

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Polonnaruwa 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 Polonnaruwa 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local authorities

Non Compliance with the reference to particular Standard	Comments of the council	Recommendation
Although schedules showing the cost, accumulated depreciation, annual depreciation and net value of each asset as at the end of the reporting period should be prepared and submitted in accordance with Sri Lanka Public Sector Accounting Standard No. 6.20 for Local Government Institutions, only the net value of the assets was stated.	That will be corrected.	The Sri Lanka Public Sector Accounting Standards for Local Government Institutions should be followed.

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) As at 31 st December of the year under review, the value of 34 fixed asset items, amounting to Rs. 1,589,515, was recorded twice, under property, plant and equipment and under inventories, resulting in an overstatement of the inventory value by that amount.	That will be corrected by the financial statements in the year 2025.	Should be accounted correctly.
(b) The value of the tractor purchased in the year under review under the Local Development Support Project (LDSP - PT 03) of Rs. 4,299,000 had not been accounted.	That will be corrected by the financial statements in the year 2025.	Should be accounted correctly.
(c) 03 balances had not been accounted in bridges, culverts and roads worth Rs. 4,997,783 constructed in previous years and during the year under review.	That will be corrected by the financial statements in the year 2025.	Should be accounted correctly.
(d) While the balance in the bank current account for the Local Development Support Project (LDSP) was zero as per	That will be corrected by the financial statements in the year 2025.	Should be accounted correctly.

the cash book, an overstatement of Rs. 573,648 balance was shown in the financial statements.

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| (e) | As at 31 st December of the year under review, an income of Rs. 1,089,644 had not been accounted for in the financial statements due to non-adjustment of the balance sheet financial statements due to non-correction of errors in the cash book and had been received of direct remittances to current accounts. | That will be corrected by the financial statements in the year 2025. | Should be accounted correctly. |
| (f) | Although an expenditure of Rs. 12,124,500 was incurred for the purchase and installation of 03 digital billboards under the Local Development Support Project (LDSP) in the year under review, it was stated as Rs. 8,083,000 under installations, which was Rs. 4,181,500 understated. | That will be corrected by the financial statements in the year 2025. | Should be accounted correctly. |
| (g) | 03 projects whose construction was not completed as on 31st December of the year under review, with a work in progress value of Rs. 12,349,807 as on that date, had not been accounted for under work in progress. | That will be corrected by the financial statements in the year 2025. | Should be accounted correctly. |
| (h) | The loan installments of Rs. 3,167,509 collected by the officers of the Municipal Council for the disaster loan obtained from the Local Government Department were not recorded under the receipts for recurrent expenses (salaries and wages) through cross-entry notes, but were erroneously shown as an expense payable under the Anuradhapura disaster loan in the financial statements. | That will be corrected by the financial statements in the year 2025. | Should be accounted correctly. |
| (i) | When calculating cash flow from investing activities, the value was overstated by Rs. 42,362,167 as the cash expenditure incurred for the purchase of property, plant and equipment was Rs. 48,385,103 as per the LG 12 model, but was recorded as Rs. 90,747,270. | That will be corrected by the financial statements in the year 2025. | Should be accounted correctly. |

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| (j) | In calculating the cash flow from operating activities in the cash flow statement, although the increase in payables was Rs. 32,116,930, it was stated as Rs. 67,239,147, an overstated of Rs. 35,122,217. | That will be corrected by the financial statements in the year 2025. | Should be accounted correctly. |
| (k) | In calculating cash flow from financing activities, although the repayment of long-term debt and interest was Rs. 7,395,427, it was as Rs. 9,664,086, which is overstated by Rs. 2,268,659. | That will be corrected by the financial statements in the year 2025. | Should be accounted correctly. |
| (l) | Although the non-recurring receipts (LDSP) received in calculating the cash flow generated from financing activities were Rs. 46,773,750, it was overstated by Rs. 21,397,300 after accounting for Rs. 68,171,050 as capital expenditure grants received. | That will be corrected by the financial statements in the year 2025. | Should be accounted correctly. |
| (m) | The arrears of revenue of Rs. 453,526, which was the 1 percent license fee collected from hotels registered with the Tourism Board, was not disclosed in the financial statements. | That will be corrected by the financial statements in the year 2025. | Should be accounted correctly. |

1.6.3 Unreconciled Control Accounts

Audit Observation	Comments of the Council	Recommendation
Although the value of the machinery as per the schedule as on 31st December of the year under review was Rs. 22,602,351, the value in the financial statements was Rs. 40,661,865, resulting in a unreconcile of Rs. 18,059,514..	That the document will be corrected.	Account books should be reconciled and correct values recorded.

