

Negombo Municipal Council

Gampaha District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2018 had been presented for audit on 08 April 2019 and the summary report of the Auditor General on the financial statements and the detailed management report had been forwarded to the Chairman on 27 July 2019 and 30 August 2019 respectively.

1.2 Qualified Opinion

In my opinion, except for the effect of matters described in the basis for qualified opinion section of this report, the financial statements give a true and fair view of the financial position of the Negombo Municipal Council as at 31 December 2018 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Basics for the Qualified Opinion

a) Accounting Deficiencies

Audit Observations	Recommendations	Comments of the Accounting Officer
i. Even though it should be debited to the industrial debtors account an amount of Rs.9,723,914 that paid to a contractor for material in the site of the construction of the Library only Rs.4,012,000 had been debited and the rest of the amount Rs.5,711,914 had been stated under the Library Building Construction Account (Indigenous Loan Development Fund) by a supplementary budget as to show less the debit balance of the debtors account.	The Financial Statements should be corrected with the necessary adjustments.	This error had been occurred because provisions had not been made for the payments on the material in the site of the Construction of the Library Building by the budget 2018. Actions would be taken to correct this in the future when the money received by the Indigenous Loan Development Fund to settle the bills.
ii. The advance payment had been understated by Rs.660,877 when making the payments to the construction of the New Building in the Maggnokkahena Cemetery.	The Value Added Tax could not be charged on the advance paid at the beginning of the contract.	The Accounting this transaction had been correct. The advance payment for the contractor had been Rs.4,405,865 and the Value Added Tax amounted to Rs.660,877.

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| iii. | Even though the advance paid to the Institute of Engineering Research and Development of Rs.892,500 in 2016 and it had been recharged on 19 May 2017. | Actions should be taken to remove this amount from the account. | The documents had been corrected. |
| iv. | Even though it should be paid Rs.16,198,530 as the final payment of the contract of the construction of the New Bus Stand to a private contractor in the year 2013, it had been allocated only Rs.5,000,000. Even though the contractor had been sued against the Council for not making the final payment, actions had not been taken to disclose this from the Financial Statements. | Sufficient Provisions should be made for the debtors and actions should be taken to disclose the Contingent Liabilities in the Financial Statements according to the accounting policies. | Actions should be taken to disclose about the lawsuits against the Council in the Notes of the Financial Statements in the year 2019. |
| v. | Provisions had not been allocated on 20 industries of Rs.16,142,173 that made agreements to complete by the Council Funds. | Actions should be taken to do the projects that signed agreements and sufficient provisions should be allocated for the debtors. | Few Projects had been stopped because the problems with the Locals. Some Projects had been completed and few Projects had been abandoned on the priority under the financial situation of the council by the advices of the Mayor. |
| vi. | The Tax Income from the Hamilton Canal Boat Service had been overstated by Rs.484,000 for the year under review. | The Financial Statements should be corrected with the necessary adjustments. | This Tax income was the year 2017 and it had not been accounted erroneously. The advices had been given to the officers not to make such errors in the future. |
| vii. | Court Fines Charged of Rs.1,347,500 had been exchanged for the Loan Installments of a tractor and a trailer bought on the Loan Basis , but because it had been credited Rs.800,000 to the Court Fines Account therefore the Court Fines Account Income had been understated by Rs.547,500. | The income related to the year should be accounted. | It had been corrected by the journal Entry No.02 in the year 2019. |

