

Municipal Council, Anuradhapura - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Municipal Council, Anuradhapura for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial operations, statement of changes in net assets/equity, cash flow statement, and other explanatory information, including a summary 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 Section 219 of the Municipal 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 Municipal Council, Anuradhapura as at 31 December 2020, and of its financial performance and cash flow for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 Generally Accepted Accounting Principles, 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 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 scepticism 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 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 Pradeshiya Sabha
- Whether the Municipal Council 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

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) Except for the observation 1.6.3 in the Paragraph 1.6 of this report, 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 Preperation of Financial Statements

1.6.1 Accopunting Policy

Audit Observation

Although it had been stated in the policies that the fixed assets would be depreciated as per the diminishing balance method from the year under review, the percentage of depreciation was not correct as per the expected useful life indicated relating to office equipment and vehicles.

Comment of the Council

Depreciation has been calculated as per the revalued amount.

Recommendation

The percentage of depreciation ratio should be correct t as per the d useful life of assets.

1.6.2 Accounting Deficiencies

Audit Observation

- (a) Although the court fines was Rs.373,664 during the year under review according to the revenue details received from the court, it has been stated as Rs.264,917, thus understating by Rs.108,747

Comment of the Council

Action will be taken to correct the Court Fines Revenue Account in the financial statement.

Recommendation

Court fine revenue should be accounted for accurately as per the confirmation received from the court.

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| (b) | Deposit interest income of Rs.183,370 receivable for the year under review for a fixed deposit account maintained in a State bank had not been brought to account. | The interest stated in the fixed deposit statement for the year 2020 has been erroneously stated in the financial statements for the year 2019 and as such, interest received for this fixed deposit has not been computed. | The fixed deposit interest should be brought to account at the correct period of accounts. |
| (c) | According to the register on renting construction machines, the revenue received from renting machines during the year under review was Rs.5,205,250, whereas it had been stated as Rs.5,921,492 in the financial statements, thus overstating by Rs.716,242. | Action will be taken to make relevant corrections in the financial statements in the ensuing year. | Correct revenue should be brought to account. |
| (d) | Although the expenditure on the Government Employees Provident Fund for the year under review was Rs.4,633,572 according to the schedules, it had been stated as Rs.4,652,844 in the financial statements, thus overstating by Rs.19,272. | Relevant corrections will be made in the financial statements for the ensuing year. | Correct expenditure should be brought to account. |
| (e) | The expenditure on the casual employees' salary for the year under review had been understated by Rs.1,282,439 in the account. | Action will be taken to account for the payment of salary on accrual basis in the ensuing year of accounts. | Correct expenditure relating to the period of accounts should be brought to account. |
| (f) | Stamp duty revenue receivable for the year under review and the accumulated fund had been overstated by Rs. 16,947,339 in the account. | Relevant adjustment will be submitted together with the financial statements in the ensuing year of accounts. | Correct stamp duty revenue for the year under review should be brought to account. |
| (g) | The expenditure for the year under review relating to 15 projects planned to be implemented by the Municipal Council funds and the supply creditors of Rs. 4,150,491 had been overstated in the account. | Action will be taken to correct this error by the accounts of the ensuing year. | Correct creditors' value should be brought to account. |

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| (h) | As the depreciations amounting to Rs.6,050,000 for 02 buildings owned by the Municipal Council with identified value of Rs.121,000,000 had not been brought to account, expenditure of the year had been understated by that amount. | Action will be taken to account for the depreciation value in the ensuing year of accounts. | Correct fixed assets should be identified and depreciation should be calculated accordingly. |
| (i) | Although the creditors' balance relating to 03 projects implemented by the Municipal Council funds should be Rs. 12,586,108 during the year under review according to the project progress report, it had been accounted for as Rs.14,193,304 in the financial statements. As a result, creditors had been overstated by Rs.1,607,196 | There is a creditors' balance of Rd.14,193,303 relating to 03 projects implemented as at 31 December 2020. | . Accurate creditors' balance should be brought to account. |

1.6.3 Non-reconciled Control Accounts or Reports

Audit Observation

A difference of Rs. 4,025,861 was observed between the balances related to the 04 item of accounts shown in the financial statements and the balances shown in the relevant subsidiary documents.

Comment of the Council

The balance in the account and the schedule will be corrected and submitted.

Recommendation

Relevant corrections should be made before the preparation of financial statements.

1.7 Non-compliance

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

Instances of non-compliances with laws, rules, regulations and management decisions are given below.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comment of the Council	Recommendation
(a) Establishments Code of the Democratic, Socialist Republic of Sri Lanka. Sections 5.3.1 and 7.2 of Chapter xix	Even though 10 per cent of the salary of a married officer should be recovered when residing in a government scheduled quarters, house rental of Rs.201,017 due from the former Municipal Commissioner from November 2009 up to June 2016 and Rs.99,662 from 01 January to 31 December 2020 and the fine of Rs.273,949 applicable to the unauthorized period had also not been recovered. Similarly, action in terms of Government Quarters (Recovery of Possession) Act, No.07 of 1969 had not been taken in respect of this officer.	Under proposal No. 05 (48) of Decision No. 44 of the General Assembly held on 13th October 2009, it has been decided to allow the Municipal Commissioner to reside in the official residence without paying rent.	Action should be taken in accordance with Establishments Code.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Council in excess of the recurrent expenditure amounted to Rs. 46,960,582 for the year ended on 31 December 2020 as against the recurrent expenditure exceeding the revenue for the preceding year amounting to Rs. 47,891,094.