1.6.4 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
Due to non-submission of schedules and balance supporting documents for 3 accounting subjects with a total value of Rs. 107,472,915, it was not possible to satisfactorily examine them.	That work will be done to prepare the schedules going forward.	Proper evidence must be submitted.

1.7 Non- Compliances

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

The instances of non-compliance with Laws, Rules, Regulations and Management Decisions etc as follows.

Reference to Non-compliance Laws, Rules Regulations and Management Decisions etc.		Comments of the Recommendation Council	
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
As per Financial Regulation 571(2)	Action had not been taken in referred with the regulations regarding 40 deposits worth Rs. 16,622,002 which had been outstanding for more than 02 years as at the end of the year under review and which were stated as tender and industrial deposits.	That will be taken to generate revenue.	Financial regulations should be followed.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over expenditure of the Sabha for the year ended 31 December 2024 amounted to Rs. 18,588,601 as compared with the excess of revenue over expenditure amounted to Rs. 712,753 in the preceding year.

2.2 Revenue Administration

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

According to 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 shown below.

Source of Revenue		2024				2023			
		Estimated Revenue	Revenue billed	Revenue collected	Total Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue collected	Total Arrears as at 31 December
		Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs
(i)	Rates and Taxes	26,633,000	26,633,000	22,055,509	41,627,466	26,733,000	26,733,000	20,418,712	37,049,975
(ii)	Rent	124,552,000	124,552,000	107,658,453	108,010,419	114,628,000	114,628,000	97,243,281	91,116,872
(iii)	License fees	7,400,000	7,400,000	7,400,000	-	6,600,000	6,600,000	6,600,000	-
(iv)	Other Revenue	71,178,000	71,178,000	71,178,000	-	66,816,000	55,638,566	55,638,566	-
		=====	=====	=====	=====	=====	=====	=====	=====
		229,763,000	229,763,000	208,291,962	149,637,885	214,777,000	203,599,566	179,900,559	128,166,847

2.2.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Council are given below.

Audit Observation		Comments of the Council	Recommendation
(a) Rates and Taxes			
(i)	With an rates tax arrears of Rs. 23,042,739 as at the beginning of the year under review and a billing of Rs. 19,059,245 for the year, out of the rates tax value to be collected of Rs. 42,101,984, only Rs. 18,495,678 had been collected during the year under review and the outstanding assessment balance as at December 31 of the year under review was Rs. 23,606,307. Accordingly, the rates tax collection performance was at a very low level of 44 percent and the rates tax arrears had increased annually.	Action will be taken to issue red notices and to issue expropriation permits to those who do not pay.	Action should be taken to recover the arrears of revenue.
(ii)	The value of outstanding garbage tax to be collected as at 31 st December of the year under review was Rs. 14,763,450.	That action should be settle.	Action should be taken to recover the arrears of revenue.
(iii)	The property tax balance to be collected as at 31 st December of the year under review was Rs. 3,257,709.	Preliminary steps are being taken to take judicial action to recover the outstanding tax revenue that is due.	Action should be taken to recover the arrears of revenue.

(b) Rent		
(i)	The outstanding shop rental income as at 31st December of the year under review was Rs. 86,632,306.	That action will be taken to seal the shops. Action should be taken to recover the arrears of revenue.
(ii)	The balance of receivable key money as at 31st December of the year under review was Rs. 15,759,890.	That action will be taken to recover it in the future. Action should be taken to recover the arrears of revenue.
(c) Asset leasing		
(i)	Out of the value of Rs. 5,492,226 in asset leasing and late fees receivable as at the beginning of the year under review, only Rs. 253,117 had been recovered during the year under review, thus the progress in recovering the arrears remained at a very low level of 5 percent.	That the arrears of assets have been sued in court to recover late lease fees. Action should be taken to recover the arrears of revenue.
(ii)	The balance of asset lease and late fees receivable as at 31st December of the year under review was Rs. 5,618,222.	Preliminary steps are being taken to take court action. Action should be taken to recover the arrears of revenue.
(c) Court fines and Stamp duty		
	The court fine revenue that should have been received from the Secretary of the North Central Provincial Council and other authorities as of December 31, 2024 was Rs. 28,391,775 and stamp duty revenue was Rs. 10,830,453.	The necessary recovery action are being taken urgently. Action should be taken to bring in council revenue.

