

Kandy Municipal Council
Kandy District

1. Financial Statements

1.1 Presentation of Financial Statements

Financial statements for the year 2017 had been submitted to Audit on 29 March 2018 and the report of the Auditor General on the said Financial Statements were sent to the Council on 07 September 2018.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters described in the paragraph 1.3 of this report, the financial statements give a true and fair view of the financial position of the Kandy Municipal Council as at 31 December 2017, and of its financial performance for the year then ended in accordance with generally accepted accounting principles.

1.3 Comments on the financial statements

1.3.1 Accounting Deficiencies

The following observations are made.

- (a) Two tractor trailers which had been received as donations in the year under review had not been taken into accounts.
- (b) Fixed assets had been understated by Rs. 638,536 due to taking 07 items of machinery and office equipment valued at Rs. 769,498 which had been purchased in the year under review into accounts as Rs. 130,962 and fixed assets had been overstated by Rs. 2,666,332 due to 03 asset items which had been purchased for a value of Rs. 45,136 being shown in the accounts as Rs. 2,711,468.
- (c) Value of 167 fixed asset items amounting to Rs. 1,535,119 which had been recommended to dispose by the survey on 2016 had been removed from the accounts in the year under review even though they had not been disposed even up to August 2018.
- (d) Although a fire truck in which the value could not be identified had been auctioned for a value of Rs. 291,160, the cost of the said vehicle had not been removed from the accounts.
- (e) Fixed assets had been understated by Rs. 100,000 due to auctioning a motor cycle that had remained idle in the urban industrial workshop for Rs. 65,000 on 04 February 2010 and crediting the motor car account by Rs. 165,000 when removing the value from the accounts.

- (f) Although according to the documents relating to the Manikkubura Wholesale and retail shopping complexes, the revenue of the year under review was Rs. 5,034,660, the revenue of the year had been overstated by Rs. 270,608 due to taking it into accounts as Rs. 5,305,268.
- (g) Although the rental revenue of 857 stalls of 17 shopping complexes in the year under review was Rs. 53,757,607, the stall rental revenue had been overstated by Rs. 1,871,143 due to taking it into accounts as Rs. 55,628,750.
- (h) Tender fee revenue of Rs. 3,809,000 relating to 02 meat shops in the central market which had been tendered and leased in the year under review had not been taken into accounts as revenue.
- (i) Expenses had been overstated by Rs. 12,428,694 due to inventory items of that value which had been issued from stores until the end of the previous year being taken into accounts as an expenditure of the year under review.
- (j) General Deposits had been understated by Rs. 259,801 due to debiting the total value of settled general deposit transactions amounting to Rs. 12,127,946 within the year under review to the deposits account as Rs. 12,387,747.
- (k) Although the outstanding water charges was Rs. 95,685,642, the balance had been overstated in the accounts by Rs. 5,220,865, due to showing the outstanding as at 01 January 2017 as Rs. 100,906,507.
- (l) According to the information of Department of Water Industry, the billed revenue of water charges for the year under review was Rs. 436,769,100, the revenue had been understated by Rs. 34,713,921 due to taking it into accounts as Rs. 402,055,179.
- (m) Three-wheeler charges of Rs. 444,480 which had been received in the year under review for the previous year, had been taken into accounts by considering it as a revenue of the year under review, and receivable three-wheeler charges for the year under review valued at Rs. 23,372,709 had not been shown in the financial statements.
- (n) Although court fines of Rs. 5,521,782 had been received for the previous year, only a sum of Rs. 3,385,567 had been shown in the accounts as the opening balance. Due to this, the opening balance had been understated by Rs. 2,136,215.
- (o) Receivable court fines for the months of October, November and December in the year under review amounting to Rs. 1,269,304 had not been taken into accounts as receivable revenue.
- (p) Although the billing of the year under review was Rs. 11,021,707 according to the Court fines registry, due to showing it as Rs. 13,020,493 in the accounts, the revenue for the year had been understated by Rs. 1,998,786.
- (q) Lease rent of Rs. 218,257 which had been received for the lease of Maintaining the boat service in Kandy Lake for the coming year had been taken into accounts as a revenue of the year under review.
- (r) Although the revenue for the lease of Toilets for the year under review was Rs. 8,984,448, due to showing it as Rs. 8,920,410 in the accounts, the revenue had been understated by Rs. 64,038.

