

Kandy Municipal Council - 2020

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 2020 comprising the balance sheet as at 31st December 2020 , Income and Expenditure Account, 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 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 accompanying financial statements give a true and fair view of the financial position of the Kandy Municipal Council 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 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 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 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.

- (a) The financial statements of Municipal Council 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) Except the observation of 1.6.1 (a) of this report, 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 Council	Recommendation
(a) No action had been taken to rectify the accounting deficiencies in 1.3.1 (b), (c), (d) and (d) pointed out in my report on financial statements for the previous year.	Action will be taken to correct it in the coming year.	These errors should be corrected in the financial statements.
(b) The value of fixed deposit and interest income had been overstated by Rs.21,928,168 and Rs.776,712 respectively.	The interest receivables in the future will be recorded as debtors and it will be corrected in the future.	It should be correctly accounted for.
(c) 27 buildings constructed during the last 03 years at a development cost of Rs.2,031,295,949 and 201 buildings constructed in the previous year had not been re-assessed and accounted for.	It is informed you that action will be taken to assess.	It should be assessed and accounted for.
(d) Transactions relevant to the total amount of Rs.40,195,822 shown as direct credit and direct debit in the bank statements had not been identified and accounted for.	It will check and future actions will be taken.	Direct debit and direct credit should be identified and accounted for.

1.6.2 Unreconciled Control Accounts or Records

Audit observation	Comments of the Council	Recommendation
There was a difference of Rs.383,427,924 between the balances as per the financial statement and source documents related to 08 Account subjects.	It is informed you that action will be taken to check and correct in the future.	Source documents should be properly prepared

1.6.3 Documentary Evidences not made available for Audit

Audit observation	Comments of the Council	Recommendation
Due to non-submission of information such as board of survey reports, inventory schedules and individual balances for a total of Rs.202,844,384 in relating to 04 account subjects shown in the financial statements, the audit could not be satisfactorily verified.	It is informed you that necessary steps will be taken to prevent such shortcomings in the future.	Required written evidences should be submitted for the audit.

1.7 Non-compliance

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

The following are the instances of non-compliance with the provisions of laws, rules, Regulations and management decisions ect...

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Municipal Councils Ordinance			
(i) Section 127(3)	The fines of Rs.1,878,500 to be levied on 10 business units for settling without obtaining a certificate of conformity had not been charged.	It is informed that a letter has been sent to the Commissioner of Local Government requesting advice.	The provisions of the Municipal Councils Ordinance should be complied with.
(ii) The code of By-Laws passed in Kandy Municipal Council dated 09 th August 2002, In terms of Authority No.272-6 (d), Part IV Paragraph (01)	43 billboards of which the charges of Rs.2,567,440 were due had been displayed inside the Nittawela Stadium without obtaining license.	It is informed that the decision in this regard will be taken in the Committee on Revenue and Expenditure.	Code of by-laws should be complied with
(b) Chapter XXIV of the Establishments Code and National Budget Circular No.118 dated October 11 th , 2004	No action had been taken to recover the loan balance of Rs.535,848 due from 05 terminated and retired employees and settle the loan balance of Rs.8,670,215 pertaining to 332 transferred employees.	It is informed that action will be taken to recover loan balance in the future.	Action should be taken to recover the loan balance.

2. Financial Review

2.1 Financial results

According to the financial statement presented, excess of revenue over recurrent expenditure of the Council for the year ended 31st December 2020 amounted to Rs.615,809,729, as compared with the excess of revenue over recurrent expenditure for the preceding year amounted to Rs.609,888,349.

2.2 Revenue Administration

2.2.1 Performance in Revenue collection

Audit observation	Comments of the Council	Recommendation
(a) Rates and Taxes	It is informed that actions such as Sending letters, going to the field, engaging in promotion, etc... are being taken to recover the arrears	Revenue in arrears should be recovered.
(b) Land and waters taxes	It is informed you that a portion of land and water tax has been levied and water disconnecting programs have been implemented.	Revenue in arrears should be recovered.
(c) Shop rent	It is informed you that the deficit has increased due to the imposition of curfew and travel restrictions on the Covid epidemic and on the new assessment.	Revenue in arrears should be recovered.

