

Kandy Municipal Council
Kandy District

1. Financial Statements

1.1. Presentations of Financial Statements

The Financial Statements for the year under review had been submitted to the audit on 31 March 2017 while Financial Statements relating to the preceding year had been submitted on 31 March 2016.

1.2. Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report. Financial Statements give a true and fair view of the Financial position of the Kandy Municipal Council as at 31 December 2016 and its Financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

Following deficiencies were observed.

- a) The interest income for the year under review had been overstated by Rs. 172,602 due to accounting of interest receivable as at 31 December of Rs.2,991,781 as Rs.3,164,383 for a fixed deposit made 24 December in the year under review.
- b) The interest income receivable of Rs. 4,181,247 relating to 15 fixed deposits had not been taken into accounts as an income of the year under review.
- c) A sum of Rs. 737,500 received from the provincial commissioner to purchase compost bins and a sum of Rs. 619,015 income received from selling compost bins in the year under review had been recorded under miscellaneous deposits.
- d) The total sum of liabilities, existed of Rs. 50,443,104 when handed over the electricity system owned by the Municipal Council until 1995 to Ceylon Electricity Board had been stated in the Financial Statements under pre-receipts.
- e) A non contracted value of Rs. 3,890,446 relating to 05 industries were recorded under the creditors as at the end of the year under review.
- f) A value of Rs. 3,616,118 relating to 14 machinery and equipment and furniture purchased in the year under review had not been recorded in the accounts.

- g) The cost of disposed and auctioned assets in the year under review had not been removed from the accounts while estimated value of Rs. 7,000,120 had been removed from the accounts.
- h) The income had been understated by Rs. 5,742,767 due to the recording of water bill charges of Rs. 527,224,314 as Rs. 521,481,547 in the year under review.
- i) A Rs. 19,029 had been overstated due to the recording of water bill receipt in the year under review of Rs. 525,142,412 as Rs. 525,161,441 according to the water bill income software system.
- j) A Rs. 102,428 had been understated in the accounts due to the recording of arrears shop rental of Rs. 4,433,568 as Rs. 4,331,140 as at 31 December in the year under review according to the Menikkumbra wholesale and retail trade complex shop rental register.
- k) The arrears shop rental and fines of Rs. 3,239,001 as at 31 December in the year under review had not been recorded in the accounts relating to Bogambara trade complex.
- l) According to three wheel charges register the arrears balance of Rs.17,800,66 as at 31 December in the year under review had been not stated in the financial statements.
- m) The receivable amount of Rs. 406,000 relating to digital notice screen for 04 months had not been stated under the debtors as at the end of the year under review.

1.3.2 Non reconciled Control Accounts

 A Rs. 6,374,041 difference was observed due to the balance of Rs. 476,300,843 according to the 08 subjects in the financial statements and according to the source documents that balance was Rs. 482,674,884.

1.3.3 Accounts Receivable and payable

a) Accounts Receivable

 The total value of 11 accounts balances receivable as at 31 December 2016 was Rs.501,474,274 and a total balance of Rs. 406,491,963 exceeds over one year, out of this a total balance of Rs. 404,815,451 relating to 11 subjects was to be received as at 31 July 2017.

b) Accounts payable

 The sum of Rs. 430,938,795 expenses out of the payable balances of Rs.573,732,974 as at 31 December 2016 relating to 04 subjects were creditors and Rs. 6,093,507 out of that balance was exceeds 01 year, Further a Rs.399,715,074 balance were to be paid as at 31 July 2017.

1.3.4 Lack of written Evidence for the Audit

The total amount of transactions which costs Rs. 1,161,810,807 could not be satisfactorily vouched in audit due to the non presentation of relevant information relating to 14 subjects.

1.3.5 Non compliance to the Laws, Rules and Regulations

Following non compliance incidents were observed.

