

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Anuradhapura Municipal Council for the year ended 31 December 2024 comprising the Statement of Assets and Liabilities as at 31 December 2024 and the Comprehensive Income Statement, Statement of changes in Net Assets/equity, Cash Flow Statement for the year then ended and notes to the financial statements including material accounting policy information 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 provisions in sub-section 10(1) of the National Audit Act No. 19 of 2018, 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 Anuradhapura Municipal Council as at 31 December 2024, 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

I expressed qualified opinion 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 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 Deficiencies

Audit Observation	Comments of the Council	Recommendation
Although the court fine revenue received for the year 2024 Rs. 3,540,045, the revenue was understated by that amount due to non-recognition in the comprehensive revenue statement for the year under review.	That step will be taken to ensure that such errors do not occur in the preparation of future financial statements.	The correct value must be accounted.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
(a) Although the arrears of assessment as per the assessment schedule was Rs. 79,353,671 at the end of the year under review, there was a difference in the arrears of assessment income of Rs. 911,735 after adjusting it to Rs.80,265,406 in the financial statements.	Action will be taken to correct.	The corresponding report should be corrected with the schedules.
(b) Although the stock was stated at Rs. 28,610,157 as per the financial statement of the year under review, a difference of Rs. 652,547 was observed as per the schedule, from Rs. 27,957,610.	Action will be taken to correct.	-Do-

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over expenditure of the Council for the year ended 31 December 2024 amounted to Rs. 104,806,593 as compared with the excess of revenue over expenditure amounted to Rs. 108,130,062 in the preceding year.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

As per the information submitted by the Municipal Commissioner, the estimated revenue, billed revenue, collected revenue and arrears of revenue for the year under review and the previous year are given below.

2024						2023				
Source of Revenue	Estimated Revenue	Revenue billed	Revenue collected	Total as at 31 December	Arrears at 31 December	Estimated Revenue	Revenue billed	Revenue collected	Total as at 31 December	Arrears at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	126,987,300	86,734,354	91,218,426	80,265,405	117,581,041	83,406,370	105,579,178	88,745,511		
(ii) Rent	65,207,654	58,908,812	52,463,427	85,550,413	112,317,934	108,455,998	99,015,753	78,496,365		
(iii) License fees	13,534,677	13,970,600	15,087,621	3,348,266	29,979,000	39,056,035	36,408,041	8,903,373		
(iv) Other Revenue	131,999,738	161,827,035	151,434,163	64,961,558	160,345,351	207,532,842	123,003,729	112,360,175		
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	337,729,369	321,440,801	310,203,637	234,125,642	420,223,326	438,451,245	364,006,701	288,505,424		
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2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
(a) Rates		
(i) In terms of Section 252(i)(a) of the Municipal Council Ordinance, in the event of non-payment of any rates and tax, the rates and recovery fees should be recovered by foreclosing and selling all and every movable or immovable property of the owner or shop owners of the premises on which the rates and tax is due and any person in or on the premises, but legal action had not been taken during the year under review to recover the arrears of rates and tax amounting to Rs. 79,353,671.	The country's economic crisis had led to a decrease in the income of urban residents, leading to defaults on payments and government institutions also defaulting on payments.	Efforts should be made to collect the arrears and legal action should be taken against those who default on payments.
(ii) The rates imposed for the year 2024 was based on the assessment of the year 2013.	When month of April in year of 2025, about 70 percent of the rates and tax assessment has been completed.	The rates tax amount to be levied in the future should be based on the new assessment report.

(b) Rent

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| (i) | Although the shop rent income for the year under review was estimated at Rs. 27,955,562, the performance of collecting shop rent income remained at a very low level due to the arrears of shop rent of Rs. 77,394,872, which is more than double the annual income. | Relevant legal proceedings are being carried out to collect arrears of income. | Steps should be taken to collect arrears of revenue and legal action should be taken against those who default on payments. |
| (ii) | According to the agreement signed on 26 th of September 2013 regarding shop number 140 at Market Place, it was agreed to charge a shop rent of Rs. 7,500 per month, but due to the fact that Rs. 6,400 was charged, the Municipal Council had lost Rs. 150,700 in revenue from 2013 to February 2025. | The current status of this will be informed in the future. | Action should be taken to recover arrears of revenue. |
| (iii) | Although the Provincial Valuation Department had assessed the monthly rent for shop number 73 in Market Place as Rs. 9,000 on 09 July 2012, the Municipal Council had lost nearly Rs. 144,000 from 2013 to 2024 by charging a monthly rent of Rs. 8,000. | The current status of this will be informed in the future. | Action should be taken to recover arrears of revenue. |
| (iv) | Action had not been taken to recover the balance of yield tax due from buyers from the year 2021 to the year 2024 amounting to Rs. 645,825 during the year under review. | Requests have been made to the District Agricultural Committee to temporarily suspend the concessions provided to them until the yield tax is paid and agreements are gradually concluded. | Action should be taken to recover arrears of revenue. |

(c) License Fees

Although, as per Section 247 (c) 2 (1) of the Municipal Council Ordinance, commercial businesses cannot be operated without obtaining trade licenses by the due date, the Council was supposed to receivable Rs. 1,654,400 from 173 establishments that had been operating without obtaining licenses for 02 years or more as of October 11, 2024, but no legal action had been taken in this regard.

The current status of this will be informed in the future.

Action should be taken to recover arrears of revenue.

(d) Other Revenue

Court fines of Rs. 5,033,280 and stamp duty of Rs. 39,293,047, which were due to be received from the Chief Secretary of the Provincial Council and other authorities as at 31st of December 2024, had not been collected.

