

Anuradhapura Municipal Council - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Anuradhapura Municipal Council for the year ended 31 December 2022 comprising the Statement of assets and liabilities as at 31 December 2022, Comprehensive Income Statement/ Statement of changes in equity / net assets, 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 Section 219 of the Municipal Councils Ordinance (Chapter 252) and 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 Anuradhapura Municipal Council as at 31 December 2022, 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

I expressed qualified 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 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, 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 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

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 all 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) Motor vehicles and carts were revalued at Rs.4,069,569 in the year under review, but in the statement of assets and liabilities it was accounted as Rs.4,802,626 and due to that it was overstated a sum of Rs.733,055.	Accept.	The correct value should be accounted for.
(b) The gully service charges income were under-accounted by Rs.334,400 as on 31 December of the year under review.	Action will be taken to correct during the preparation of accounts for the coming year.	-Do-
(c) A stamp duty income of Rs.24,740,979 pertaining to the previous year was adjusted to the profit of the year under review instead of being adjusted to the accumulated fund.	Due to the difficulty in identifying the exact year to which the stamp duty applies, the recommended value has been accounted for as the value for the year under review.	The year to which stamp duty is related should be ascertained and accounted for.
(d) Only the confirmed stamp duty of Rs.19,000 was accounted for in respect of the year under review without estimating and recognizing the stamp duty income due for the year under review.	Action will be taken to adjust in the coming year.	The stamp duty revenue due in respect of the year under review should be accounted for on an estimated basis.
(e) According to the revaluation of assets carried out on 01 January of the year under review the revaluation gain was Rs.34,491,648 but it was accounted as Rs.4,802,626 and therefore it was understated by Rs.29,689,022.	I will correct it in future financial statements.	The correct value should be accounted for.
(f) Accumulated depreciation of Rs.30,828,378 relating to assets revalued during the year under review had not been removed from the statement of assets and liabilities of the year under review.	I will adjust and correct the opening balances through the next year's financial statements.	Corrections should be made.

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| (g) | Depreciation of Rs.1,935,732 was not accounted for on property, plant and equipment in the year under review, which relates to the increase in road and construction assets of Rs.19,357,320 in the year 2021. | By adjusting the opening balance of the next year's financial statements, I proceed to account for depreciation. | Depreciation must be properly accounted for. |
| (h) | Building construction of Rs.37,886,022 carried out in the year under review was shown under Roads and Construction. | Through opening balance adjustments in the next year's financial statements, this asset balance will be accounted for separately as land, buildings and road construction. | Building construction should be properly accounted for. |
| (i) | Roads and constructions worth Rs.27,459,612 had been done in the year under review, but it was recognized as Rs.84,702,954 and therefore a sum of Rs.57,243,342 was overstated. | Note No. 16 - Ledger accounts will be corrected and submitted. | Should be Correctly accounted for. |
| (j) | A sum of Rs. 29,423,745 had been paid for the purchase of property, plant and equipment in the year under review but it was shown as Rs.92,964,797 in the cash flow statement under investing activities as purchase of property, plant and equipment and was overstated by Rs.63,541,052. | Must be correct as received grants during the year. | The correct value should be accounted for. |
| (k) | The income of Rs.2,174,710 related to the solar panel system to be recognized in relation to the year 2021 was recognized as an income of the year under review without adjusting to the accumulated fund. | Action will be taken to rectify. | Income not applicable to the year under review should be adjusted to the Accumulated Fund. |
| (l) | An income of Rs.1,149,681 received from the solar panel system in the year under review had been under-accounted for. | Relevant adjustments will be made by correcting the opening balance of the financial statements of the next year. | Correct value should be accounted for. |

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| (m) | An income of Rs.30,372 due from the Valuation Department during the year under review, relating to the public market solar panel system, was not accounted. | -Do- | Accounts receivable must be accurately accounted for. |
| (n) | Donation receipts of Rs.46,847,572 during the period 2013-2019 were shown as capital grants in the year under review without adjusting to the accumulated fund. | Action will be taken to correct it through the financial statements of the coming year. | Transactions related to previous years should be adjusted to the accumulated fund. |
| (o) | Cash receipts of Rs.15,385,590 under the LDSP project in the years 2020 and 2021 was not recognized as capital grants. | -Do- | The capital grant value should be identified correctly. |
| (p) | Depreciation amounting to Rs.4,681,693 was not accounted for in the year under review for roads, culverts, avenues amounting to Rs.46,816,932 accounted for in the year under review applicable to the years 2020 and 2021. | The relevant corrections will be made in the respective balances through the opening balance of the financial statements of the coming year. | Depreciation must be properly accounted for. |
| (q) | The balance of 05 types of loans taken by the council as on 31 December 2022 is Rs.35,256,890 and it was not shown separately as current liabilities of Rs.15,656,623 which is less than one year. | Action will be taken to correct it in future financial statements. | Current liabilities and long-term liabilities should be properly accounted for. |
| (r) | The organic fertilizer production machine and garbage furnace valued at Rs.9,850,000 received from the North Central Provincial Council in the years 2015-2016, were not accounted under property, plant and equipment. | -Do- | Property, plant and equipment must be properly accounted for. |