Reference to Laws, Rules and Regulations	Non Compliance
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<p>a) Municipal Council Ordinance (252)</p> <p>-----</p> <p>Paragraph 4(c) of the III part of the interim constitution of the 1249 Gazette dated 09th August 2002</p>	<p>The Gatambe Ground which is comprised of 2.5 acres and owned by Kandy Municipal Council had been rented out for Rs.3,000,000 to contract the carnival from 08 to 26th August 2016 without any tender procedure.</p>
<p>b) Establishments code of the Democratic Socialist Republic of Sri Lanka, 2013</p> <p>-----</p> <p>Chapter V, section 2.5.4</p>	<p>A first line fire brigade officer in the Kandy Municipal Council had been released from his services on his request, but released by paying salaries and allowances of Rs. 422,214 during the period from 20 May 2015 to 17 March 2016 and his working hours too had been granted.</p>

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2016 amounted to Rs 518,109,683 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs.385,165,618 accordingly a growth of Rs. 132,944,065 had been seen in the financial result.

2.2 Revenue Administration

2.2.1 The Performance of Revenue Collection

A total balance of Rs. 457,543,502 was in arrears as at the end of the year under review in relation to rates and taxes, lease rental, permit charges and other income except a total balance of Rs. 153,719,587 relating to water charges, three wheel charges and court fines due to the non reconciliations with the relevant information and documents.

2.2.2 Rates

There was an arrears of Rs. 101,922,032 at the beginning of the year under review and the total billed amount in the year was Rs. 283,601,784. The total collections in the year were 47 percent from the arrears and 83 percent from the total bills. A sum Rs. 100,380,560 balance was to be collected as at 31 December 2016. The collection of arrears was in weak status due to the non payment of bonuses to the rates collection authorities. Actions had not been taken to collect to arrears rates by following the orders in the 242 section of the Municipal Council Ordinance.

2.2.3 Lease Rental

There was an arrears of Rs. 105,943,556 as at the beginning of the year under review and the total billed amount for the year under review was Rs. 67,870,036. The total collections for the year were 25 percent from the arrears and 77 percent from the total billed amount. A total sum of Rs. 98,906,302 was further to be collected as at 31 December 2016 and there was a weaker status in collecting the arrears, out of this balance a balance of Rs. 80,681,995 was further to be collected as at 30 June 2017.

2.2.4 Other Revenue

a) Water Chargers

There was an arrears balance of Rs. 100,906,508 as at 31 December in the year under review and a time analysis regarding this arrears had not been presented.

b) Entertainment Taxes

The presentation of tickets for sealing, sealing of tickets, getting the information of the printing shop, maintenance of documents and files relating to Esala Mela carnivals since 08 August to 20 August in 2016 at the Gatambe Grounds and were not maintained properly in accordance with the Entertainment Tax (revised) Act No. 37 of 1984.

c) Land Taxes

As per the land tax collection inventory, although the Municipal Council has rented out 1078 lands, only 51 lands were identified for billings. A continues billing system

was not followed relating to all rental out lands and the total amount of rented out lands were 981 as per the land rental register. There was an arrears land rental balance of Rs. 34,952,454 as at 31 December in the year under review.

2.2.5 Court Fines and Stamp Charges

A Rs. 3,385,567 court fines and a Rs. 33,745,673 stamp charges were to be collected from the chief secretary and other officers of the council as at 31 December in the year under review.

3. Operational Review

3.1 Performance

The following facts were observed.

- a) Funds worth Rs. 70,483,540 Planned for 57 valuable capital projects during the year under review, had not been able to start in the year while 08 valuable projects had been under task.
- b) A cash of Rs. 12,316,870 in the Urban Development Bank account established in accordance with the section 02 of the Urban Development Authority plan circular No. 08 dated 30 September 1987 had been used for any development project.
- c) There was a balance of Rs. 6,819,027 in the World Heritage Development Fund as at 31 December in the year under review and any function had not been done for the conservation of world heritages by using this fund.

3.2 Management Inefficiencies

The following facts were observed.

a) China Tour

The total sum of Rs. 10,904,726 cash had been spent from the fund of the council for the participation to a waste Management Project conducted by a Municipal Council in China by 18 members of the council with the Mayor and other 10 officers with the Urban Commissioner. Following observations were made relating to that.

- i) Although the officers who are connected to the professions relating to such functions should be selected to such functions, the officers who were engaged in other professions had been selected.
- ii) The cash of Rs. 6,814,027 were inactively use due to the sending of members whose position would be finished as at 30 June 2016, their knowledge had not been used for the improvement of the council.

b) Vehicle Administration

The following facts were observed.

