

Kaduwela Municipal Council - 2021

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 2021 comprising the Statement of assets and liabilities as at 31 December 2021, 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 reported 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 2021, 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.

- (a) Financial Statements of the Municipal Council as per the requirement mentioned in Section 6 (i) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (i) (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
In accordance with Standard No. 11.10 of Sri Lanka Public Sector Accounting Standards for Local Authorities 2017, the contingent liability in relation to the compensation due for damage to the roads while obtaining drinking water had not been disclosed in the financial statement.	The answers have not been submitted	The Contingent liabilities should be disclosed in the financial statement.

1.6.2 Accounting Deficiencies

Audit observations	Comment of the Council	Recommendation
(a) The buildings valued at Rs.740,627 had been included in the value of road culverts and bridges in the year under review.	The answers will be provided in the future.	The building value should be properly accounted in the building account.
(b) Although the depreciation value of machinery in the reviewed year was Rs.1,391,530, due to accounting it as Rs.2,089,221 in the financial statements, the property, plant and equipment value was understated by Rs.697,691 and administrative expenses were overstated by Rs.697,691.	Disagree with the facts of the audit. Rs.216,800 is the annual depreciation value calculated on the starting balance value of the machinery for the year 2020. It is value added, not subtracted. (4,336,000 x 5% - 216,800) As of January 01, 2021, the machine value is Rs.28,047,396.70. Depreciation value of machinery for	It should be done correctly while calculating the machine depreciation value.

the year under review has been correctly calculated using the accounting standards used in preparing the accounts. Depreciation value on machines for the year ending 31.12.2021 is Rs.2,089,221.

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| (c) | Debit from exchange transactions had been understated in the accounts by Rs.2,925,571. | The answers will be provided in the future. | Should be calculated and accounted correctly |
| (d) | The current part of the long-term loans had a balance of Rs.5,450,303 for the Local Credit Development Fund in the year under review, however due to the fact that it was shown as Rs.4,158,730 in the financial statement, the short-term payables were understated by Rs.1,291,573 and the long-term loans were overstated by the same amount. | Agree
Errors in calculation had been corrected. | Current portion of long-term debt should be recorded as short-term payables. |
| (e) | 2 buildings which construction cost was Rs.21,532,320 were still unfinished at the end of the year under review, so the building value was understated by that amount as at 31 December of the year under review. | Agreed
Regarding the Hela Bojun Hala - Kaduwela and the building in front of the Kaduwela Library mentioned under this point, a letter has been sent to the Municipal Engineer asking them to submit information up to their status and cost values as on 31.12.2021. Would like to inform you that according to the reply letter, the accounts will be set up in the future. | The cost of the completed building should be accounted for in the value of the building. |
| (f) | 2 types of capital expenditure amounting to Rs.2,575,900 which were set aside as various creditors to be paid at the end of the year under review had been accounted as recurrent expenditure. | Agree with the error related to the biogas generator and the error related to the 19 inch LED monitor 3.
These errors have been corrected by Journal No. 7 and 8. | Capital expenditure should be properly capitalized and accounted for. |

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| (g) | According to the Stores ledger, the stock value was under-recorded by Rs.596,456. | The answers will be provided in the future. | The Store inventory balance should be properly accounted for |
| (h) | Property, plant and equipment valued at Rs. 5,684,705 had been understated due to the fact that the property, plant and equipment was still in the stock of the council at the end of the year under review. | Will provide answers in the future. | Property and equipment balance should be properly accounted. |

1.6.3 Un-reconciled Control Accounts

Audit observations -----	Comment of the Council -----	Recommendation -----
Discrepancies of Rs.20,116,544 were observed between the balances in the financial statements and the balances in the schedules at the end of the year under review relevant to 5 items.	<ul style="list-style-type: none"> • In the year of conversion the said debits are capitalized and properly accounted by journal entry under fixed deposits. • Will work on presenting the answers in the future. • The errors have been corrected by Journal entry No. 03 and 05 of 2022. • inform that there is no difference between the schedule given to the final account by the employee loan subject and the balance of the employee loan account as on 31.12.2021. • The correction of the mistake was made by Journal No. 09 of 2022. The Battaramulla District Office has inquired about the reason for the difference and I am informed that the corrections will be made in the future. 	At the end of the year, the balance as per the financial statements and the balance as per the schedule should be reconciled.

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 ----- 136 b (1) of The Municipal Council Ordinance which was the Authority 252.	Although 05 complaints were submitted for removal of dangerous trees located on land No.	On 02. 06. 2022. A discussion was held with the Mayor of Kaduwela Municipal Council, and as	Should act according to the Municipal Ordinance Act.