- (s) Although the pre-payments received for the leasing of toilets as at the end of the year under review was Rs. 9,820,259, due to it being taken into accounts as Rs. 19,163,162, pre-payments had been overstated by Rs. 9,342,903.

1.3.2 Unreconciled accounts

According to the financial statements, the total of balances relating to 08 accounting items was Rs. 827,525,152 and the total of the said balances according to the schedules was Rs. 661,861.771. Hence a difference of Rs 165,663,381 was observed.

1.3.3 Receivable and Payable Accounts.

(a) Receivable accounts

The total of 10 receivable account balances as at 31 December 2017 was Rs. 549,611,810 and out of that the total of balances which had been continuing from a period of 01 to 05 years was Rs. 90,871,720. Also, the total of account balances which had exceeded a period of 05 years was Rs. 244,167,359. Further a balance of Rs. 448,369,519 had remained receivable as at 24 August 2018.

(b) Payable Accounts

The total of 03 creditor balances as at 31 December 2017 was Rs. 992,436,957 and out of that, the total of balances which had been brought forward from a period of 01 to 05 years was Rs. 90,462,557. Also, a balance of Rs. 556,710,571 had remained payable as at 24 August 2018.

1.3.4 Lack of Written evidence for audit

The following observations are made.

- (a) Thirteen accounting items valued at Rs. 1,191,692,284 could not be satisfactorily verified in the audit due to failure in providing the necessary information.
- (b) The age analysis relating to the outstanding rates of Rs. 123,552,618 and outstanding water charges of Rs. 118,832,877 given at the time of inspection as at the end of the year under review could not be obtained from the computer software.

1.3.5 Non-Compliance

 Non-compliances with Laws, Rules Regulations and Management Decisions.

Reference to Laws, Rules Regulations and Management Decisions	Value Rs.	Non-Compliance
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(a) Section 247 (a) (1) of the Municipal Council Ordinance	681,003	License fees had been recovered from the registered Hotels at the Tourist Board in the Municipal Council jurisdiction based on the revenue after subtraction of tax and service charges.
(b) Regulation 36 on Stores of section iv of the Kandy Municipal Council by-law No. 1304/18 dated 05th September 2003	-	The survey reports regarding Central stores, water stores and ayurvedic medicine stores relating to the year 2017 had not been presented even up to 18 July 2018. And also, actions had not been taken to rectify the differences that had been identified since a period exceeding 07 years which are mentioned in the report.
(c) Chapter XIX of the Establishments Code of the Democratic Socialist Republic of Sri Lanka		
(i) Paragraph 03	-	Sixty seven houses which belong to the council had not been graded according to the eligible bureaucracy.
(ii) Paragraph 4.3.4	-	A single waiting list for all the officials and staff had been maintained without maintaining separate waiting lists for each house grade.
(iii) Paragraph 6.1	-	05 officials and employees had been residing in 05 public houses which belong to the council for a period of 05 to 28 years.
(iv) Paragraphs 8.1 and 8.2	-	An inventory had not been maintained relating to electric equipment, other equipment and padlock keys of 69 government houses.

(d)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
(i)	1645(a)	-	Log books had not been maintained for 154 vehicles.
(ii)	1645(c)	234,665	Travel details had not been included the in running charts for the period of February to August 2017 in two inspected vehicles. A distance of 6,092 kilometers had been run during the said period and expenses had been incurred in that regard.
(iii)	F.R. 1647(a)	-	Log books of 76 vehicles had not been maintained by including necessary details.
(e)	Treasury Circular No. IAI / 2002/02 dated November 28, 2002	--	A register had not been maintained relating to computers and computer equipment.
(f)	Guide 5.4.12 of Procurement Guidelines	-	When informing payment for VAT to the Commissioner of Inland Revenue, after the payment made, copies of relevant documents in that regard had not been submitted to the Auditor General.
(g)	Circulars of the Commissioner of Local Government		
(i)	Circular No. 2/2011 dated 14 October 2011	66,571,614	Material and labour estimates, approval and recommendations for work accomplished had not been completed in work sheets of 60 contracts which had been implemented under direct labour in the year 2017
(ii)	Paragraph 03 of the Circular No. 2014/2 dated 20 March 2014	60,421,000	.Although a 50 per cent of the recurrent expenditure of Rs. 1,871,312,000 in the year under review should be allocated for maintenance, the allocated amount was as low as 03 per cent.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the revenue that exceeded the recurrent expenditure was Rs. 520,473,900 for the year ended on 31 December 2017 and the correspondent revenue that exceeded the recurrent expenditure in the previous year was Rs. 518,109,683.

