

Kurunegala Municipal Council

Kurunegala District

1. Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2019 had been presented to the Audit on 12 May 2020. The summary report of the Auditor General relating to those financial statements, and the detailed management audit report had been submitted to the Council on 22 July 2020 and 30 July 2020 respectively.

1.2 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph “Basis for qualified Opinion” of this report, the financial statements give a true and fair view of the financial position of the Kurunegala Municipal Council as at 31 December 2019 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Basis for Qualified Opinion

	Audit Observation	Recommendation	Comment of the Accounting Officer
(a)	Corrective measures had not been taken on a sum of Rs. 15,602,242 that had been overstated in accounts as reimbursement of salaries in the preceding year.	Action should be taken to correct the accounts.	It is informed that corrective measures will be taken after discussing with the Audit.
(b)	Allocations had not been made on the court fines relating to the months of November and December in the year under review. according to the Registers, the balance of court fines receivable as at the end of the year under review amounted to Rs. 17,496,300, but the same	Should be identified correctly before being brought into accounts.	instructions were given to the officers in charge of the subject that court fines relating to November and December, 2020 be estimated and the revenue in arrears be brought to the closing accounts.

had been shown in the financial statements as Rs. 16,367,850.

- (c) Penalties totaling Rs. 301,492 and service charges totaling Rs. 826,492 had been included in the stall rent in arrears as at the end of the year under review, thus the current assets and surplus of the year had been overstated in the financial statements by a sum of Rs. 826,492. Receipt of revenue should be correctly identified before being brought to accounts. To be replied later.
- (d) Allocations on stamp fees had not been made in the financial statements of the year under review. Revenue relating to the year should be identified and brought to accounts. Instructions were given to take corrective measures from this year.
- (e) A sum of Rs. 118,598,186 had been billed for the year under review as revenue from water, but the same had been shown as Rs. 120,246,151 in the financial statements. Action should be taken to correctly identify as per the Registers before being brought to accounts. Action will be taken to correct through the accounts.
- (f) According to the employee loan register, the employee loan balance recoverable as at the end of the year under review totaled Rs. 43,809,580, but the same had been shown as Rs. 45,235,765 in the financial statements. As such, employee loans had been overstated by Rs. 1,426,185 in the accounts. The employee loan register should be updated thereby taking action to account the correct values. It is informed that the differences shown in the employee loan account would be corrected soon.
- (g) The value of tools, instruments and equipment The purchases made in the year should be Instructions were given to the officers to avert such errors.

- purchased in the year under review, totaled Rs. 651,866, but a value of Rs. 32,361,601 had been debited to the relevant account. As such, the tools, instruments and equipment, had been overstated by Rs. 31,709,735 in accounts. correctly identified and brought to accounts.
- (h) The value of furniture and fittings purchased in the year under review, totaled Rs. 9,467,915, but a value of Rs. 18,666,315 had been debited to the relevant account. As such, the furniture and fittings had been overstated by Rs. 9,198,401 in accounts. The purchases made in the year should be correctly identified and brought to accounts. According to the journal notes, the balance of furniture had correctly been brought to accounts, but a schedule with incorrect balances had been annexed.
- (i) Equipment worth Rs. 1,049,823 purchased in the year 2019 to be given to other institutions and persons, had been shown under fixed assets. As such, the fixed assets had been overstated by that value in the accounts. The purpose of making the purchases should be correctly identified thus taking into account the value. Corrected through the journal notes.
- (j) According to the register of vehicles, the value of motor vehicles and carts totaled Rs. 268,571,194, but the same had been shown as Rs. 176,121,735 in the financial statements. As such, fixed assets and revenue contribution to capital input accounts had been understated by a sum of Rs. 92,449,459. Action should be taken to correctly update the relevant registers, thereby accounting the correct value. It is informed that action is being taken to revalue all the vehicles belonging to the Municipal Council thus showing the correct values in the accounts.