243/2, those dangerous trees were not removed. agreed there, the relevant party has been informed to remove all the dangerous trees on the land in question before 28. 06. 2022. It was ordered that between 28. 06. 2022, if there is any damage to the life, property and anything of the adjacent land owners during the period, the owner of the land should bear the responsibility.

(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

(i) F.R. 371 (5)

<p>Although the advances issued had to be settled before 31 December of the financial year in which they were issued, the ongoing outstanding balance of advances had not been settled.</p>	<p>From the unrecognized unpaid advances, corrections were made using the respective journal entries for the identified advances, and the remaining balance of Rs. 193,544 has not been identified so far. inform you that the balance will be identified and settled in the near future.</p>	<p>This balance should be identified and settled promptly</p>
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(ii) F.R. 396

<p>According to the bank statement, there were 36 cheque amounting to Rs.233,661 which were issued beyond 06 months however not presented for payment and in this regard, action had not been taken in accordance with the Financial Regulations 396.</p>	<p>According to the December bank statement of the year under review, there were 36 cheque valued at Rs.233,661 which were issued beyond 06 months, however not presented for payment.</p>	<p>Should be dealt in accordance with the Financial Regulations.</p>
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| (iii) F.R. 396 | According to the bank reconciliation statement, 06 cheques were observed which were deposited beyond 06 months however not received. Regarding those cheques, the changes in the daily receipt reports were not investigated and the relevant actions were not taken. | The Battaramulla district office has informed that cheque Numbers 676355 and 288943 have been entered twice due to an error in the SIGAS software. The head office, Kaduwela, Battaramulla and Athurugiriya district offices have been informed from time to time about the other dishonored values that the necessary work will be done to correct the mistake in the future and the necessary work in this regard will be corrected through future bank reconciliations. | Should be act in accordance with the Financial Regulations. | |
| (c) | The Section 9.1(b) of Public Finance Circular No. 1/2020 dated 28 August 2020 | It was observed that even though an interim advance up to a maximum of Rs.100,000/- should be given only to staff level officers for a specific task, Rs.1,640,939 was given in 07 cases beyond that limit. | In order to meet the needs of the Sabha, inform that under the above mentioned approval, interim advances exceeding Rs.100,000 have been given. | Should be comply according to the Public Finance Circulars |

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 31 December 2021 amounted to Rs. 622,069,391 as compared with excess of revenue over recurrent expenditure amounted to Rs. 294,584,222 in the preceding year.

2.2 Financial Administration

Audit Observation	Comment of the Council	Recommendation
The current account Number 196 – 1-001-6-3869561 of the People's Bank remained inactive for a long time and a balance of Rs. 14,124 in that account had not been identified and settled.	Informed that the amount of Rs. 14,124 which was the unidentified payment value will be corrected in the future	Balances that have been inactive for a long time should be identified and settled.

2.3 Revenue Administration

2.3.1 Performance of Revenue collection

(a) Assessment Tax

Audit Observation	Comment of the Council	Recommendation
<p>(i) Assessment Tax</p> <p>As on the last date of the year under review, the outstanding assessment tax balance was Rs.80,204,165 out of that Rs.16,478,833 due from 03 to 10 years and Rs.3,193,208 more than 10 years old and those arras had not been recovered up to 08 April 2022.</p>	<p>The answers will be present in future.</p>	<p>Arrangements should be made to collect the outstanding values.</p>
<p>(ii) Entertainment Tax</p> <p>The amount of entertainment tax due at the end of the year under review was Rs.7,009,015 and the balance included Rs.3,191,249 due for more than 3 years.</p>	<p>The answers will be provide in the future.</p>	<p>Arrears of entertainment tax promptly should be charged.</p>
<p>(iii) Weekly Fair Tax</p> <p>The Weekly Fair Tax to be recovered for the year under review was Rs.368,126 and the balance was due for more than 05 years.</p>	<p>The amount mentioned as Rs. 368,126 of Kaduwela fair arrears is a deficit since 2012. An inquiry has been conducted by the Local Government Department on the recommendation of the Accounts Committee regarding this outstanding amount. After receiving its report, will take necessary action on the instructions of the Local Government Commissioner.</p>	<p>Actions should be taken to recover weekly taxes due immediately</p>

(b) Stamp Fees and Court Fines

Audit Observation

The court fines from the Chief Secretary of the Provincial Council and other authorities were Rs.3,000,000 for the year under review, and stamp duty was Rs.699,939,000, the estimated stamp duty revenue was Rs.700,000,000 each in the years 2020 and 2021, however only Rs.2,888,420 and Rs.61,000 were received in those years respectively. Also, the court fine income to be received in the years 2020 and 2021 was estimated at Rs. 3,000,000 each, however the court fine income was not received from the year 2016 until the end of the year 2021. It was also observed that these courts had not submitted schedules to the relevant institutions for obtaining revenue from fines and stamp duty.

