 December 2021, and of its financial performance and cash flow 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 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 Scope of Audit (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 (i) (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 Non-compliance with Sri Lankan Public Sector Accounting Standards for Local Authorities

<b>Non-compliance with reference to relevant standard</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
In accordance with Sri Lanka Public Sector Accounting Standard No. 3.7 for Local Authorities, budgeted information should be presented in the financial statements for that period in the budget documents prepared by the Municipal council, however the financial statements were presented without budgeted information.	The financial statements have been prepared based on Sri Lanka Public Sector Accounting Standard No.3.7 for Local Authorities.	Action should be taken according to Sri Lanka Public Sector Accounting Standards No.3.7.

### 1.6.2 Accounting deficiencies

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) The fixed deposit interest income amounting to Rs.781,844 was shown as Rs.1,394,344 in the statement of assets and liabilities as such it was overstated by Rs.612,500 as at 31 December of the year under review.	Fixed deposit interest has been calculated correctly.	Fixed deposit interest due on 31 December should be calculated correctly.
(b) Damages and losses of Rs.4,934,124 incurred by the Municipal Council was understated in the financial statements.	Action will be taken to do the adjustments in the coming year.	Correct damage and loss values should be identified and presented in the financial statements.

(c)	The values of 06 garbage trailers of the Municipal Council were not calculated and accounted under non-current assets, and although the values of 02 fire trucks and 13 trailers were fully depreciated, although those vehicles are still in use, Action had not been taken to revaluated and account the said vehicles under non-current assets.	Action will be taken to reassess and account assets in the coming year.	Action should be taken to recalculate and account assets under non-current assets.
(d)	Under an amount of Rs.32,739,981, which were accounted as capital expenditure under Central Government aid in the previous year, the value of culverts and roads of Rs.19,357,320, which were accounted as debtors and creditors, were not accounted as capital grants.	Action will be taken to rectify in the future.	Relevant capital expenditure should be accounted under assets and capital grants.
(e)	Capital expenditure of Rs.27,339,733 and recurrent expenditure of Rs.2,625,822 accounted as debtors and creditors in the year under review were not mentioned in the statement of assets and liabilities and statement of comprehensive income, and as such the value of fixed assets and the value of capital grants had been understated by an amount of Rs.27,339,733 and recurrent grants had been understated by an amount of Rs.2,625,822.	Action will be taken to rectify in the future.	Capital expenditure and recurrent expenditure should be correctly recorded in the statement of assets and liabilities and statement of comprehensive income.
(f)	Recurrent expenditure amounting to Rs.3,209,146 was accounted as capital expenditure in the year under review.	Action will be taken to correctly record capital expenditure and recurring expenditure in the financial statements of the coming year.	Capital expenditure and recurring expenditure should be correctly identified and accounted.
(g)	The fixed assets constructed by incurring capital expenditure amounting to Rs.32,391,108 had not been accounted in the year under review.	It will be presented by the financial statements in the coming year.	Action should be taken to account capital expenditure related to the year under review as fixed assets.
(h)	Donation receipts amounting to Rs.48,080,074 had been accounted for as capital grants in the statement of assets and liabilities of the year under review.	Action will be taken to rectify in the next year.	Action should be taken to make corrections by journal entries.

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| (i) | Although capital grants amounted to Rs.74,735,898, it was shown in the comprehensive income statement as Rs.13,221,590, as such it was understated by an amount of Rs.61,514,308 as at 31 December of the year under review.      | Action will be taken to rectify.             | Action should be taken to make corrections by journal entries. |
| (j) | Although the capital expenditure grant value recognized in surplus or deficit amounted to Rs.3,397,025, it was shown as Rs.1,935,732 in the comprehensive income statement, as such understating it by an amount of Rs.1,461,293. | Action will be taken to rectify.             | Action should be taken to make corrections by journal entries. |
| (k) | The value of uncertified and uncompleted work amounted to Rs.79,030,894 was accounted as debtors and creditors as at 31 December of the year under review.  | Action will be taken to remove these values. | Uncertified and unfinished work should not be accounted.       |

### 1.6.3 Un-reconciled Control Accounts

#### Audit Observation

There was a difference of Rs.10,976,143,439 between the values mentioned in the financial statements and the values mentioned in the schedules of 19 items.

