

Kandy Municipal council  
Kandy District  
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1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2019 had been submitted for the audit on 28th of February 2020, while the summary report of Auditor General on those financial statements had been forwarded to the Mayor on 12<sup>th</sup> June 2020 and the Detailed management report on 30<sup>th</sup> June 2020.

1.2 Qualified Opinion

In my opinion, except the effect of the matters described in the basis for the qualified opinion section, of my report, Financial statements give a true and fair view of the financial position of the Kandy Municipal Council as at 31st December 2019 and its financial performance for the year then ended, in accordance with Generally Accepted Accounting Principles

1.3 Basis for the Qualified Opinion

1.3.1 Accounting Deficiencies

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) An amount of Rs.2,936,596 fixed deposit interest had not been recognized as an income.	Accounting should be done correctly.	Action will be taken to correct in future.
(b) Rates income had been overstated by Rs.452,984	Income should be recognized correctly.	After having an examination, Answers will be provided in future.
(c) Road tax had been overstated by Rs.400,000.	Income should be recognized correctly.	Action will be taken to correct in future.
(d) Water income had been overstated by Rs.8,362,283.	Income should be recognized correctly.	Action will be taken to correct in future.
(e) Receivable balance of Rs.8,613,070 in relating to the revenue subject 50322(iii) had not been recognized in the financial statement.	It should be accounted correctly.	Action will be taken to correct in future.
(f) Motor vehicle and cart value had been overstated by Rs.77,329,450.	Correct value should be accounted.	Action will be taken to correct the document in future.
(g) A Sum of Rs.5,098,811 of Payable loan instalment and interest had not been accounted.	It should be accounted correctly.	Action will be taken to make adjustment in future.

1.3.2 Non Reconciled Accounts

## Audit Observation

## Recommendation

## Comments of the Accounting Officer

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 At the end of the reviewed year, there was a Difference of Rs.80,961,300 between the balance of 06 Items of account in the financial statements and the balance of source documents.

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 Differences should be reconciled and rectified.

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 Answers will be provided immediately after the examination.

1.3.3 Accounts Receivable and Payable

## Audit Observation

## Recommendation

## Comments of the Accounting Officer

(a) Accounts Receivable

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 The total value of accounts receivable that had been due for the period of 1 to 5 years was Rs.40,643,751.

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 Receivable balances should be recovered. .

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 Action will be taken to recover the arrears and take other legal action in future.

(b) Accounts payable

The total value of accounts payable that had been due for the period of 1 to 5 years was Rs.38,328,935.

Payable balances should be settled

Payments will be settled in future and reports will be presented to the Audit.

1.3.4 Lack of Necessary Documentary Evidence for AuditNon Presentation of Information

## Audit observation

## Recommendation

## Comments of the Accounting Officer

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 The total amount of Rs.26,134,498 in Store creditor balance could not be satisfactorily verified in the Audit, due to non-presentation of required information.

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 Required evidences needed to verify the balances should be provided.

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 Future action will be taken after examining the relevant information.

1.3.5 Non-Compliance1.3.5.1 Non-Compliance with Laws Rules, Regulations and Management Decisions

## Reference to Laws, Rules, Regulations and Management Decisions

## Non Compliance

## Recommendation

## Comments of the Accounting Officer

(a) The Financial Regulations of the Democratic Socialist Republic of Sri Lanka

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Log books for 135 vehicles were not maintained and details of tires used for vehicles were not recorded in the log books.

Financial regulations should be followed.

This work has been delayed due to lack of staff and will be rectified in the future.

(b) Other Circulars

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(i) Circular No:2106/03 of the commissioner in Local Authority (Central province)

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• Section 05

The Shop Rent of Torinton and Kappatipola trade complex belongs to the Municipal council had not been assessed once in every 05 years.

The Circulars should be followed.

Answers had not been received even though it had been informed to the valuation Department.

• Section 5(ii)

Even though, the Council had approved to increase new estimated rent of stalls at Central market by 25 percent from the year 2016, The new agreements had not been entered into by entering such conditions to the agreements.

The Circulars should be followed.