- (k) According to the stocks registers, the stock balance of electrical fittings and the general stores stock balance amounted to Rs. 2,497,255 and Rs. 34,811,262 respectively as at the end of the year under review. However, the same had been shown as Rs. 2,185,791 and Rs. 57,515,377 respectively in the financial statements.
- Action should be taken to correctly update the stocks registers, thereby showing the closing balance in the accounts.
- The relevant corrections are made in accordance with the audit query.
- (l) Non-reconciliations amounting to Rs. 6,205,649 had existed between the relevant registers and the schedules presented along with financial statements relating to 02 Items of accounts.
- Action should be taken to correct the accounts by reconciling the differences between the relevant balances.
- Instructions were given to the officer in charge of the subject to promptly correct the balances in the schedules based on the financial statements.
- (m) According to the schedules presented with the financial statements, a sum of Rs. 16,757,337 had been written off for allocations on creditors. However, a sum of Rs. 15,176,444 had been debited to the creditors expenditure account as write-offs of allocations on creditors in the general ledger.
- The correct creditors value should be identified and brought to accounts.
- Instructions were given to the officer in charge of the subject to correct the write-offs on creditors.
- (n) Non-reconciliations amounting to Rs. 2,546,638 existed between the financial statements and the information provided by the Revenue Division with respect to 02 Items of Expenditure.
- Action should be taken to reconcile the differences in the relevant balances thereby correcting the accounts.
- Instructions were given to correct the discount registers of the Revenue Division based on the balance in the financial statements.
- (o) Registers, schedules, reports of the Board of Survey, and age analyses
- The evidence verifying the account balances shown in the financial
- Instructions were given to promptly present the Audit with the relevant schedules.

had not been presented with statements, should be respect to 25 Items of furnished. Expenditure valued at Rs. 1,041,343,319.

- (p) Age analyses with respect to the debtor balance of Rs. 280,834,516 existed as at the end of the year under review, had not been provided for the Audit. Action should be taken for the recovery in terms of the Revenue Act, Bylaws, and agreements of the Municipal Council. Instructions were given to promptly prepare the age analysis on creditors and present to the Audit.
- (q) The value of the account balances payable as at 31 December 2019 totalled Rs. 481,833,463. However, that balance did not reconcile with the registers / schedules, and the age analysis thereon was not presented to the Audit. Action should be taken to settle the loan balances. To be replied later.

1.4 Non-compliances

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

Instances of non-compliances with Laws, Rules, Regulations, and Management Decisions are as follows.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance	Recommendation	Comment of the Accounting Officer
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.			
----- Financial Regulation 1646.	The relevant monthly summaries and daily running charts had not been presented to the Audit.	The Financial Regulations should be followed.	The staff is apprised to properly record. The staff will be informed to formulate a suitable methodology to apprise the Drivers through

the Technical Officer (Mechanical) under supervision of the Municipal Engineer, and organize a training programme.

(b) Public Administration Circulars.

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| (i) Public Administration Circulars, No. 09/2009 dated 16 April 2009 and No. 09/2009(1) dated 17 June 2009, and the Letter, No. 3/2017 of the Public Administration dated 19 April 2017. | All the public officers should verify their arrival and departure through finger print scanners. Nevertheless, except for the Accountant (Revenue), some of the officers including all the officers of the executive grade, had not recorded their arrival and departure on the fingerprint scanner. | All the officers should act in accordance with the Circulars. | Officers have recorded their arrival and departure in the wake of the Audit Query, No. NWP/KR/F/KMC/5/19/184 – 2. However, the Municipal Commissioner residing at the official residence close to the Municipal Council, does not do so as he is limitlessly occupied with duties and supervisory activities in addition to office administration as per the authority vested in him by virtue of the Municipal Councils Ordinance, other Acts, and Council. |
| (ii) Section IV of the Public Administration Circular, No. 09/2009 dated 16 April 2009. | Holiday pay and overtime had been paid without verifying the arrival and departure through printouts showing times of arrival and departure . | Action should be taken to make payments after verifying the arrival and departure through the printouts generated by fingerprint scanner. | Heads of the Municipal Department will be informed through an internal Circular that payments relating to weekends and holidays, should be presented for approval only after verifying that duties to be carried out on the relevant days have been completed. |
| (iii) Public Administration Circular, No. 30/2016 dated 29 December 2016. | Fuel consumption of the vehicles belonging to the Municipal Council had not been tested. | Provisions in the Circulars should be followed. | The Municipal Engineer was informed through the letter on 22 October 2019 that fuel consumption test should be properly done on the vehicles belonging to the Municipal Council. A reminder will be sent again in that connection. |

