

1. Financial statements

1.1 Qualified opinion

The audit of the financial statements of the Kandy Kadawathsathara and Gangawata Korale Pradeshiya Sabha including the financial statements for the year ended 31st December 2020 comprising the balance sheet as at 31st December 2020, Income and Expenditure Account, Cash flow statement, Significant accounting policies and other explanatory information for the year then ended 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 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 accompanying financial statements give a true and fair view of the financial position of the Kandy Kadawathsathara and Gangawata Korale Pradeshiya Sabha as at 31st December 2020, and of its financial performance for the year then ended in accordance Generally accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the facts set out 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 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 further:

- 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 whenever 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

The National Audit Act No.19 of 2018 contains special provisions regarding the following requirements.

- (a) The financial statements of Pradeshiya Sabha are consistent with the preceding year as per the requirement mentioned in Section 6(1)(d)(iii) of the National Audit Act No. 19 of 2018.
- (b) The recommendations made by me during the preceding year as per the requirement mentioned in Section 6(1)(d)(iv) of the National Audit Act No.19 of 2018 are included in the financial statements submitted.

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Computer accessories, CCTV camera system and other miscellaneous equipment purchased at Rs.2,013,054 during the year under review had not been accounted under fixed assets.	Action will be taken to account for	It should be accounted correctly.
(b) The court fine of Rs.1,550,063 due for the year under review had not been identified as income.	The shortcomings pointed out are accepted.	
(c) 20 items removed from the board of survey had not been written off from the relevant asset accounts.	Action will be taken to write off it from the accounts.	
(d) Rs.8,865,132 that was spent on land development and construction of buildings as 2,097,710 in the previous year and Rs.6,767,422 in the year under review had not been capitalized.	Action will be taken to account for.	
(e) Rs.180,000 incurred to purchase the assessment revenue management software had not been capitalized as intangible assets.	Action will be taken to account for.	

1.6.1 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
There is a mismatch of Rs.31,778,022 between the balance of according to the financial statements and the corresponding reports in relating to 02 Account subject.	It is informed you that the Asset Survey has been completed and the documents will be updated accordingly.	Schedules and corresponding reports should be corrected. Schedules and corresponding reports should be corrected.

1.6.3 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Sabha	Recommendation
Due to non-submission of asset records and schedules, 08 accounting subjects amounting to Rs.26,404,497 could not be satisfactorily verified in the Audit.	Action will be taken to prepare the documents correctly in the future.	Evidences should be submitted for Audit.

2. Financial Review

2.1 Financial results

According to the financial statement presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31st December 2020 amounted to Rs.35,113,686, as compared with the excess of revenue over recurrent expenditure for the preceding year amounted to Rs.30,704,703.

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
(a) Rates Rates receivables of Rs.7,931,477 at the end of the year under review had not been recovered.	It is informed that it was difficult to collect due to Corona epidemic and increase in amount of tax due to new assessment.	Revenue in arrears should be recovered.

(b) Court fines and Stamp duty

Stamp duty of Rs.37,185,145 due at the year under review had not been recovered.

It is informed that the money will be recovered in the future.

Revenue in arrears should be recovered.

2.3 Surcharges

Audit Observation

Although, I had imposed a surcharge of Rs.262,608 during the year under review against those responsible under the provisions of the Pradeshiya Sabha Act, no further action had been taken in that regard.

Comments of the Sabha

Relevant parties have been informed but no payment has been made yet.

Recommendation

It should act in accordance with 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 Sabha under Section 03 of the Pradeshiya Sabha Act are shown below.

3.1 Management Inefficiencies

Audit Observation

Foreign Tour of Thailand

Comments of the Sabha

It is informed you that no action has been taken to approve the leave properly and the amount paid will be recovered.

Recommendation

the relevant criteria should be met prior to make the payment

- (a) Although Rs.800,000 had been paid to a travel agency on August 23rd, 2019 to participate five public representatives in a training in Thailand, According to the 2018/11 Circular of the Commissioner of Local Government, due to the fact that leave was not formally approved, the relevant training was not attended.

- (b) No action had been taken to recover various debtors' balance of Rs.15,565,731 and garbage tax balance of Rs.59,950 which had not been recovered for more than 05 years and Industry and common utility creditors' balance of Rs.2,874,398 had not been settled

It is informed that I will be recovered, written off and settled in the future.

Charges and payments should be settled.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
<p>As per the 22(1) order published in Extraordinary Gazette No.935/6 dated 06th August 1996, on behalf of the Order 22 of the Planning Building Orders of the Urban Development Authority, 1986, published in the Extraordinary Gazette No.392/9 of 10 March 1986, which was repealed, During the period from 1993 to 2016, 06 acres and 29 perches of 20 plots of land received by the House under the subdivision of the land in the area of authority have not been used for the public needs of the community and the deeds for 206.09 perches of 07 plots of land had not been duly obtained.</p>	<p>It is informed that action will be taken to identify Fences in the future, prepare estimates and utilize.</p>	<p>Lands received under sub division should be utilized.</p>

3.3 Defects in Contract Administration

Audit Observation	Comments of the Sabha	Recommendation
<p>During the year under review, Rs.27,117 had been overpaid the Recommendation of the Secretary to the Council and approved by the Chairman for the work not completed, as per the estimates of the construction industry of a building in the Meddepathana Cemetery.</p>	<p>It is Informed that action will be taken to avoid payments for work not fulfilled.</p>	<p>Payments should be made only for works completed.</p>