- i) Rs. 593,586 had been spent for fuel to run 34,392km without noticing the defiles of the officers who travelled and the running information. Also the departure and returning details of 137 days were not stated relating to a sample of 06 vehicles.
- ii) During the observed period from 01 January to 08 July 206 and the year 2015, 15 urban members had spent Rs. 175,959 for fuel by running 11,710km for their personal travels.
- iii) The officer in charge of vehicle subject had spent Rs. 822,680 for fuel by running 52,140km in the years 2014, 2015 and 2016 by using the signature of the officer who used the vehicle.
- iv) Rs. 264,824 had been paid in 2015 and 2016 for 03 vehicles taken on rental basis for the driving of those vehicles without considering the orders stated in the agreements and contracts.
- v) Although a vehicle had been repaired in several times from the garage in the Urban Council by spending Rs. 611,200 due to the mechanical fault happened on 01 December 2015, that vehicle couldn't be repaired at the running status as at 30 September 2016.

c) Employee Loans

The following facts were observed.

- i) Actions had not been taken to collect the loan balance of Rs.6,212,291 from 98 employees who have dead, refried, interdicted and resigned during the period from 2004 to 2016.
- ii) A Rs.67,296 loan balance which was to be collected from an officer was have lost from the Tsunami tragedy had been carried forward for 12 years without settling it.
- iii) A loan balance of Rs. 77,271 to be collected from 34 employees who had been attached to Ceylon Electricity Board and an excess money balance of Rs.122,513 collected from 30 employees who had attached to CEB had been carried forward from 1995 without settling them for 21 years.
- iv) Actions had not been taken to settle Rs.12,766,367 loan balance to be collected for 180 employees who had transferred since 1998 to 2016 and an excess amount of Rs. 106,697 collected from 26 employees. A Rs.10,587,659 balance had to be future collected as at 25 July 2017.

d) Bank Accounts

The following facts were observed.

- i) Actions had not been taken to settle 19 cheques deposited but not realized which was worth of Rs. 80,999, and a items worth of Rs.95,284 identified as bank deposits as per cash book with the total of Rs. 176,283 relating to 2 bank accounts during the period of 2013 to 31 October 2016.
- ii) Actions had not been taken to record total balance of Rs. 2,310,366 relating to 115 direct credits of 02 bank accounts and a total balance of Rs. 156,419 relating to 11 direct debits as at 31 July 2017.

e) General Deposits

A cash of Rs.1,013,225 received in 464 instances during the period of 2013 to the year under review for various tasks and a cash balance of Rs.13,096,634 income received in 28 instances which was specifically identified had been held in the general deposit fund.

3.3 Operational Inefficiencies

The Following facts were observed.

a) Land allocated for General Purposes

Actions had not been taken to take over the lands of 34.9 perches which includes No 02, 03A, 11C,13B lands to the council for general purposes in the land No. 279 Bowala Gorakagahamulathanna.

b) Government Houses

A Rs. 683,109 had to be collected for over 10 years from the government Quarters used by 08 officers who retired, transferred and resigned from their duties at the Municipal Council and the arrears balance had to be collected as at 31 December 2016.

c) Annual Stock Verification

Following observation were made.

- i) According to the stock inventories and stationary verification reports, presented as at 31 December 2016 an excess of 14 inventory items a deficit of 86 items, an excess of 87 stationary stock items and a deficit of 114 items had been found.
- ii) Rs. 1,571,232 storage of 67 stock items and an excess of Rs.1,234,042 relating to 25 stock items had been found as at 31 December 2016 in the fuel stores. There was an excess in 11 stock items in which the value had not been noticed.

3.4 Transactions of Contentious Nature

The Following facts were observed.

- a) A part of 50 square feet in the Council area had been rental out for a restaurant without a proper tender procedure and the monthly rental of Rs.7,500 had been credited to a sports club of the officers of the council.
- b) Any legal documents relating to the milk stole conducted in a part of 25 square feet close at the building to the security office at the main entrance and any rental had not been charged.

3.5 Inactive and under utilized assets

Rs. 292,194 worth of Carky Drill clothes of 81165m (60" width) and Rs.397,660 worth of 1484 shirts had been stored without issuing them as at 23 August 2016.

