

**1. Financial Statements**

**1.1 Disclaimer of Opinion**

The audit of the financial statements of Kurunegala Municipality Council for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial operations and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 219 of the Municipal Councils Ordinance (Cap. 252) and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be reported to Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Kurunegala Municipal Council. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

**1.2 Basis for Disclaimer of Opinion**

My opinion is Disclaimed based on the matters described in paragraph 1.6 of this report.

**1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the financial reporting process of the Municipal Council.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Municipal Council is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Municipal Council.

#### **1.4 Audit Scope (Auditor’s Responsibility for the Audit of the Financial Statements)**

My responsibility is to conduct an audit of the Municipal Council’s financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor’s report. However because of the matters described in the Basis for Disclaimer of Opinion section, I was not able to obtain sufficient appropriate to provide a basis for an audit opinion on these financial statements.

#### **1.5 Report on Other Legal Requirements**

National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) The financial statements of the Municipal Council presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The financial statements presented include all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

#### **1.6 Audit observations regarding the preparation of financial statements**

##### **1.6.1 Accounting Deficiencies**

	<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a)	In the year under review, deposit accounts had been overstated comprised of water supply deposits had been overstated by Rs.227,000, 09 miscellaneous deposits amounting to Rs.1,619,989 that had been paid had been accounted as unpaid deposits, and 05 miscellaneous deposits amounting to Rs.2,288,127 had been accounted for two times and water supply deposits amounting to Rs.129,609 and miscellaneous deposits amounting to Rs.1,877,235 had been understated.	An error occurred while copying the relevant amount to the schedule. Accordingly, the schedule will be rectified.	Accounting should be carried out accurately.
(b)	Miscellaneous creditors had been overstated by Rs.728,682,823 as at 31 December of the year under review.	A collection of balances built up from 2017 to 2022. Accordingly, the remaining balance has been stated after deducting the amount paid and finalized as at 31 January 2023.	-Do-
(c)	Court fines had been understated by Rs.1,053,350 in the previous year and Rs.3,822,100 in the year under review and	Details of payments related to stamp duty and court fines were not received from the	-Do-

stamp duty had been understated by Rs.86,155,560.

Chief Secretariat and due to this, it was not possible to identify a deficit properly.

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| (d) | The land in extent of 02 roods and 18.7 perches received for public utilities in the year 2015 valued at Rs.12,500,000 had not been mentioned in the financial statements.  | That action will be taken to include in the financial statements of the next year.  | -Do-   |
| (e) | Even though the balances of liabilities and assets of the employee security deposit account should be indicated equally, liabilities had been accounted as Rs. 1,187,440 and assets had been accounted as Rs.1,200,313. | The security deposit collected from the daily wages of the month of December 2021 was included in the amount deposited in January 2022, and this difference had occurred due to including the security deposits collected from the daily wages of the month of December 2022 in the security investment in the year 2023. | Accounting should be carried out accurately. |
| (f) | The balance of the lease creditor account of the vehicles acquired on lease had been understated by Rs.2,151,256.   | That the balance of the Lease Creditor account will be rectified.   | -Do-   |
| (g) | Interest income comprised of lease interest account had been understated by Rs.17,878 and fixed deposit interest had been understated by Rs.368,135.  | That the balance of Lease Interest Account and Fixed Deposit Interest Account will be rectified.  | -Do-   |
| (h) | Interest receivable pertaining to the year under review from fixed deposits amounting to Rs.551,184 had not been accounted.   | That the amount of interest receivable amounting to Rs.551,184 will be accounted accurately.  | -Do-   |
| (i) | Seven (07) advance balances worth Rs.24,923,702 that had been settled had been included within the balance of the miscellaneous advances as at 31 December of the year under review.                                    | An error occurred in copying the mixed advances to the schedule. That the relevant schedules will be corrected.   | -Do-   |

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| (j) | According to the goods survey reports related to general and electrical stores, there had been a shortage of 59 stock items worth Rs.1,447,137 and there had been a surplus of 27 stock items worth Rs.173,984 and adjustments had not been made to the excess stock balance and the short stock balance in the financial statements of the year under review. | Not included as the goods survey report had not been received. That action will be taken to make adjustments to this and to rectify it in the year 2023.  | -Do-   |
| (k) | As the telephone allowance and fuel allowance had been accounted as Rs.264,937 and Rs.611,700 respectively under the salary reimbursement in the year under review, the salary reimbursements had been overstated by that value.   | Application has been made for reimbursement as the officers are entitled to the allowances as per the Public Administration Circulars. However, this balance has arisen due to non-reimbursement of these allowances by the Department of Local Government.   | Action should not be taken to apply non-reimbursable allowances.     |
| (l) | The stock of fertilizer bags worth Rs.4,364,443 available at the Sundarapola garbage yard as at 31 December of the year under review had not been accounted.   | That the value of fertilizer bags related to the final stock of Sundarapola garbage yard will be included and it will be rectified.   | Stocks in various units of the Pradeshiya Sabha should be accounted. |
| (m) | The balance of the local credit and development fund had been understated by Rs.661,525 in the financial statements as at 31 December of the year under review.  | That the balance of the local credit development fund will be rectified.  | Balances should be correctly identified and accounted.               |
| (n) | Despite the fact that the expenditure creditors to be paid in relation to the year under review could be identified specifically by the Municipal Council, creditor provision amounting to Rs.1,459,721,790 had been allocated also in the year under review as action had been taken to allocate assumed provision for this purpose.                          | This creditor written off had been done with the aim of settling and correcting the creditors, who had been over-allocated in the previous years and that the creditor balances had been specifically identified and creditor allocations had been made according to the requests made by each department in the year under review. | Should be accounted accurately.                                      |