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| viii. | Even though Rs.2,784,000 had been exchanged by the Stamp Duty Income for the Loan Installments of the Compactor Vehicles given on Loan Basis it had been credited Rs.1,984,000 to the Stamp Duty Income, therefore the Stamp Duty Income had been understated by Rs.800,000. | The Stamp Duty received during the year should be accounted. | It had been corrected by the journal Entries in the year 2019. |
| ix. | Even though Rs.7,186,000 valued 04 tractors and Rs.29,384,000 valued 02 Compactor Vehicles given by the Department of Local Government (Western Provincial) on Loan Basis should be debited to the Rechargeable Utility Services Account and credited to the Local Government Loan Account, it had been credited to the Loan Account and debited to the Accumulated Fund Account. | It should be accounted according to the Circular issued regarding this matter by the Commissioner of Local Government. | It had bene debited to the Accumulated Fund Account because of the provisions allocated for buying vehicles for the year 2018 had not been sufficient. |
| x. | Even though it had been paid Rs.4,697,000 as the loan Installments for the above vehicles it had been adjusted only Rs.2,784,000 to the Department of Local Government Loan Account and because of that reason it had been less accounted Rs.1,895,000. | The Loan Installments should be adjusted to the Loan Account. | The error had bene corrected in the year 2019. |
| xi. | It had been adjusted the full value of Rs.7,186,000 of the 04 Tractors and Trailers to the Stock Account and the value of Rs.29,384,000 of 02 Compactor Vehicles to the Cars and Carts Account without capitalizing the loan installments paid of Rs.4,697,000 on 04 tractors and trailers and 02 Compactor vehicles. | It should be accounted according to the Circular issued by the Commissioner of Local Government. | It had not been capitalized because it had not been issued out of the stores. |
| xii. | The rates in arrears relevant to the preceding years of Rs.8,307,596 had been removed by the revenue relevant to the year under review. | The removals of arrears relevant to preceding years should be settled by the Accumulated Fund Account. | Answers had not been provided. |

b) Unreconciled Accounts

Audit Observations

Recommendations

Comments of the Accounting Officer

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| i. | A difference had been appeared of Rs.94,390,140 between 12 Balances stated in the Financial Statements and its Subsidiary Documents. | Actions should be taken to correct the differences. | Actions would be taken to further investigate and to correct the Documents. |
| ii. | The balance of the miscellaneous deposit account had been Rs.23,168,569, the balance of the subsidiary documents had been Rs.23,122,212, and the balance of the deposits register had been Rs.21,467,109 as at 31 December 2018. | The Account, the Document and the Register should be equal. | Actions should being taken to settle. |
| iii. | The difference between the Rates in Arrears account and the rates computerized system had been Rs.20,717,463 as at 31 December 2018. | Actions should be taken to make it correct. | The matters had being taken to correct and Actions would be taken to correct in the future. |

c) Receivable Accounts

Audit Observations

Recommendations

Comments of the Accounting Officer

Actions had not been taken to recover debitters balance chargeable for 1-22 years of Rs.8,004,702 and chargeable for 1-37 years of Rs.1,711,085 among the balance of the prepayments account had been Rs.31,195,834 as at 31 December 2018.	The prepayment paid for the officers should be settled write after completing the relevant task and no further prepayments given to those who have not settled the previous prepayments.	A matter of recognizing the prepayments balances coming from a longtime had been arisen therefore further investigations are being carried out to find out and actions had been taken to make them settle.
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d) Lack of Necessary Documentary to Evidence for Audit

Audit Observations

Recommendations

Comments of the Accounting Officer

Accumulated value of Rs.538,198,068 on 03 items of accounts could not be satisfactorily vouched during the audit	Evidence for confirming the balances of accounts in the financial statements should be	Answers had not been provided.
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due to non rendition of necessary furnished.
documents, time analysis and Board of
Survey Reports.

1.4 Non Compliances

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

Reference to Laws, Rules, Regulations and Management Decisions	Value Rs.	Non Compliances	Recommendations	Comments of the Accounting Officer
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(a) Municipal Council Ordinance (255 Authority) 254(a)		Actions had not been taken to recover the arrears trade taken to recover the arrears trade license income from Kochchikade Sub Office of Rs.1,900,869 arrears since year 2014 to 2017.	Formal Actions should be taken to recover the arrears License Fees.	Actions had been taken to recover the arrears License Fees.
(b) Local Government Act No.06 of 1952 (Standard By-laws)		Actions had not been taken to charge a fee for issuing the License from the Urban Commissioner to transport meat from outside, registering the staff occupied in the Sabha and testing the consumable quality of the meat.	Actions should be taken according to regulations of the Local Government Act.	A fee for the slaughter houses had been charged by the Beef Stalls within the Negombo Urban Council before charging a fee for quality checking of the meat on 21 March 2019.