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| (s) | Action had not been taken to make adjustment regarding 65 cheques exceeded 6 months amounting to Rs.2,437,722 which were deposited, but not realized, in relation to 5 current accounts. | Action will be taken to adjust before 31 August 2023. | Action should be taken to adjust. |
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1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation	
(a)	According to the schedule, the gully service income due on January 01 of the year under review was Rs.1,144,000 but according to the comprehensive income statement it was Rs.364,100 therefore a difference of Rs.779,900 was observed.	Accept.	Corresponding reports should be compared with schedules.
(b)	According to the statement of assets and liabilities, cash and cash equivalents on 31 December 2022 was Rs.14,660,012 but according to the bank reconciliation statement on that date the balance was Rs.14,389,322 therefore a difference of Rs.270,690 was observed.	-Do-	-Do-

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation	
(a)	The details of the balance of Rs.35,673,375 shown as adjustment in the cash flow statement of the year under review were not provided.	Not commented.	Details should be presented.
(b)	There were unrecognized debit notes of Rs.24,420,802 and unrecognized credit notes of Rs.12,730,391 as on 31 December of the year under review, in relation to 06 state bank current accounts maintained by the council.	The expenditure classification chart is presented herewith.	Comprehensive income statements should be presented with expense classifications.

There were values that had existed for many years and the related details were not submitted for audit.

1.7 Non- Compliances

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

The instances related to non-compliances with Laws, Rules, Regulations and Management decisions are shown below.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a)	Financial Regulations of Democratic Socialist Republic of Sri Lanka F.R. 396 (c)	Action had not been taken to make adjustments in the accounts regarding 48 cheques exceeded 6 months amounting to Rs.8,818,360 which were issued but not presented to the bank as at 31 December of the year under review, in relation to 5 current accounts	It was done as per F.R.396(c) by now.	Action should be taken as per F.R.396(c) and submit bank reconciliation statements.
(b)	Public Administration Circulars			
(i)	Paragraph No. 2 (iv) of Circular No. 09/2009 dated 16 April 2009	A sum of Rs.90,710 was paid as over time on 08 occasions without confirming the arrival and departure by fingerprint machines.	Currently corrected and implemented.	Public Administration Circular must be followed.
(ii)	Circular No. 13/2008(vi) dated 29 December 2021	1216.1 litres of fuel valued at Rs.357,920 had been given in the year 2022, exceeding the monthly fuel allowance of 135 litres to the municipal commissioner.	The Honourable Governor has given approval to increase the quantity of litres of fuel.	Written approval letter was not submitted.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over expenditure of the Council for the year ended 31 December 2022 amounted to Rs.34,570,337 as compared with the excess of revenue over expenditure amounted to Rs.46,807,371 in the preceding year.

2.2 Revenue Administration

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

According to the information made available by the Mayor, details relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below

Source of Revenue	2022				2021			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at December 31	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	119,962,000	78,121,540	79,929,199	110,918,319	108,256,000	77,094,050	60,469,287	112,725,978
(ii) Rent	82,273,038	78,236,585	67,730,749	69,056,120	106,080,000	36,763,000	53,410,265	58,550,284
(iii) Licence Fee	32,413,000	29,192,086	36,658,002	6,255,379	204,293,000	56,670,902	61,306,331	13,721,295
(iv) Other Revenue	94,265,600	122,695,556	119,149,240	27,831,062	47,309,000	15,377,985	29,177,135	24,284,746
	----- 328,913,638 =====	----- 308,245,767 =====	----- 303,467,190 =====	----- 214,060,880 =====	----- 465,938,000 =====	----- 185,905,937 =====	----- 204,363,018 =====	----- 209,282,303 =====

2.2.2 Performance in Revenue Collection

The observations regarding the performance in revenue collection of the council are as follows.