2.2 Financial control

The following observations are made.

- (a) 14 Cheques valued at Rs. 72,098 which were shown as cheques issued but not presented for payment in the Bank reconciliations had been kept under the officer in charge without issuing to the recipient.
- (b) Actions had not been taken to inquire and settle 18 cheques and money orders valued at Rs. 87,150 which had been deposited but not realized during the period from the year 2013 to the year 2017.
- (c) Actions had not been taken to identify and take into accounts for 15 unidentified bank deposits valued at Rs. 929,098 which had been shown as direct credit to the bank relating to 02 Bank accounts.
- (d) Actions had not been taken to identify and take into accounts for 11 items valued at Rs. 112,101 which had been shown as direct debits to the bank relating to 02 bank accounts.
- (e) A sum of Rs. 114,595 which had been received by the bank accounts in two occasions as direct credit had been kept in the deposits account without taking actions to identify even up to 31 July 2018.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Billed Revenue, Collected Revenue and Outstanding Revenue

Details of Estimated Revenue, Billed Revenue, Collected Revenue and Outstanding Revenue for the year under review and the previous year are given below.

Source of Income	Estimated revenue	2017			2016			Total Outstanding as at 31 December	
		Billed revenue	Collected Revenue	Total Outstanding as at 31 December	Estimated revenue	Billed revenue	Collected Revenue		
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
(i) Rates and Taxes	839,543,000	951,640,588	821,071,501	285,599,883	--	320,000,000	290,791,296	292,332,768	100,380,560
(ii) Rentals	116,533,000	65,179,198	67,087,038	62,046,007	105,501,000	67,870,036	74,907,290	98,906,302	
(iii) Licence fees	46,495,000	31,227,877	31,227,877	--	36,331,000	30,459,082	30,459,082	--	
(iv) Other revenue	576,462,000	476,941,161	322,459,698	424,389,671	1,359,327,000	474,772,898	564,743,177	258,256,640	
Total	1,579,033,000	1,524,988,824	1,241,846,114	772,035,561	1,821,159,000	863,893,312	962,442,317	457,543,502	

2.3.2 Performance of Collection of Revenue

The outstanding balance as at 31 December 2016 from all sources of income was Rs. 457,543,502 and the said balance was Rs. 772,035,561 as at the end of the year under review. As a result improvement of outstanding revenue was 59 per cent.

2.3.3 Rates and Taxes

(a) Rates

The outstanding rate tax balance as at 01 January 2017 was Rs. 127,529,521 and billing as at 31 December 2017 was Rs. 317,493,192. Only a sum of Rs. 73,178,018 and Rs. 238,141,102 had been recovered from the outstanding and billing respectively. This was 57 per cent and 75 per cent. An outstanding balance of Rs. 133,703,593 had existed as at 31 December 2017 and a sum of Rs. 87,119,124 had remained further to be recovered as at 31 March 2018.

(b) Land Taxes

The outstanding land tax balance as at 01 January 2017 was Rs. 34,952,454 and only a sum of Rs. 1,917,383 had been recovered out of that balance. The recovery of taxes was 05 percent and recovery of outstanding land taxes had remained in a weak state.

2.3.4 Rentals

The outstanding rental balance as at 01 January 2017 was Rs. 62,601,539 and billing as at 31 December 2017 was Rs. 62,403,253. Only a sum of Rs. 27,103,002 and Rs. 37,095,686 had been recovered from the outstanding and billing respectively. This was 43 per cent and 59 per cent and an outstanding balance of Rs. 60,806,104 had existed as at 31 December 2017. According to that the recovery of rentals had been in a weak level and a sum of Rs. 47,853,462 had remained further to be recovered as at 31 March 2018.

2.3.5 Other Revenue

----- Three – Wheeler Charges -----

The following observations are made.

- (a) The outstanding three-wheeler charges as at 01 January 2017 was Rs. 16,922,789 and out of that only a sum of Rs. 444,480 had been recovered. The recovery of outstanding three-wheeler charges had remained in a weak state due to the recovery of three-wheeler charges being 02 percent.
- (b) A survey for three-wheelers had not been conducted in the year under review.