Comment of the Council

The Stamp duty revenue is not received in the year of promotion and copies are allowed to be sent from land registrar offices only in the following year. However, I would like to further inform that arrangements have been made to copy the stamp revenue as follows. There has been a delay in submitting the schedule to get the court fine revenue due to the problems that arose due to the misunderstanding with the court officials. At present, those problems have been resolved and copying of information on fines is in progress from 2018.

Recommendation

The court fines and stamp duty should be collected by the council without revenue arrears.

3. Operational review

3.1 Operating insufficiencies

Audit Observation

Public complaints

The total number of complaints received in the form of complaints related to dangerous trees, general complaints, complaints related to unauthorized construction and electrical complaints was 603 in the year 2021, out of which 312 complaints were unsolved, and it was observed that the response to the complaints of the local people was at a weak level.

Comment of the Council

It was not possible to perform daily duties properly due to the COVID epidemic last year. With the help of the people, I am working to fulfill the remaining complaints as needed

Recommendation

Responding to the complaints of local people should be fulfilled as a legal responsibility of the council.

3.2 Idle or underutilized property, plant and equipment

Audit Observation	Comment of the Council	Recommendation
Out of the 6 machine units purchased at a cost of Rs.66,612,046 on 20 October 2017 for carpeting the roads in the Municipality's area, 04 machines valued at Rs.53,351,000 were idle at the Athurigiriya Sub office premises idling.	Not commented	The assets of the council should be used in effective activities.

3.3 Human Resources Management

Audit Observation	Comment of the Council	Recommendation
(a) Employee vacancies and excess		
(i) There were vacancies of 8 staff officers for the Top Management of the council and 12 revenue inspectors had been approved however 9 of them remained vacant.	The Board officer vacancies are filled by the Public Service Commission. Related institutions are informed about these vacancies through monthly reports and quarterly reports. Also, the recruitment for Primary Service Category Agency Appointments has been suspended by Management Services Circular No. 01/2020 dated 21.02.2020, so it has not been possible to fill these vacancies. As a case regarding the recruitment of Revenue Inspectors is pending, the recruitment of Revenue Inspectors has been suspended till further notice vide LGD/02/21/5/5 Volume and letter dated 12.05.2016 of the Commissioner of Administration. Hence these Revenue Inspector vacancies have not been filled.	The action should be taken to fill these vacancies.

- (ii) One legal officer had been approved for the council however actually the services of 02 legal officers had been obtained. However Rs. 856,000 had been paid in the year under review to external parties as legal expenses related to appearing in court. Also, 11 development officers were approved, 19 were actually employed. Accordingly, 8 development officers are excess.
- Another legal officer has been transferred by Chief Secretary's letter CSWP/PTR/F1/11 and dated 21.01.2022 while one legal officer of the council was in service. In this regard, the Municipal Commissioner's letter No. KMC/02/01/02/45 and dated 21.02.2022 informed the Local Government Secretary. Also, according to the approved staff, while 11 development officers are working, another 8 development officers have been assigned to the council. According to the Local Government Commissioner's letter LGD/2/Graduate Trainee and dated 15.10.2021, the justification report and FR 71 form for creating 18 new Development Officer posts have been duly completed and forwarded to the Local Government Secretary (WP).
- Employees should be assigned to work according to the approved Carder of the council.
- (iii) 63 employees were recruited as field laborers and health workers who were not formally approved for the council and these recruitments were not absorbed into the approved staff by the Department of Management Services.
- According to the Public Administrative Circular 29/2019, a formal interview has been conducted on the qualifications mentioned in the State Administrative Circulars No. 25/2014 and 25/2014 (i) and according to the results, this recruitment has been done.
- Recruitment should be approved by the Department of Management Services.
- (b) Staff loan

- The total of the balances that should have been collected on 31 December 2021 was Rs.87,963,943, in which the balance of the loan to be collected between 1-3 years after transfer was Rs.853,963 and the employee loan balance of more than 3 years was Rs.32,955 as a total of Rs.886,918. Furthermore, the loan balance to be
- The Letters have been sent to the legal officer to seek legal advice regarding the collection of outstanding loan balances. Accordingly, steps will be taken in the future.
- Arrangements should be made to collect the employee loan balances that should be collected so that the council does not incur a loss.

collected from the officers who retired more than 3 years was Rs.358,922 and the loan balance to be collected from the officers who left the service more than 3 years was Rs.983,200. Accordingly, the sum of Rs 1,342,122 had not been recovered till the audit date of April 2022.