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

F.R 189

1,104,572

Actions had not been taken about 59 dishonored cheques of Rs.1,104,572 of 1-26 years.

Actions should be taken according to the Regulations.

Even though it had been checked the details on the dishonored cheques coming from a long time could not be found out a part had be settled according to the details forward.

(d) Circulars of the
Commissioner of
Local Government

i. Circular

LGD/13/2016 on
09 November
2016

Paragraph 03,13,
and 15

116 Stalls owned by Negombo Municipal Council had been given on temporary basis in the year 2003 but it had been carried out on permanent basis.

Actions should be taken according to the Regulations in the Circulars.

The Stalls in this place had not built or owned by the Council, it had been gathered all the Street Sellers spelling on the roads to a one place before 16 years ago.

The Transfer Fees should be not less than about 60 times the monthly rent in terms of the agreement. Even though ownership of the most of the 116 stalls had been changed hand to hand many times and a large amount of Transfer Fees had been lost to the Council.

Actions would be taken to send the reports on the arrears income monthly.

The arrears chargeable from this stalls as at 31 December 2018 only Rs.19,775 further.

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| ii. Circular
No.88/20 on 20
April 1988 | Action had not been taken to forward to the Council a statement disclosing the relative time periods of the arrears income at least for every 03 months. | A statement disclosing the arrears income should be prepared and forwarded to the Council. | Actions would be taken to prepare a statement disclosing the arrears income. |
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1.5 Unauthorized Transactions

Audit Observations

Recommendations

Comments of the Accounting Officer

Trade and Business License arrears of Rs.186,015 from the Thalahoma Sub Office had been removed without relevant Authority.

The acceptance of the subject minister should obtain for removal of arrears.

A file had been opened on these old balances and actions would be taken to find out and settle them.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of recurrent expenditure over revenue of the Sabha for the year ended 31 December 2018 amounted to Rs.276,774,291 as compared with the excess of recurrent expenditure over revenue of the preceding year amounting to Rs.173,281,595.

2.2 Revenue Administration

2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and the Arrears of Revenue

Information relating to the estimated revenue, revenue billed, revenue collected and the arrears of revenue furnished for the year under review and the previous year appear below.

Source of Revenue	2018				2017			
	Estimated Revenue	Revenue Billed	Revenue Collected	Total arrears as at 31 December	Estimated Revenue	Revenue Billed	Revenue Collected	Total arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	147,458	169,807	169,484	109,892	149,069	163,911	151,189	106,455
(ii) Rent	39,640	37,378	34,859	19,867	26,427	34,959	33,671	17,276
(iii) Licence Fees	59,063	62,890	61,345	5,418	45,384	67,431	67,431	3,879
(iv) Other Revenue	288,638	440,246	335,652	109,257	259,679	221	221,196	7,155

2.2.2 Performance in Collection of Revenue

Audit Observation	Recommendation	Comments of the Accounting Officer
The arrears in Rates, Rents and License Fees at the end of the preceding year had been increased by Rs.3,437,000, Rs.2,591,000 and Rs.1,539,000 respectively.	Formal Actions should be taken to recover the arrears income.	The Property not assessed would be realized and assessed.

2.2.3 Rates and Taxes

Audit Observation	Recommendation	Comments of the Accounting Officer
An arrears of rs.2,244,814 chargeable from a hotel and a garment factory within the Eththukal area in the Kochchikade Sub Office had been removed without a Council Acceptance.	The Acceptance from the Minister of the Subject should be obtained for the removal of the arrears in rates.	Tax reliefs had been given on all the property.

2.2.4 Rents

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) (i) Rs. 247,886 of arrears had not been recovered as at 31 December 2018 from 02 stalls inside the kochchikade Central Market sealed and closed down since year 2014.	Actions should be taken to recover the rent in arrears as soon as possible.	The answer would be given later.
(ii) Action had not been taken to recover an arrears of Rs.12,407,216 from 325 stalls owned by the Council as at 31 December 2018 and an arrears of Rs.105,758 from meat stalls within the Negombo area since year 2012.	Actions should be taken to recover the rent in arrears as soon as possible.	The answer would be given later.