## 1.6.2 Contingent Liabilities

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
The Pradeshiya Sabha had filed cases against 19 external parties as at 31 December of the year under review and even though 12 external parties had filed cases against the Pradeshiya Sabha, it had not been disclosed in the financial statements.	That cases filed against external parties will be disclosed in the accounting notes as contingent liabilities.	Costs incurred for legal activities should be disclosed in the financial statements.

## 1.6.3 Unreconciled Control Accounts

	<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a)	There was a difference of 207,846,280 between the balance related to 17 accounting subjects totalling to Rs. 2,775,676,122 stated in the financial statements as at 31 December of the year under review and the balance stated in the schedules.	The schedules related to 17 accounting subjects are being settled and the related schedules will be corrected in the future.	Reasons for unreconciliation should be examined and action should be taken to rectify.
(b)	In reconciling the credit balance stated in the financial statements according to the credit balance confirmations submitted by the Local Credit and Development Fund, the credit balance had been understated by Rs.164,602 in the financial statements.	That the relevant adjustment will be rectified.	Should be accounted accurately.
(c)	There had been a difference of Rs.5,162,143 between the balances of 03 fixed deposits indicated in the financial statements and the balances indicated in the bank confirmation letters as at 31 December of the year under review.	That the balance of the fixed deposit account will be corrected.	Should be accounted accurately.

#### 1.6.4 Documentary Evidence not made available for audit

Evidence not available	Commnet of the Council	Recommendation
Since fixed assets amounting to Rs.2,527,198,696 indicated in the financial statements as at 31 December of the year under review, Fixed Assets, stocks, schedules related to creditor balances had not been submitted to audit, they could not be satisfactorily verified in the audit.	Schedules are being prepared and will be submitted soon.	Arrangements should be made to provide sufficient and appropriate evidence for audit to verify account balances and transactions.

#### 1.7 Non-compliance

##### 1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions.

Instances of non-compliance with Laws, Rules, Regulations and Management decisions are mentioned below.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance	Comments of the Council	Recommendation
(a) Section 188 of the Municipal Councils Ordinance No. 16 of 1947 (Chapter 252)	A sum of Rs. 1,000,000 had been paid from voucher No. 198 dated 05 April 2022 to provide assistance for an illness of a Municipal Council member, for which legal provision had not been made on the application of the Municipal Council Ordinance.	That payments have been made on the decision of the Council.	Action should be taken in terms of the said Act.
(b) Section 5.4.1 of the Chapter XIX of the Establishments Code of the Democratic Socialist Republic of Sri Lanka	Even though 10 percent of the salary of the officer should be charged if the officer, who is entitled to get government quarters, is entitled to get scheduled quarters, without doing so, the Municipal Council had decided to increase the house rent by 20 percent from the current monthly rent charged from the officers, who are entitled to get the scheduled	Action will be taken to charge for those, who enter into contracts in the future. As per Section 5.4.1 of the Chapter XIX of the Establishments Code.	Action should be taken in accordance with the Establishments Code.

quarters, on the council resolution bearing No. GC/06/01/2021/8/5/MA/R9 on August 2021. Accordingly, the rent in 2021 and 2022 had been under charged by Rs.221,589 as the rent had not been charged according to the Establishments Code.

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| (c) | Financial Regulations of the Democratic Socialist Republic of Sri Lanka- Financial Regulations 371(3) | Advances amounting to Rs.776,181 had not been settled as at 31 December of the year under review. | That all the officers have been informed to settle the advances before 31 December of every year in the future. | Action should be taken in accordance with the aforesaid financial regulation. |
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## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the revenue, which exceeded the recurrent expenditure of the Council for the year ended 31 December 2022, had been Rs. 12,835,988 and corresponding revenue, which had exceeded the recurrent expenditure in the previous year had been Rs. 759,129,083.

### 2.2 Financial Control

	<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a)	Action had not been taken to settle the balance of Rs.1,155,634, in respect of 23 dishonoured cheques, that had been prevailing from 01 month to 15 years according to the schedule of dishonoured cheques submitted with the financial statement even by the year under review.	That action will be taken to rectify the balance related to 23 cheques, which were dishonoured, in the year 2023.	Action should be taken to rectify.
(b)	Even though the balance of the cash book according to the financial statements of the Bank of Ceylon account as at 31 December in the year under review had been Rs.18,747,889, the balance of the cash book according to the bank reconciliation statement prepared on that day had been Rs.63,879 and as a result, a difference of Rs.18,684,010 had been observed.	That an amount of Rs.18,684,010 has been stated under unidentified payments in the bank reconciliation statement.	Action should be taken to identify the balance and to prepare accurate bank reconciliation statements.

