

Kandy Kadawath Sathara and Gangawata Korale Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kandy Kadawath Sathara and Gangawata Korale Pradeshiya Sabha including the financial statements for the year ended 31st December 2021 comprising the balance sheet as at 31st December 2021, Income and Expenditure Account 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 Sub-Section 172(1) of the Pradeshiya Sabha Act No.15 of 1987 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 financial statements give a true and fair view of the financial position of the Kandy Kadawath Sathara and Gangawata Korale Pradeshiya Sabha as at 31st December 2021, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

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 Generally Accepted Accounting Practices, 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 Pradeshiya Sabha's financial reporting process.

As per Section 16(1) of the National Audit Act No.19 of 2018, the Pradeshiya Sabha 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 Pradeshiya Sabha, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Pradeshiya Sabha has complied with applicable written law, or other general or special directions issued by the governing body of the Pradeshiya Sabha;
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources of the Pradeshiya Sabha 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 Pradeshiya Sabha 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 Sabha	Recommendation
(a) A land belonging to the council worth Rs.380,960 was not shown in the financial statements, and the value of two lands and a building was not assessed or accounted for.	Action will be taken to account for	The value of land and buildings should be assessed
(b) The cost of Rs.960,529 incurred for the development of a stadium in the last year was not shown in the financial statements.	Action will be taken to assess and account for	Capital expenditure should be correctly accounted for
(c) Cab of Rs.6,390,000 belonging to the Council was not shown in the financial statements during the year under review.	The account could not be entered due to an error in providing information. That will be noted in the future	The cost of vehicles should be correctly accounted for
(d) The value of library books at the end of the year under review amounting to Rs.297,911 was not shown in the financial statements.	That, an explanation will be provided in the future	The correct value of library books should be accounted for
(e) At the end of the year under review, the assessment tax income had been understated by Rs.429,488 in the financial statements.	That, Rs.372,731 is a correction of the balance which was included with errors, and the difference of Rs.57,867 will be corrected in the year 2022	The assessment tax revenue should be correctly accounted for

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| (f) | At the end of the year under review, the garbage tax income had been understated by Rs.167,850 in the financial statements. | In the year 2022, it will be corrected the journal entries. | Garbage tax revenue should be correctly accounted for |
| (g) | The employee loan balance due at the end of the year under review had been overstated by Rs.230,480 in the financial statements. | That incorrect data has been recorded in the printed schedule provided for the final account and that corrections are currently being made | Employee loan balances should be accurately identified and accounted for |

1.6.2 Unreconciled Control Accounts or Records

Audit Observation

At the end of the year under review, there was a difference of Rs.12,119,019 between the balances according to the financial statements related to 05 account subjects and the balances of the schedules

Comments of the Sabha

A committee has been appointed to correct the balance and I will act accordingly.

Recommendation

The correct value should be adjusted in the financial statements

1.6.3 Documentary Evidences not made available for Audit

Audit Observation

At the end of the reviewed year, 02 asset subjects of Rs.7,049,296 and 03 liability subjects of Rs.2,725,738, which were shown in the balance sheet, could not be satisfactorily verified in the audit due to non-submission of asset registry, documents, schedules and balance confirmation.

Comments of the Sabha

The asset survey work has been completed and will be included in the documents in the future

Recommendation

Evidence for balances in financial statements should be prepared

1.7 Non- Compliances

----- Non-compliance with Laws, Rules, Regulations -----

Followings are the instances where laws, rules and regulations were not complied with.

Reference to Laws, Rules Regulations etc. -----	Non-compliance -----	Comments of the Sabha -----	Recommendation -----
Financial Regulations of the Democratic Socialist Republic of Sri Lanka -----			
i Financial regulation 571 and 571(c)	Lapsed Projects, Miscellaneous deposits and 155 other deposits amounting to Rs.6,443,631 had not been taken into revenue as per the financial regulations.	Due to the Corona disease, it was not possible to complete the work on the scheduled date, and as many industries as possible were completed and the industries that could not be completed were cancelled.	Financial regulations should be followed in relating to deposits Balances.
ii Financial regulation 371(c)	Interim advance of Rs.765,200 had been issued to non-executive officers in 30 occasion.	That, advances to the subject officers are made under the supervision of the Secretary as there is only Secretary as executive officer,	Financial regulations should be followed.

2. Financial Review

----- 2.1 Financial Result -----

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31st December 2021 amounted to Rs.9,020,107 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 93,823,908 in the preceding year.

