

Polonnaruwa Municipal Council - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Polonnaruwa Municipal Council including the statement of financial statements for the year ended 31 December 2022 comprising the statement of assets & liabilities as at 31 December 2022, statement of comprehensive income, statement of changes in net assets/ equity, statement of cash flow 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 the Municipal Councils Ordinance (Chapter 255) 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 financial statements give a true and fair view of the financial position of the Polonnaruwa Municipal Council as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standard for Local Authorities.

1.2. Basis for Qualified Opinion

Based on the matters described in Paragraph 1.6 of this report I express a qualified opinion in respect of financial statements.

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 Sri Lanka Public Sector Accounting Standard for Local Authorities 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, enable to preparing 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 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 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

National Audit Act, No. 19 of 2018 includes specific provisions for 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 includes the recommendations made by me in the previous year 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 Observation	Comments of the Council	Recommendation
(a) The interest expenditure payable to Local Loan and Development Fund for the year under review had been understated by Rs.85,583.	Actions will be taken to correct.	All expenses related to the accounting period should be identified and brought into accounts.
(b) Receipt of court fines amounted to Rs.3,236,533 and stamp duty of Rs.205,000 received in relation to the preceding year had been accounted for as miscellaneous income in the year under review.	-do-	It should be brought to accounts on accrual basis.
(c) Although the contracts valued at Rs.7,781,329, which were shown as work-in- progress in the preceding year had been completed, they have been stated as work-in -progress in the year under review as well.	-do-	Financial statements should be furnished accurately.
(d) Roads, bridges and culverts valued at Rs.8,129,739 and buildings valued at Rs.22,063,386 that had been completed as at 31 December	-do-	-do-

of the year under review had not been shown under non-current assets.

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| (e) | A tab machine with a net value of Rs.21,675 as at 31 December of the year under review had been shown as Rs.216,750 in to financial statements. | -do- | -do- |
| (f) | The toy equipments received under the provisions of LDSP Project during the year under review valued at Rs.5,282,051 had not been entered in to financial statements. | -do- | -do- |
| (g) | Although the value of 06 mobile stalls owned by the Council was Rs.1,560,000 the value of 02 mobile stalls had been understated by Rs.870,874 in the financial statements. | -do- | -do- |
| (h) | The value of equipment received in the year under review for 03 E-libraries amounted to Rs.1,438,096 had not been shown in the financial statements. | -do- | -do- |
| (i) | Total capital grants received from the government and other provincial council institutions amounting to Rs.45,089,831 had not been recognized in the financial statements. | -do- | -do- |
| (j) | Although the value of a stock of mercury bulbs was Rs.51,430 as per the stock records, it had been stated as Rs. 514,300 by overstating Rs. 462,870 in the financial statement. | -do- | -do- |
| (k) | The capital grants of Rs. 19,672,519 received from the Government and | -do- | -do- |

provincial council institutions in the year under review for continuous projects in the year 2021, had not been shown in the statement of changes in equity.

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| (l) | Twenty four items amounting to Rs. 1,270,689 hold at the end of the year under review as per stock registers had not been entered into the stocks in the financial statements. | -do- | Values of all the stocks in hand should be entered in the financial statements. |
| (m) | Due to failure of accurately identifying the value of 22 store items, the stock had been overstated by Rs. 188,301 in the financial statements. | -do- | Accurate value should be recognized and brought to accounts. |

1.6.2 Unreconciled Control Accounts

Audit Observation	Comments of the Council	Recommendation
There was a difference of Rs. 274,040 between the sum of the 03 account balances as at 31 December of the year under review and the balances of the respective schedules.	Actions will be taken to correct.	Reconciliations should be carried out.

1.6.3 Lack of Evidence for Audit

Audit Observation	Comments of the Council	Recommendation
Due to non-submission of balance confirmations, updated documents, revenue documents, arrival documents, departure documents and work done reports in respect of 05 account balances valued at Rs. 88,522,252 as at 31 December of the year under review for audit, it could not be satisfactorily checked.	Submitted.	Although it has been stated as submitted, since they were not submitted, the unfurnished evidences should be presented.

1.7 Non-compliance

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

The instances of non-compliance with Laws, Rules, Regulations and Management Decisions are shown below.

Reference to Laws, Rules, Regulations Management Decisions etc.	Non-compliance	Comments of the Council	Recommendation
(a) Special Gazette No. 2086/15 dated 29 August 2018	An amount of 912 liters of fuel had been obtained for the cab used by the Mayor of the municipal council on 07 occasions exceeding the limit of 400 liters of fuel approved per month .	It has been forwarded to the Local Government Department to receive approval to get fuel.	Actions should be taken not to exceed the limits.
(b) Section 83 (1) of Part vi of Gazette No. 2235/54 dated 08 July 2021 published by indicating the provisions of the Urban Development Act No. 41 of 1978 of the National State Assembly.	Certificates of Conformity had not been obtained by 119 people who had obtained development permits by getting approved building plans in the years 2018 and 2019 .	It has been noted to inform to obtain Certificates of Conformity and proceed further.	Necessary actions should be taken against persons who do not obtain Certificates of Conformity.