1.5 Transactions not Supported by Adequate Authority

Audit Observation	Recommendation	Comment of the Accounting Officer
(a) The Governor of the North Western Province had given approval to pay the allowance of Rs. 1,000 for the Planning Committees. But, on the agreement of the Council, dated 05 June 2018. The daily allowance of an officer of the Committee had been increased to Rs. 2,000. As such, an overpayment of Rs. 323,000 had been overpaid to 09 Committee officers relating to the period from January to July 2020. Furthermore, the allowance that a KKS was entitled to, was increased from Rs. 300 to Rs. 1,000; hence, a sum of Rs. 25,200 had been overpaid up to July 2019.	Allowances should not be paid based on the decisions taken by the Council by superseding the approval.	Based on the decision reached under the Agreement No. G.C.(12) of the General Meeting of the Council dated 05 June 2018, following the recommendations of the Planning Committee, payments are made to the officers including the members of the Planning Committee, officer in charge of the subject, and KKS. The recommendation relating to the said Agreement was endorsed by the Committee comprising the Planning Officer of the Urban Development Authority and the Executive Engineer of the Road Development Authority.
(b) The sum of Rs. 5,934,935 receivable from the Rajapihilla Inn as at 31 December of the preceding year, had been eliminated from the financial statements of the year under review sans proper approval.	The said value should not have been eliminated from the financial statements without a proper approval.	A cases progresses at the District Court under the Case, No. 26/RE against the Rajapihilla Inn. As such, the Inn remains dormant at present that does not generate revenue.

02. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Municipal Council in excess of the recurrent expenditure, amounted to Rs. 305,279,341 for the year ended as at 31 December 2019 as compared with the revenue in excess of the recurrent expenditure amounting to Rs. 281,518,678 for the preceding year.

2.2 Financial Control

Audit Observation	Recommendation	Comment of the Accounting Officer
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(a) Action had not been taken in terms of Financial Regulation 396(d) on 44 cheques worth Rs. 216,704 and continued to exist over 06 months without being presented for payment after being issued as at 31 December 2019 with respect to a current account of the People's Bank.	The Financial Regulations should be followed.	The value of cheques not presented for payment despite being issued as at 31 December 2019 with respect to the Account No. 8645, has become Rs. 73,320. The officer in charge of the subject has been instructed to credit the cheque older than 06 months to the revenue.
(b) Payments should be made after verifying the identity of the recipient in terms of Financial Regulation 260. Nevertheless, a sum of Rs. 138,540 paid in 23 instances with respect to 04 bank accounts, had been shown in the bank reconciliation statements as unidentified payments.	The Financial Regulations should be followed.	The unidentified payments included the transfers between the accounts, and the officer in charge of the subject was instructed to promptly remove the other payments.

- (c) Action had not been taken to identify 70 deposits valued at Rs. 2,147,129 relating to 03 bank accounts as at the end of the year under review. Action should be taken to identify and document the deposits. The officer in charge of the subject was instructed to credit the unidentified receipts over 6 months to the revenue.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Actual Revenue, and Outstanding Revenue

Information on the estimated revenue, billed revenue, collected revenue and revenue in arrears relating to the year under review and the preceding year, is given below.

