

Polonnaruwa Municipal Council - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Polonnaruwa Municipal Council including the financial statements for the year ended 31 December 2021 comprising the Statement of assets and liabilities as at 31 December 2021, Comprehensive Income Statement, Statement of changes in net assets/ 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 Section 219 of the Municipal Councils Ordinance (Chapter 252) and 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 accompanying 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 Standards 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 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 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 Standards 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 Policies

Audit Observation	Comments of the Council	Recommendation
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According to Financial Administration Rules No. 96 and 97 of North Central Provincial Municipal Councils issued in the Special Gazette dated 03 July 2020, Budgeted information was not presented in the statement of cash flows, statement of comprehensive income and statement of assets and liabilities prepared as on 31 December of the year under review, and comparable information relating to the previous year was not presented in the statement of cash flow.	Accepted. Action will be taken to rectify.	Financial statements should be submitted as per rules.

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
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(a) The Sundry Creditors payable as at 31 December of the year under review was understated by Rs.2,005,495.	Accepted.	The correct value should be identified and accounted for.
(b) The receivable amount of Rs.500,000 for the development of the front office by the Capacity Development of Local	Accepted.	Accounting should be done according to Sri Lanka Public

<p>Government (CDLG) Project as at 31 December of the year under review, was not credited to the capital grant account, and the assets purchased for that amount were not accounted for under fixed assets.</p>	<p>Sector Accounting Standards.</p>
<p>(c) According to E.G.10.1 of Appendix 02 of Sri Lanka Public Sector Accounting Standard for Local Authorities, although the value should be identified according to the amount of projects completed, the estimated amount of Rs.188,481,762 relating to 49 projects was identified as creditors. However, due to the fact that the value to be recognized according to the contractual value and percentage of completion is Rs.109,378,043, the creditors value was overstated by Rs.79,103,719.</p>	<p>Accepted. The value as percentage of completion shall be recognized as creditor value.</p>
<p>(d) According to E.G.10.1 of Appendix 02 of Sri Lanka Public Sector Accounting Standard for Local Authorities, although the certified value of the contract should have been recognized as a revenue on the contract, the Municipal Council had recognized an amount of Rs.190,895,844 as debtors. As per the certified work value, the amount to be recognized was Rs.152,897,991, therefore, the industrial debtor balance was overstated by Rs.37,997,853.</p>	<p>Accepted. The certified value should be recognized as the debtor value.</p>
<p>(e) Capital work in progress amounting to Rs.7,781,329 had been omitted from the financial statements.</p>	<p>Accepted. Adjustments should be made as per appendix of the standard.</p>
<p>(f) Since 03 plots of land valued at Rs.9,660,000 was not shown under land in the financial statements of the year under review, the value of property, plant and equipment for the year was understated by that amount.</p>	<p>Accepted. Correction should be done according to the correct value.</p>
<p>(g) Due to not including the balance of Rs.1,908,000 due on 01 January 2021</p>	<p>Agree with the observation. Must be properly accounted for. Action will be taken for</p>

under capital expenditure grants not rectify that. included in the surplus or (deficit) and not accounting for Rs.20,236,105 for the year 2021 in the changes in equity statement, a total of Rs.22,148,005 had been understated in that statement.

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| (h) | Due to understatement of court fine opening balance for the year under review, court fine income as at 31 December was shown as excess of Rs.5,405,714, but the correct court fine balance was not recognized and accounted for. | When inquiring about the court fine income due on 31.12.2021 from the provincial treasury, it was stated that it is Rs. 3,236,533 but no letter confirming the value has been received from the provincial treasury. | The correct balance should be identified and accounted for. |
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2. Financial Review

2.1 Financial Results

According to the Financial Statements presented excess of expenditure over recurrent revenue of the Council for the year ended 31 December 2021 amounted to Rs. 12,003,474 as against the excess of revenue over recurrent expenditure amounted to Rs. 13,714,918 in the preceding year.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) The arrear rent income at the end of the year under review was Rs.19,305,671, out of which a value of Rs.9,796,872 related to 88 shops had not been recovered as per the agreement for 02 to 04 years.	Actions will be taken to recover the arrears in the future.	Arrangements should be made to collect the shop rent income.
(b) Although it is stated that according to the contract for the lease of shops in Polonnaruwa New Public Mall, (PCC) the lessee shall pay the non-refundable deposit to the lessor at once or 50 percent and the remaining amount shall be paid on or before December 02, 2020, failing which	Businessmen did not open shops due to economic collapse and poor construction of shops. due to the shopkeepers not agreeing to open the shops during the negotiations between the shopkeepers and the council, the work was failed in this mall.	Action should be taken according to the agreement.

the agreement shall be void, the deposit amount of Rs.16,338,750 remained outstanding even at the end of the year under review, but the council had not taken any related action.

As a result, the payment of key money has also been temporarily stopped. In the future, I will conduct a technical audit of this building through University of Moratuwa and discuss with the construction company to rectify the deficiencies.

- (c) The council had not taken any action by 03 October 2022 to recover the amount of Rs. 1,307,295 from the key money of the Kaduruwela bus stand shops and Pibidemu Polonnaruwa shops located at the junction of the hospital given in the year 2020.

I would like to mention that this key money arrears amount is currently being paid by the shopkeepers in installments along with the rental.

Actions should be taken to recover the arrears.

3. Operational Review

Audit Observation

In the year under review, the Municipal Council had collected 3285 tons of biodegradable waste and 1095 tons of non-biodegradable waste at a cost of Rs.34,190,583 and about 58 tons of organic fertilizers were produced during the year using a very limited amount of biodegradable waste, and a very limited amount of non- biodegradable waste was baled. Accordingly, severe environmental damage is being caused due to open disposal of all the remaining perishable and non-perishable waste in the Gallalella waste disposal area owned by the Municipal Council, but no formal waste disposal plan was prepared. There was no formal record keeping regarding the baling of non-biodegradable waste and biodegradable waste. Although a project report had been prepared for the construction of the waste disposal plant, it had been temporarily stopped by the year under review.

Comments of the Council

The Municipal Council has given special attention to the formal non-biodegradable waste recycling program and the Municipal Engineering Department has prepared a project report related to this program. Although the construction had been started according to the report, the project has been temporarily stopped due to the current situation in the country. Due to that reason, it is not possible to recycle non-biodegradable waste today.

Recommendation

A non-biodegradable waste recycling program should be started immediately.