

## **Ratnapura Municipal Council -2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Ratnapura Municipal Council for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial operations, statement of changes in equity, 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 the sub section 219 of Municipal Councils Ordinance (Chapter 252) 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 Ratnapura Municipal Council as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Practices.

#### **1.2 Basis for Qualified Opinion**

I express a qualified opinion in respect of the financial statements based 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 to generally accepted accounting practices 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 to be prepared.

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 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**

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) Accrual expenses and receivables amounting to Rs.38,631,466 had not been accounted for.	Will be corrected it by journals while preparing the accounts of 2024.	It should be accurately accounted for.
(b) The creditor value of 07 construction works had been overstated in the accounts by Rs.8,846,959.	- do -	- do -
(c) Three constructions valued at Rs.18,301,221 had not been capitalized.	- do -	- do -
(d) The disposed assets of Rs.370,038 had not been removed from the accounts.	- do -	- do -

### **1.6.2 Unreconciled Control Accounts**

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
There was a difference of Rs.51,159,604 between balances as per financial statements and balances as per primary documents of 08 accounting objects.	Actions will be taken to check and correct.	Differences should be settled.

### **1.6.3 Unauthorized Transactions**

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) Despite there was no any legal provision for payment of gratuity, 14 officers had been paid Rs.498,910 as incentives to identify stamp duty on title deeds.	For this, it has been sent to get the approval of the governor.	Payments should not be made without formal approval.

- (b) Payment of Rs.596,800 which was 25 per cent to the Health Administrator, 22 per cent to public health inspectors and the remaining 47 per cent to the gully vehicle drivers and workers who actually provide the service was problematic. Similarly, those Public Health Inspectors had also received commuted travelling allowances for their duties.
- It has been stated that the payment can be made in respect of disinfection stations/latrines under Section 188(1)(e) of the Municipal Councils Ordinance.
- do -

#### 1.6.4 Lack of Written Evidence for Audit

Audit Observation	Comments of the Council	Recommendation
Detailed schedules of 04 accounting objects totalling to Rs.63,989,014 were not forwarded.	Actions will be taken to correct in the future.	Evidences should be provided for audit.

#### 1.7 Non-compliance

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

Audit Observation	Comments of the Council	Recommendation
(a) Deposits of Rs.2,207,916 related to the period from the year 2015 to the year 2019 belonging to the Widows' Orphans' Pension and Employees' Provident Fund had not been settled in terms of Financial Regulation 571(2).	The money remaining in the deposit account will be settled at the end of each task.	Actions should be taken in terms of Financial Regulations.
(b) Ten officers who are receiving commuted traveling allowances had used government vehicles for duties in contrary to Section 12.3 of Chapter XIV of the Establishments Code. A sum of Rs.189,256 had been spent on fuel for those vehicles only in 03 months of the year 2023.	The commuted allowance has been received as per the circular and vehicles are used for essential duties.	Actions should be taken in terms of Establishments Code.

## 2. Financial Review

### 2.1 Financial Results

As per the financial statements presented, the income exceeding the recurrent expenditure of the Municipal Council for the year ended 31 December 2023 was Rs.65,567,753 and the corresponding income that exceeded the recurrent expenditure of the preceding year was Rs.77,075,195.

## 2.2 Revenue Administration

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

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

Source of Revenue	2023				2022			
	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 .
Rates and Taxes	35,800,000	40,242,108	41,336,757	38,436,194	35,700,000	35,811,543	32,284,460	39,878,569
Rents	73,181,000	74,250,118	71,876,826	34,800,242	78,990,000	61,612,508	59,030,279	41,708,638
License Fees	18,485,000	17,954,340	15,560,390	9,285,500	18,556,000	18,511,110	15,134,679	7,910,175
Other Income	<u>114,306,000</u>	<u>95,783,213</u>	<u>93,617,268</u>	<u>7,464,313</u>	<u>78,061,000</u>	<u>74,082,280</u>	<u>77,594,480</u>	<u>9,154,106</u>
	<u>241,772,000</u>	<u>228,229,779</u>	<u>222,391,241</u>	<u>89,986,249</u>	<u>211,307,000</u>	<u>190,017,441</u>	<u>184,043,898</u>	<u>98,651,488</u>