Agreements will correctly be entered into in future.

• Section 06

While shop rent in 107 stalls in Kappatipola and Manikkumbura trade Complex had not been collected as per the new assessment and new agreements had not been entered into with lessee based on the new assessment of George E. De Silva trade complex.

Circulars should be followed.

It had already been informed to pay the new estimated amount, and relevant action will be taken in future.

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|-------|---|--|--|--|
| (ii)  | Letter issued by the Secretary of the Ministry of Local government and Provincial council No: PL/10C/01/11 dated 13 <sup>th</sup> June 2011 and Section 272 Of the Municipal Council Ordinance. | Revenue for Billboards builds up or displayed near by the highway were not collected by imposing by laws, and levied on council agreement.   | The instruction of the Circulars should be followed. | I declare that only the amount to be charged on the size the board will be referred to the Council Chamber for approval. |
| (iii) | Circular 1/99, 1/2002 and 13/2006 of the Director of pensions and authorized by the section 39/40 of the Widows and Orphans Pension Code.   | Account pass book of 15 minors which were opened for the children of the deceased while in the service of the local government, had been kept in the custody of the council and had not been released. | The Circulars should be followed.                    | No information or address can be found in the file and action will be taken to correct in future.                        |

### 1.3.6 Transactions were not Confirmed with Considerable Authority

#### Audit Observation

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According to the announcement of the bidding for the purchase of grass plot for the horticulture sector, the supplier had to transport the grass plot, but the council transported the grass plot and had incurred Rs.147,524 for 1,418.5 of Fuel.

#### Recommendation

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The conditions in tender should be followed.

#### Comments of the Accounting Officer

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The approval was obtained for the transportation of grass plot and the transportation was carried out to the advantage of the Council.

## 2. Financial Review

### 2.1 Financial Result

According to the financial statement presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31st December 2019 amounted to Rs.609,888,349 ,as compared with the corresponding amount in excess of revenue over recurrent expenditure for the preceding year amounted to Rs.586,748,840.

### 2.2 Financial Control

Following matters were revealed when examining the Bank reconciliation statements in relating to 02 Bank Accounts.

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) In relating to the cheques issued but not realized valued at Rs.1,013,488, no action had been taken as per the Financial regulation 396.	Financial regulations should be followed.	Action will be taken to record to income.
(b) Any action had not been taken to recognize and settle the cheques and Money orders which were deposited but not realized during last 06 years amounting to Rs.1,903,095.	Action should be taken to settle.	It will be inspected immediately and reported for Audit.
(c) Action had not been taken to identify and account Direct credit transfers of Rs.1,600,453 to the bank account.	Action should be taken to account correctly.	Facts will be looked into and reported for Audit.
(d) Action had not been taken to identify and account A direct debit transfers of Rs.152,488.	It should be accounted correctly.	Relevant information will be reported to the Audit after inquiring from the Bank.

## 2.3 Revenue Administration

### 2.3.1 Estimated Revenue, Billed Revenue, Collected Revenue and Revenue in Arrears

The details of Estimated Revenue, Billed Revenue, collected Revenue and Arrears of Revenue for reviewed year and preceding year are as follows.

Revenue sources	2019				2018			
	Estimated revenue	Billed Revenue	Collected revenue	Total arrears as at 31 <sup>st</sup> December	Estimated revenue	billed Revenue	Collected revenue	Total arrears as at 31 <sup>st</sup> December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	933,118,000	753,074,508	879,044,931	277,247,237	878,245,000	731,472,381	634,109,151	252,948,621
(ii) Rent	626,128,000	132,727,171	119,186,633	112,966,348	123,276,000	119,538,223	112,010,789	74,296,012
(iii) License fee	51,422,000	47,114,983	47,114,983	--	51,854,100	46,569,841	46,568,941	--
(iv) Other Income	689,704,000	620,876,524	620,876,524	--	615,797,000	607,869,074	484,052,597	806,186,283
<b>Total</b>	<b>2,300,372,000</b>	<b>1,553,793,186</b>	<b>1,666,223,071</b>	<b>390,213,585</b>	<b>1,669,172,100</b>	<b>1,505,449,519</b>	<b>1,276,741,478</b>	<b>1,133,430,916</b>

### 2.3.2 Rates and Taxes

Audit Observation	Recommendation	Comments of the Accounting Officer
(a) Rates  Assessment tax due on 31 <sup>st</sup> December 2019 amounting to Rs.179,335,183 had not been recovered	Assessment tax should be recovered.	Action will be taken to collect in future.