2.2 Financial Control

Audit Observation

Out of a loan of Rs. 14,400,000 obtained while submitting the fixed Deposits maintained in a State Bank under the name of Municipal Council on the basis of expeditious settlement in April 2019, a sum of Rs. 3,203,854 as loan installments and Rs. 2,178,018 as interests had been paid as at 31 December 2020 and Rs. 11,196,146 further remained payable

Comment of the Council

Due to financial difficulties arising due to loss of income for several years, it is unable to settle this loan and therefore, it is maintained as a normal loan.

Recommendation

The loans obtained submitting fixed deposits as securities should be settled expeditiously.

2.3 Revenue Administration

2.3.1 Performance in Collecting Revenue

Audit Observation

(a) Rate and Taxes

No action had been taken to recover the arrears of Rate of Rs. 96,822,402 as at 31 December 2020.

Comment of the Council

Necessary steps will be taken to increase the Rate collection percentage in the future.

Recommendation

As the deficit of Rate has increased annually, urgent action should be taken to recover the arrears.

(b) Rent

No action had been taken to recover the arrears of trade stall rent of Rs. 45,698,842 as at 31 December 2020.

Letters have been duly issued to recover the arrears of rent and further action is being taken as per the decisions of the General Assembly on the requests of the owners of the stalls.

Attention should be drawn to initiate legal action for the recovery of arrears in trade stall rent.

(c) Licence Fees

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| <p>-----</p> <p>(i) Action had not been taken to recover the outstanding trade licence fees of Rs. 5,238,635 as at 31 December of the year under review.</p> | <p>Action is being taken to recover the outstanding licence fees.</p> | <p>Action should be taken to recover the outstanding licence fees.</p> |
| <p>(ii) Trade licence debtors of Rs. 3,906,584 had been written off without formal approval during the year under review.</p> | <p>These debtors balances have been written off due to the reasons such as double counting, closure of businesses etc.</p> | <p>Approval of the Minister in charge of the subject should be obtained to write off the debtors.</p> |

(d) Stamp Fees

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| <p>-----</p> <p>The stamp fees due from the Chief Secretary and the other authorities of the provincial council as at 31 December of the year under review was Rs. 42,390,277, whereas adequate monitoring had not been carried out to recover that amount.</p> | <p>Action will be taken to correct it by the financial statements to be prepared in the future.</p> | <p>Action should be taken to recover the receivable stamp fees.</p> |
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3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Council through Section 04 of the Municipal Council 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.

3.1 Management Inefficiencies

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| <p>(a) According to the preliminary investigation report on the fire broke out in the excavator used for the Kirikkulama Pilisaru project on 18 September 2014, the report had recommended that Rs. 825,000, the one fourth of the loss of Rs. 3.3 Mn. should be recovered from the relevant officials, but no action had been taken to recover the amount.</p> | <p>The Department of Local Government has conducted a preliminary investigation and action will be taken accordingly after receiving the disciplinary orders.</p> | <p>Relevant disciplinary orders should be obtained expeditiously and action should be taken to recover the money from the responsible parties.</p> |

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| (b) | Necessary action had not been taken to recover the financial loss of Rs. 47,174,493 incurred by the Municipal Council fund due to two irregularities that took place during the period from 2012 to 2018. | According to the formal disciplinary inquiry into the assessment tax irregularity, a disciplinary order has been issued to recover Rs. 6,322,302 from the guilty parties but they have appealed against it. No formal disciplinary inquiry has been conducted into salary fraud. | The relevant recovery should be made in accordance with the formal disciplinary inquiry for assessment tax fraud and expeditious disciplinary inquiries should be conducted for the recovery of dues for the salary fraud. |
| (d) | An employee who had served in the Municipal Council and transferred to another institution in 2013 had been paid Rs. 1,816,557 as salaries and allowances for the period from the date of transfer up to June 2018, but necessary steps had not been taken to cover the financial loss incurred by the Fund. | The Zonal Director of Education has been informed to conduct a preliminary investigation and recover the amount. | Expeditious action should be taken to recover this amount. |
| (d) | No action had been taken for more than a period of two years to recover Rs. 699,227 due from 15 employees of the Municipal Council who had been interdicted. | Preliminary inquiry is underway relating to the interdicted employees and recoveries will be made soon after the completion of the inquiry. | Expeditious action should be taken to recover this amount. |
| (e) | No action had been taken to identify relevant parties of unidentified Rs. 399,328 included in the accounts receivable as at 31 December of the year under review and recover the amount. | Action will be taken to take legal action against these debtors and recover the money. | Action should be taken to recover the balance receivable. |
| (f) | Action had not been taken to pay the unsettled audit fees of Rs. 2,930,450 relating to the period from 2014 to 2019. | Due to the financial difficulties in the Municipal Council, it has been decided to settle the amount at Rs. 100,000 per month as per the resolutions of the Council. | Action should be taken to pay audit fees without delay. |

3.2 Operating Inefficiencies

Audit Observation

Necessary legal action had not been taken regarding non-payment of tax of Rs. 928,442 and electricity bills of Rs. 188,030 payable from 06 June 2020 relating to the weekly fair belonging to the Municipal Council.

Comment of the Council

The matter has been referred to the Legal Division to take legal action.

Recommendation

Action should be taken to recover the relevant arrears.