- (b) (i) According to the conditions in the agreement made with the Urban Development Authority on leasing the New Rest House, the monthly rent should be raise by 25 per cent every 05 years, actions had not been taken to amend the rent from 15 years after rent was charged in the year 2003.
- The Rest House Rent should be amended according to the agreements.
- The answers had not been provided.
- (ii) The opening balance of the arrears in the Key money and Tender charges regarding the leasing of the stalls in the year 2018 had been Rs.18,748,049 and it had not been recovered Rs.9,665,116. Action had not been taken to acquire them to the Council even though it had been arrears more than 10 years since 2008.
- The legal actions should be taken to recover the arrears.
- Actions would be taken to acquire the stalls that had not paid the tax beck to the Council.
- (iii) The arrear Weekly Fair Charges income as at 31 December 2018 had been Rs.1,982,546, Rs.523,586 out of that had been arrears prior to year 2012 and Rs.736,322 had not been recovered as at 30 June 2019 out of the accumulated arrears.
- Formal actions should be taken to recover the arrears.
- An amount out of the arrears had been recovered.
- (iv) Action had not been taken to recover arrears form 03 Public Toilets leased out and the Milk Bar at the Wijayapala Mendis Ground of Rs.81,642.
- Formal Procedure should be followed to recover the arrears income from the lease property.
- Sued against the bidder.

2.2.5 License Fees

Audit Observation

Recommendation

Comments of the Accounting Officer

License Fees from 46 hotels within the territory of Kochchikade and 25 hotels in the territory of Negombo and the Environmental License from 02 Wood Mills within the City Limits had not been obtained for the year under review.

It is not allowed to make actions without license so legal actions should be taken against them.

The answer would be given later.

2.2.6 Other Income

(a) Transmission Tower Income

Audit Observation

Recommendation

Comments of the Accounting Officer

Rates on 45 Transmission Towers had not been charged

Actions should be taken to assess the rates on the Transmission Towers and charge.

Actions would be taken to charge as soon as possible.

(b) Stamp Duty

Audit Observation

Recommendation

Comments of the Accounting Officer

The stamp Duty from the Gamapaha and Colombo Land Register Officers had been arrears from December 2016 to 2018 and actions had not been taken to recover them as at 31 May 2019.

Actions should be taken to recover the Stamp Duty.

The necessary steps had been taken to recover.

(d) Tourists Boat Service Income

Audit Observations

Recommendations

Comments of the Accounting Officer

An agreement had been signed with a private institution for 05 years from 2017 to 2022 without calling for tenders to maintain a boat service at the Jetty of the Hamilton Canal for Rs.55,000 monthly charge and

The formal procedure for procurement should be followed and obtained a formal acceptance when leasing out

The lease Agreement is about to called off and a new bidder would be chosen.

actions had not been taken according to conditions 07 property. and 08 of the agreement to develop tourism of to protect environment.

2.2.7 Surcharges

Audit Observation	Recommendation	Comments of the Accounting Officer
Actions had not been taken to recover Rs.2,407,613 amount of money of 04 surcharges that had been imposed in preceding years for liable parties according to the Municipal Council Ordinance.	The information regarding the charging or releasing of surcharges should be reported to the Audit.	A lawsuit had been examined in the court against one Surcharge and another one is being settled in installments. 02 Surcharges had been released by the Minister in charge the Subject.

3. Operating Review

3.1 Performance

The following matters were revealed with regard to duties to be fulfilled by the Sabha in terms of Section 4 of the Municipal Councils Ordinance, such as regularization and control of matters relating to public health, common amenities and public highways, healthy environment of the public, facilities, welfare etc.,

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) <u>Action Plan</u> The Report on the Performance had not been forwarded for the year under review.	A report should be prepared and forwarded to the Audit on the tasks that had been targeted to complete during the year.	Answers had not been provided.
(b) <u>Tasks Delayed</u> Audit Observation	Recommendation	Comments of the Accounting Officer
i. 20 Industries of Rs.16,142,173 that should be by the Council Funds as at15	Actions should be taken to complete the projects mad	Few Projects had been stopped because the problems with the

June 2019 even though it had been made agreements to complete it by 31 December 2018.

agreements as soon as possible.