Source of Revenue	Year 2019				Year 2018			Total Amount in Arrears as at 31 December
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Amount in Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs..	Rs.
I. Rates and Taxes	323,200,000	286,398,772	237,750,481	131,143,630	174,446,300	176,341,507	179,193,292	82,495,339
II. Lease Rents	74,331,560	65,895,321	69,980,934	8,134,218	76,455,955	70,803,420	74,722,664	12,219,831
III. License Fees	20,201,100	20,332,327	20,332,327	-	16,152,000	20,106,771	20,106,771	-
IV. Other Income	546,519,160	494,929,582	478,357,595	121,231,133	409,861,600	476,761,439	471,642,735	104,659,146
Total	964,251,820	867,556,002	806,421,337	260,508,981	676,915,855	744,013,137	745,665,462	199,374,316

2.3.2 Performance in Collecting Revenue

Audit Observation	Recommendation	Comment of the Accounting Officer
The outstanding revenue of Rs. 199 million as at 31 December of the preceding year, had become Rs. 260 million by the year under review.	Action should be taken for the recovery of outstanding balances.	Not commented.

2.3.3 Rates and Taxes

Audit Observation	Recommendation	Comment of the Accounting Officer
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(a) The revenue billed for 12 divisions of rates for the year under review totaled Rs. 158,782,386 whereas the rates recoverable as at 31 December totaled Rs. 70,138,502.	Action should be taken to recover the outstanding balances in terms of the provisions set out in Municipal Councils Ordinance.	In protest of the increased assessment value, many consumers refrained from paying the charges. Inquiries relating to the protests on assessments had been conducted between 25 March 2019 and 02 July 2019. Having received the revised reports relating to those properties since 06 August 2019, the initial value of assessment was reduced through debits and credits, thus resulting a decrease in the initial revenue. Due to the activities relating to those inquiries being continued up to the end of the third quarter of the year 2019, the said revenue could not be collected during the year.
(b) The outstanding balance of the charges on water amounted to Rs. 61,005,128 by the end of the year under review, and of that, a sum of Rs. 13,538,490 belonged to 27 water consumers having an outstanding balance of over Rs. 100,000.	The outstanding balances should be recovered by taking action in terms of agreements.	The final reminder was sent for the recovery of arrears and disconnection is pending.

2.3.4 Lease Rents

----- Audit Observation -----	Recommendation -----	Comment of the Accounting Officer -----
(a) The balance of travelling rents and lottery stall rents recoverable as at the end of the year under review, totaled Rs. 3,230,060. The balance further recoverable as at 30 June 2020 amounted to Rs. 3,083,738.	The rents should be recovered in accordance with the agreements.	Of the travelling rents and lottery stall rents remained outstanding as at 31 December 2019, a sum of Rs. 146,322 had been recovered as at 31 June 2020.
(b) Stall rents totaling Rs. 1,004,722 from 63 stalls at the new shopping complex in Kurunegala, and service charges totaling Rs. 520,368 relating to 64 stalls remained outstanding as at the end of the year under review.	Action should be taken to recover the monthly rent on time in accordance with the agreements, whilst measures should be taken on the outstanding balances in accordance with the agreement.	The arrears rents relating to the stalls at the new shopping complex and other stalls are being recovered at present whilst the stalls failing to settle the rents are sealed and action has been taken to case files.
(c) The balance of rents receivable from 62 stalls at the bus station in Kurunegala totaled Rs. 902,988 as at the end of the year under review.	Action should be taken to recover the monthly rent on time in accordance with the agreements, whilst measures should be taken on the outstanding balances in accordance with the agreement.	The arrears rents from the stalls at the bus station are being recovered at present whilst the stalls failing to settle the rents are sealed and action has been taken to case files.
(d) The balance receivable from the Ranthaliya Inn that had been given on lease, amounted to Rs. 511,875 as at the end of the year under review.	Action should be taken for the recovery of the rent in terms of the agreement.	It is already informed in writing regarding the balance receivable from the Ranthaliya Inn.

