

Kandy Municipal Council - 2023

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Kandy municipal council including the financial statements for the year ended 31st December 2023 comprising the Balance sheet as at 31st December 2023, Income and Expenditure account, notes to the financial statements including material accounting policy information 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 and with the provisions of the National Audit Act No.19 of 2018 read in conjunction with Section 219 of the Municipal Councils Ordinance (Chapter 252). My comments and observations which I consider should be report to parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Kandy Municipal Council. Because of the significance of the matters stated in the section 1.6 in this 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

I expressed disclaimer of opinion regarding financial statement 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 practises, 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 municipal council's financial reporting process.

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.

1.4 Audit Scope (Responsibility of the Auditor for the audit of Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercised professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of its internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following,

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the municipal council, and whether such systems, procedures, books, records and other documents are in effective operation,
- Whether the municipal council has complied with applicable written law, or other general or special directions issued by the governing body of the Municipal council

- Whether it has performed according to its powers, functions and duties, and
- Whether the resources of the municipal council had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Report on Other Legal Requirements

National Audit Act, No.19 of 2018 include 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 includes all the recommendations made by me in the previous year except the audit matters described in paragraph 1.6.1 (b) of this report as per the requirement of section 6(1)(d)(iv) of the National Audit Act, No.19 of 2018.

1.6 Audit observation on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) According to the vehicle valuation report of the year under review, the value of 06 vehicles had been overstated in the financial statements as Rs.129,450,000.	That the valued amount of the year 2022 has been entered in the account and the new valued amount has been entered in the schedule.	The account and schedule should be presented correctly.
(b) During the year under review, the fire truck received as donation and valued at Rs.8,000,000 was not accounted for.	As the value was not assessed, it had not been accounted.	Since this fire brigade vehicle was received to the municipal council in June 2022 and valued in October 2023, therefore it must be accounted.
(c) In the year under review, the value of Rs.32,352,015 and Rs.5,800,000 was spent on the installation of the waste separation machine at Gohagoda dumping site and the related constructed building and the value of the vehicle	That the work and payments were not completed and therefore it was not accounted.	Since the retention amount was also released in December of the year under review, the machine should be accounted.

weight measuring machine was not capitalized.

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| (d) | The stock of Rs.6,334,711 as at 31 st December of the year under review of the precast concrete production project had not been accounted. | That it will be included in the financial statements in the future | All the stocks of the council should be accounted. |
| (e) | As at 31 st December of the year under review, the value of the stock of organic fertilizers and plastic chips in the waste management project had been accounted more than Rs.1,742,538. | Action will be taken to correct in next year. | Stock should be correctly identified and accounted. |
| (f) | As on the last day of the year under review, the stamp duty receivable was Rs.273,416,649, but by accounting as Rs.138,656,299, the stamp duty receivable had been understated by Rs.134,760,350. | Action will be taken to checked out this in future. | The stamp duty should be accounted correctly. |
| (g) | In the year under review, the rates tax billing was Rs.374,293,021, but by accounting it as Rs.380,360,476, the rates tax had been overstated by Rs.6,067,455. | That the answers will be given later. | Rates should be accounted correctly. |
| (h) | Trade license fees and industry taxes due at the end of the year under review amounting to Rs.27,770,853 had not been accounted. | That a law suit is filed to recover the arrears. | The receivable license fee should be accounted correctly. |
| (i) | Although the sum of adjustments related to previous years of land taxes amounting to Rs.745,188 should be adjusted to the accumulated fund, it was deducted from the billings of the year and accounted. And the prior land tax receipts of Rs.2,891,041 had been | That was added to the billed of the year under review in revising the change from the year 2012. | The income related to previous years should be credited to the accumulated fund. |

deducted from the land tax balances due without crediting the prior receipts.