2.3.6 Court fines and Stamp Fees

Court fines of Rs. 5,965,152 and stamp fees of Rs. 177,948,417 had remained to be received from the Chief Secretary of the Provincial Council and other authorities by 31 December of the year under review. Only a sum of Rs. 141,327,627 had further remained to be recovered up to 30 June 2018.

3. Operational Review

3.1 Performance

According to the section 4 of Municipal Council Ordinance, the following matters were revealed relating to formulation and regulating public health, public utility service and roads and wellbeing of the people, convenience and welfare which should be full filled by the Council.

(a) Not full filling the expected objectives

It had been leased to a private institution to charge a higher fee from the vehicles that are kept parked for a longer time in order to control parking of vehicles in the streets. But the said objective had not been full filled due to allowing the vehicle to be kept parked throughout the day without charging fees.

(b) Action Plan

Although it was mentioned that the manufacturing of medicine had started with latest machinery according to 2017 annual action plan of the Municipal Ayurvedic department, the manufacturing of medicine had not been done sufficiently due to lack of staff and insufficient supervision. Most of the medicines had not been manufactured after the years 2014, 2015, 2015 and 2017.

(c) Unfulfilled Activities

Although provisions of Rs. 500,000 for uniforms had been allocated by the annual budget of 2017 for the staff in the Ayurveda Department, a 94 per cent of the said provisions had not been spent even until 31 December 2017.

(d) Solid Waste Management

Although provisions of Rs. 4,000,000 had been allocated for the project of manufacturing compost with the use of biodegradable waste, provisions of Rs. had not been used even up to the end of the year under review.

(e) Sustainable Development Goals

The following observations are made.

- (i) Relevant internal circulars and guidelines in implementing sustainable development goals had not been prepared.
- (ii) Most of the programs that were shown as implemented under sustainable development programs were programs which had been implemented by the council during the period before such events.
- (ii) A procedure for utilizing staff to implement the programs had not been prepared.

3.2 Management Inefficiencies

The following observations are made.

- (a) According to an agreement made with a private institution on maintaining Digital Notice boards in Kandy town, actions had not been taken to recover an initial payment of Rs. 500,000 and a balance of Rs. 1,500,000 in 24 instalments even up to 31 December 2017.
- (b) Thirty seven medicine items which should be issued to the patients for medical treatments of Asigiriya free Ayurveda medical centre had not been received for a period between 01 to 05 years.
- (c) Although it was reported by the revenue inspection officers that fake tickets with no numbers and stamps had been issued in 2017 August Asala Mela festival days, no actions had been taken in this regard.
- (d) Inconveniences had occurred to the inpatients and patients traveling to the hospital by placing a weekly fair on both sides of the narrow road leading to the Bogambara Chest clinic of the Kandy General Hospital and it had caused to further increase the traffic in the town.

3.3 Human Resources Management

The following observations are made.

- (a) There had been 163 vacant positions and 04 excessive positions in the council as at 31 December 2017. There had been 136 casual / substitute employees.
- (b) Actions had not been taken to recover recoverable loan balances of Rs. 19,018,526 from 282 officers and staff who had been retired, vacated post, interdicted and transferred in the time period from the year 1994 to 2017.

3.4 Operational Inefficiencies

The following observations are made.

- (a) A revenue of Rs. 582,505 which had been received by selling compost bins in the year under review had been remained in the deposit account.
- (b) A sum of Rs. 2,418,657 which had been received by various parties for a certain activities in 06 occasions had been remained in the deposits account without using it for the relevant task.
- (c) A house had been built blocking a public access road by a resident in the council jurisdiction and the municipal council and courts had been issued orders to remove the said unauthorized constructions since 2005. It had been allowed to have an access road from a land that belong to the council in which the Zonal office is located by presenting erroneous details to the Minister in charge regarding the said resident who had not complied with the above orders.

3.5 Assets Management

3.5.1 Inactive / Underutilized Assets

The following observations are made.