3. Operational Review

3.1 Identified Losses

Audit Observation	Comments of the Council	Recommendation
Although payments for the variable work and additional work subjects of the Kaduruwela New Shopping Complex and vehicle Park construction contract should have been calculated based on the contract award rates, an additional amount of Rs. 11,404,818 had been paid to the contractor using higher rates.	Payments have been made subject to the approval of the General Assembly..	Payments should be made based on the rates prevailing at the time of signing the agreement.

3.2 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) On 7 th of June 2022, Rs. 926,600, which had been provided by the Department of Local Government for the implementation of self-employment projects such as coconut grinding, had been retained in the general deposit account without being used for the relevant activities.	That the funds will be directed to the purpose for which they were received.	The funds should be used for the relevant project.
(b) No action had been taken during the year under review to recover the overpaid member of parliament telephone and transportation allowances of Rs. 216,835 which were due for recovery for more than 03 years as on 31st December of the year under review.	Since these officers have died and are abroad, their families will be notified again through letters and further arrangements will be made.	Action should be taken to recover overpayments.
(c) During the liquidation of the Thamankaduwa Pradeshiya Sabha in 2018 and the distribution of assets and liabilities, 04 account balances worth Rs. 54,493,941 had been given to the Polonnaruwa Municipal Council, but no steps had been taken to settle them even though more than 06 years had passed.	There is no information to be found about this.	Action should be taken to settle account balances.
(d) Billing for the year under review had been made for 140 business institutions that were closed by the year under review and 71 institutions that did not accept waste. Thus, a false arrears had been shown due to billing for institutions that could not be charged without conducting an annual survey.	Actions will be taken to identify the institutions that will provide garbage in 2025 and update the garbage tax register accordingly.	Accurate information should be obtained and income estimates should be made.
(e) The Municipal Council had levied rates taxes in the year under review based on the 2015 assessment and had not taken steps to assess and levy rates taxes based on that assessment.	Requests have been made to the Valuation Department on various occasions.	Property should be assessed once every 5 years.
(f) Although 04 institutions that are required to pay the 1 percent license fee charged by the Tourism Board from hotels registered with the Board of Tourism had not submitted their financial statements to the Municipal Council for a period of 02 to 05 years, no further action had been taken in this regard in the year under review.	That further action is being taken.	Financial statements should be obtained and revenue should be collected accurately.

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| (g) | According to the plan for the construction of the new shopping mall and vehicle park in Kaduruwela, although this building is 665.41 square meters, 50 percent of it was designed with empty spaces, resulting in a financial and economic disadvantage for the Municipal Council due to the inability to generate income and improve it. | That the construction was carried out according to estimates and plans. | Plans should be prepared and constructed appropriately for income generation. |
| (h) | During the construction of the new shopping complex and vehicle park in Kaduruwela, the two-storey building was converted into a four-storey building on the verbal instructions of the Mayor without a formal feasibility study. Attention had not been paid to the need for funding. Due to lack of funds, the remaining work on the building had not been completed. | Necessary instructions have been given to prevent it from happening again. | Further steps should be taken to change the structure and complete the remaining work. |

3.3 Idle or underutilized Property, Plant and Equipment

Audit Observation

The tractor and trailer owned by the council had been idle for 2 to 3 years due to their non-match with the requirements.

Comments of the Council

That repair is being made and work is being done to put it into use.

Recommendation

Asset utilization must be carried out.

3.4 Delays in Project Activities or Capital work

Audit Observation

The construction of the new shopping mall and vehicle park in Kaduruwela was carried out on a loan of Rs. 29,700,000 obtained from the Local Loans and Development Fund, which was to be paid off by April 2030. Due to the inability to complete the expected construction due to structural changes, as of the last day of the year under review, an amount of Rs. 9,690,077 was outstanding as installments of Rs. 5,967,461 and Rs. 3,722,616 as interest.

Comments of the Council

The payable loan amount to be paid is Rs. 9,690,077.

Recommendation

Loan installments must be paid on the due date.

3.5 Procurement

Audit Observation

- (a) Although the construction of the Kaduruwela Shopping Complex had not been completed by 30th November of 2023, bids had been invited under the national competitive bidding system, but due to the

Comments of the Council

That the regional competitive bidding system was followed due to the lack of a buyer under the national competitive bidding system.

Recommendation

Arrangements should be made to lease in a formal manner.

lack of a buyer, all the conditions related to the invitation of bids were changed and a national competitive bidding was not held again on 29th January of 2024, and the entire building was tendered under the regional competitive bidding system instead of individual shops.