2.2 Revenue Administration

Performance in Revenue Collection

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

Audit Observation	Comments of the Sabha	Recommendation
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(a) Rates		

As at December 31 st of the year under review, outstanding assessment tax revenue of Rs.18,720,121 had not been collected, and the balance included Rs.3,842,241 due from 364 units where the arrears per unit was more than Rs.5,000.	In 2022, it is expected to carry out arrears collection activities by conducting a door-to-door assessment tax collection program.	Arrears of assessment tax should be collected.
(b) Rent		

Lease of right to sale		

At the end of the year under review, the amount of Rs.576,000 due for the lease of Hela Bojun Hala belonging to the council remained outstanding, and the late fee of 10 percent for that was not collected.	According to the decisions of the General Assembly, a part has been cut off and the remaining amount is being collected.	Arrangements should be made to collect the arrears
(c) License fees		

Trade license		

According to Rule No. 149 of the code of Pradeshiya Sabha (Finance and Administration) Rules 1988, no survey was conducted on trade licenses for the year under review, and at the end of the year, Rs.435,750 due from 323 trade enterprises had not been collected.	At present, a portion has been charged and action will be taken to collect the remaining amount	Survey should be conducted and arrears should be collected.

(d) Other income

Three wheeler charges

A survey was not conducted on three-wheelers for the year under review, and according to the survey in 2019, billed license fees of Rs.122,400 had not been charged in respect of 102 three-wheelers

That a survey will be conducted and further work will be done

Action should be taken to carry out surveys and collect arrears of license fees

(e) Hotels registered in Tourism Board

According to the No. 149 Pradeshiya sabha Act, a percentage of the revenue of hotels registered in the Tourism Board is to be charged as a license fee the amount of Rs.2,355,518 due from a hotel in the area of authority for the year 2019/2020 had not been collected, and neither accounting reports related to the years 2020/2021 were obtained nor the income to be charged was calculated.

The hotel owners have been informed to calculate and pay the charges

Arrears of license fees should be collected and unbilled revenue should be billed

(f) Court fines and stamp duty

Court fines of Rs.543,580 and stamp duty of Rs.42,730,579 that should have been received from the Chief Secretary of the Provincial Council and other authorities on December 31st, 2021 had not been collected.

Action will be taken to collect the arrears of court fines and stamp duty in future.

Court fines and stamp duties should be collected.

2.3 Surcharges

Audit Observation

In accordance with the provisions of the Pradeshiya sabha act, a surcharge of Rs.262,608 was levied against the responsible persons in the previous year, and the said amount had not been collected by the end of the year under review.

Comments of the Sabha

Although letters have been sent to the Members asking them to pay this amount, no amount has been paid so far

Recommendation

Charges should be collected as per surcharge certificates

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 03 of the Pradeshiya Sabha Act are shown below.

3.1 **Management Inefficiencies**

Audit Observation	Comments of the Sabha	Recommendation
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(a) At the end of the year under review, the outstanding balance of Rs.50,678,259, which had elapsed a period of 05 years, had not been collected.	Actions will be taken to collect arrears of revenue	Accounts receivable balances should be collected
(b) At the end of the year under review, the accounts payable balance of Rs.3,741,398, which had elapsed a period of 05 years, had not been settled.	That, it will be corrected in the future.	Accounts Payable balances should be settled.

3.2 **Idle or underutilized Property, Plant and Equipment**

Audit Observation	Comments of the Sabha	Recommendation
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19 plots of land acquired for use as community, recreation and outdoor areas out of the sub-divided lands of the council area remained idle without being utilized for the relevant purposes.	That, fence demarcation work is going on at present.	The lands received by the council should be conserved and used for public purposes.

3.3 **Board of survey**

Audit Observation	Comments of the Sabha	Recommendation
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No action was taken regarding the deficiency of 265 books worth Rs.74,767 identified in the board of survey conducted in 05 libraries related to last year and the goods that were recommended to be auctioned were not sold in the auction by the end of the year under review.	That there was a delay due to the Covid epidemic situation, and the necessary activities are in the final stages.	Action should be taken on deficiency and the auction process should also be completed.

3.4 Defects in Contract Administration

Audit Observation	Comments of the Sabha	Recommendation
<p>According to the payment bills related to 03 projects executed by the Council during the year under review, Rs.222,433 was overpaid to the contractor for the work not done.</p>	<p>It has been informed that the work in progress in one project has been completed and the reply will be given after the completion of the work in the other 02 projects.</p>	<p>Payments should be made only for work done and officials responsible for overpayment should be identified and action should be taken</p>

3.5 Human Resources Management

Audit Observation	Comments of the Sabha	Recommendation
<p>Employee vacancies and surplus</p> <p>At the end of the year under review, 08 vacancies in 06 posts of the approved staff had not been filled.</p>	<p>That, 02 management service officer vacancies have been completed so far</p>	<p>Action should be taken to fill up essential vacancies</p>