(ii) Rs.21,768,049 due from the stalls in the Menikkumbura market from the year 2019 had not been recovered.	Case No.14/9 of the Kandy High Court is being heard regarding the charges and It is informed you that legal action will be taken in the future.	Revenue in arrears should be recovered.
(d) Leasing of trade rights -----		
(i) The total rent of Rs.8,132,601 due to the Municipal Council by the Urban Development Authority for leasing the Peradeniya Rest House had not been recovered.	As it is a government agency, It is informed you that the problems are to be resolved in discussion with the Rest house manager.	Revenue in arrears should be recovered.
(ii) Menikkumbura Retail trade Complex -----		
Three shops in the Menikkumbura shopping complex constructed at a cost of Rs.60,992,475 in the year 2000 were leased out without an agreement and At present, no new agreements have been signed on the new assessments for all the shops.	It is informed you that the lessees have been informed to enter into an agreement.	Action should be taken to reach new agreements.
(e) Court fines and Stamp duty -----		
Stamp duty of Rs.145,535,036 due at the end of the year under review had not been collected.	It is informed that action will be taken to reimburse from the Central Provincial Chief Secretary after submitting the schedules to the Commissioner of Local Government.	Revenue receivables should be recovered.
(f) Other income -----		
At the end of the year under review, Rs.200,567,833, Rs.12,705,571 and Rs.34,935,818 due for leasing of Vehicle park, leasing of street and billboards respectively had not been recovered.	It is informed you that cases are pending in the Kandy High Court to recover these arrears.	Revenue in arrears should be recovered.

3. Operating 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 Management inefficiencies

	Audit observation	Comments of the Council	Recommendation
(a)	During the inspection of the physical stock and related documents at the Gohagoda Sampath Piyasa and Plastic Recycling Center on 21 st August 2020, there was a shortage of 18,955 kg of plastic cubes with a sale value of Rs.1,478,444 and 95,385 Kg of Cardboard with a value of Rs.1,192,312.	It is informed you that there was a mistake in recording and a committee has been appointed to look into this.	Books should be Properly maintained and another officer should supervise the books.
(b)	Sufficient action had not been taken to collect the receivables of Rs.13,306,602 on billboard charges and accident vehicles which have not been charged by 31 st December of the year under review and elapsed more than 05 years of period and to collect lease rent, land tax and traffic charges due amounting to Rs.109,495,156 for a period of 01 to 05 years.	Action will be taken to reply as soon as possible.	Receivable balances should be recovered.
(c)	Creditor balances resulted in the acquisition of unpaid salaries and wages, supply creditors and electricity amounting to Rs.50,443,103 that elapsed for more than 05 years as on 31 st December of the year under review had not been settled.	It is informed that further actions will be taken.	Payable balances should be settled.

3.2 Operational Inefficiencies

	Audit observation	Comments of the Council	Recommendation
(a)	Legal action has been taken to recover Rs.988,358 due for the period 2013 to 2019 for 03 digital billboards displayed in the Council area, but no charges have been levied.	Engineers have been notified to remove the boards and disconnect the power, and It is informed that a court action is in progress.	Legal action should be taken for non-paying billboards.

3.3 Assets management

 Audit observation

Leasing of Municipal Land at No. 74, Dalada Veediya

Although the undeveloped assessment value of the above urban land, which has been occupied by an outsider since 2007 without a formal tender procedure and legal agreement, was estimated at Rs.55,000,000 in August 2015, By the end of the year under review, the Council had not taken adequate action to recover any charges or take over the possession or take legal action.

Comments of the Council

It is informed that the documents required for legal action have been submitted to the Commissioner of Local Government.

Recommendation

Property should be leased according to a legal procedure

3.4 Defects in Contract Administration

 Audit observation

In preparing the estimates for the construction of roads, the required rates (HSR) had to be used, but without prior approval, Under the Gamperaliya program estimates of less than Rs.12,800,650 were prepared for 06 industries using lower rates than the required rates and the relevant constructions were carried out.

Comments of the Council

Apart from these 06 industries, 07 other industries have made profit.

Recommendation

Estimates should be prepared so as to cover contract cost.