#### Comment of the Council

Action will be taken to rectify in the next year.

#### Recommendation

Action should be taken to investigate and rectify the reason for the changes.

### 1.6.4 Lack of Documentary evidence for audit

#### Audit Observation

Schedules and other documents were not submitted to confirm house rent debtors amounting to Rs.2,683,312

#### Comment of the Council

Action will be taken to prepare the schedules to verify the balances and submit them to the audit.

#### Recommendation

Schedules and other documents related to verifying the value of house rent should be submitted for audit.

## 1.7 Non-compliances

### Non-compliance with the Laws, Rules, Regulations, and Management decisions

The instances of Non-compliance with the Rules, Regulations and Management decisions are given below.

<b>Reference to laws rules and regulations</b>	<b>Non-compliance</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) Sections 5.3.1 and 7.2 of Chapter xix of the Establishment Code of the Democratic Socialist Republic of Sri Lanka	The former Municipal Commissioner who was transferred from 21 June 2016, has not handed over the official Quarters and an amount of Rs.201,017 from November 2009 to June 2016 and an amount of Rs.228,033 from 01 January 2020, to March 2022 was not collected as rent for his residence in that Quarters and penalty rents amounting to Rs.376,643 was also not collected during the period of stay (July 2016 to March 2022 report date). In this regard, action had not been taken according to the proceedings under the Government Housing (Recovery of Possession) Act No. 07 of 1969.	No comments.	Action should be taken according to the 5.3.1 and 7.2 of Chapter xix of the Establishment Code of the Democratic Socialist Republic of Sri Lanka.
(b) Financial Regulation 756 of the Democratic Socialist Republic of Sri Lanka	A board of survey was not conducted for the year under review.	Action will be taken to carry out the board of survey and submit the report for audit	Action should be taken according to the Financial Regulation 756.
(c) The Circular No. 30/2016 of the Secretary of the Ministry of Public Administration dated 29 December 2016	36 active vehicles owned by the council had not been tested for fuel consumption.	Action will be taken conduct the fuel inspection after solving the fuel problem.	Action should be taken according to the Public Administration Circular No. 30/2016 of the Secretary of the Ministry of Public Administration dated 29 December 2016.

## 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 2021 amounted to Rs.46,807,370 as compared with excess of revenue over recurrent expenditure amounted to Rs.46,960,582 in the preceding year.

### 2.2 Financial Administration

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) Actions were not taken after looking into reasons regarding 23 checks with a value of Rs.2,466,494 which were deposited however were not realized in relation to 06 current accounts of the Anuradhapura Municipal Council.	As the information is difficult to find, it has been submitted to the management committee to take decisions in this regard.	Action should be taken promptly regarding those checks as per the provisions of Financial Regulation 189.
(b) Action had not been taken to identify and credit to income items regarding direct deposits amounting to Rs.6,553,801 received on 16 occasions related to 06 current accounts.	Most receipts are correctly identified and recorded in the cash book.	The relevant direct deposits should be identified and credited to the income items.

### 2.3 Revenue Administration

#### 2.3.1 Performance of Revenue Collection

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) <b>Rates and Taxes</b>  Action had not been taken to collect arrears of assessment tax amounting to Rs.112,725,978 as at 31 December of the year under review.	It was not possible to recover the relevant funds due to the Corona epidemic situation	Action should be taken according to the Municipal Ordinance Act.
(b) <b>Rent</b>  Action had not been taken to collect arrears of rent amounting to Rs.58,550,284 as at 31 December of the year under review.	It was not possible to recover dues due to the Corona epidemic situation in the country.	Action should be taken promptly to recover the arrears.

**(c) License Fees**

Action had not been taken to collect trade license income amounting to Rs.4,200,200 as at 31 December of the year under review.

Due to the corona epidemic situation, the collection of license fees was at a low level and action had been taken to prosecute businesses that do not pay licenses.