## 2.3 Revenue Administration

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

Information about estimated revenue, billed revenue, collected revenue and revenue arrears for the year under review and for the previous year is mentioned below.

Revenue Source	2022				2021			
	Estimated Revenue Rs.000	Billed Revenue Rs.000	Collected Revenue Rs.000	Total Deficit as at 31 December Rs.000	Estimated Revenue Rs.000	Billed Revenue Rs.000	Collected Revenue Rs.000	Total Deficit as at 31 December Rs.000
Rates and Taxes	369,500	344,497	355,480	255,777	354,500	338,186	290,396	253,166
Rents	88,824	71,367	72,414	14,584	99,108	66,358	65,248	13,106
License Charges	15,380	19,489	19,489	-	15,430	12,834	12,834	-
Other Revenue	539,427	423,604	523,956	42,960	753,702	383,442	380,001	146,382
<b>Total</b>	<b>1,013,131</b>	<b>858,957</b>	<b>971,339</b>	<b>313,321</b>	<b>1,222,740</b>	<b>800,820</b>	<b>748,479</b>	<b>412,654</b>

### 2.3.2 Performance in the Collection of Revenue

Audit Observation	Comments of the Council	Recommendation
<p>Rates and Taxes</p> <p>Approval has been given for the construction of 508 buildings in the limits of the Kurunegala Municipal Council from the year 2019 to the year 2022, action had not been taken to charge assessment taxes from these buildings.</p>	<p>The number of conformity certificates issued during the year was 399 and 309, out of those properties, were added as new assessable properties.</p>	<p>The Council should find ways to generate revenue and make arrangements to increase the revenue.</p>
<p>Rents</p> <p>Action had not been taken to collect the arrears of shop rent amounting to Rs.8,110,667 by 31 July 2022 from 261 shops owned by the Municipal Council and a fine of Rs.555,975.</p>	<p>Measures have been taken to collect the arrears from all the shops that had been in arrears for more than three months.</p>	<p>Arrangements should be made to recover arrears of shop rent.</p>



## Other Revenue

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| (a) | The revenue arrears balance of the sewage system at the beginning of the year under review had been Rs.86,890,230, and a sum of Rs.11,991,634, out of that, had been received during the year under review and the billings amounting to Rs.12,788,270, out of Rs.46,415,580 related to the year 2022 had been received the outstanding balance of the sewerage system receivable as at the closing date of the year had been Rs.108,225,898. | Necessary measures are being taken to recover the arrears of revenue.   | Action should be taken to recover revenue arrears and billed revenue.           |
| (b) | The deficit related to the year 2022 receivable to the Council from 128 billboards displayed in 12 Divisions in the limits of the Municipal Council had been Rs.7,592,550.  | The relevant institutions have been informed in writing to pay the display charges related to the year 2022 for these boards, and if the money is not paid, arrangements have been made to remove them. | Action should be taken to recover the arrears amounts according to the By-Laws. |

### 3. Operational Review

#### 3.1 Activities Outside the Objectives

Audit Observation	Comments of the Council	Recommendation
During the physical verification of goods in relation to the office equipment purchased for the mayor's office in the year 2020, 29 chairs valued at Rs.329,450 had been returned to the private company that supplied the goods and it was observed during the audit that money had been paid to the company for those chairs. Action had not been taken to get 29 chairs to the Kurunegala Municipal Council for that purpose instead of the 29 chairs that had been sent back.	Action has been taken to rectify.	Money should be paid after the goods are delivered, and the loss incurred due to the payment for the goods that had not been supplied must be recovered from those who are responsible for it.

#### 3.2 Delays in the accomplishment of Projects

Audit Observation	Comments of the Council	Recommendation
An amount of Rs.540,000 along with VAT had been paid to the Sri Lanka Land Development Corporation as an advance on 17 May 2022 for the field inspection related to the revision of the Master Drainage Plan related to the development of Kurunegala	The plan has been prepared and has informed to submit it after obtaining the final approval.	Avoid unnecessary expenses through functioning with plans.

city. Even though advances had been granted to carry out this work considering that the work related to revising the drainage plan related to the development of Kurunegala city as a requirement that should be finalized expeditiously according to the resolution of the general assembly bearing No. GC/06/62/2022/04/20/MED/C7 dated 06 May 2022, it had not been fulfilled even by 31 December 2022.

### 3.3 Non utilization of Budgeted Provision

Audit Observation	Comments of the Council	Recommendation
22 industries, which should have been fulfilled by the Council according to the annual action plan that had been prepared, and for which budget allocation amounting to Rs. 11,197,871 had been made, had not been fulfilled during the year under review.	That could not be implemented owing to the inability in fulfilling with the provision allocated as the commodity prices have increased.	Efforts should be made to complete the projects included in the annual action plan.