Locals. Some Projects had been completed on the priority. The projects that had not been entered in the Debtors List had been canceled.

ii. The Project signed to repair the Drainage at the Left side of the Thakkiya Road from the Poruthota Side for Rs.1,292,605 by the Council Funds, had not completed and had been abandoned repairing after paying Rs.317,563.

The projects should be ended according to the Agreement.

Answers had not been provided.

(c) **Solid Waste Management**
Audit Observation

Recommendation

Comments of the Accounting Officer

The disposal of waste in II Division of the Bazaar in Thalahena Area in the Municipal Council had been outsourced to a private company from 01 July 2015 to 30 June 2018 for Rs.2,196,000 per month. Following observations had been made.

i. The waste collected by the Company had been dumped to a land out of the City Limits according to the agreements made but because of the Protests of the villagers it had to be dumped to a Waste Yard in Kochchikade area near the City Limits of the Municipal Council.

The agreement should be amended.

Garbage had been dumped to Kochchikade Owitiyawatta Waste Yard at some instances.

ii. Even though it had been recommended by the Public Health Inspector to the Committee to recharge Rs.130,000 – Rs.155,000, because the Garbage had been dumped to a place within the Council, it had been reduced only Rs.50,000 per month.

Necessary considerations should be given to the recommendations to the committee that had been given by the Public Health Inspector.

A fair fees had been charged because it had been dumped to a place in the Council on the Protest by the Public.

- iii. The Council had not been considered about the Fuel, Time left with the contractor in this situation and extra cost had been burdened to cover the Garbage by the Soil dumped in their Yard. Action should be taken to charge a sufficient fee before giving the permission to dump the Garbage to the Council Yard and the costs on this process. No extra fees had been paid by the Council and servicing had been done by the relevant institute institution according to the service agreements.

(d) **Targets of Sustainable Development**

Audit Observation

Recommendation

Comments of the Accounting Officer

It had not been done identifying the Sustainable Development aims and targets and make it work, measuring the aims and targets and introducing Indices to regulate and making an action plan to identify the data base according to the agenda of United Nations on Sustainable Development by the time of 2015 -2030.

Actions should be taken according to achieve the Sustainable Development targets stated in the agenda of United Nations.

The four year Plan and annual Plans are being made Actions would be taken to hand it over to the Audit in the future.

3.2 Management Inefficiencies

Audit Observations

Recommendations

Comments of the Accounting Officer

- (a) 42 complete maintenance estimates had been made by for the Negombo Territory for the year 2018 and the material cost incurred had been Rs.5,937,855. However, the material issued on maintenance had been Rs.38,074,599 and Rs.32,136,744 had been issued out of the estimates.

Materials should not be issued without estimates.

Technical Officer had been informed that an estimate for issuing material had been prepared and places in a separate file.

- (b) Even though 4,847 Books on 05 categories valued Rs. 197,036 received under the Budget Provisions 2015 that should be distributed to the Children around the area had been given to a Council Member, it had been stated by a letter to the Council on 07 March 2019 that the books had been fraudulently signed and taken. A special Investigation had not been carried out about this as at 31 May 2019.

Actions should be taken to carry on an investigation regarding this matter.

An investigation had being carried out.

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| (c) Actions had been taken to lease out a building built temporarily in a property not owned by the Council in front of the Road Reserve Negombo Bus Stand. | The property should not be leased before verifying the ownership. | Answers had not been provided. |
| (d) Actions had not been taken to remove 06 unauthorized stalls in the empty land in front of the People's Bank middle of the Negombo City. | Actions should be taken to remove according to the Municipal Council Ordinance. | Answers had not been provided. |

3.3 Human Resources Management

Audit Observations

Recommendations

Comments of the Accounting Officer

Action had not been taken to recover from 55 officers by the Salary, by the Pension or by the Guarantor of Rs.487,226 distress and Property Loan Balances from 1986 to 2009 and Rs.76,692 of Festival and Special Advance Balances and maintained it as an idle credit balance continuously.

Actions should be taken to recover it from the relevant person or the guarantor.