- (a) Ten water pipes and accessories valued at Rs. 235,361 and 21 water pipes and accessory items of which the value cannot be calculated had remained idle in water stores since the year 1980.
- (b) Number of 300 unregistered pipe fittings and 144 other pipe fittings which were handed over to the council upon completion of a water pipe project had been stored without using.
- (c) Number of 167 pipe fittings which had been removed from use and handed over by various units and which had been removed from use in water stores, had been stored without disposing.
- (d) A gully bowser in running condition valued at Rs. 4,243,700, which belong to the solid waste management unit and a water bowser valued at Rs. 2,160,000 which belongs to the water treatment plant had been remained to decay for a period exceeding 06 months in the outdoors of the water treatment plant premises. Repairs had been done without

the supervision of the municipal mechanical engineer by spending Rs. 79,690 in the time of which the gully bowser had remained idle.

- (e) Two Primrose pumps which were removed five years ago and a large stockpile of DI and CI pipes and fittings that had been removed several years ago had been piled up in the water treatment plant premises without disposing even up to 31 July 2018.
- (f) Thirty seven units of gas cookers, gas cylinders, sewing machines which belongs to the Department of Public Assistance and Welfare had been stored in the Mahaiyawa Sewing centre building without taking actions to use or do something appropriate since even before the year 2009. And also, no inventory had been surveyed and these inventories had not been documented.
- (g) Two over log machines and a juke machine which had been received as donations to Mahaiyawa Sewing centre in the year 2010, had remained in packings to decay without being used in the said centre even up to 31 July 2018.
- (h) Although a compactor which can be used to recycle polythene had been provided by the Central Environmental Authority in the year 2014, it had remained idle in the Gohagoda garbage yard without being used for the relevant task even up to August 2018.

3.5.2 Annual board of survey

The following observations are made.

- (a) Annual survey which should be conducted in Suwa piyasa outlet, Panchakarma Unit and Ayurvedic drugs factory and in the 10 Ayurvedic Dispensaries, had not been conducted for years.
- (b) The stationery stocks at the end of the year under review, had not been physically examined and board of survey reports had not been prepared. Hence the accuracy of stationary stocks valued at Rs. 9,638,849 which had been shown in the financial statements as at the end of the year under review was not verified.

3.5.3 Vehicle utilization

The following observations are made.

- (a) An engine for a tipper had been decided to replace by the agent institution for a sum of Rs. 1,181,639 due to the engine being fully malfunctioned on 07 December 2017 as a result of running the engine using 02 litres of oil on a regular basis without identifying the fault. However, the said repair had not been carried out even up to 31 July 2018 and the inspections in this regard had not been done.
- (b) Spare parts had been purchased incurring a sum of Rs. 97,000 and had been utilized for the repair of the tractor mentioning that the repair for get off the air without

repairing deficiencies mentioned in the job card and without having a recommendation or an approval.

- (c) Although the technical officer had instructed to repair a van with using brake oil, the entire brake system had been removed and repaired. However due to the brake system failing again after running for about 1000 km, a sum of Rs. 69,200 which had been spent on one fault in two occasions within 09 months had been a futile expense.
- (d) A sum of Rs. 169,180,822 had been spent on vehicle repair and maintenance in the period from the year 2014 to 2017. The following observations are made in this regard.
 - (i) An average of about Rs. 42 million had been spent on urban technical workshop vehicle repairs during the last four years. Based on the 227 existing vehicles, the cost of repair for one vehicle had been approximately Rs. 185,022 per year.
 - (ii) Although the technical workshop carried out vehicle repairs, the intended purpose of the municipal workplace has not been adequately met due to 36% in the year 2015, 13% in the year 2016 and 19 % in the year under review out of the total expenditure being carried out through private institutions.
 - (iii) A sum of Rs. 10,592,829 had been spent on repairing and maintenance of 30 tractors which belong to the council in the year under review, and the annual repair and maintenance cost for each vehicle was approximately Rs. 350,000.
- (e) The Municipal Mechanical Engineer in charge of the Industrial Works Unit had not supervised the vehicle repairs and according to the sample test, repairs had been done by technicians by purchasing spare parts for 23 vehicles in 158 occasions by spending Rs. 4,691,950 without the recommendation of the Technical Officer / Foreman and the approval or recommendation of the Municipal Mechanical Engineer.
- (f) A sum of Rs. 26,479,568 which had been spent on purchasing spare parts in the year under review could not be satisfactorily inspected in audit as a result of not registering the removing spare parts when repairing vehicles.
- (g) A stock of removed vehicle spare parts had been sold to an outside party on 2 February 2018 for a sum of Rs. 64,090 without following proper tender procedures.
- (h) A tipper had been hired outside the procurement procedure for the Special Project Unit and an excess of Rs. 201,000 had been paid for the period from 01 February 2017 to 30 September.
- (i) Although spare parts valued at Rs. 611,884 had been issued from the stores for repairing of vehicles, the worksheets in this regard had not been prepared.
- (j) Spare parts had been purchased by spending Rs. 83,100 for other repairs while not repairing the breaking of the chassis bar of a tractor trailer and decaying of the trailer deck. The tractor trailer was allowed to rust in the garbage yard at Gohagoda without