### 3.4 Solid Waste Management

Audit Observation	Comments of the Council	Recommendation
(i) The Kawashima compost machine worth Rs. 123 million had been installed at the Sundarapola waste yard in the year 2019 using the provision made by the Ministry of Provincial Councils and Local Government. Even though the capacity of this machine had been 50 tons, it was observed that the maximum capacity had not been utilized by putting about 30 tons of waste per day.	The utilization capacity of the Kawashima machine was 50 tons, and this machine has been installed by forecasting the future conditions. That the amount of garbage generated daily in the limits of the Kurunegala Municipal Council was about 30 tons.	The machine should be utilized to its maximum capacity to manufacture compost.
(ii) A quantity of 600,000 kg of biodegradable waste is collected at the waste management center every month and the compost had been manufactured using the biodegradable waste and a specific number of production units was not confirmed to the audit, and 188,336 kg had been sold and revenue amounting to Rs.1,883,362 had been earned during the year under review.	Action has bene taken to control these conditions.	Biodegradable and non-biodegradable waste should be managed properly.

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| (iii) | Revenue of Rs. 399,709 had been earned from the sale of 18,043kg of non-biodegradable waste. Even though about 48 tons of non-biodegradable waste had been provided to Holcim, any specific information about this was not revealed to the audit. | -Do- | Non-biodegradable waste should be systematically disposed of without harming the environment. |
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### 3.5 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) Although the rental should be revised at least once in every five years, the rental charged in the year 2005 for 571 shops owned by the Municipal Council had been charged without assessing again.	After receiving the letter from the Valuation Department containing information about the new valuation of the shops, the relevant information was forwarded to the General Assembly in the same month and the relevant approvals were obtained.	Arrangements should be made to charge the shop rent as per the current assessment.
(b) Even though a building plan must be approved in carrying out a construction within the territory according to the Urban Development Act, a plan had not been approved by the Municipal Council for the construction of the multi-purpose electricity and telephone transmission tower in the premises of Kurunegala Municipal Council. Even though the ground rent for the telephone transmission tower should be assessed by the Valuation Department, the ground rent had been decided without such assessment.	At present, the relevant work is being carried out to prepare a separate plan for the relevant plot. Immediately after receiving the plan, it will be forwarded to the valuation Department and the relevant revisions will be made.	Plans must be approved when constructions are carried out.

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| (c) | The Municipal Council had leased out 11 shops in the modernized MC PLAZA and even though the rent and the minimum bid value of each property included in the limits of a Local Authority should be assessed by the Chief Valuer or qualified persons appointed by the Local Authority, those instructions had not been followed and action had been taken to lease out according to the assessment of the Revenue Inspector in an inspection carried out in that regard. | The shops have been referred to the Chief Valuer for valuation and arrangements have been made to get the valuation promptly. | Arrangements should be made to charge the rent as per the current assessment. |
| (d) | Motor Lorry Compactor had not been assessed and accounted as fixed assets.   | The value of the Motor Lorry Compactor will be accounted in the future.   | Accounting should be carried out accurately.                                  |
| (e) | Only one land owned by the Municipal Council had been accounted as at 31 December of the year under review and action had not been taken to account 89 lands owned by the Council.   | Action will be taken in the year 2023 to revalue and account 89 lands owned by the Council.                                   | Accounting should be carried out accurately.                                  |
| (f) | In accounting computers and accessories, only the computers and accessories purchased in the years 2020, 2021 and 2022 had been accounted and the computers and accessories purchased before that had not been accounted.  | All the computers and accessories owned by the Council will be revalued and accounted in the year 2023.                       | Accounting should be carried out accurately.                                  |

### 3.6 Operational Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
The Municipal Council had laid foundations and 9x9 columns for the construction of a two-storied building of 10 metres long and 5 metres wide on the land owned by the Government in extent of about 3.14 perches, where a toilet had been built in the past close to Lake Studio in the Municipality, and drawings for this purpose, approval and any information related to the construction was not submitted to audit.	The relevant information will be checked and the information will be submitted to the audit promptly.	Plans should be approved when a construction is carried out.