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| (e) Necessary action had not been taken to recover the rent of Rs. 1,546,769 from the general market and other stalls as at the end of the year under review. | Action should be taken to recover the monthly rent on time in accordance with the agreements, whilst measures should be taken on the outstanding balances in accordance with the agreement. | The arrears rents relating to the general market and other stalls are being recovered at present whilst the stalls failing to settle the rents are sealed and action has been taken to case files. |
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2.3.5 Court Fines and Stamp Fees

Audit Observation	Recommendation	Comment of the Accounting Officer
(a) A court fine totaling Rs. 17,496,300 remained recoverable from the Chief Secretary of the Provincial Council and the other officials as at the end of the year under review, and that included a sum of Rs. 10,509,850 belonging to the preceding years.	The court fines should be correctly brought to accounts and recovered.	A sum of Rs. 17,496,300 had been received as court fines from the Chief Secretary of the Provincial Council through the Cheque No. 081008 dated 16 June 2020.
(b) Stamp fees totaling Rs. 37,566,888 remained recoverable from the Chief Secretary of the Provincial Council and the other officials as at the end of the year under review.	The stamp fees in arrears should be recovered.	A sum of Rs. 3,774,8357 had been received as stamp fees from the Chief Secretary as at 13 July 2020.

03. Operating Review

3.1 Performance

Matters revealed in the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people in terms of Section 4 of Municipal Councils Ordinance, are as follows.

(a) Bylaws

Audit Observation	Recommendation	Comment of the Accounting Officer
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<p>Provided that Bylaws should have been made for the execution of 32 main activities in terms of Section 272 of the Municipal Councils Ordinance, it was observed as of 31 December 2019 that the Bylaw, No. 541/17 passed on 20 January 1989 had been enforced on 24 July 2015. Additionally, based on the requirements of the Municipal Council, 08 Bylaws had been published in the Gazette in the year 2016 whilst 08 Bylaws had been formulated and presented to the Commissioner of Local Government in the years 2013 and 2014. Moreover, notices had been displayed that fees would be charged for taking photographs at the lake round, Kurunegala, but no action had been taken to impose a Bylaw in that connection.</p>	<p>Action should be taken in accordance with the Bylaws in force whilst formulating new Bylaws based on the requirements of the Municipal Council.</p>	<p>Approval has not yet been received on the 08 Bylaws forwarded to the Commissioner of Local Government. At present, it is proposed to take measures through the Legal Department of the municipality to send reminders again and forward all the Bylaws to be made for approval.</p>

(b) Failure to Execute the Budgeted Works

Audit Observation	Recommendation	Comment of the Accounting Officer
A number of 52 works had been estimated for the year under review at a value of Rs. 20,550,000, but only 12 of them had been executed.	Action should be taken to render services to the public by executing the works mentioned in the budget prepared based on the proposals from the public.	A reply will be sent later after discussing with the Municipal Engineer and the Municipal Accountant.

(c) Solid Waste Management

Audit Observation	Recommendation	Comment of the Accounting Officer
(i) The solid waste management center of the Kurunegala Municipal Council is maintained at a land belonging to the Aveniyawa forest reserve. Fire often break out on the garbage dump of 45-50 feet in height comprising waste disposed of at the open ground without being segregated. No environmental certificates had been obtained as well.	Waste management should be done properly.	It is highly difficult to find an alternative location close to the municipality for waste disposal. Equipment and human resources have been provided with the municipal fire extinguishing unit to contain and extinguish the fire breaking out naturally, and they are on duty throughout 24 hours.
(ii) A proper methodology had not been followed for the disposal of electronic and clinical waste.	Action should be taken to regulate the waste management.	Plans have been prepared to construct an incinerator for the electronic waste disposal center. This issue will be solved once the incinerator is in place.

(d) Environmental Issues

Audit Observation	Recommendation	Comment of the Accounting Officer
Sewage had been disposed of at the open area on the garbage dump.	Disposal of waste should be done properly by minimizing the environmental impact.	As the amount of waste received by the drainage system of the Municipal Council exceeds its capacity, it is proposed to prepare plans to direct such waste to the Visal Kurunegala waste water project as an alternative measure.