3.6 Administration of Contract

The Following facts were observed.

- a) A Rs. 11,620,388 the council funds had been paid on 16 March 2016 to build up the 03 stories building close to the NuwaraWela Grounds. The Chief Urban Engineer had decided to handover the construction of the building to the constructor who had given the minimum price without retiring the tender application to the technical committee. Also, the constructions had been handed over without closing a feasibility study and without testing the soil samples of that land. The capacity of that building had to be reduced due to that reason.
- b) A Rs. 6,023,224 had been paid for the construction of the hall at the upper level of the building of the Development of Health of the Municipal Council. The technical evaluation committee had been appointed based on the decision No. 8(92) dated 29 September 2015 after calling the tenders and opening them, without considering the orders stated in the 2.6 paragraph of 2006 procurement guideline. Also, as per the section 5.3.5(6) of the procurement guideline, the construction institutions who had presented the price quotations had not been registered at the ICTAD.
- c) A contract had been made with a contract company to build up a toilet system for the Mahaiyawa Cemetery for an estimated cash of Rs. 1,632,385 on 20 December 2016. The following observations were made relating to that.
 - i) In accordance with the 5.3.5(6) section of the government procurement guideline of 2006, the council had been evaluated from the two construction firms although they had not been presented a valid registration.
 - ii) The construction had not been commenced as at 29 June 2017 due to the handing over of the construction without removing the Electricity post of Ceylon Electricity Board at the proposed premises of the toilet system.

- d) A gross estimate of Rs. 1,800,000,000 made to modernize and reconstruct the central market owned by the Municipal Council had been presented to the council and got the approval on 25 November 2013. The following observations were found.
- i) Although provisions had been made from the annual budgets of 2014, 2015 and 2016 as Rs. 20,000,000 and Rs. 10,000,000 the plan to build up the trade complex had been stopped due to the objections of the business community.
 - ii) Although the proposed constructions had planned to be started in 2013, it was decided to prepare a feasibility report at the general meeting held on 30 May 2016.
 - iii) Although it had been decided on 20 July 2016 by the council to do a sociological research regarding this and assigned to do that to the University of Peradeniya, actions had not been taken to get that research report as at 28th February 2017.
- e) The constructions of the Mahaiyawa Ayurvedic Clinic and the sales outlet had entrusted on 27 February 2017 at a cost of Rs. 4,032,800. As of 29 June 2017, cement stone holes had been used for building the walls of the building. under construction while the supervising officers had not taken quality reports. The construction items used cements, sandstone and cement mixtures were in poor quality and there were sill beams used on the blog stones on the site where the window frame had been located.
- f) A Rs. 76,088,905 had been paid under the fund of the council for the construction of the trade complex at the S.W.R.D. Bandaranayake Street. The following observations were made at the physical investigation held on 29th June 2017.
- i) The straps of the bund built on the back of the mallon the ground floor of the market complex had been exposed to the wires and the work of the bund had not been gradually completed.
 - ii) Behind the ground floor of the building there was no proper arrangement to get down the water in the yard, and the water collected during rainy days flows in to the inner part of the building and it had been observed that the shops are filled with water.
 - iii) The roof of the three storage building costing Rs. 76,088,905 had been fixed by removing an old roof of Amano roofing sheets. The roofs were leaking water in to the building during rainy days through the many holes on the roofing plates.
- g) A Payment of Rs. 257,921 had been made on 06 November 2016 under the council funds for the construction of a drain and a stairway near 02 houses at the Rajapihilla Mawatha, Ginihiriya. It had been observed that the thickness was 2" when inspected at the concrete slabs which had been already laid down but even though in order to concrete the stairway 1: 21/2: 5 (mm 25) and 4 inches thickness should be used to cement the stairway.
- h) The construction of office complex at the Rajawatte Sirimawo Bandaranayake Street with the vehicle park had been handed over to the state Engineering Co-operation on 15th August 2014 after calling tenders for Rs.62,070,559 value, following observations had been made relating to that.