### 3.7 Asset Management

#### 3.7.1 Assets not Taken Over

Audit Observation	Comments of the Council	Recommendation
(a) At the meeting of the Committee on Public Accounts held on 09 February 2021 in relation to the recovery of arrears of water revenue of the Municipal Council, the Committee had directed the C.A.O./A.O. to collect the arrears immediately and to submit a report in that regard to the Committee within a month and to repair the relevant pipe systems and take measures to stop the quantity of water that is being wasted and to give the relevant loss to the consumer as stated in paragraph number 2.1 of the Comments of the Auditor General. However, in the examination of the current situation, a sum of Rs. 66,172,032 should have been collected from 7782 consumers, who had to pay arrears for water as at 31 December 2022. Out of the arrears, the amount to be charged from the water consumers, who had to pay arrears over a year, had been Rs.19,030,289.	Arrangements are being made to collect the arrears of water charges promptly.	The Directives given by the Committee on Public Accounts should be executed.
(b) Laptop computers had been provided to 19 members of the Municipal Council and to a driver by incurring a sum of Rs. 194,000 for one laptop to facilitate the delivery of Council Reports by WhatsApp or by email under the resolution of the General Assembly bearing No. GC-6(48) dated 16 July 2020. It had been unanimously decided at the General Assembly that it had been appropriate to provide the laptop computers, given under the decision number SC/67/2023/03/17/MSD/CA of the General Assembly held on 17 March 2023, two days prior to the end of the term of the Local Government on 19 March 2023 to the honourable members after collecting the assessed value. Accordingly, it had been stated to the members of the Municipal Council that the computers can be obtained after paying the amount of Rs.266,333, the current assessment of the computer. However, only one member of the Council had handed over the computer by 12 May 2023, the date of audit. Accordingly, the Municipal Council had not taken any action regarding the non-formal utilization of the property of the Council.	The related activities are being carried out to take over the laptop computers to the Municipal Council.	Action should be taken in terms of the Rules and Regulations in relation to the persons, who use the property of the Council illegally.

### 3.7.2 Idle and Underutilized Assets

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) The water equipment, which had been purchased by the water Division at a cost of Rs.264,700 to install bulk water metres to detect the changes in water consumption and to install bulk water metres to update the water distribution system through pipes remained idle in the warehouse without being utilized.	According to the request made by the Municipal Engineering Division, the water metres have been purchased and brought to the warehouse and they have been left in the warehouse as the engineering division has not received the request because they do not match the relevant specifications.	Necessary action should be taken in relation to the purchase of goods, which does not conform to the specifications.
(b) PE water equipment worth Rs.1,236,400 purchased in July 2021 remained in the warehouse without being utilized even by 16 May 2023, the date of the audit.	PE pipe systems have been laid to provide water supply by the Kurunegala Municipal Council in a very limited area within the limits of the Kurunegala Municipal Council and within the limits of the Pradeshiya Sabha outside the limits of the Municipal Council.	According to the Procurement Guidelines, procurement of goods and services should be done in accordance with the procurement plan.

### 3.8 Contract Administration

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
<b>(a) Central Market Phase I Construction Project</b>		
(i) Construction work is being carried out by entering in to a contract with a private construction company for the both phases of I and II of the central market construction project of the Kurunegala Municipal Council and although the annual budget provision should be allocated for this construction, any provision had not been allocated in the year 2020. Despite the possibilities of implementing this project as one project by preparing a total cost estimate according to Section 4:3:1 of the Procurement Guidelines for this project, it had been implemented in two projects in two phases.	Bid documents have been prepared by incorporating all the guidelines given by CIDA. Accordingly, any bidder has been given the necessary opportunity to verify his qualifications in relation to this project. This procurement notice has been published to fulfill the requirements indicated in the Procurement Guidelines and accordingly Kurunegala Municipal Council has borne the related expenses.	A total cost estimate should be prepared for the entire project as per the procurement guidelines for the execution of a project. All the bidders should be given the opportunity to participate in the procurement.

(ii)	According to the report of the Committee, the tender had been awarded to the bidder, who had submitted the tender at Rs.957,518,334, which had been Rs.270,449,807 more, i.e. more than 41 percent higher than the engineering estimate amounting to Rs. 687,068,527. Even though bids should be rejected and invited again in instances, where the bid price is 15 percent higher than the engineering estimate, it had not been considered.	Answers had not been submitted.	As there is a variation of 41 percent than the estimated amount, procurement activities should be carried out again.
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(b) **Renovation of MC – Plaza Building**

An engineering estimate had been prepared for a sum of Rs.36,499,364 using provision of the Municipal Council in the year 2020 for the renovation of the MC-Plaza building and the project had been executed after entering into a contract with Senara Constructions for an amount of Rs.36,575,000. The project had been finalized on 12 October 2021 and an amount of Rs.38,116,936 had been made. The following facts were observed during the inspection done in relation to this construction.

(i)	Even though it had been approved by the resolution passed at the General Assembly bearing No. GC/06/20/2020/11/12 to refurbish this building by removing the central air conditioning system of this building as it is not functioning and constructing some new business premises, re-installing the electric elevator system and electric staircase, which are severely dilapidated, repairing the toilet system and ceiling, some approved work items had not been carried out.	Only 02 work subjects, such as the installation of an electric elevator system and electric staircase had not been carried out.	Action should be taken to finalize the work as per the estimate.
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(ii)	Even though special approval should be obtained to change the nature, quality or quantity of the work at any time while the contract work is in progress in terms of 8:13:1, 8:13:2 and 8:13:3 of the Procurement Guidelines, additional work amounting to Rs. 19,609,744 had been carried out without obtaining such special approval. Although this additional work should not be more than 10 percent of the value of the engineering	That additional work items have been recommended and approved by the Technical Officer, Municipal Engineer, Municipal Commissioner.	A range of 10 percent of the additional work estimate value should be carried out.
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estimate, 53 percent of the additional work had been carried out without fulfilling the work items of the engineering estimate. It is observed that this is an instance of not adhering to the procurement instructions.

