

Polonnaruwa Municipal Council - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Polonnaruwa Municipal Council for the year ended 31 December 2023 comprising the notes to the financial statements, statement of assets and liabilities, statement of comprehensive income, statement of net assets/ changes in equity, cash flow statement as at 31 December 2023 and other explanatory information 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 Urban 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 Polonnaruwa Municipal Council as at 31 December 2023, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

1.2 Basis for Qualified Opinion

Based on the matters described in Paragraph 1.6 of this report, I express a qualified opinion on the 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 this 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 Sri Lanka Public Sector Accounting Standards for Local Authorities 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 Sub-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 Scope of Audit (Auditor's Responsibility in Auditing 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 skepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 Sabha's internal control.
- Evaluate the 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.
- 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 Sabha, 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 Institution;
- Whether the Municipal Council has performed according to its powers, functions and duties; and
- Whether the resources of the Sabhad had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

.15 **Report on Other Legal Requirements**

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) The financial statements presented by the Municipal Council are 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 Policies

Audit Observation	Comment of the Municipal Council	Recommendation
(a) Even though the information relevant to the budget prepared by a Municipal Council according to the Rule No.97 of financial control of the Municipal Councils of North-central Province should be included in the financial statements for the relevant period, the budgetary information of the cash flow statement, statement of comprehensive income and statement of assets and liabilities prepared as at 31 December in the year under review, had not been presented.	Action will be taken to correct it in the future. Even though budget information should be presented with the financial statements of a Municipal Council, it had not been done in the year under review.	Budget information should be included in the financial statements.
(b) The information relevant to the previous year had not been presented in the financial statements prepared as at 31 December in the year under review according to the financial control rule No.96.	Action will be taken to correct it in the future.	The information relevant to the previous year should be included for the reconciliation.

1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Municipal Council	Recommendation
(a) The expenditure amounting to Rs.5,711,655 which was made payments in the year 2024 relevant to the year under review, had not been shown under accrued expenditure as at 31 December of the year under review	Has been accepted	Accounts should be presented according to the accrued basis.
(b) Even though the income for the year under review for the car park in front of the Polonnaruwa hospital amounted to Rs. 1,545,000, it has been shown in the financial statements as Rs.2,000,000. Therefore, the income had been over stated by Rs.455,000.	Has been accepted	Accounts should be presented according to the accrued basis.
(c) The value of Rs.4,262,832 spent for 04 electric libraries which were commenced the constructions in the year 2021 in the area of	Action will be taken to correct it.	Uncompleted assets should be shown under the work in progress.

authority of Municipal Council and completed the work and had been abandoned, had not been disclosed in financial statements.

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| (d) | The value of the milk sale stall of Rs.1,842,418 owned by the Municipal Council had not been brought to accounts under fixed assets. | Has been accepted | All assets should be brought to accounts. |
| (e) | A stock of street lamps amounted to Rs.125,400 had not been brought to accounts in the year under review. | Has been accepted | The value of the stock should be brought to accounts accurately. |
| (f) | The decrease of the payables amounting to Rs.7,630,868 which is to be shown as minus cash flow in the adjustment of working capital in the financial statement of the year under review, had been shown as plus cash flow. | Will be corrected | Adjustments should be done accurately |

1.6.3 Un reconciled Control Accounts or Reports

Audit Observation	Comments of the Sabha	Recommendation
The value of rent of fire extinguishing vehicles and the value of Rs.3,559,862 of industry debtor balances presented as at 31 December in the year under review were not reconciled with the subsidiary documents relating to that.	It has been stated that , presented in accordance with the balance of financial statement and LG 06 schedule .	Accurate values should be shown by reconciling accounts books.

1.7 Non-compliances

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

Reference to Laws, Rules, Regulations and Management Decisions	non-compliance	Comment of the Municipal Council	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka. ----- (i) Financial Regulation No.395(c)	Preparation of bank reconciliations relevant to one bank account in the	Delayed due to the lack of staff	Action should be taken as per

year under review, had been delayed from 01 month to 10 months.

financial regulations.

(ii) Financial Regulation 396 (d).

Action in relation to 33 cheques total value amounted to Rs.458,988 of exceeded 06 months period which was issued but not presented for the payment by 31 December 2023, had not been taken.

Action will be taken in terms of Financial Regulations .