(e) Sustainable Development Targets

Audit Observation	Recommendation	Comment of the Accounting Officer
The Municipal Council had been aware of the "Sustainable Development Agenda 2030". Various programmes had been implemented in the year under review for achieving 06 sustainable development goals.	Action should be taken to prepare and implement the annual budget in accordance with the Sustainable Development Goals and targets.	The Municipal Council has implemented programmes covering all the Sustainable Development Goals and targets. Attention will be particularly drawn in preparing the estimates with emphasis on further promoting the goals and targets through the budget for the year 2021.

3.2 Management Inefficiencies

Audit Observation	Recommendation	Comment of the Accounting Officer
(a) The Mayor had directly obtained approval from the Governor for constructing 18 stalls valued at Rs. 14,232,000 at the empty spaces in the bus station, Kurunegala. Such stalls had been given to the applicants without following the tender procedure.	Notices should be published in accordance with the provisions of the Government Procurement Guidelines thus providing the stalls on competitive bids.	It is emphasized in Paragraph 03 of the letter dated 2019/10/14 and Volume, No. NWP/GOV/AD/08/44/1/1 – II of the Secretary to the Governor that the Hon. Governor had informed that action should be taken to construct the stalls with a proper plan and stalls be provided under a formal agreement.

The stalls had been given on lease to the persons mentioned in the register approved by the Hon. Governor of the North Western province.

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| (b) | Unauthorized constructions had been made in the bus station by using Amano roofing sheets, but no action had been taken in that connection even by 30 June 2020. | Action should be taken to remove the unauthorized constructions. | The Chief Revenue Inspector reported that those constructions had been made under approval, and quoted the businessman as saying that bills would be paid in the future. A written request had been made by that businessman on 03 February 2020 seeking approval for constructing a make-shift stall. |
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3.3 Human Resource Management

(a) Making Recruitments without approved Service Minute

Audit Observation	Recommendation	Comment of the Accounting Officer
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<p>A number of 36 employees had been approved with respect to 05 posts in the fire extinguishing unit as at 31 December 2012. However, no recruitments had been made as a Scheme of Recruitment had not been prepared. The services of that unit had been carried out by making use of 18 employees recruited in other services on permanent, contract, and casual bases.</p>	<p>Appointments should be made properly by obtaining approval on the Scheme of Recruitment.</p>	<p>The fire extinguishing unit has been organized under a trained officer, and the service is rendered smoothly. It is expected to fill the vacancies in the future.</p>

(b) Vacancies and Excess Employees

Audit Observation	Recommendation	Comment of the Accounting Officer
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<p>Contrary to provisions of the Public Administration Circular, No. 03/2016 dated 25 February 2016, a number of 180 employees had been recruited exceeding the approved cadre in the years 2018 and 2019 on casual, substitute, and contract bases under the daily allowances of Rs. 1000, Rs. 1,200, Rs. 1,400, and Rs. 2,000 as well as monthly allowances of Rs. 21,400, Rs. 40,000, and Rs. 45,000 as per the decisions of the Municipal Council. A sum of Rs. 56 million had been paid to those employees in the year 2019. The employees so recruited, had not been entrusted with adequate duties.</p>	<p>Recruitments and payments should be made in accordance with provisions of the Circulars</p>	<p>Payments for all the employees recruited on daily and monthly allowances were decided in accordance with the decisions of the Municipal Council.</p>

(c) Employee Loans

Audit Observation	Recommendation	Comment of the Accounting Officer
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<p>Loan balances of Rs. 61,374, Rs. 1,487,276, and Rs. 295,235 remained recoverable from 03 officers who had vacated the service, 15 officers either retired or deceased, and 06 officers who had been transferred respectively as at the end of the year under review.</p>	<p>Action should be taken to recover the loan balances in arrears.</p>	<p>Necessary action is being taken to recover the loan balances.</p>

