

Polonnaruwa Municipality Council - 2020

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 2020 year comprising the Statement of assets and liabilities as at 31 December 2020, Comprehensive Income Statement, 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 provisions of the National Audit Act No. 19 of 2018 and Section 219 of the Municipal Councils Ordinance (Chapter 252). 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 2020, 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

My opinion is qualified 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 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 skepticism 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 and Regulatory Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) As the Financial Statements have been submitted in accordance with the new Accounting System as per Circular No. 2019/02 issued by the Commissioner of Local Government, North Central Province on 31 December 2019, it cannot be compared with the previous year in terms of Sub-section 6 (i) d (iii) of the National Audit Act No. 19 of 2018.
- (b) Recommendations made by me during the last year as per the requirement mentioned in Section 06 (i) d (iv) of the Audit Act No. 19 of 2018 except the observations of paragraph 1.2.1 (d) are included in the financial statements submitted

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local authorities

Audit Observation	Comments of the council	recommendation
<p>Paragraph</p> <p>Sri Lanka Public Sector Accounting Standards for Local Government Institutions - 2017 Paragraph 3.9</p>	<p>Non-disclosure in the financial statements</p> <p>The budget information in the financial statements, such as the initial budget, the final budget and reasons any quantitative changes between them, was not disclosed.</p>	<p>The expected level could not be reached due to the corona epidemic.</p> <p>Disclosures of the reasons for the changes should be made in accordance with the provisions of the standard.</p>

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
<p>(a) The stock of library books amount of Rs.4,755,820 held on the last day of last year, had been written off from the accumulated fund without being accounted for as assets.</p>	<p>Should be shown in the accounting notes as per Circular 2019/02 (i).</p>	<p>Assets should be identified according to the appendix submitted with the accounting standards.</p>

- (b) Capital Grant Total Value Rs.1,908,000 which should have been presented under the Capital Reserves in the Assets and liabilities statement as a component of recurrent had been shown as income for the year under review, and therefore the income for the year was overstated from that amount.
- As adjustments are made for the year in the Comprehensive Income Statement, the change in equity statement includes adjustments for the period.
- Should not be identified as income for the year under review and should be shown as a reserve under Unidentified Capital Grant in Excess / Deficit.

1.6.3 Unreconciled Accounts

Audit Observation	Comments of the Council	Recommendation
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(a) There was a difference of Rs.48,466,282 between the value of financial statements and the value of fixed assets register in 12 accounting subjects.	Accepted. Since the balance in the financial statement is correct, action has been taken to correct the balance in the asset register.	Accurate schedules should be submitted along with the financial statements.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over expenditure of the Municipal Council for the year ended 31 December 2020 amounted to Rs.13,714,918 and the excess of recurrent revenue over recurrent expenditure amounted to Rs.24,871,603 in the preceding year.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
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Rent ----- The arrears of rent for 18 shops at Kaduruwela bus stand and 19 shops at Polonnaruwa Hospital Junction were Rs. 2,120,821 and action had not been taken to recover from 01 to 21 years and no action had been taken to recover the non-refundable advance amount of Rs. 18,088,750 from 40 shops in the Polonnaruwa shopping complex and the monthly rental value of Rs.7,756,758 from 46 shops of it.	I will take legal action against the shop owners of Kaduruwela bus stand in the future. I will act on the recommendation given by the Valuation Department regarding the Hospital Junction shops. Shopkeepers in Polonnaruwa are reluctant to pay rent due to lack of facilities and quality of shops in the shopping complex. After completing deficiencies I will take action as per agreement.	Action should be taken to recover arrears and comply with agreements.

3. Operational Review

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.

3.1 Operational Inefficiencies

Audit Observation

A bulk supply had been obtained for the Polonnaruwa shopping mall to obtain electricity and no action had been taken to settle the relevant electricity bill of Rs.1,306,208 as at the audit date.

Comments of the Council

Arrangements have been made to distribute this bill among the shop owners on a pro rata basis.

Recommendation

Action should be taken to settle the fees.

3.2 Idle Assets

Audit Observation

According to the report on the distribution of assets and liabilities owned to the Tamankaduwa Pradeshiya Sabha, 03 bank accounts with a balance of Rs.629,587 belonging to the Polonnaruwa Municipal Council remained inactive and the Municipal Council failed to identify their present value.

Comments of the Council

Requests have been made in writing to the Assistant Commissioner of Local Government to resolve the issue.

Recommendation

Should be utilized for effective work.