installing the said spare parts. Despite this, a sum of Rs. 214,370 had been paid by showing that the tractor trailer was sent to Maga Neguma Road Construction Company for a repair.

- (k) After completing the vehicle repairs at the municipal workshop and handing over the vehicle to the driver concerned, spare parts valued at Rs. 247,226 had been issued for the repairs of the said vehicles by stores in 16 occasions.

3.6 Improper transactions

- (a) The Gatambe grounds belonging to the council and the stadium belonging to the Rahula Vidyalaya, Katugastota has been allowed to hold the Esala Mela Carnival from 29 July 2017 to 8 August 2017 in parallel to the Kandy Esala Perahera. The following observations are made in this regard.
- (i) Although 08 bids had been placed in terms of section 4 (c) of the Municipal Council By-law published in the Gazette Notification No. 1249 of 09th August 2002 concurrent with paragraph 227 of the Municipal Council Ordinance (Chapter 252), the Gatambe Stadium had been leased out to a party who had not submitted a bid for a sum of Rs. 4,000,000 without opening the said bids.
- (ii) Although 08 bids had been obtained by advertising procurement notices in national papers by incurring a sum of Rs. 64,400, the said bids had been returned to the bidders concerned without opening them and without reasoning.
- (iii) Although the Katugastota Rahula Vidyalaya Stadium of 2 Acres 01 Rude 35 Perches had been leased out for a sum of Rs. 8,542,300 by following Formal Procurement Procedure, the 2.5 acre Gatambe Municipal Playground had been leased to a Kandy resident for Rs. 4,000,000 for the same period without following the Procurement Procedure. Accordingly, approximately a sum of Rs. 4,542,300 had lost to the council fund due to leasing without following the proper procurement procedure.
- (b) A sum of Rs. 72,000 had been spent without approval as Rs. 6000 per month as food expenses of the staff of the Asgiriya Panchakarma Centre in the year under review.
- (c) Although it was planned to pay incentives of 25 per cent of the monthly income of the Panchakarma Ayurveda centre subjected to the approval of the Governor of the Central Province, a sum of Rs. 959,602 had been spent for incentives of officers and staff for the period from August 2014 to June 2017 without no such approval.
- (d) Although the mechanical engineer is authorized to purchase spare parts up to Rs. 25,000 and repair in case of emergency, in contrast to that authorization, spare parts valued from Rs. 30,000 to Rs. 268,115 had been purchased by the administrator in the technical workshop under the mechanical engineer with no emergency. According to the sample test, spare parts valued at Rs. 3,818,078 had been purchased in 50 occasions in the year under review with no authority.

- (e) A land 12.875 perches in extent which belong to the council had been leased by an officer who served as head of the land division in the name of his wife. Later, actions were being taken to hand over the land to the said lady based on a statement made to the council saying that she is using the land. And although according to the circular of the Commissioner of Local Government Central province a sum of Rs. 6,198,500 should be recovered as leases and fees in the assigning of leases, contrary to that circular, the lessee had been informed in writing that a sum of Rs. 2,486,000 is recovered.