## (b) Land Tax

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Land taxes due on 31<sup>st</sup> December 2019 amounting to Rs.18,810,429 had not been recovered.

Land taxes in arrears should be recovered.

Action will be taken to recover in future.

## (c) Water Charges

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Water charges in arrears from toilet system at Manikkumbura Trade complex amounting to Rs.630,363 had not been recovered..

Water charges in arrears should be recovered.

Action will be taken to recover in future.

2.3.3 Rent

Audit Observation

Recommendation

Comments of the Accounting Officer

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(a) The Billed revenue of Rs.600,000 from Tourist information centre had not been recovered.

Action should be taken to earn income.

Relevant amount will be recovered in future.

(b) Rs.41,250,668 due as Shop rent and tender fees from Central Market and other urban markets had not been collected.

Income should be recovered.

The deficit has increased due to billing according to the new assessment.

(c) Rs.12,939,958 shop rent due from Manikkumbura market had not been recovered.

Rent should be recovered.

Although billing is done on new valuation, the arrears has increased, as the old rent is paid,

(d) Carried down value of Rs.20,917,165 the key money of railway station trade complex from 2011 had not been collected.

Key money should be collected.

Action will be taken to collect in the year 2020.

2.3.4 Other Income

Audit Observation

Recommendation

Comments of the Accounting Officer

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(a) The council has failed to recover Rs.200,567,833 due from the vehicle park income which has been carried down from 2009.

Outstanding balances should be recovered.

A case is pending and future action will be taken as per the decision.

(b) Rs.9,131,623 due as renting out of Street or parking charges had not been recovered.

Arrears should be recovered.

The relevant institution is paying dues from time to time.

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|-----|---|------------------------------|--|
| (c) | Billboard income due as at 31 <sup>st</sup> December in reviewed year valued at Rs.23,329,769 had not been recovered. | Arrears should be recovered. | Action will be taken to recover in future. |
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### 2.3.5 Court Fines

#### Audit Observation

#### Recommendation

#### Comments of the Accounting Officer

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Court fine receivable as at 31<sup>st</sup> December 2019 was Rs.2,072,900.

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Receivables should be collected.

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Action will be taken to recover in future.

### 3. Operating Review

#### 3.1 Performance

Following matters were revealed with regard to duties to be fulfilled by Council as per the section 4 of Municipal Council Ordinance in relating to regulation and control of all the matters relating to Public health, Public utility services and public highways, comfort, convenience and welfare of the people.

#### Solid Waste Management

#### Audit Observation

#### Recommendation

#### Comments of the Accounting Officer

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Rs.26,000,000 worth of provisions provided for 05 programs had not been utilized.

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Provisions should be utilized for the financial objectives.

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Relevant functions are being implemented at present.

#### 3.2 Management Inefficiencies

#### Audit Observation

#### Recommendation

#### Comments of the Accounting Officer

- (a) Necessary actions had not been taken to recover the arrears of Rs.194,963 due for the water supply provided for the building at Peradeniya road.

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Receivable balance should be recovered.

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Action will be taken to recover in future

- (b) New agreement were not entered into until 02 years after the expiry of the agreement period for the 07 buildings provided to the Divisional Secretaries office for the maintenance of the Grama Niladhari offices, for the 05 leased out buildings Municipal council had not entered into valid agreements with the divisional Secretaries office.

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Valid agreement should be entered into.

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Necessary action will be taken in future.