### 2.2.2 Performance of Revenue Collection

Audit Observation	Comments of the Council	Recommendation
(a) An income of Rs.137,760 had been lost only for 28 billboards for 04 months in the year 2023 due to failure of charging of temporary advertisements as per gazette notification. After the audit pointed out this, the Commissioner had taken actions to revise the gazette notification by specifying the unit price charged instead of charging arrears. Except for that, a sum of Rs.671,000 had not been charged for the years 2022 and 2023 from 03 electronic notice boards.	Actions had been taken to be revised again as Rs.60 by the Policy and Decision Support Committee due to the prevailing economic crisis. As the economic situation is better now the fees will be revised again in the year 2025 .	Determination, approval, publication and collection of fees should be formalized.
(b) Licenses had not been obtained in the year 2022 by 94 oppressive or dangerous industries or businesses and as the Public Health Inspector had not been given directions for 183 such institutions in the years 2022 and 2023 a revenue of Rs.1,347,000 had been lost by not being able to grant licenses.	A strict priority had to be given in 2022 for Public Health Inspectors to provide covid vaccines as well as for the health examination of school children in the years 2021 and 2022 .	Actions should be taken in terms of common by law.
(c) Business and industry taxes related to the years 2022 and 2023 amounting to Rs. 2,821,000 had not been collected and the information about the arrears related to the	Cases have been filed for 69 businesses which had not paid taxes for the year 2022. Arrears of business tax related	Actions should be taken to collect revenue arrears.

year 2021 and previous years was not to the year 2023 are being presented. collected.

### 3. Operational Review

#### 3.1 Solid Waste Management

Audit Observation	Comments of the Council	Recommendation
(a) A number of 5318 metric tonnes of mixed waste had been released during the year under review into the open environment in the garbage site without following an environmental friendly method. Because of this, several fires in the area during the year 2023 had occurred, causing many environmental and social problems.	Since the start of waste management, there has been open dumping of waste at this site. Arrangements are being made to get technical and financial facilities by contacting various institutions for this purpose.	Dumping of garbage to the open environment should be minimized.
(b) Producing only 46 metric tons of compost from 2,561 metric tons of biodegradable waste collected in the year 2023 is questionable.	Measuring of garbage are hypothetical. Machine performance is poor. Production has been restricted when storage facilities are exceeded.	The production of compost should be regularized.

#### 3.2 Informal Transactions

Audit Observation	Comments of the Council	Recommendation
(a) The permission had been given to take stray cattle to a farm owner in Polonnaruwa, Damminna area. A sum of Rs.58,182 had been spent to 05 officers including the Municipal Commissioner for visiting the area to observe for two days . Even though 16 cows had been taken in this way during the year 2023, the animals were not taken to the respective farms and it was even uncertain whether the cows were alive. Despite the demands of registered dairy farmers in the jurisdiction to get such cows, it was questionable that the opportunity was provided to a farm owner in Polonnaruwa area without considering that.	A sum of Rs.58,182 have been spent on the Decision of the General Council. The Dimbulagala Veterinary Officer has informed in writing that eight cows have been legally registered in that office.	Removal of stray cattle should be regularized.

- (b) Despite a total of Rs.2,597,380 had been paid to the Municipal Commissioner as monthly transport allowances and fuel allowances from June 2021 to October 2023, commuted travel allowances of Rs.280,000 had also been paid for that period. The allowances had been paid as per Provincial Chief Secretary's letter No. CS/07/04/01/01 dated 24 October 2019. Acting beyond Central Government circulars cannot be recommended.
- (c) In contrary to the directives of the Provincial Chief Secretary, a sum of Rs.90,000 had been paid as commuted travelling allowances from November 2019 to October 2023 and during that time, she had also used government vehicles for her duties. It is accepted the number of days passed and the amount of fuel consumed. A commuted allowance of Rs.2,000 is paid for 04 terms. Acting beyond the Establishments Code and circulars cannot be recommended.

### 3.3 Management Inefficiencies

#### Audit Observation

#### Comments of the Council

#### Recommendation

All the bids received for the auction of 03 vehicles was less the fixed price. The reason for this was that the minimum bid price was not mentioned in the published newspaper advertisement. Accordingly, it was decided to reject all the bids and therefore Rs.126,212 spent for the newspaper advertisement had become a useless expenditure.

It has been noted to include minimum price for future procurement notice.

Disposals of assets should be regularized.

### 3.4 Operational Inefficiencies

#### Audit Observation

#### Comments of the Council

#### Recommendation

- (a) Even though the annual revenue gazette notice was published to levy tax on undeveloped land for the year 2022 and 2023 and a written assignment of duty was made to the Chief Revenue Inspector for that, actions had not been taken to even identify the undeveloped lands.