Action should be taken in terms of Financial Regulations.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, revenue of the Municipal Council in excess of the recurrent expenditure for the year ended as at 31 December of the year ended 31 December 2023 amounted to Rs. 712,753 as compared to the corresponding revenue in excess of the recurrent expenditure for the preceding year amounting to Rs. 29,640,178.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Billed Revenue, Collected Revenue and Outstanding Revenue

Particulars on the estimated revenue, billed revenue, collected revenue and outstanding revenue relating to the year under review and the preceding year, are given below.

Source of Revenue	Estimated Revenue	<u>2023</u>			Total Outstanding as at 31 December	<u>2022</u>			Total Outstanding as at 31 December
		Rs.	Billed Revenue	Collected Revenue		Rs.	Billed Revenue	Collected Revenue	
(i) Rates and Taxes	26,733,000	26,733,000	20,418,712	37,049,975	28,984,000	28,984,000	26,338,179	30,735,687	
(ii) Lease Rents	114,628,000	114,628,000	97,243,281	91,116,872	84,343,000	84,343,000	59,173,832	73,732,153	
(iii) License Fees	6,600,000	6,600,000	6,600,000	-	6,100,000	6,100,000	3,946,004		
(iv) Other Income	75,816,000	75,816,000	64,964,967	15,937,033	63,446,000	63,446,000	18,093,574	5,086,000	
Total	<u>223,777,000</u>	<u>223,777,000</u>	<u>189,226,960</u>	<u>144,103,880</u>	<u>182,873,000</u>	<u>182,873,000</u>	<u>107,551,589</u>	<u>109,553,840</u>	

2.2.2 Performance in Collecting Revenue

Observations on the performance of Municipal Council in collecting revenue, are as follows.

Audit Observation	Comment of the Municipal Council	Recommendation
(a) Rates and Taxes		
(i) As the revenue to be collected amounted to Rs.57,468,581 and the revenue of rates in arrears amounted to Rs.37,049,574 in the year under review,64 per cent of the revenue remained as the revenue in arrears.	Red notifications are being issued for the recovery of the same money and distress licenses will be forwarded as per Section 252 of the Municipal Councils Ordinance for the persons who are not paid .	Revenue should be collected in a proper manner.
(b) Lease Rents		
(i) Out of the revenue to be collected for the year under review amounting to Rs.188,360,153, the revenue collected in the year had been amounted to Rs.97,243,281 ,that is 51 per cent.	It has been informed that the rent fees of the trade stalls belonging to the Polonnaruwa Municipal Council has been increased from January 2020 due to the valuations done by the valuation department and it was unable to pay by the owners of the trade stalls. Therefore, the same rents are being paid by installments and action will be taken to recover those rents after the investigation will be held on the shopping complex Polonnaruwa and on the committee decision taken by the committee.	Revenue should be collected in a proper manner.
(ii) Action had not been taken to take legal actions on the shortage of Rs.16,238,205 relevant to 149 trade stalls belonging to the Municipal Council.	Action will be taken to take legal actions in due course.	Revenue should be collected in a proper manner.
(iii) An arrears of Rs.4,213,112 which is not recovered in long time relevant to the leasing of assets , had not been settled even as at 31 December 2023.	Action will be taken to recover the arrears existed.	Revenue in arrears should be collected in a proper manner

(b) Other Income

Action had not been taken to settle the garbage fees amounting to Rs.10,943,500 in arrears as at 31 December 2023 in the Municipal Council .

Action has been taken to correct by looking into the institutions which are actually providing garbage and with the recommendation of the Public Health Inspector by an approval of the administrative committee . Billing for the revenue of garbage taxes should be done according to the garbage collection service.

3. **Operating Review**3.1 **Performance**

The following matters were observed with respect to the execution of duties by the Municipal Council in terms of Section 04 of the Municipal Councils 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.

Audit Observation**Comment of the Municipal Council****Recommendation****Waived duties**

Four electric libraries which were constructed by spending a sum of Rs.4,262,832 had been waived even as at May 2024 by non obtaining of expected results.

Will be included in the budget of the year 2024 to complete the work parts.

Action should be taken to utilize the fixed assets.