The Acceptance remove the idle Loan balances had been obtained by the Council according to the advice of the Commissioner of Local Government and it would be reported to the audit after it had been done.

3.4 Assets Management

3.4.1 Utilization of Vehicles

Audit Observations

Recommendations

Comments of the Accounting Officer

Even though a survey on vehicles had been done it had not been reported to the Audit.

The Reports of the Survey should be forwarded to the Audit.

Answers had not been provided.

3.4.2 Idle Assets

Audit Observations

Recommendations

Comments of the Accounting Officer

The Escalator of Rs.5,122,994 fixed in the Negombo Bus Stand had been paid Rs.605,408 for the maintenance from December 2012 to year

Assets should be used and the maintenance should be done according to the

The Escalator had been built considering the future and even though it had not been in

2017. The Stop Roller of the Escalators had been broken because of not using it, and an estimate of Rs.76,245 had been approved for this but actions had not been taken to make it work 2017 May 31.

agreements. the state of use it had been maintained once in 03 months.

3.5 Procurement

Contract Administration

Audit Observation	Recommendation	Comments of the Accounting Officer
<p>(a) The extra works had been of Rs.5,619,335 as at 31 December 2018 for the project of two storied Library Building with commercial facilities, had been commenced building in the Negombo Municipal Council Premises under Rs.157,101,803 estimates. The following observations had been made.</p>	<p>The quality of the construction material should be cross checked by interim researches.</p>	<p>The reports of the contractor with the recommendation of the consulted institute had been forwarded.</p>
<p>(b) A standard recommendation had not been made for the Aluminum used on the roof of the building and reliable checks on the strength and the quality had not been done on the steel wires used in the building by the Institute of Building Research. Places had been decided by the contractor on some of the field density tests done by the road Development Authority and the compressive strength of the concrete mixture used had not been up to the standard.</p>	<p>Actions should be taken according to the Procurement Documents.</p>	<p>Payments had ben deducted by the bills given by the Contractor.</p>
<p>(c) In addition to commencement advance paid without necessary bills payments for 03 vouchers on purchasing Tiles, Aluminum and Glass of Rs.9,723,914 had been</p>		

paid in the year 2018, even though the standard payment of 80 per cent according to the procurement Guidelines of the Construction Industrial Development Authority it had been paid 100 per cent on the material in site of construction.

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| <p>(d) Even though it had been agreed to complete this building by a year from 16 May 2016, laying Concrete, Making Ceilings, Tiling, and fixing electronic equipments had not been finished as at 31 December 2018 and had been abandoned as at 30 may 2019 after paying Rs.53,576,550 out of the full estimated payment of Rs.157,101,803</p> | <p>The construction should be completed within the agreed time period if not it should be charged for the delays.</p> | <p>Actions had been taken to end the contract under the advice of Construction Industrial Development Authority because it had not been completed within the agreed time period.</p> |
| <p>(c) Variance between 41-55 per cent of Rs.1,264,261 of the estimated construction had been completed less in 04 items when completing the estimated tasks in the Project of laying carpet to the II lane of the Daluwakotuwa Janapada Mawata.</p> | <p>The estimates should be more realistic.</p> | <p>The estimates had been made under the provisions allocated but the payments had been made under the level actually completed.</p> |
| <p>(d) It had been paid Rs.1,365,156 for laying carpet to the Road near the Seram Building out of the estimated amount of Rs.1,813,933 (without VAT) under the Program for Development of Rural Infrastructure 2017. Even though it had been estimated for supplying ABC under 138,68 cm³, laying and pressing, the contractor had not been done the Task.</p> | <p>Knowledge about the Trends from a Technical Officer should be taken when making estimates.</p> | <p>If that task would be completed it would make the Road higher and homes would be flooded therefore it had not been done.</p> |

4. Accountability and Good Governance

Audit Observation

44 Projects of Rs.53,751,201 under the Program for Development of Rural Infrastructure variance of 52 per cent to 70 per cent had been appeared between the allocated money and actual expense therefore it had been allocated provisions without a accurate estimate.

Recommendation

Accurate estimates should be made.

Comments of the Accounting Officer

Agreements had been made under a value less than the estimate.