It is stipulated to take necessary measures in the future regarding taxes levied on undeveloped land.

Arrangements should be made to collect the income receivable to the Council.

- (b) No water quality testing whatsoever had been carried out from the day

Water quality testing has not been done from the beginning

Measures should be taken to ensure the

the projects were started for drinking water supplied to 1518 consumers. of the water projects up to now. Requests have been made to the National Water Supply and Drainage Board. quality of water.

### 3.5 Deficiencies in Contract Administration

Audit Observation	Comments of the Council	Recommendation
(a) A sum of Rs.340,615 had been paid for the works not done in the construction of humps and walls and laying interlock in the city of Ratnapura.	It will recover from the retention money.	Overpayments should be recovered.
(b) Even though materials had been procured for Polhengoda Road which was done on direct labour basis, a material estimate had not been prepared. Similarly, after the completion of the work, a report of the materials consumed had not been prepared by obtaining actual measurements. Due to this, the accuracy of material releases valued at Rs.451,488 was uncertain.	Answer has not been given.	Performing and supervision of construction should be formalized on direct labour basis.
(c) A sum of Rs.98,550 had been overpaid for labour in the garden decoration works of Ratnapura Public Library.	A loss has not been occurred because of more works have been done by the contractor than the amount overpaid.	Overpayments should be recovered.
(d) A number of 87 plywood planks and 1894 long feet of wood which can be used 03 more times during the construction of Ratnapura Public Market valued at Rs.353,260 had misplaced.	Answer has not been given.	Supervision of constructions should be formalized. Actions should be taken in respect of losses and damages in accordance with the Financial Regulations.
(e) Even though 4350 square feet of Amano sheets purchased for Rs. 406,980 and applied to a roof in 2022 had rusted and decayed by	Answer has not been given.	Purchases that do not conform to standards should be investigated and responsibility should be



January 2024, no action whatsoever had been taken on the procurement which had not complied with the standard.

determined.

- (f) A sum of Rs.44,549 had been overpaid in the construction of the wholesale fish market. The amount overpaid will be recovered from the final bill. Overpayments should be recovered.

### 3.6 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
(a) Despite the 157 permanent workers are employed in personal to holder basis in excess of the approved number of employees, a sum of Rs.23,800,865 had been paid for the year 2023 by recruiting 65 workers without formal approval and 40 on service contracts to relevant fields. Most of the excess workers had been employed in the administrative office, libraries and pre-schools without assigning to specific duties.	Assignments have also been made for the library staff and the two service contract employees deployed in pre-schools.	A formal approval should be obtained for excess employees and all employees should be employed effectively.
(b) Although the approved number of administrators was 10, twenty nine workers in regular position were employed in duties of Foreman without giving any written assignment of duties. It was questioned that 29 Foremen were employed to supervise the work of 57 employees who are actually on duties.	Employees appointed as Labours have been performing their duties as foremen for a long period of time. It is informed that the 05 vacancies in foremen will be filled in the future and the other 09 who are working as field foremen will be added as field labours.	All employees should be employed effectively.
(c) The number of active readers in 12 out of 18 libraries, including the Ratnapura Public Library, was between 06 and 15. Not being an active member of any library, the annual salary of Rs.994,200 paid to its employees had been a fruitless expenditure. Similarly, a sum of	The decision of the Committee has been received to close one library and run it as a garbage collection centre. This group of workers has been employed effectively as they have to perform all the tasks including cleaning of the Ratnapura	Assets and Human resource should be utilized effectively.

Rs.3,045,430 had been paid as Public Library. wages and allowances per annum for 06 excess workers in vain due to employing of 11 workers for the Ratnapura Public Library.

### 3.7 Vehicle Utilization

Audit Observation	Comments of the Council	Recommendation
The damage of Rs.108,750 occurred to a motorcycle by an accident caused by the fault of a former works superintendent and a lorry driver was not recovered from them and the insurance compensation had also not been received. The damaged motorcycle is lying unused in the stores.	Future works will be carried out according to the report of the Committee appointed for preliminary investigation in this regard. The Insurance Ombudsman has informed that it is not possible to make arrangements for insurance compensation.	Liability should be determined and damages should be recovered.

### 3.8 Apparent Irregularities

Audit Observation	Comments of the Council	Recommendation
Electrical equipment purchased during the renovation of the Municipal Council building valued at Rs.971,631 had misplaced.	Comments have not been given.	Liability should be determined and losses should be recovered.