3.4 Operating Inefficiencies

----- Audit Observation -----	----- Recommendation -----	----- Comment of the Accounting Officer -----
(a) Despite the Municipal Council having adequate funds, applicants had been allowed to build stalls at the bus station without entering into any agreement.	Constructions and leasing of stalls should be done in accordance with provisions of the Circulars and Procurement Guidelines.	Considering the facts that no provision had been made through the budget for the year 2019 for constructing the said stalls, and the lessees had shown willingness to utilize their own funds to construct the stalls, they had been allowed to construct the stalls themselves. Approval had been granted through the Decision, No. SFC/34 of the Finance Committee dated 19 September 2019 to enter into agreements on the stalls. Monthly lease rent was decided based on the assessment obtained from the Chief Assessor.
(b) Approval had not been obtained from the Urban Development Authority or the Planning Committee of the Municipal Council.	Action should be taken to obtain relevant approvals on the constructions to be made within the division of the Municipal Council.	Construction of stalls had been done in accordance with the plan prepared and approved by the Urban Engineer. The agreement of the Municipal Council, G.C.(30) 2019.02.12, had also included the said plan. It was also approved by the letter of the Hon Governor with his direct approval.

3.5 Transactions of Contentious Nature

----- Audit Observation -----	----- Recommendation -----	----- Comment of the Accounting Officer -----
(a) Cabinet approval had been given to pay a monthly communication allowance of Rs. 3,000 to all the members of the Local Governments in the	Payments should not be made through 02 vouchers from the Municipal Council Fund for the same expenditure.	Telephone allowance amounting to Rs. 5,000 and communication allowance amounting to Rs.3,000 had been paid per month by considering the provisions

North Western Province from the Local Government Fund. Despite making payments in accordance therewith, sums of Rs. 214,415 and Rs. 595,503 had been paid relating to the periods May – December 2018, and January – December 2019 respectively for settling the telephone bills of the Municipal Council members including the Deputy Mayor.

under 188(mm) of the Municipal Councils Ordinance relating to making payments for the members on telephone charges, and the agreement of the Municipal Council, No. G.C. 6(37) dated 10 March 2015.

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| (b) | According to the lease agreement on the new stalls constructed at the bus station, the lessees are not allowed to transfer, sale or sublease the property. Nevertheless, 04 stalls with the minimum monthly lease rent of Rs. 17,250, Rs. 17,250, Rs. 25,000 and Rs. 24,000 had been subleased at values more than that. | Action should be taken as per the agreement on the violation of conditions in the lease agreement. | The property had been given on lease to the lessees as per the lease agreement based on the assessment of the Government Assessor. However, the Revenue Inspectors will be deployed to inspect as to whether there are subleases, and the Audit will be informed accordingly. |
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3.6 Management of Assets

----- Idle and Underutilized Assets -----

Audit Observation	Recommendation	Comment of the Accounting Officer
(a) A bio-gas plant in the capacity of 70 cubic meters had been constructed at the premises of the weekly	Action should be taken to make use of the assets.	Two tanks had been constructed at the bio-gas plant, and the generated gas can not be stored as one tank is faulty. It is proposed to repair and make use of the plant.

fair in the year 2014 by utilizing the provision of Rs. 3,050,000 given by an external institution. However, due to failure in taking action to reap benefits of the plant, the plant remained idle.

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| (b) | <p>A plastic recycling project had been commenced under the provision amounting to Rs. 8 million granted by the Central Environmental Authority, and 02 machines had been installed in the year 2012 for cutting the plastic into pieces and melting the plastic. However, those machines had become non-functional in the year 2014, and although the machines had been repaired, action had not been taken to implement the project.</p> | <p>Action should be taken to make use of the assets.</p> | <p>The income generated through the sale of plastic collected at the plastic recycling center, is higher than the income from the sale of plastic after being cut by the machine. As such, recycling plastic through the machine is not productive.</p> |
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3.7 Uneconomic Transactions

Audit Observation	Recommendation	Comment of the Accounting Officer
<p>Action should be taken by the institutions to conduct their programmes at minimum costs in terms of Circulars of the Presidential Secretariat dated 07 December 2018 and 25 September 2015. However, a sum of Rs. 490,690 had been spent on a workshop conducted at a hotel in</p>	<p>Public funds should be spent under minimum costs.</p>	<p>This workshop was organized (as a training programme) in accordance with regulations under the amendments of the Urban Development Authority Act and the national physical planning policy to discuss on the Kurunegala township development. Approval was given under the</p>

Ahungalla in December 2018. Further, the place had been selected without following a formal procurement method.

