

Kaduwela Municipal Council – 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kaduwela Municipal Council including the financial statements for the year ended 31 December 2020 comprising the Statement of assets and liabilities as at 31 December 2020, Comprehensive Income Statement, Cash Flow Statement 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 the 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 Kaduwela Municipal Council as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Public Sector Accounting Standards for Local Government Authorities.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 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 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

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

- Financial Statements of the Municipal Council as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Noncompliance with the Sri Lanka Public Sector Accounting Standards for Local Government Authorities

Non-compliance with reference to the relevant standard	Comments of the Council	Recommendation
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The Gazette Extraordinary No. 2155/6 and dated 24 December 2019 in accordance with Section 15.13 emphasized on the financial affairs of the Municipal Councils. Eg - Assessment has been deducted by Rs.644,362.	The amount recommended by the Council to be written off had been written off and action has been taken to obtain legal covenant for write off the remaining.	Action should be taken to comply with the Standards and Gazette Notification.
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1.6.2 Accounting Deficiencies

Audit observations	Comment of the Council	Recommendation
(a) The value of roads, culverts and bridges were built before 2020 had not been accounted as per the terms of Chapter 6 of the Sri Lanka Public Sector Accounting Standards for Local Government Authorities.	Accepted the Values after 2020 had been accounted.	Should be accounted accurately in accordance with the Standards and Gazette Notification.

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| (b) | Accounts should be kept in accordance with Chapter 6 of the Sri Lanka Public Sector Accounting Standards for Local Government Authorities. However, the value of 10 buildings and constructed before the year 2020 and 32 plots of land had not been taken into account as property, plant and equipment. | Accepted. | All property, plant and equipment owned by the Council should be accounted in accordance with the accounting standards. |
| (c) | The Bodhi Godella Ovita land which was purchased by Rs. 2,300,000 in the year 2020 had been re-valued for Rs. 2,391,000 and it was again accounted for as acquisitions by Rs. 2,300,000 during the year under review, therefore the land account was overstated by that amount. | Accepted that an error had occurred. Accordingly, actions will be take to correct the error in the journal entries. | Should be accounted properly. |

1.6.3 Un-reconciled Control Accounts

Audit observations	Comment of the Council	Recommendation
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There was a difference of Rs. 47,909,550 between the value of the financial statements and the value in the utility books / sub registers relevant to 05 accounting items.	Action will be taken to correct the sub registers.	Action should be taken to correct the utility books and sub registers.

1.6.4 Lack of Documentary Evidence for Audit

Audit observations	Comment of the Council	Recommendation
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Due to non-submission of documentary evidence for the audit, 5 accounting items amounting to Rs.319,545,226 could not be satisfactorily vouched during the audit.	Accepted.	Evidence of the relevant transaction should be submitted.

1.7 Non-compliances

1.7.1 Non-compliance with the rules, regulations and management decisions

Reference to laws rules and regulations	Non-compliance	Comment of the Council	Recommendation
(a) Municipal Council Ordinance			
(i) Section 254 (a) (2)	Although it was the duty of the Municipal Commissioner to take all necessary steps under this section, the arrears of Rs. 86,010,074 due for 5 revenue items as at 31 December 2020 had not been recovered.	The actions will be taken to recover the arrears properly.	The amount due under the Municipal Council Ordinance should be recovered and credited to the Municipal Council Fund.
(ii) F.R.571	The actions had not been taken in accordance with the Financial Regulations regarding the General deposits amounting to Rs.21,176,993 more than 2 years from the date of deposit.	Accepted The actions will be taken to correct in future.	The actions should be taken in accordance with the Financial Regulation. Action should be taken in accordance with the Circular..

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, revenue over recurrent expenditure of the Sabha for the year ended 31 December 2020 amounted to Rs. 294,584,222 as compared with against the revenue over recurrent expenditure amounted to Rs. 485,243,772 in the preceding year.