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| (iii) | Both work items such as the reinstallation of the electric elevator system and the electric staircase, which had been valued at 50% of the approved engineering estimate had not been accomplished and the recommendations of the Standing Committee bearing No. GC/06/32/2021/10/18/ED to approve a supplement for the repair of the unrepaired electric elevator from the above contract and to submit it to the 2022 budget had been unanimously adopted by the General Assembly. Accordingly, it was observed that additional work had been carried out without completing essential work items. | Although the installation of the electric elevator was an essential work, it could not be carried out during this contract period as it would take more than a year to bring and install it, according to the prevailing conditions at that time. Therefore, this was not done in the year 2021, and approval was obtained to do it through a supplement in the year 2022. | Prior approval should be obtained at the time of revision of estimates.   |
| (iv)  | The value of 23 items, which had not been fulfilled, had been Rs.19,722,642, out of the value in the approved engineering estimate that had been agreed after entering in to a contract and it had been 53 percent out of the estimated value.   | Although agreements had been entered in to with the contractor in relation to the work items in the engineering estimate, some of the items of that had not been carried out at the discretion of the Client in carrying out new constructions.  | Construction activities should be carried out as per the estimate.  |
| (v)   | Even though it had been decided to call for bids from contractors having CIDA 5 or more qualifications according to the decision of the Technical Evaluation Board to call for bids, the bidders' qualifications had been indicated as C – 5 only in the newspaper advertisement, and thereby, the opportunity for more competitive bidders to submit bids had lost.   | That C-5 grade prices have been called with the aim of giving more opportunities to small scale contractors.   | Procurement notices should be published with the basic elements that should be present in a procurement notice. |
| (vi)  | Two contractors had submitted quotations in the examination of the procurement documents. It could not be satisfied at the audit on the technical evaluation processes as the prices submitted by one of the institutions had not been submitted to audit.   | The bid documents of Thushara Roofing Company were not in the file.  | In following the procurement method, it should be carried out in a transparent manner.                          |



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| (vii)  | During the submission of the final bill, a special price analysis had been presented to remove the AC Plant and instead of the amount of Rs.60,000 submitted by the bidder, an expenditure of Rs.761,394 had been submitted and an amount of Rs.701,394 had been overpaid.  | Answers had not been submitted.  | Discussions should be held with the contractor in relation to the variances in the estimate and his consent should be obtained for the estimated amount.            |
| (viii) | Although the value of the contract entered in to by the contractor had been Rs.36,575,000 according to the original estimate, only a portion of work worth Rs.18,479,222 had been completed. However, in the final bill inspection, new works worth Rs. 19,634,694, which were not in the original estimate, had been completed. However, the Municipal Council had not prepared a revised cost estimate for this and obtained the approval for that. | After completing all those activities by incurring Rs.38,116,936 million, out of the contract amount of this contract amounting to Rs.36,575,000 million, on the works mentioned in the contract and Rs.19,637,711 million on the additional work, the comparative report prepared finally has been duly approved. Therefore, there is no need for a separate revised cost for this. | Payment shall not be made for additional work performed by the Contractor without a revised cost estimate.  |
| (ix)   | During the inspection of the bill and the bid of the contractor, 09 cases, where payments had been made for the amount fulfilled than the amount mentioned in the bid were observed and the value had been Rs.4,331,106.  | Proper measurement sheets and price analyses have been made for the work actually done on site in this repair for Item Nos. 04, 08, 10, 32, 36, 49, 58 and 61 hereof.  | In making payments exceeding the amount mentioned in the bid, approval should be obtained for the same and payment should be made on the actual measurement sheets. |
| (x)    | An amount of Rs.19,662,047 had been overpaid for 08 work items as special price rates had been prepared for additional works and payments had been made accordingly without using the rates of building price analysis for this project.  | Price analyses were presented as per the prevailing market prices. It was examined and the payments have been made.  | When building price analysis rates are available, payments should be made according to those rates.   |
| (xi)   | It was observed that the Engineer had not approved the special price analysis that had been prepared by the contractor, and an unusual price analysis had been prepared. Accordingly, it was observed that special price analyses had been prepared for the items, for which the standard building prices are available to pay for the additional work, and some of the special prices that had been prepared had not been checked and approved       | The document had not been signed by mistake and it has been informed that the price analyses have been properly checked and the payments have been made.   | Special price analyses should be checked and approved by the Engineer.  |

by a technical officer or an engineer, and payments had been made for unusual price analyses prepared by the contractor.