Audit Observation	Comments of the Council	Recommendation
(a) Rates and Taxes		
(i) It was estimated to collect Rates and Taxes income of Rs.76,960,000 for the year 2022, but only Rs.30,972,323 had been collected by 31 December 2022. Accordingly, the revenue collection performance remained as low as 40 per cent.	The impact of economic health and political reasons in the country was the reasons for this.	Arrangements should be made to recover arrears of Rates and Taxes.
(ii) Although the property should be assessed every 05 years to suit new constructions or changes, Rates and Taxes was being collected for the year 2022 based on the assessment of 2009.	Requests for approval for fresh assessment have been forwarded.	Obtaining of new assessments should be expedited.

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| (iii) | actions had not been taken to collect the arrears Rates and Taxes of Rs.110,918,319 for a period of 1 year to 10 years under section 252(1)(a) of the Municipal Council Ordinance. | Due to the economic, health and political situation in the country, legal methods have not been implemented. Only final announcements have been issued. | The Municipal Council should take action as per the Ordinance Act to recover arrears of Rates and Taxes. |
| (iv) | A sum of Rs.2,859,199 of garbage tax as of 31 December 2022 due for a period of 01-03 years had not been collected from 33 business institutions providing garbage in the Municipal jurisdiction. | Not commented. | Action should be taken to collect garbage tax. |
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| (b) Rent | | | |
| (i) | Although the shops owned by the Municipal Council should be assessed once in 05 years, rent was being charged for Phase I and Phase II shops and other shops in the Public Market for more than 21 years based on the 1999 assessment. | The new assessment values have been given by the Valuation Department in the last quarter of 2022. | Actions should be taken to recover the arrears of rent as per the new assessment values. |
| (ii) | Rs. 61,623,610 outstanding rents for the lease of shops for a period of 01 to 08 years had not been recovered as of 31 December 2022. | Expecting further action to be taken after getting the court's decision, | The arrears of rent should be recovered as per the court decision. |
| (iii) | A sum of Rs.1,694,554 of arrears of rent due for lease of assets had not been received as on 31 December of the year under review. | Not commented. | Asset lease rental arrears to be recovered. |
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| (c) Licence Fee | | | |
| (i) | According to Section 247 A (2) of the Municipal Ordinance Act and Gazette Notification of Anuradhapura Municipality No. 2260 dated 24 December 2021, a fee of 01 per cent of the income of hotels registered with the Tourism | Due to the decrease in the income in the tourism business, action had been taken according to the requests not to charge by imposing strict rules and regulations. | License fees should be collected only based on the revenue earned. |

Board shall be charged. Also, according to Section 61(1) of the Tourism Act No. 38 of 2005, the municipality had not taken steps to collect the 1 per cent fee from 33 organizations whose tourist centres must be registered and submit accounts.

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| (ii) | According to Gazette Notice No. 2260 of Anuradhapura Municipal Council dated 24 December 2021, a sum of Rs.200,000 from 05 private hospitals and Rs.45,000 from 09 laboratories were not collected for the year 2022. | Not commented. | Arrangements should be made to recover these fees. |
| (iii) | According to Gazette Notification No. 2260 dated 24 December 2021, fire protection service fees shall be charged under 33 categories at the rates of Rs.600, Rs.2,500, Rs.10,000 and Rs.15,000 each, fees were not collected from the industrial and commercial businesses located in the Area of the Municipal Council, grouped as such. As a result, the council had lost an annual income exceeding Rs.5,000,000. | -Do- | Recovery should be made according to the Gazette Notification. |
| (iv) | Due to the non-obtainment of trade licenses by the institutions that should obtain licenses in the council area, Rs.4,719,139 was not collected from a period between 01 and 03 years. | -Do- | Actions should be taken to recover arrears of trade license revenue. |
| (v) | Advertisement board charges of Rs.1,536,240 to be collected from the business establishments in the municipality's jurisdiction for the period 2020-2022 had not been collected as of 31 December 2022. | -Do- | Arrangements should be made to recover the arrears of billboard revenue. |

(d) **Other Revenue****Courts Fines**

Action had not been taken to recover the court fines amounting to Rs.1,475,079 as of 31 December 2022.

-Do-

Actions should be taken to recover.

3. Operational Review**3.1 Performing 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 Council under Section 4 of the Municipal Councils Ordinance are shown below.

By-Laws**Audit Observation****Comments of the Council****Recommendation**

Under Section 272 of the Municipal Council Ordinance Act, by-laws should be enacted to fulfil 34 main matters, but the details of the by-laws enacted by 31 December 2022 was not submitted to the audit.