3.7 Procurement

3.7.1 Supplies and Services

- (a) A loss of Rs. 378,000 had been occurred to the council fund due to not considering the VAT-less lowest presented prices of Rs. 752.17 and purchasing 10,800 bundles of cement from the institution that presented a high price of Rs.782.61, regarding purchasing of 10,000 bundles of cement. Also, bidders had not been instructed to specify VAT separately in accordance with Section 5.3.18 (a) and (b) of the Government Procurement Guidelines and 02 out of the 03 submitted bids by the institutions had been evaluated with adding the VAT to the price.
- (b) Thirty eight steel cupboards valued at Rs. 2,632,260 had been purchased beyond the departmental specifications and without preparing specifications that suits the market, contrary to Guidelines 6.3.1 (b), 6.1.4 and 5.6.1 (a) of the Government Procurement Guidelines 2006
- (c) An Agreement had been signed on 05 April 2017 assigning the temporary lease right on creating and implementing a Charging Service Using Electronic Media from Parking Vehicles in the City of Kandy and collecting revenue for a period of 02 years from 01 March 2017 to 28 February 2019. The following observations are made in this regard.
 - (i) According to the provisions of paragraph 6.3.1 (a) of the Procurement Guidelines and Section 5 (a) of Part III of the Municipal By-Law published in the Gazette No. 1304/18 of 05 September 2003, the fact that bids should be presented via “Registered Post” had not been shown in the bidding documents and bidding invitations published in Sinhala and Tamil newspapers.

- (ii) A condition had not been included in the bidding documents that the bidding institutions should present a prototype of the software.
- (iii) The selected bidder had not provided written proof to prove that the relevant qualifications have been met and according to bidding documents, it was shown that the technical bidding documents will be opened on 08 December 2016 and a technical report had been issued by opening the technical bids on 09 December 2016. Also, no responsible technically qualified officer had been present at the committee that day.
- (iv) A temporary lease right on recovering charges from vehicles by issuing receipts according to normal procedure from 22 February 2017 to 31 March 2017 had been given without getting into an agreement with the selected bidder.
- (v) Although there had been provisions that the performance security should be obtained from a state bank, performance protection obtained from a private bank by the lessee had been accepted.
- (vi) Although it was mentioned in the Paragraph 5.4.8 (a) of the Procurement Guidelines that the performance bond should not be less than 05 per cent of the bid amount, it had been shown in the bidding documents that the performance bond should be provided as 100 per cent of the contract amount in contrary to those conditions.
- (vii) It had been allowed for the public to suffer prejudice by stating in the bidding documents that the council would not be held responsible for parking charges or any other issues that arose, or in the event of a dispute when parking vehicles.

3.7.2 Contract Administration

- (a) An agreement had been signed with a contract institution for a value of Rs. 8,571,000 and an advance payment of Rs. 1,714,175 had been paid regarding the establishment of Amano Sheet Cover at weekly fair and Ehelepola Kumarihami Mawatha under funding for the Strategic Cities Development Project of the Ministry of Municipal and Western Development and the council funds. The following matters in this regard were observed.
 - (i) Although it had been recommended by the Urban Development Authority that a construction of a roofed cover is inappropriate, it had been decided to spend Rs. 5,298,048 from council funds on constructing a roofed cover without taking that into consideration.
 - (ii) Although it had been agreed to complete the contract and hand over on or before 28 March 2017, a satisfactory amount of work had not been done as at 21 September 2017 and no any supervision had been done in that regard.

Actions had not been taken to extend the guarantee period while the performance guarantee and advance guarantee period of the respective contract had been expired as of 16 April 2017.

- (iii) The following matters were revealed in the physical inspection done on 27 September 2017.
 - a. Although 75mm GI pipes had been constructed with a height of 2.5m and with a gap of 3 meters for the construction of the roof of the weekly fair , with the way that the GI pipes had been constructed the possibility of building a curved roof as shown in the plans had been eliminated. 41 GI pipes had been constructed in this manner and the work in this regard had not been finished even as at 31 July 2018.
 - b. Although according to the work item 03 of the estimate prepared by the municipal engineer on 11 March 2017 it had been included a soil removal of 45.36 cubic meters with dimensions 2/252.00 m x 0.20 m x 0.45 m , no such soil removal had been observed.
- (b) Work regarding the changing of the plumbing system near Rajapihilla street observation point had started on 10 June 2017 and had been abandoned as at October 2017, and approximately expenses of Rs. 2,077,337 had been incurred. The following matters were observed in this regard.
 - (i) The necessity of changing the successfully distributing water pipeline from the Kandy Dunumadalawa reservoir to the ampitiya area and Kandy town was not clear and a loss of Rs. 2,077,337 had occurred to the council fund on 26 October 2017 by changing the said water pipeline system.
 - (ii) A feasibility study had not been carried out regarding the project of changing the said water pipeline system and actions had not been taken either to prepare draft plans or material, labour estimates or to obtain formal prior approval from the council.
 - (iii) Eleven water pipe equipment valued at Rs. 220,520 had been misplaced in the project premises due to the lack of proper supervision of the supervisors regarding the safety of the pipe fittings of the project which was carried out using direct labour.
 - (iv) According to the physical examination done on 15 November 2017, there was a risk of damaging the water pipes due to the pressure that is developed in the water pipes due to water from pipes with a diameter of 300 mm connecting to a pipe with a diameter of 200mm and travelling for 80m around the view point and connecting to a 300mm pipe.
- (c) According to the estimate of construction of the fence around the R3 pumping station which is estimated for Rs. 2,047,766 on direct labour basis under council funds, even though the foundation should be constructed with concrete, a metal foundation had

