

Kandy Municipal Council - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kandy Municipal Council 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 Section 219 of the Municipal Councils Ordinance (Chapter 252) 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 Municipal Council as at 31st December 2021, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

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 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 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 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.

1.6.1 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The Billing of assessment tax for the year under review was understated by Rs.8,610,518 in the financial statements.	This situation will be rectified in the preparation of accounts for the year 2022.	Billed assessment income should be correctly presented in the financial statements.
(b) The billing of water charges for the year under review was overstated by Rs.3,776,993 in the financial statements.	Since the income expenditure account is prepared on accrual basis and VAT reports are prepared on cash basis, there is a difference and it has been informed that this will be checked and a report will be given in future.	Water charges income should be presented correctly in the financial statements.
(c) The value of 211 buildings included in the fixed assets register owned by the Municipal Council was neither assessed nor shown in the financial statements.	The assessments will be completed and entered into the register this year	The value of the buildings should be assessed.
(d) 02 vehicles and computer equipment worth of Rs.1,984,450 purchased in the year under review had not been shown in the financial statements.	Action will be taken to get the information from the supply department and present it in the financial statements correctly in the year 2022.	Fixed assets should be accounted for.

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| (e) | In 18 cases from 2017 to last year, the transactions for Rs.4,776,282 which were paid as advance payments to other institutions were not correctly identified and stated in the financial statements. | All these advances will be settled in future. | Transactions related to advance payments should be correctly identified and shown in the financial statements. |
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1.6.2 Unreconciled Control Accounts or Records

Audit Observation

There was a difference of Rs.698,885,040 between the account balances stated in the financial statements and the balances according to the schedule in relation to 14 account Subjects.

Comments of the Council

An explanation on this regard will be provided very soon.

Recommendation

Schedules and reports for the balances shown in the financial statements should be prepared correctly.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation

Due to the non-submission of schedules, board of survey reports and individual creditor balances for 03 asset subjects of Rs.299,577,997 and 02 liability subjects of Rs.476,505,857 stated in the financial statements, it was not possible to verify satisfactorily in the audit.

Comments of the Council

It is accepted that the preparation of the relevant documents has been delayed, and action will be taken to correct them in the future.

Recommendation

The evidence for the assets and liabilities shown in the financial statements should be submitted for the audit.

1.7 Non- Compliances

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

Followings are the non-compliance with Laws, Rules, and Regulations.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
Paragraph 1.1.7 of Budget Circular No. 118 dated October 11, 2004.	The balances of Rs.10, 021,227 due from 179 officers which had elapsed 03 month after being transferred had not been collected.	Action will be taken to settle through the Chief Secretary	the loan balance of the transferred employees should be charged

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure for the year ended 31st December 2021 amounted to Rs.565,729,320as compared with the excess of revenue over recurrent expenditure amounted to Rs.609,888,349 in the preceding year.

2.2 Financial Control

Audit Observation	Comments of the Council	Recommendation
At the end of the year under review, the contributions of Rs.3,226,725 due to the Employees' Trust Fund and for widows' orphans' pension fund were shown as salary payables in the financial statements without proceeding to pay.	Part has been paid and action will be taken to make other payments in the future.	Contributions payable should be paid up.

2.3 Revenue Administration

Performance in Revenue Collection

Following are the observations regarding the revenue collection performance of the council.

Audit Observation	Comments of the Council	Recommendation
(a) Rates		
(i.) At the end of the year under review, the assessment tax amounting to Rs.239,822,872 had not been collected, and in that balance, the Rs.38,547,647 due from 18 units of which assessment arrears per unit was exceeding Rs.1,000,000; Rs.124,433,650 due from 584 units between Rs.100,000 to Rs.1,000,000 and Rs.4,944,181 due from 586 government property units had been included.	There are outstanding balances due to legal issues related to collection of rates, long standing issues and other reasons then various measures have been implemented for recovery.	The assessment tax revenue to be collected should be collected through the implementation of various programs.
(ii.) During the year under review, due to the collection of assessment tax from the business establishments under the household basis instead of collecting under the business basis, an income of Rs.203,905 due for 60 properties had been lost.	Information is currently collected on all property changes, through a survey, In the future charges will be made through a temporary assessment.	Assessments should be calculated based on the nature of the property and assessment taxes should be levied in such a way that there is no loss to the council
(b) Water charges		
(i.) The Water charges of Rs.207,558,454 due at the end of the year under review had not been collected, and in that balance, the Rs.53,525,182 due from 15 customers of which arrears per unit was exceeding Rs.1,000,000; Rs.10,056,429 due from 16 customers between Rs.500,000 to Rs.1,000,000 and Rs. 23,481,087 due from 125 customers between Rs.100,000 to Rs.500,000 had been included.	As the balance in the accounts is prepared on accrual basis and the balance shown by the software is on cash basis, there is a difference and will be checked and corrected in future.	The arrears of water charges should be recovered.