2.2 Revenue Administration

2.2.1 Non-authorization transactions

Audit Observation	Comment of the Council	Recommendation
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The arrears of assessment Rs. 644,362 due to the Municipal Council had been written off from the Registers by a council decision.	The legal advice will be taken on the remaining amount, excluding the amount recommended by the Council to be written off.	The deductions should be done by formal approval.

2.2.2 Performance of Revenue collection

Audit Observation	Comment of the Council	Recommendations
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(a) Arrears of assessments Tax ----- The outstanding assessment tax amounting to Rs.73,338,420 had not been recovered as at the end of the year under review.	The actions will be taken to recover the arrears of assessment tax.	The actions should be taken to recover the arrears of
(b) Entertainment Tax ----- The value of entertainment tax recoverable to the Kaduwela District Office was Rs. 3,964,230 .	The legal action had been taken to recover the arrears as at the date 30.07.2018.	The action should be taken to recover the entertainment tax arrears expeditiously.
(c) Bus parking Charges ----- Although the balance as at the end of the year under review was Rs. 103,299, the council had not taken action to recover them.	Unable to recover properly and the action will be taken to recover in the future.	Action should be taken to recover the outstanding bus parking fares expeditiously.
(d) Stamp fees and court fines ----- The stamp fees due from the Chief Secretary and other officials of the Provincial Council for the year under review was Rs.700,000,000 and the court fine due was Rs.3,000,000.	The actions are being taken to recover stamp fees and court fines.	Action should be taken to collect the revenue due.

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 4 of the Municipal Council Act are shown below.

3.1 Management inefficiencies

Audit Observation	Comment of the Council	Recommendations
(ආ) Seven stalls at the Kaduwela bus stand were taken over by the Council on 1 January 2019 for a development work. However, the council had lost Rs.416,600 in revenue by the end of the year under review as its development work had not been completed by 30 December 2020. Also, 05 shops were taken over by the council on 20 February 2019 to transfer the Athurugiriya District Office to the Mega City Shopping Complex. As a result, the council had lost revenue amounting to Rs. 111,100 and the district office had not been moved to the mega city building. In addition, 08 shops were sealed in 2016 and 2017 and the council had lost revenue amounting to Rs. 487,400 due to not taking legal action in this regard.	The seven shop rooms were taken back to the council from 01 January 2019 as the shop owners informed the council that the shop rooms were not generating sufficient revenue. Although it is not possible to recover the deficit in the current epidemic situation, inform that the actions will be started doing so as soon as possible.	Action should be taken to complete the proposed development work expeditiously.

3.2 Operating inefficiencies

Audit Observation	Comment of the Council	Recommendations
(a) Solid waste management Rs.47,504,958 had been spend four contractors for the disposal and transportation of garbage in the Municipal Council area during the year under review. In addition, Rs. 230,810,439 had been spent on the entire garbage collection process such as purchasing machinery for garbage collection and purchasing compost bins. During the year under review, a composting machine was	The steps are being taken to meet the Compost production to the targets as per the 5 year plan.	Action should be taken to reach the optimum level as planned.

purchased at a cost of Rs. 5,855,000 to upgrade the Council compost yard. At the end of the year, compost production was 177,465 kg. According to the Council's five year plan, compost production should be increased to 20-60 tons per month to reach the target..

3.3 Procurement Management.

Audit Observation

The Media Unit of the Council had purchased a video camera, a photographic camera and other necessary equipment valued at Rs.1,117,500 on 31 December 2020 for photograph events and public events attended by the Mayor. Without following The instructions in Sections 2.3.2 (c), 3.4.2 and 6.3.6 of the Government Procurement Guidelines in this regard.

Comment of the Council

No technical evaluation committee has been appointed for this regard however, bids have been called and purchases have been made offer for the lowest bidder.

Recommendations

Procurement should be done in accordance with the Procurement Guidelines.