Relevant letters have been sent to the Provincial Income Tax Department regarding stamp duties and steps will be taken to recover the outstanding revenue in the future.

Action should be taken to recover arrears of revenue.

3. Operational Review**3.1 Performing of Functions Enacted by the Act**

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 Council Ordinance are shown below.

Audit Observation**Comments of the Council****Recommendation**

Under Section 272 of the Municipal Council Ordinance, by-laws were to be enacted to carry out 34 main matters, but no steps had been taken to enact them in 2024.

The draft by-laws that have been drafted have been submitted to the Governor for approval and further steps will be taken after the establishment of the Provincial Council.

Steps should be taken to enact by-laws.

3.2 Management Inefficiencies**Audit Observation****Comments of the Council****Recommendation**

The total of Rs. 574,078 of 05 receivable revenue items stated in the final accounts of the year under review had not been recovered between the year 2020 and the year 2022.

Legal action has been taken regarding the arrears of property.

Action should be taken to collect the arrears of revenue.

3.3 Operational Inefficiencies**Audit Observation****Comments of the Council****Recommendation**

(a) While there were 11 lands that could be yield leased out, only 05 lands were leased out in the year 2024. Agreements had not been entered into for 03 of those leases and the 50 percent fee that should have been charged at the time of entering into agreements for 02 leases as per the lease announcement had not been collected.

That bids have not been submitted for 06 lands and that written notice has been given to pay the relevant money for 03 paddy lands.

Steps should be taken to collect revenue by leasing out lands that can be yield leased out to all.

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| (b) | 13 shops in the Market Place are being charged rent for the year 2024 based on the valuation report prepared by the Provincial Valuation Department on 09 th of July 2012, and the Municipal Council has not yet taken steps to revise the valuation report and obtain a new valuation report. Similarly, temporary valuation reports for the shops in the Market Place have not been obtained from the Chief Revenue Inspector and rent has not been collected. | New valuation reports have been requested for the shops with survey plans, and work is underway to prepare survey plans for other shops. Once those works are completed, new valuation reports will be obtained. | New valuation reports should be obtained and steps should be taken urgently to collect rent for shops based on it. |
| (c) | The last updated lease agreements for the shops in the market place were between 7 and 13 years old. | Once a formal decision is made regarding those shops, action will be taken in accordance with that decision. | Relevant lease agreements for shops must be kept up to date. |
| (d) | There was a arrears balance of Rs. 4,846,526 in respect of 13 shops in the Market Place as on 31st December 2024, of which the rent for shop number 43 had not been paid for more than 09 years and no late fees had been charged for any shop as per the agreement. | The necessary steps are being taken to cancel the agreements, seal the shops and take them over, and a policy decision will be taken on charging late fees. | Agreements that default on rent payments should be cancelled, shops sealed and steps should be taken to take over them promptly. |
| (e) | The five shops numbered 01 to 05 in the public stadium had been granted a long-term lease for 30 years from 2014 to 2044, and the agreement entered into when granting the lease had not included the manner in which the monthly rent would be revised. | According to the court ruling, rent was calculated from January 2023 based on the assessed rent, but according to the appeal from the lessees, rent has been calculated from January 2024 and the lessees have paid the rent properly. | Agreements should be revised. |

3.4 Transactions of Contentious Nature

Audit Observation	Comments of the Council	Recommendation
(a) When issuing goods to the required parties from the Municipal Council's sub-warehouse, no issuance of goods was recorded after October 2024, and by the end of the year, 14 cubes of sand, 03 barrels of liquid tar and 24 barrels of rock tar had been issued by the officer in charge of the sub-warehouse without any supervision.	Instructions were given to record and dispose of the matter in a formal register.	Steps should be taken to keep formal registers up to date.
(b) Although approval had been received to pay incentive allowances for the collection of arrears of revenue only if the arrears existing as on 01 st of January 2018 are collected before 31 st of March 2019 as per paragraph 03 of Circular No. 02/2018 issued by the Commissioner of Local Government on 08 th of December 2018, the Municipal Council had paid incentive allowances of Rs. 792,990 in year of 2024 for the collection of arrears relating to the period from 01 st of January 2023 to 31 st of December 2023, despite those facts.	These incentive payments have been implemented based on the Local Government Circular 02/2018 and in accordance with the powers to incur expenses related to maintaining services under the Municipal Council Ordinance.	Action should be taken in accordance with the provisions of the circular.

3.5 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
Although the basic requirement for the recruitment of officers to the secondary level posts of Revenue Inspector and Technical Assistant in the North Central Province is to pass competitive examinations on an open or limited basis, two revenue employees were appointed to the post of Revenue Inspector and 6 to the post of Technical Assistant from 11th June 2024, misinterpreting the letter No. PL/06/2/36/r-1 dated 25th June 2024 of the Secretary to the Ministry of Public Administration.	These casual employees have been made permanent by the Provincial Public Service Commission.	Officers should be appointed to the secondary level posts of Revenue Inspector and Technical Assistant in accordance with the Service constitutions.

3.6 Management of Vehicle fleet

	Audit Observation	Comments of the Council	Recommendation
(a)	The ownership of 06 vehicles used by the Municipal Council has not been taken over and revenue licenses have not been obtained for those vehicles as well as for 02 vehicles belonging to the Municipal Council.	These vehicles will be taken over in the name of the Municipal Council and then steps will be taken to obtain revenue licenses.	Steps should be taken to transfer the vehicles to the institution's name and revenue licenses should also be obtained for all vehicles.
(b)	A fuel combustion test had not been conducted on 35 vehicles owned by the Council.	Arrangements have been made to conduct a fuel inspection of all vehicles this year.	Action should be taken as per the circular.