3.3	<u>Human Resource Management</u>	Recommendation	Comments of the Accounting Officer
	Audit Observation		
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(a)	Employee Vacancies and Excess		
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	At the end of the year under review there were 275 employee vacancies and 03 excess posts.	Vacancies should be filled.	Action will be taken to fill the vacancies in future.
(b)	Employee Loans		
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	A loan balance of Rs.2,630,460 due from employees who deceased, retired, and resigned employees of the municipal council had not been recovered.	Loan balances should be recovered.	It will be recovered from the officers or guarantors in future.
3.4	<u>Operational Inefficiencies</u>		
	Audit Observation	Recommendation	Comments of the Accounting Officer
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(a)	Shortcomings related to rent out of property		
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(i)	The stalls on the ground floor of the Keppetipola shopping complex have been closed for a long time period and the rent of Rs.1,221,291 from 34 stalls has been in arrears for more than two years.	Stalls should be rented out and arrears should be recovered	Shopping complex will be repaired and rented out to the lessees.
(ii)	Out of the 31 stalls in Manikkumbura retail trade complex, Rs.3,394,294 had been in arrears for more than two years, and no action had been taken to take over the possession or to collect the arrears in any other way.	Arrears should be recovered	The ownership of 13 stalls had been taken over and renovations are being carried on.
(iii)	The shop rent in arrears of 11 stalls in Gorge E. de Silva trade complex was Rs.1,618,875 and no action had been taken to take over the possession or to collect the arrears in any other way.	Arrears should be recovered	Action will be taken to recover the arrears and take legal action in future.



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| (iv) | Rs.940,083 to be charged in respect of Digital billboard belonging to a private Company had not been collected.  | Collect arrears or action should be taken according to the agreement. | The department of industry has been informed in writing to remove the billboard. |
| (b)  | According to the Circular no 2006/03 of Central Local government commissioner, when lease out the shops in Bogambara trade complex the formal agreements had not been entered into with lessees. | Circulars should be followed.   | Action will be taken to enter into agreement in future.                          |
| (c)  | An amount of Rs.3,512,382 had been paid as advance to the suppliers on Store advances as at 31 <sup>st</sup> December of the year under review.  | Payments should be made upon receipt of service.                      | Part had been settled and balance will be settled in future.                     |

### 3.5 Controversial Deals

#### Audit observation

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 The council had constructed a protective wall at a cost of Rs.5,018,984 on the privately owned land at Bhodiyangana Mawatha so as to change the boundaries of the Land, without obtaining an agreement in written for the construction.

#### Recommendation

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 Action should be taken in accordance with the Act.

#### Comments of the Accounting Officer

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 The problem had arisen, because the boundary could not be found when earth slip of cliff.

### 3.6 Assets management

#### 3.6.1 Failure to obtain income due from Assets

#### Audit Observation

##### (a) The Loss of Rent Income

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 The Council had not taken action to recover the rent of Rs.129,000 due from the 14 buildings provided for the maintenance of Grama Niladhari offices.

#### Recommendation

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 Arrears should be recovered.

#### Comments of the Accounting Officer

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 Rent has not been properly identified and will be corrected in future.

- (b) 42 stalls in the Bogambara trade complex have been closed for more than 15 years and action had not been taken to recover the outstanding shop rent of 334,916.

Arrears rent should be recovered and assets should be utilized.

It is not possible to take legal action as the shops are in dilapidated condition.

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|-----|--|---|--|
| (c) | Under the Strategic Urban Development Project, the Compensation had been paid to the shop owners of the Good shed shopping complex without collecting receivable rent of Rs.4,235,468 to the Council | Compensation should be made according to the correct procedure. | The arrears could not be recovered as the identity couldn't be verified. |
| (d) | Action had not been taken to earn expected revenue of Rs.7,500,000 from Rajawatte new trade complex  | Revenue should be earned through assets.                        | It has taken some time to get the assessment and the tender.             |

### 3.6.2 Idle and Underutilized Assets

#### Audit observation

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Fifteen items whose value and time could not be found remained inactive and underutilized

#### Recommendation

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Action should be taken on idle / underutilized assets.

#### Comments of the Accounting Officer

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Submitted for recommendation by the Board of Survey .