(ii.)	Due to collection of water supply charges for business premises on domestic basis instead of non-domestic basis; a water fee income of Rs.415,309 due from 26 business units from January to July of the year under review had lost.	An on-site inspection has been conducted headed by the Water Industry Engineer, and based on the inspection report, the water charges have been revised on a business unit basis.	Water charges should be charged on correct basis.
(c)	Rent ----- Shop rent -----		
	At the end of the reviewed year, Rs.17,809,450 arrears of shop rent due for 262 shops in the new shopping complex on Railway Station Road owned by the council had not been collected, and in that balance, the balance due for 34 shops over a period of 05 years of Rs.554,898 was included.	That, Final notices have been sent to the shop owners informing them to pay the arrears and Action will be taken to charge in the future.	Arrears of shop rent should be recovered.
(d)	Other income -----		
(i.)	Rs.7,168,543 due for lease of 08 public toilet complex owned by the Municipal council had not been collected from the year 2019 till the end of the year under review.	Part has been paid and the lessees have agreed to pay the balances monthly.	Arrears should be recovered immediately.
(ii.)	Three-wheeler license fees due at the end of the year under review were Rs.18,656,033, and the balance included Rs.18,182,827 due over a period of 03 to 05 years in relation to 921 three-wheelers.	A part is charged by conducting prosecutions, In the future, adjustments will be made for three wheelers where information cannot be found.	Outstanding three-wheeler license fees should be charged.
(e)	Advertising board Revenue -----		
	At the end of the year under review, Rs.4,096,291 due for 02 digital Advertising boards had not been charged.	Referred to legal department for taking legal action	Revenue in arrears should be recovered.
(f)	Income from rent of car park -----		
	The rent of Rs.200,567,833 due for the Kandy car park owned by the council since 2009 had not been recovered at the end of the year under review.	In this regard litigation is in progress and notices have been given to the concerned parties	Car park rent in arrears should be recovered.

from time to time to collect arrears of car park rent.

- (g) An amount of Rs.600,000 due from the Tourist Information Centre from the year 2018 had not been collected even though more than 04 years had passed by the end of the year under review.
- In this regard, a discussion was held with the relevant parties and it was agreed to collect in instalments in the future.
- The revenue due to the council should be recovered.

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 04 of the Municipal Councils Ordinance are shown below.

3.1 Controversial transaction

Audit Observation

While the contractor selected by the council in the implementation of the box culvert construction Project on the Kuda Ratwatta road is carrying out the relevant construction an excavator belonging to the council had met with an accident while using it for construction work without formal approval. Later, although Rs.22,044,548 was paid from the Municipal council fund for the repair of this machine and for the machine hired for the waste handling work performed by this machine at the Gohagoda waste yard, the relevant money was not recovered by the insurance or from the responsible parties by conducting the inspections.

Comments of the Council

There was a need to complete the project quickly based on the needs of the local people. As the number of machine hours specified in the contract agreement had expired during the operation of the industry, the machine owned by the Municipal council was used until the approval of the council to extend the hours again will be received, and due to heavy rain on the relevant day, the machine had to face this accident.

Recommendation

Such Projects should be operated with proper supervision and due care and the parties responsible for the accident should be identified

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

Audit Observation	Comments of the Council	Recommendation
<p>02 soil cutters worth of Rs.10,446,987 which can be repaired and used by the Municipal Council had not been repaired and Aruppala branch library worth of Rs.2,950,000 which prone to disaster during the days of heavy rain remained idle and underutilized without taking any action to repair for a period of 01 to 08 years, and 10 items of furniture and computer equipment of which value had not been calculated remained idle for a period of 01 to 03 years.</p>	<p>Advertisements have been published in newspapers for auctioning and sale of 02 soil cutters, but at present delay in obtaining valuations has delayed all activities.</p>	<p>Assets should be utilized effectively</p>

3.3 **Defects in Contract Administration**

Audit Observation	Comments of the Council	Recommendation
<p>According to the payment bills related to the construction of Katugastota Zone 04 office complex belonging to the council, the amount of Rs.81,285 which was overpaid to the contractor for the work not performed was not recovered.</p>	<p>Although it had been Informed that deduction will be made while preparing the final bills, even now the final bill has not been submitted.</p>	<p>Payment should be made only for the work done. Arrangements should be made to recover overpayments.</p>

3.4 **Human Resources Management**

Audit Observation	Comments of the Council	Recommendation
<p>Employee vacancies and surplus</p> <p>(a) It was observed that 190 officers were working for more than 05 years in the same division of the Municipal Council, but no action had been taken to transfer those officers internally or externally.</p>	<p>A committee has been appointed to take decisions for the transfer of officers for more than 05 years; and action will be taken on the recommendations of the committee in the future.</p>	<p>A relevant transfer policy should be implemented.</p>

(b) Employment of retired officer on contract basis

A retired officer was re-employed on contract basis and was paid an allowance of Rs.486,420 for the contract period from November of last year to September of the year under review without compliance to the Circular No.03/2019 dated October 16th 2019 of the Public Service Commission

The approval has been obtained by Council Consensus, and employment and allowances have been paid under the Special Project until formal approval receive.

The re-employment of retired employees should be done according to the relevant circulars and laws.