Action should be taken to promptly recover trade license fees due.

**(d) Court Fines and Stamp duty**

Court fines amounting to Rs.1,182,193 and stamp duty amounting to Rs.21,242,282 was not collected from the Chief Secretary of the Provincial Council and other authorities as at 31 December of the year under review.

Action will be taken to recover the due court fines.

Action should be taken to collect promptly the collectable due court fines.

**3. Operational Review**

The following matters were observed with respect to the execution of duties charged with the Council through Section 04 of the Municipal Council Ordinance , being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

**3.1 Management Inefficiencies**

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) Action had not been taken to investigate and identify the responsible parties regarding the fire on 18 September 2014 of the excavator used for the Keerikkulama Pilisaruru project and collect Rs.3.3 million as according to the recommendations of the Financial Regulation 104.	No approval or formal disciplinary order has been given by the Local Government Commissioner to recommend the inquiry reports.	Action should be taken promptly to complete the tests according to the recommendations of the Financial Regulation 104.
(b) The financial loss of Rs. 47,174,493 that had occurred to the council fund due to two irregularities that had occurred in the Municipal Council between 2012 and 2018 had not been recovered in the year under review.	Rs.64,164 have been recovered from the loss and action is being taken to recover the remaining amount.	Action should be taken to recover the financial loss from the concerned parties.



(c) Action had not been taken to recover the financial loss to the council fund from the payment of an amount of Rs.1,816,557 as wages and allowances to an employee who was transferred to another institution in the year 2013 from the date of transfer to June 2018 as revealed in the preliminary investigation reports.	After the completion of the related disciplinary investigations, the Chief Ministry will carry out further action according to the disciplinary orders.	Action should be taken to recover promptly the financial loss confirmed from the initial investigation reports from the relevant parties.
(d) Action had not been taken to pay and resolve a deposit balance amounting to Rs. 7,635,205 which has not been paid and released to the relevant parties during the period between the years 02 and 07 even in 2021.	These deposit balances are non-resolvable balances	Action should be taken to identify and resolve balances.
(e) Action had not been taken to pay off an amount of Rs.118,717 older than 2 years owed to the Inland Revenue Department even during the year under review.	Action is being taken to pay the taxes while under consultation with the Inland Revenue department.	Action should be taken to settle the balance by payment.
(f) Action had not been taken to pay and settle an amount of Rs.489,760 to be paid to the Sri Lanka Railway Department from the year 2019 and an amount of Rs.1,426,907 to be paid to other creditors even during the year under review.	Action will be taken to resolve the creditors after payment.	Action should be taken to pay promptly and resolve creditor balances.
(g) Action had not been taken to pay the audit fees of Rs. 4,243,250 from 2011 to 2020.	Action will be taken to pay the audit fee as per the decision of the Council.	Action should be taken to pay promptly audit fees.
(h) An amount of Rs. 864,840 had not been collected since machines and gully bowsers of the Municipal Council were provided without collecting money as at 31, December 2021.	Action will be taken to recover the arrears before the end of this year.	Action should be taken to promptly collect the arrears to be recovered.

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| (i) | Action had not been taken to resolve 02 loan balances amounting to Rs.3,029,562 which have existed for more than 05 years according to the financial statements of the Municipal Council and the parties to whom the debt balances are to be collected have not been identified. | Action will be taken to recover the remaining arrears during this year.             | Action should be taken to identify the parties to whom the balance of the loan should be charged and settle the balances. |
| (j) | Action had not been taken to resolve 03 loan balances of Rs.718,717 that have been due for more than 02 - 03 years.  | Action will be taken to make the relevant payments.                                 | Action should be taken to identify the parties to be paid and payments should be made.                                    |
| (k) | Although according to the reports of the legal department, 29 parties had filed lawsuits against the council and 04 external parties had been sued by the council, yet this had not been disclosed in the financial statements as at 31 December of the year under review.       | Action will be taken to disclose it in the financial statements in the coming year. | Contingent assets and liabilities should be disclosed in the financial statements.  |