### 3.6.3 Utilization of Vehicles

#### Audit Observation

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- (a) During the year under review, Thirteen vehicles were leased without the terms of the payment for the running miles being duly included in the agreement.
- (b) As per paragraph 3.1 of Public Administration Circular No. 30/2016 dated 29 December 2016, fuel combustion test had not been carried out on 60 vehicles.

#### Recommendation

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Agreements should be prepared in the right way.

Circulars should be followed

#### Comments of the Accounting Officer

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Action will be taken to enter into an agreement with the necessary conditions in the future.

Log books have been provided for all the vehicles and correction will be made in the future.

### 3.7 Informal Transactions

#### Audit Observation

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The property of 31.5 perches of Katugastota Road number 81/1 owned by owner in the year 1988 to despite being mentioned in the assessment tax document of the council, the Council had revised the assessment tax document as this property belongs to two persons as 21.5 perches and 10 perches in the year 2017 without the notice of the owner, and also the Council had not taken appropriate action to rectify the disadvantage to the previous owner.

#### Recommendation

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Amendment of assessment documents should be done properly.

#### Comments of the Accounting Officer

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The judgment has been complied with

3.8	<u>Recognized Losses</u>	Recommendation	Comments of the Accounting Officer
	Audit Observation		
	----- The Council had charged only Rs.58,880 as meter loss for the damage to the water meter by a customer in 2015 to whom council had supplied water, but Rs.2,495,723 was not charged for the water consumption which was shown to be less due to meter damage.	----- Losses should be recovered. .	----- The Loss will be calculated and recovered.
3.9	<u>Procurement</u>		
3.9.1	<u>Contract Administration</u>		
	Audit Observation	Recommendation	Comments of the Accounting Officer
	(a) Construction of drainage in Illeperuma Play ground – Rs.4,065,545		
	----- According to the section 8.13.3 of Government Procurement Guideline 2006 Rs.1,409,469 had been spent exceeding the allowed limit for contingency provision.	Procurement guideline should be followed.	Amended estimate had been prepared.
	(b) Industries implemented by “Special project Unit” in the year 2018.		
	(i) Out of the estimated work of Rs.22,939,730 identified as work to be done in 15 projects Work valued at Rs.7,806,888 had not been implemented.	Construction should be done according to the estimate.	A correct answer will be provided in future.
	(ii) In contrary to the Section 8.13 in the procurement Guideline 2006, By exceeding the variation within approved limit the work of Rs.3,356,841 was carried out in the range of 08 percent to 66 percent without having authorization.	Procurement guideline should be followed.	A correct answer will be provided in future.
	(iii) According to the section 8.13.1 of and 8.13.2 Government Procurement Guideline 2006, Rs.1,460,037 worth of variation order for the work completed outside the estimate in 02 projects had not been approved.	Procurement guideline should be followed.	A correct answer will be provided in future.

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| (iv)  | The value of goods to be procured from the stores for 09 projects was Rs.24,052,674, but in addition Rs.1,588,395 was obtained from the stores.   | Only the required quantities of materials should be obtained and a proper material control system should be maintained | A correct answer will be provided in future.                                      |
| (v)   | Work completion reports have not been prepared for 32 projects valued at Rs. 42,224,357 which had been completed under direct labour as per Section 8.12.2 of the Government Procurement Guidelines 2006 and Circular No. 2/2011 of the Commissioner of Local Government dated 14th October 2011.   | Procurement guidelines should be followed.   | A correct answer will be provided in future.                                      |
| (vi)  | It was observed that the expected objective of was not achieved in the sample test implemented on 07 projects to test Whether the objective of the Special Projects Unit's primary objective of "saving profits flowing to external contractors" has been achieved, as 03 projects had suffered losses ranging from 13 percent to 73 percent. | It should be act so as to achieve the objectives of the project  | A correct answer will be provided in future.                                      |
| (vii) | As the capacity of the Special Projects Unit alone could not accurately identify the number of industries that could be completed annually, 90 industries valued at Rs 78,327,456 which was planned to implement in the year 2018, had to be continued undefeated for the year 2019.  | Only essential projects should be operated under proper supervision.   | As there are the large number of projects, it has to be completed in coming year. |
| (c)   | Zone 04 office building<br>-----  |  |   |
| (ii)  | As per the section No. 1001.7 of ICTAD Publication No – SCA/05, Although a summary test report had to be obtained before paying for concrete, Rs.687,015 had been paid for 35.49 cubic meter of concrete by first inter bill without that report.   | The ICTAD guideline should be followed.  | Quality test will be obtained.  |
| (iii) | Without having authorization for the variation order, Rs.108,920 had been paid for additional works in the first interim bill.  | Approval should be obtained.   | Contractors have been informed to obtain approval for the additional work.        |