(c) **project for Constructing Shops at Dr. Silva Mawatha**

A national competitive bidding had been called on 23 August 2022 for the lease of these shops and although it had been informed that the opening of the bids had been on 14 September 2022, Jamiul Azhar Bazaar Jumma Mosque in Kurunegala had claimed that that a part of the land, on which these shops had been built, were not belonged to the Council, but belonged to the mosque and filed a case challenging the decision of the Council to obtain a writ from the Kurunegala Provincial High Court, and had obtained an interim injunction preventing the lease of these shops until the writ was received. Although it is the responsibility of the Council to verify the quiet possession of the land before starting a procurement process, this situation had arisen by not functioning accordingly.

A writ application bearing number HCW 11/2022 has been filed in the North West High Court. The case is already a pending case in the Honourable Court. An interim restraining order has not yet been given for this case.

Investigations should be conducted in connection with the loss incurred to the fund of the Municipal Council due to not following the procurement rules, and surcharges should be imposed.

(d) **Landfill project at the Sundarapola Solid Waste Management Centre**

(i) L.D. Construction and Sunpower Construction joint venture had been accomplishing the project by entering in to the contract at Rs.100,000,000 by calling for project proposals under the Design & Build method for the above mentioned project. The following matters were observed in the audit conducted in this regard.

An amount of Rs.42 million had been allocated under the recurrent expenditure through the budget of the year 2021 and Rs.30 million had been allocated in the year 2022.

Payments should not be made without making provision by the annual budget.

(ii) Even though these institutions had entered in to this contract as a joint venture of 02 private construction companies in order to perform this contract, these companies must be in C3 or higher grade according to the ICTAD grading as per the newspaper advertisement. However, only one institution, out of these 02 institutions, had obtained the ICTAD registration.

Action is being taken to obtain the confirmation on the CIDA registration.

Procurement notices should be published with the elements that should be present in a procurement notice.

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| <p>(iii) Provision amounting to Rs.25,870,000 had been allocated, out of the total contract value amounting to Rs.2,850,000 according to the estimate for the initial expenses of this contract, and even though all the basic facilities should have been established by the contractor in the premises of the institution when making payments for basic expenses, an amount of Rs.2,850,000 was paid for 03 items, for which all the basic facilities mentioned in the estimate, had not been provided.</p>   | <p>The office of the employer / consultant officers has been prepared with necessary desks and chairs and WI-FI, internet facilities and communication facilities have been provided under the provision of communication facilities. Lavatory facilities adjacent to the said office have been provided for the use of the consultant staff as per the proper specifications.</p> | <p>False bills should not be prepared for the work not done.</p>   |
| <p>(iv) A bid for Rs.9,260,000 had been submitted for the staff of the contractor under Item No. 1:14. Action had not been taken to revise the staff as per the contract cost, and for this purpose, An amount of Rs. 3,504,000, which had been the 40% of the contract value had been paid although the estimated staff had not been completed.</p>   | <p>In the initial phase, only a part of the entire project will be carried out. It is necessary to carry out all the elements to be done in the whole project, in carrying out the construction works of this section.</p>   | <p>False bills should not be prepared for the work not done.</p>   |
| <p>(v) As a bid for a sum of Rs.9,260,000 had been submitted for the staff of the contractor at the contract value of Rs.239,843,470 under Item No. 1:14, and the amount to be paid to the staff had been Rs. 3,796,600 as the percentage of the contract value, out of the total staff cost, had been 41% in paying for the staff from the contract value of Rs.100,000,00, and action had not been taken to pay from that value according to the percentage of completion of the contract. Accordingly, an amount of Rs.1,985,360 had been overpaid in the examination of bills.</p> | <p>The officers of the contractor reporting for duty do not apply log entries and only consultant officers apply log entries when necessary.</p>   | <p>In making payments by exceeding the estimated amount, approval should be obtained for the same and payment should be made based on the actual measurement sheets.</p> |

<p>(vi) Even though an amount of Rs.10,027,500 had been estimated for the entire project for leachate line preparation according to item 3.2.3 of the bill, an amount of Rs.7,019,250, out of that, i.e.70 percent had been paid to the contractor. The market price of one PVC pipe 1000 160mm had been Rs.53,996 when the price was verified by audit on 12 September 2022 as per the bill submitted, and thereby, a sum of Rs.1,799,900 had been overpaid. Accordingly, it is observed that a false bill has been submitted to the audit.</p>	<p>An amount of Rs.7,019,250 has been paid for the supply of these pipes, out of the amount of Rs.7,019,250 allocated for leachate line preparation under item number 3.2.3.</p>	<p>False bills should not be prepared for the work not done.</p>
<p><b>(e) Construction of the clinic centre and pre-school by Kurunegala Municipal Council</b></p>		
<p>(i) The Kurunegala Municipal Council had prepared an estimate of Rs.230,186,606 for the construction of the clinic centre and pre-school and had entered into an agreement for Rs.232,122,585 with CCD Construction, and according to the bills, an amount of Rs.10,262,744 had been paid. The following facts were observed during the physical inspection of the files. According to the decision of the Technical Board to call for bids, although it was decided to call for bids from contractors with CIDA 3 or qualifications higher to that, the qualifications of the bidders had been indicated as only C3 in the newspaper advertisement, and thereby, the opportunity of submitting bids by a higher number of competitive bidders had lost.</p>	<p>Answers had not been submitted.</p>	<p>Officials should act responsibly while publishing procurement notices.</p>
<p>(ii) Even though the equipment that had been removed from the old clinic centre and given to the warehouse should have been included in the stock books of the warehouse and records should be kept in the construction of the new clinic centre, action had not been taken accordingly.</p>	<p>Answers had not been submitted.</p>	<p>Should be properly documented and accepted to the warehouses.</p>
<p>(iii) In the payment of the bill of the contract, Rs.694,315 had been paid to the contractor for the machinery for the period of 6 days, when the construction was stopped at the work site, indicating it as the idle time.</p>	<p>At the time of the initiation of this project, it was not expected that extensive demolition of the boulder would have to be carried out, and after the initiation of the</p>	<p>Payments should be made as per the Procurement Guidelines.</p>