Agreement, No. GC-5(II) dated 2018.12.04 considering that the workshop be conducted at an undisturbed location away from town and expenses thereon be incurred from the Municipal Council Fund.

3.8 Procurements

3.8.1 Contract Administration

Audit Observation -----	Recommendation -----	Comment of the Accounting Officer -----
(a) A sum of Rs. 612,779 had been paid to apply river sand on the PVC pipes under Work Item, No. 02 relating to laying water pipes at the Iluppugedara road. However, it was revealed in the physical inspection that there existed locations at which river sand had not been applied at all whereas at some locations, river sand had been applied to a depth of only 1 inch. As such, an overpayment of Rs. 510,649 had been paid on works not done.	Payments made for works not done should be recovered.	A volume of 78 cubic meters of sand, taken as vehicular measurements, had been supplied by the contractor to the site. Those sand had been applied to the floor of the canal to a height of about 37.50 millimeters, and there may be locations at which the layer of sand above the pipe would slightly vary in height and width. The entire stock of sand brought had been supervised by the Urban Engineer (Water) and the Technical Officer.
(b) As the road had caved in after completion of the first contact to lay water pipes along the Iluppugedara road, a new estimate valued at Rs. 4,000,000 had been prepared to dig out the canals used to lay pipes, remove the soil and close the canals in view of carpeting the road.	Action should be taken to ensure efficient and economic utilization of public funds.	When a work is initiated, estimates are prepared in accordance with the Municipal Council methodology, and those estimates are scrutinized before being forwarded to the work committee and finance committee. Once approval is received from the General Meeting of the Council, the procurement unit is referred for procurement. If necessary,

Despite the Municipal Council being aware that the road will be carpeted, 02 estimates had been prepared for the same item of work relating to laying pipes and payments had been made. As such, the sum of Rs. 1,208,305 incurred on 03 items of work mentioned in the first estimate, was an expenditure incurred due to negligence of the Municipal Council.

procurement will be repeated, and the contractor will be selected by entering into agreement, a process which is time consuming. Hence, this situation had occurred.

- (c) An agreement valued at Rs. 1,574,243 had been entered into to renovate the 2nd lane of Pubudu mawatha by tarring and constructing canals. However, the work of constructing canals mentioned under Work Items 11-16 had not been done; instead, the road had only been tarred. Tar had displaced at several locations of the road with stones surfaced
- Action should be taken to execute the contracts in accordance with the estimates.
- Once the works had been completed by the contractor, the road had again been dug by the waste water project. The officers of the said water project had been informed to rectify the damages. Retention monies had not been released.

04. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observation	Recommendation	Comment of the Accounting Officer
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The annual financial statements of the year 2019 had been presented to the Audit on 12 May 2020.	Action should be taken to present the financial statements on time.	This happened due to lethargic performance of an officer of the office following the Covid 19 outbreak. Nevertheless, the relevant divisions will be informed to present the annual financial statements on time in the year 2021.

4.2 Internal Audit

Audit Observation	Recommendation	Comment of the Accounting Officer
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An Internal Audit Unit had been established in the Municipal Council comprising 02 officers, but action had not been taken to present the Internal Audit Plan to the Auditor General . audits had not been carried out covering all the areas, and the internal control system had not been successfully evaluated.	An Internal Audit Unit should be established in accordance with provisions of the Circular.	Twelve internal audit reports covering several areas of the Municipal Council as per the Internal Audit Plan, have been issued.

4.3 Audit queries not Replied

Audit Observation	Recommendation	Comment of the Accounting Officer
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A reply had not been given for an audit query.	Action should be taken to provide replies to the audit queries.	Replies have been presented in the draft report.