been constructed without approval or revising the estimates. Although horizontal ¾" GI pipes should be used to fix the net of the chain link fence, the net had been fixed to the bottom by laying concrete on the foundation

- (d) According to verbal instructions of the work superintendent and without a necessity or written approval, a stone security wall had been built in the R 3 pumping station. Documents had not been maintained in a manner that the money which had been spent on this could be identified. And also metal of size larger than 6"x9" had been used to construct the wall and the used plaster of sand and cement mix had been in a weak state. A production report had not been prepared after an inspection carried out by a responsible officer.
- (e) Thirty-three files with worksheets relating to development projects valued at Rs. 31,056,543 which had been implemented in the year under review by the Department of Water Industries had not been presented to audit.

4. **Accountability and Good governance**

Budgetary Control

- (a) According to the budget prepared for the year under review, when comparing estimated revenue and expenditure with actual revenue and expenditure, it was observed that the budget had not been made use of as an effective control due to variations from 14 per cent up to 27 per cent regarding two revenue items and from 16 per cent up to 67 per cent regarding 04 expenditure items being observed.
- (b) According to the paragraph 09 of Circular of the Commissioner of Local Government No 2014/02 dated 20 March 2014, although the financial activities should be controlled within the year, an excessive expenditure of Rs. 114,938,913 had been incurred exceeding the estimated provisions regarding 40 recurrent and capital expenditure items.
- (c) Due to not conducting quarterly budget review regarding expenditures, a total excess of Rs. 12,101,000 had been spent exceeding the provisions of 47 expenditure items and the approval had been obtained afterwards after the transfer of expenses.
- (d) A sum of Rs. 20,992,014 which had been allocated for 16 capital expenditure items in the year under review had not been utilized in a range from 75 per cent up to 100 per cent.
- (e) An overall transfer of expenditure of Rs. 137,846,00 had been applied and the approval had been obtained on 29 December 2017 regarding 169 expenditure items in which the exceeding of allocated provisions had not been identified instantly. In this, information relating to transfer of provisions from which expenditure item to which expenditure item had not been shown separately.

- (f) Provisions of Rs. 4,500,000 had been allocated as a gross value without specifically identifying the necessary medicine material and preparing estimates regarding medicine required by the Ayurvedic dispensaries and a sum of Rs. 2,865,348 had been saved from the said provisions.
- (g) Provisions of Rs. 118 million out of Rs. 127 million which had been allocated for 06 expenditure items for development activities had been transferred to other capital expenditure items without utilizing them to expected objectives. And also, provisions of Rs. 2.94 million which had been allocated for 02 capital expenditure items had not been utilized.

5. **Systems and Control**

The deficiencies observed in the audit have been brought to the attention of the council from time to time and special attention should be given to the following areas of control.

System	Deficiency
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(a) Revenue Administration	(i) Not recovering of outstanding revenues. (ii) Non- signing of Lease agreements (iii) Non-renewal of lease agreements
(b) Accounting	(i) Account books and documents are not kept up to date (ii) Not including all accounts in the general ledger
(c) Assets/Properties	(i) Lack of security (ii) Not disposing in time
(d) Stock Control	(i) Improper stocks control (ii) Not maintaining the stock ledger (iii) Not conducting proper surveys.
(e) Debtor / creditor	(i) Schedules not being accurate

- (f) Projects/ Contracts
 - (ii) Not preparing age analysis
 - (iii) Not settling debtors and creditors
 - (i) Not preparing estimates
 - (ii) Not maintaining work sheets properly
 - (iii) Lack of adequate supervision