- (i). A feasibility study and a soil testing had not been done relating to that construction.
- (ii). The special construction project unit of the council had omitted this task after preparing the premises by using direct labour for over seven months and building the towers up to the land level as at 12 May 2014.
- (iii). No. 1304/18 of the Democratic Socialist Republic of Sri Lanka and the extra ordinary Gazette No. 1249 dated 05 September 2003 and part III according to article 4 (b) i, of the by law dated a August 2002, in the Gazette section iv (a), according to the clause contractors can register only for an estimated value of Rs. 500,000 or less, in relation to the above construction, action had been taken against the contractors who were registered at the Kandy Municipal Council ICTAD C 4 or more for calling tenders for Rs. 70,080,349 prices had been called publically.
- (iv). According to the notice of two contractors who had applied for more than minimum price, the tender board had rejected the tendering procedure for the contractor who offered the lowest price of Rs. 61,760,211 without due cause.
- (v). Subsequently the State Engineering Corporation (SCP) selected for a tender exceeding the minimum bid of Rs. 62,070,559 had been awarded the construction contract. Although the contract had been entrusted to the agreement of the industry to submit the project before 15 may 2015, the relevant construction had not been completed by 25 July 2017.

3.7 Solid Waste Management

Following observation were made.

- a) 175 tons of wastage had been collected daily in the council area and the degradable waste had been removed to the Gohagoda Thekka Watta area. Although the production of compost fertilizer had been started by using degradable waste and 2000 kg of compost fertilizer had not been prepared to sell as at 01 August 2017.
- b) The council had earned Rs. 1,975, 170 cash as at 07th June 2017 from the recycling of plastic by using the machine received from the Central Environment Authority But a proper documentary system had not been followed in relation to the receipt of plastic wastes, daily production amounts, and daily sales.
- c) Although the Central Environmental Authority had given a machine to recycle polythene on 23 September 2014, that machine had not been utilized and had been an in inactive state as at 01 August 2017.

3.8 Illegal construction

Following inspections had been carried out on the audit of 04 commercial buildings that had been constructed in the Kandy city.

- a) According to the provisions of section 8 (J) of part 11 (a) of the Urban Development Authority Act No 41 of 1978, although approval had been obtained for the construction of 2 strayed building, four commercial buildings under investigation, four floors each had been built without approval.
- b) Although all new construction had to be made from the end of the street line on the provisions under the section 8 (J) of the Urban Development Authority Act No. 41 of 1978. Except for those provisions, borders had been constructed to the main and by roads.
- c) Apart from the terms of the world Heritage Building Conservation and Technology sub committee, all the section to be kept in the building had been demolished and 03 buildings had been built.
- d) The section of the world Heritage site had to be demolished and only the world Heritage sites on which it had been installed on the wall of the new building, while the world Heritage site had been designed as a world Heritage building by the world Heritage center.
- e) A commercial building had been incurring a loss of Rs. 1,680,000 to the funds of the municipal council, due to the release of the building from the parking fee of the parking lot.

4. Accountability and good governance

4.1 Budgeting Control

The Following facts were observed.

- a) It was observed that the budgetary report had not been used as an effective controlling tool variances observed which exceeded 10 percent to 100 percent relating to 5 expenditure subjects due to the difference in between the actual expenditure and the estimated expenditure accordingly to the budget prepared for the year under review.
- b) The annual budget had been prepared by adding a percentage to the previous year's budget and a Rs. 640,708,000 estimates prepared for 68 expenditure subjects of 21 projects in 6 capital projects without following the instructions given by the Chief Accountant through the letter No. CBK/budget 2016 dated 30 April 2015 and the Circular No. 2014/02 dated 20 March 2014 of the Central Provincial Council Commissioner under the Municipal Council Audience.

4.2. The Annual Procurement Plan

An improper Procurement Plan had been prepared without considering the requirements stated in the sections No, 4.1.1(a), 4.2.1(a), 4.2.2 and 4.2.3 of the 2006 Procurement guideline although a total amount of Rs. 640,708,000 provisions had been allocated for capital expenditure.

4.3 Internal Audit

A sufficient Internal Audit had not been done by covering all the sections in accordance with the Financial Regulations No. 133 and 134(1) of the Democratic Socialist Republic of Sri Lanka.

5. System and Control

Special attention had to be paid for the following systems and control sectors.

- a) Contract Administration
- b) Revenue Administration
- c) Asset Management
- d) Financial Control
- e) Debts and Creditors