- (d) Construction of retaining wall at the landslide site on the road to Welikanda Community hall.  
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- (i) In preparing the preliminary estimate for the projects, Rs.73,555 had unnecessarily been provided for 235.5Kg of steel bar  
Correct estimate should be prepared. Action will be taken to correct in future.
- (ii) Rs.84,530 had been overpaid for the Distribution bar, Main bar and lapping for the above projects than the required quantity of wire.  
Payments should be made correctly. Over payment had been recovered.
- (iii) According to estimate, Rs.10,000 had been provided for concrete quality test, Rs.626,040 had been paid for 28.20 cubic metres of concrete without having quality test.  
Quality test should be implemented. Action will be taken to get technical report.
- (e) Projects performed by the Zonal office  
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- (i) For worksheets related to 13 projects performed under direct labour during the year 2019, Rs.1,155,079 more than the required amount raw material was obtained from the material store.  
Required quantity of material should only be issued. Currently, It had been corrected.
- (ii) The industrial Division had spent Rs.44,744,293 for maintenance programs implemented in Zone 01, 02, 03, 04 and 05 but work completion report had not been prepared for the work completed.  
Work completion report should be implemented. Action will be taken to prepare in future.
- (iii) As per the letter of Municipal engineer dated 25 January 2019, the report relevant to inspection of work site should be provided by the Supplier on Ready mix concrete specification is Slum test 125  $125 \pm 25$  mm and Concrete strength is 20 N for every 15 cubic meter by testing within 28 days , There was a problem with the quality of the relevant constructions, Since Ready mix concrete 167.25 cubic meters worth of Rs.2,274,000 had been used within the area without implementing such inspection.  
A Quality test should be implemented. Engineer service Department will inspect and certify.

4. Accountability and Good Governance4.1 Unresolved Observations and Unanswered Audit Queries

Audit Observation	Recommendation	Comments of the Accounting Officer
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(a) 2018 – 3.2(b) – The arrears of Rs.399,530 at the end of the year under reviewed from the water supply provided to a private fuel station had not been charged and no action had been taken to disconnect the water supply or take legal action.	Arrears should be recovered.	It is charged in instalments.
(b) 2018 – 3.2(c) – The Municipal council had issued a development permit for the forged plan for a building that had not been approved for construction and had not taken action to stop or take legal action as the building plan had not been approved by the Urban Development Authority.	Construction should be supervised according to plan.	A case is pending.
(c) 2018 – 3.8(a) – When it was proved that a Family health service officer had fraudulently altered the education certificates, the above officer had been promoted to class II of Family health service and paid salaries and allowances of Rs.3,130,652 from 01 January 2008 to 31 July 2017. The Central Local Government Commissioner had directed the Municipal Commissioner to conduct a preliminary inquiry in this regard but such preliminary inquiry had not been conducted as at 31 <sup>st</sup> October 2018.	Preliminary investigations should be carried out.	Preliminary investigation reports are being submitted.
(d) 2018 – 3.8(c) – Although the approval for foreign tour to inspect the relevant materials for the Katugastota Water Pipe Laying Project had been obtained by presenting false information to the Minister in charge of the subject and the Governor when applying the leaves that the Contractor will pay their travel expenses while in abroad, but a sum of Rs.1,500,000 was included under the item no: 1.3 in the engineering estimate for the all travel expenses and was paid to the contract institution on 20 April 2018 from the Municipal council fund.	All correct information should be considered before making payments.	I declare that this material inspection is an essential part of the quality inspection report.