Not commented

According to the Municipal Council Ordinance Act, bye-laws should be enacted.

3.2 Identified Losses**Audit Observation****Comments of the Council****Recommendation**

(a) Eighty eight sets of books worth Rs.94,500 in the custody of a member of the council were destroyed, but no action was taken to recover the loss.

Referred for legal action.

Action should be taken to recover the loss.

(b) For the construction project of Dahayyagama apartment complex implemented in the year 2022, the employees and machines of the Municipal Council were given to the National Housing Development Authority without a formal agreement and due to the failure

The request for payment of fees has been filed.

Action should be taken to recover.

to pay the money, the Council had incurred a loss of Rs.255,228.

3.3 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Although the quarters No. 07, which was an official quarters belonging to the Anuradhapura Municipal Council, and the land had been given to the Cooperative Development Department to run it as a private hospital and specialist medical services for more than 50 years, the council had not entered to a formal agreement in this regard. Also, for this purpose, the council had not taken steps to collect the arrears of rent of Rs.9,189,171 on 31 August 2022, which should be charged according to the new valuation values made in the year 2021.	Not commented.	Arrangements should be made to collect arrears of rent.
(b) The conversion of the above-mentioned quarters into a hospital, the construction changes and improvements of the quarters had been taking place for 50 years and the approval of the Municipal Council had not been obtained for that.	Not commented.	Necessary action should be taken
(c) Regarding the lease of 28 lands of 30.75 acres belonging to the Anuradhapura Municipal Council, action had not been taken to enter for formal lease agreements, update the documents and collecting rent arrears of Rs.245,000.	Not commented.	Survey work should be done, lease agreements should be updated and rent arrears should be collected.

3.4 Transactions of Contentious Nature

Audit Observation

54,000 kg of organic fertilizers were stored which was produced in the council's waste centre at Kirikkulama and packed in 40 kg units with false details in the packages provided by a private company.

Comments of the Council

Not commented

Recommendation

Action should be taken to rectify.

3.5 Assets Management

Audit Observation

The garbage shredders worth Rs.710,000 which were by the local government department in the year 2022 remained idle in Nisala Nimna premises without being utilized.

Comments of the Council

Not commented.

Recommendation

These machines should be utilized.

3.6 Procurement Management

Audit Observation

- (a) Members who worked as committee members had been paid extra allowances of Rs.175,750.
- (b) According to Government Procurement Guidelines 2006 Supplement-25 to the Procurement Manual, allowances are not allowed for procurements made under shopping method, but allowances of Rs.345,500 were paid for 71 procurements made under shopping method.
- (c) Anuradhapura Municipal Council had lost a revenue of Rs.3,765,100 due to not taking bid security in calling for bids and not counting the tickets correctly in Purwara Udanaya - 2022.
- (d) Anuradhapura public fair was leased for 5,500,000 rupees for the year 2021 and the lessee had returned the fair to the council. Therefore, due to not inviting bids again for public fair, the Municipal Council had incurred a loss of Rs.2,563,415.

Comments of the Council

Not commented.

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Recommendation

Allowance payments should be made only according to the number of committee meetings.

Government Procurement Guidelines - 2006 should be followed.

Action should be taken to recover the loss from the responsible persons.

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3.7 Human Resource Management

Audit Observation

There were 224 vacancies in approved cadre and 226 excess staff in Anuradhapura Municipal Council as on 31 December 2022. The excess staff consisted of 182 casual staff, 18 on contract basis and 26 on daily wages.

Comments of the Council

Not commented.

Recommendation

Steps should be taken to regularize the appointments of casual employees.

3.8 Improper Transactions

Audit Observation

During the 06 days of “Purawara Udana” in the year 2022, an allowance of Rs.2,500 each was given to the employees who checked the ticket at night, and an allowance of Rs.152,160 was paid to the three officers ie; Municipal Commissioner, Accountant and Administrative Officer, as 75 per cent of their salary, but Council approval was not obtained for that.

Comments of the Council

Not commented.

Recommendation

Council approval was not obtained for making these payments.

4. Accountability and Good Governance

4.1 Environmental Issues

Audit Observation

Although there was a lot of environmental damage due to unauthorized constructions within the city limits of Anuradhapura, the Anuradhapura Municipal Council had not paid proper attention to the environmental impact

Comments of the Council

Not commented.

Recommendation

The unauthorized construction should be checked and necessary action should be taken.