2. Financial Review

2.1 Financial Results

As per the financial statements presented, the expenditure exceeding the revenue of the Municipal Council for the year ended 31 December 2022 was Rs.29,640,178 and the correspondence expenditure that exceeded the revenue of the preceding year was Rs.12,003,474.

2.2 Revenue Administration

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

The details about the estimated income, billed income, collected income and arrears of revenue presented for the year under review and the previous year are as follows.

Source of Revenue	2022				2021			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total of Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total of Arrears as at 31 December
	Rs..	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	28,984,000	28,984,000	26,338,179	27,087,606	24,793,647	43,559,956	22,523,966	24,441,785
(ii) Rents	84,343,000	84,343,000	59,173,832	61,295,343	98,554,680	54,166,572	33,224,891	36,666,175
(iii) License Fees	6,100,000	3,946,004	3,946,004	0	3,397,800	4,248,576	4,041,576	-
(iv) Other Income	63,446,000	21,337,824	18,093,574	3,244,250	49,944,999	18,362,419	33,196,288	-
Total	182,873,000	138,610,828	107,551,589	91,627,199	176,691,126	120,337,523	92,986,721	61,107,960

2.2.2 Performance of Revenue Collection

Audit Observation	Comments of the Council	Recommendation
(a) Taxes and Rates		
The arrears of rates income was Rs.20,623,656 as at 31 December of the year under review.	Actions will be taken to recover.	Arrears of revenue should be recovered.
(b) Rents		
(i) The rent income receivable as at 31 December of the year under review was Rs.52,697,010 and the key money receivable was Rs.16,084,890 .	Arrangements have been made to recover the arrears.	The arrears of income should be charged on time.
(ii) Income receivable from lease of property as at 31 December of the year under review was Rs.8,598,332 .	-do-	Actions should be taken to recover income receivable from lease of property.
(iii) The income from lease of assets receivable for more than 03 years as at 31 December of the year under review was Rs.3,033,274 .	It has been submitted to the Legal Officer for taking legal actions to collect the arrears.	Actions should be taken to collect revenue receivable as stipulated.
(iv) The income of about Rs.1,260,000 which could be earned annually had been lost because of failure to	The collection of rent has been suspended due to the reasons such as non-availability of	Actions should be taken to provide basic facilities required for

charge rent on non-provision of electricity and water facilities. business places.
water and electricity facilities from
the year 2021 for 27 Old weekly
fair stalls owned by the
Municipality Council.

(c) Other Revenues

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| (i) | The arrears of garbage charge income as at 31 December of the year under review was Rs.6,463,950. | The arrears of garbage charges are being collected. | Arrangements should be made to recover the arrears of revenue as stipulated. |
| (ii) | The court fine income and stamp duty income to be received as at 31 December 2022 from the Secretary of the Provincial Council and other authorities as per the documents submitted were Rs.160,000 and Rs.4,926,000 respectively. | The respective authorities have been informed in writing. | Arrangements should be made to collect the relevant income receivable to the Council in time. |

3. Operational Review

3.1 Performing of Tasks Assigned by the Act

The matters observed in respect of executing of functions that should have been performed by the Municipality Council such as regulation and control, wellbeing of the public, facility and welfare regarding the matters public health, public utility services and public roads under Section 04 of the Municipality Council Act are as follows.

Audit Observation	Comments of the Council	Recommendation
(a) Abandoned Tasks Eight projects with a contract value of Rs.42,091,260 commenced in the year 2021 on the provisions of the State Ministry of Provincial Councils and Local Government Affairs had been stopped whilst working due to non-receipt of money. Even though an amount of Rs.6,793,428 had been paid for those projects by the date of audit, the money spent had become a useless expense due to the work being stopped whilst working.	Actions will be taken to correct.	Arrangements should be made to ensure that the money spent on projects not to be useless.

(b) Solid Waste Management

The total amount of garbage collected daily in the Municipality Council area is 20 tons and the amount of organic fertilizer produced in the first 6 months of 2022 was at a minimum level amount such as 21 tons.

It has been informed that as the garbage yard is not enough, the biodegradable waste collected during January to July was piled separately. Fertilizers is manufactured and packaged only on demand as per requirement.

More attention should be drawn on Solid Waste Management.