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| (b) | If the shops had been leased separately, the temporary monthly rent for 10 shops would have been Rs. 810,000, while the temporary rent for the entire shopping complex would have been Rs. 400,000 if the shops had been leased to one tenderer without being leased. Accordingly, the Municipal Council had incurred a monthly loss of Rs. 410,000. | After the construction is completed, a formal assessment will be carried out and the rent will be collected. | Arrangements should be made to lease in a formal manner. |
| (c) | If the 10 shops were leased separately, the total amount would be Rs. 5,500,000, while when the ten shops were leased to one person without such a lease, the key money was stated as Rs. 32,500,000. Accordingly, at this time, the Municipal Council had incurred a loss of Rs. 18,000,000. | The buyer has paid 50 percent of the key money, that is Rs. 16,250,500, of which Rs. 15,000,000 has been paid to the contractor. | Procurement guidelines should be followed. |

3.6 Defects in Contract Administration

Construction of Kaduruwela Shopping Complex and vehicle Park

	Audit Observation	Comments of the Council	Recommendation
(a)	The plans for the construction of the shopping complex as a two-storey building had been prepared and a contract had been signed with the contractor for a value of Rs. 32,497,815 on 21 st of February 2022. A new estimate of Rs. 65,783,475 had been approved by the General Assembly held on 23 rd of August 2022 to construct a four-storey building without approval of the plans. Although the contractor should have been selected according to the new estimate as per the Procurement Guidelines, this had not been done.	Since a problematic situation could arise when two contractors work on the same land, the contract was awarded to the contractor with the approval of the General Assembly.	Procurement guidelines should be followed.
(b)	Due to the failure to properly assess whether the additional amount of Rs. 36,083,475 to be incurred due to the relevant change could be borne from the council funds, it was not possible to make the payment of Rs.	The contractor is to be paid Rs. 22,558,607 for work completion bills by 16 th of January 2025.	Check whether there are provisions for changes and make the changes.

22,558,607 to the contractor for the work carried out by the last day of the year under review.

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| <p>(c) Although payments should be made after ensuring that the work has been completed in accordance with the agreed specifications, terms and conditions regarding the quality of the work performed as per 8.12.1 and 8.12.2 of the Government Procurement Guidelines, the relevant officers had certified that all the work in the said construction had been completed satisfactorily and recommended payments for 06 work items worth Rs. 1,699,096 for the uncompleted work.</p> | <p>It is confirmed that the payment has been verified and that the paint has been applied and has a smeared appearance on the hand after a period of time..</p> | <p>Proceedings should be made in accordance with 8.12.1 and 8.12.2 of the Procurement Guidelines.</p> |
| <p>(d) As per the quantity sheets, 12 mm laminated plywood shuttering has been used for the slab, beam and staircase formwork items, it is not necessary to re-apply 15 mm thick plaster on those smooth surfaces, and despite the BSR instructions stating that, a payment of Rs. 1,473,789 had been recommended for the Dalamba plastering.</p> | <p>Plaster was applied to the slab beam and staircase to keep the surface rough and protect the construction materials.</p> | <p>That action should be taken according to instructions in the BSR</p> |

3.7 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
(a) There are 45 vacant posts in the Municipal Council, consisting of 6 senior level posts, 28 secondary level posts, and 11 primary level posts, and 06 posts that are not part of the approved staff are surplus.	The relevant institutions have been informed to fill the vacancies.	Vacancies should be filled.
(b) There are 11 vacancies for the positions of Mechanic, Mason, Welder, Carpenter, Office Assistant, Play grounds guardian, and 5 Road Labour at the primary level, and 4 positions are excesses, including 2 Driver positions, 1 Library Assistant position, and 1 Health labour position.	That the relevant institutions have been informed to fill the vacancies and that the surplus employees have been referred for approval.	Vacancies should be filled.

- (c) 56 officers serving in various positions in the Municipal Council were performing duties in positions other than their regular positions for a period of 01 to 07 years when approving posts in the Polonnaruwa Municipal Council, although a large number of certain posts were required, only a few posts were approved, so other employees were used. Relevant duties should be assigned to regular positions.

4. Accountability and Good Governance

4.1 Sustainable Development Goals

Audit Observation	Comments of the Council	Recommendation
The Municipal Council had not identified and implemented sustainable development objectives, programs and criteria as per the regulations of the Sustainable Development Act No. 19 of 2017.	That the Sustainable Development Goals, programs and criteria have been identified and implemented.	The objectives and programs set out in the Act must be in accordance with the criteria.