project, the need for extensive demolition of the boulder became clear, so the work at the site was temporarily stopped for 06 days. That environmental permits have to be obtained only due to the widespread demolition of the boulder.

(f) **Industry of Repairing the Lavatory System of the Bus Stand**

CIDA grading, the main qualifications and experience required to be included in a newspaper advertisement inviting bids in terms of 5:3:2 of the Procurement Guidelines had not been mentioned in the advertisement published in the newspaper.

It has been informed that the bidders, who submit bids must be registered with the Construction Industry Development Authority (CIDA). Furthermore, the relevant qualifications have been clearly stated as C7 in the tender documents issued to the bidders.

Officers should function with responsibility in publishing a procurement notice.

(ii) The performance security amounting to Rs.459,590 and the advance security amounting to Rs.1,838,361 submitted by the contractor for performing this contract had been fake. It was observed that advances amounting to Rs.1,838,311 and share money had been released without examining these fake certificates. Even though it had been indicated by the directive of the Standing Committee on Finance in April 2022 that the amount of Rs.1,800,000 paid to this contractor should be reimbursed through advance security and performance guarantees, this amount could not be reimbursed as fake security had been submitted.

Answers had not been submitted.

Inquiries should be conducted pertaining to the irresponsible functioning of the officers appointed to the Technical Evaluation Committee and the officers appointed to the Procurement Committee and take action to recover the loss incurred to the fund of the Municipal Council.

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| (iii) | Even though this project valued at Rs.9,191,808 should be finalized by 09 December 2021, it had not been finalized by that date and the project had been extended up to 09 April 2022 without any reason.   | Answers had not been submitted. | The officers responsible should function to complete the projects within the contractual period and should provide acceptable reasons if the contractual period is extended. |
| (iv)  | Even though the contractor had not taken action to perform the work items worth Rs.7,438,404, out of the value of the project, the authorities of the Municipal Council had not taken any action.   | Answers had not been submitted. | Construction work should be supervised by a responsible officer.   |
| (v)   | Due to the abandonment of these toilet systems without completing them, there was a difficulty in fulfilling the basic needs of the shopkeepers at the bus stand and it was also observed that various people had defiled the toilets under construction. It was observed that mosquito menace as well as a strong effluvium had been prevailing in these latrines due to the collection of water in concrete of some latrines. | Answers had not been submitted. | The project should be completed expeditiously in order to provide the services to the general public.  |

#### **04. Accountability and Good Governance**

##### **4.1 Procurement Management**

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) A newspaper advertisement had been published for the lease of 4 parking lots belonging to the Kurunegala Municipal Council and quotations had been called and leased out, and all the above 4 parking lots had been leased to Broad Way Car Park Solution, which had offered the highest price. Bodhiraja Mawatha had been leased out to the second highest bidder after Broad Way Car Park had later refused to get it for lease. Even though the Technical Evaluation Committee and the Procurement Committee should check and approve the tender documents in this regard, the Procurement Committee and the Technical Evaluation Committee had	All the bid documents will be approved from the Technical Evaluation Committee and the Procurement Committee in the future.	Action should be taken as per the Procurement Guidelines.

not approved the tender documents related to the above procurement.

- (b) Even though 1/3 of the annual rent should be paid at the moment of entering in to contract and the remaining 2/3 should be paid in 06 equal instalments within 06 months starting from the third month, Broad Way Car Park had defaulted the payment of Rs.3,579,520, which had been the 2/3 payable for Main Street i, Main Street ii and Mihidu Mawatha car parks.

The Standing Committee on Finance has recommended under No. SFC/05/2022/09/27/MA/R/7 that the payment shall be made within 14 days with effect from 27 September 2022 and if the payment has not been made, the contract shall be cancelled without further notice and legal action will be taken. Action should be taken in terms of the Agreement and the arrears should be recovered.

## 4.2 Action Plan

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
Twenty-five (25) projects with an estimated value of Rs.94,000,000 included in the annual action plan had not been included in the annual budget.	It was used to build a lavatory system for the people of Vavgale and the rest of the money was used for other development projects.	Action should be taken in accordance with the Annual Action Plan.