3.2 **Management Inefficiencies****Audit Observation****Comment of the Municipal Council****Recommendation**

(a) A rent of Rs.2,038,483 was in arrears out of the ground rent receivable relevant to the telephone columns fixed on the lands of the Polonnaruwa Municipal Council , action had not been taken to carry out the regulation activities by updating the relevant agreements.

Agreements are prepared and action will be taken to update and recovery of the amount in arrears.

Amount in arrears should be recovered immediately and regulations should be done by updating the agreements.

(b) Out of the 41 trade stalls which can be given on lease situated behind the New Market Complex (PCC) in Polonnaruwa, 31 stalls were allotted by agreements and the remaining 10 trade stalls had not been given on lease. Therefore the income loss to the Council from July 2021 to February 2024, the date of audit, was approximately Rs. 6,200,000.

Action is being taken to lease the trade stalls.

Action should be taken to utilize the existing assets effectively.

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| (c) | The lease rent in arrears for 57 trade stalls in the new public trade complex of the Municipal Council of Polonnaruwa which was given on lease in the year 2020 amounted to Rs.52,918,053. Even though 06 trade stalls out of the same 57 trade stalls have been sealed in February 2024, action in terms of Section 20 and 22 of the Agreement had not been taken relevant to the 51 trade stalls remained. | Future actions will be taken on the decision provided after the investigation which is being carried out. | Action should be taken in terms of the Agreement. |
| (d) | Legal action had not been taken to recover the key money of Rs.15,964,890 receivable to the Council for the trade stalls in the public trade complex belonging to the Polonnaruwa Municipal Council, trade stalls in the bus stand and trade stalls in the hospital junction | The long-pending arrears are being paid in installments and legal action will be taken against the defaulters. | Action will be taken legally. |
| (e) | According to the Bank Reconciliation Statement of January 2024, a sum of Rs. 2,110,470 of un identified receipts as direct remittance to the bank account on 60 occasions from September 30, 2020 to December 14, 2023, had not been settled. | Letters has been forwarded by requesting the assistance of the bank to identify the un identified receipts. | Direct remittance should be identified immediately and should be credited to the revenue heads. |
| (f) | The provisions amounting to Rs.926,600 provided for the self employment projects in the year 2022 had been shown under sundry deposits without utilizing the relevant tasks. | Future actions will be taken by looking into the matter. | The provisions received should be utilized in the relevant task. |

3.3 Transactions of contentious nature

Audit Observation	Comment of the Municipal Council	Recommendation
It was observed that the lease contractor of the lease agreement dated 17 August 2022 of milk bar near the 4 Ela Play ground, is a nephew of a member of the Council and the same milk bar is maintained by the same member. A construction plan for a building of Rs.1,842,418 and 247 square feet has been provided by the Council and the construction has not been done according to the same plan and un authorized constructions also had been	At the time of the contract, it was found that the contractor was not a relative of any of the members or staff. Although the General Council has decided to construct according to an approved plan, it has been informed in writing to approve the plan constructed	Legal action should be taken as it is not possible to establish contractual relations with municipal employees or municipal councilors, either directly or indirectly.

done which were not in the plan . The Council lost about Rs. 96,000 in the year under review, due to charging of 20 percent of the assessed value due to the charging of a temporary assessment of Rs. 2,000 as monthly floor rent for this milk bar and it is observed as an illegal transaction between the parties involved.

due to non-approval of the plan. The Valuation Department has assessed the monthly rent at Rs. 10,000.00 and this amount has been charged since January 2024.

3.4 **Idle and Underutilized Property, Plant and Equipment**

Audit Observation	Comment of the Municipal Council	Recommendation
Two buildings valued at Rs.12,054,532 belonging to the Municipal Council was remained idle.	The official quarters of in Damanakele, Kaduruwela has been repaired and action will be taken to use as required. The old weekly fair land was given to those who confirmed the ownership of the trade stalls and the trade stalls which were facing problems regarding the ownership could not be provided at that time. Now the ownership of those trade stalls has been confirmed and actions are being taken to provide the trade stalls	All assets should be utilized effectively.

4. **Accountability and Good Governance**

4.1 **Environmental Problems**

Audit Observation	Comment of the Municipal Council	Recommendation
Environmental licenses had not been obtained for 18 industries which were newly identified and have to be obtained environmental licenses for the year 2023.	Future actions will be taken to the persons who are not obtaining environmental license.	The process of granting environmental licenses should be streamlined.