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| (j) | In the last year, Sahas Uyana premises were leased and according to the valuation report received for this premises, the rent receivable amounting to Rs.3,448,333 had not been accounted. | That will be given answer later. | The receivable rent should be accounted correctly. |
| (k) | In the year under review, the money fraud of Rs.5,157,042 in Shroff section had not been accounted as a receivable balance. | As the investigations of F R have not been completed, and there for it had not accounted and only disclosure has been made | Cash shortages must be accounted. |
| (l) | The accounts did not disclose the financial fraud of Rs.23,315,017 which had been done by preparing fraud documents and without charging stall rent and tender money. | A police complaint has been made for this and That investigations of F R were not over. | Irregularity of stall rent and tender money should be disclosed in the accounts. |
| (m) | A loss of Rs.1,792,460 was paid for a period of 49 months on behalf of an employee who had issued notice to vacated of post of the municipal council which was not disclosed in the financial statements | A police complaint has been made for this and That investigations of F R were not over. | The loss to be recovered should be accounted. |
| (n) | As at 31 st December of the year under review Rs.29,237,719 receivable from the District Secretariat for the development of the Bogambara Canal had not been accounted. | That this amount was not continuation by the Department of Industries for the year 2024. | The receivable money should be accounted correctly. |
| (o) | Rs.323,754,338 related to 414 projects without entering into a contract and starting the work was erroneously stated under the creditors between the year 2019 and the year 2023. | Although the projects have been approved, there has been a delay in starting the work | The creditors should be accounted correctly. |

- (p) 02 projects totaling Rs.108,706,817 That this amount was not The creditors should be which had been contracted and continuation by the accounted correctly. completed on 31st December of the Department of Industries for reviewed year had not been stated under the year 2024. creditors.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Recommendation Council
(a) A discrepancy of Rs.212,191,924 was observed in comparing of 06 asset balances and 05 liability balances stated in the financial statements with the balances mentioned in the related schedules.	That will be The account balances corrected in future. should be corrected.
(b) The total of fixed assets was Rs.2,344,906,129, but there was a difference of Rs.1,061,699,512 due to the total of the account of income contributions to capital utilisation and the account of donation contributions to capital utilisation was Rs.1,283,206,617 As at 31 st December of the year under review.	That will be The account balances corrected in future. should be corrected.

1.7 Non- Compliances

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

Non-compliances with Laws, Rules, Regulations and Management decisions as follows.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Recommendation Council
(a) The National Audit Act No 19 in 2018 Section 16(2)	The Performance report for the year under review had not been presented.	Action will be taken to present the Performance reports. The provisions of the Act should be followed.

(b) **Municipal Council Ordinance (252 Chapter)**

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| (i) | Sections of 247(a) and (b) | Non – compliance with the instructions of the Ordinance, the annual value of the municipal council was revised to between Rs.5,000 and Rs.75,001 and the gazette notices had been published. | For business places, the annual value of that place, the business turnover and profit of that industry and the essential nature of the goods or services provided in carrying on that industry shall be prepared with revisions every year and the license fee cycle shall be prepared and published in the government gazette and the trade license fee and industry tax fee shall be calculated and that will be charged. | The provisions of the ordinance should be followed. |
| (ii) | Sections of 247(a) and (b) | In 552 times where the annual value exceeded Rs.1,500, fees ranging from Rs.500 to Rs.1,900 were charged and a loss of Rs.774,800 had been made to the Municipal council fund. | -Do- | -Do- |
| (iii) | Section 266(a) | The arrears of income of 05 subjects of Rs.57,678,281 had been written off, but the approval of the minister had not been obtained In the | It has been forwarded to the Governor for approval, but approval has not been received yet. | Formal approval must be obtained before write off the arrears income. |

previous year and in the year under review.

(c) **Entertainment Tax Ordinance No.12 of 1946**

Section 15	In the 02 Esala Mela carnival held in the year 2023, tickets were not sealed for the inner shows and 86,000 tickets worth of Rs.1,604,950 had been issued without charging tax.	As certain definitions in the ordinance were unclear, the levy of entertainment tax was carried out this time also as followed earlier.	Fees shall be charged as per the provisions of the ordinance.
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(d) Section 28(a)(3) of the Urban Development Authority Act No.41 of 1978 as amended by Acts No. 04 of 1982 and No. 44 of 1984	Although the demolition order had been given in relation to 10 proceedings assigned by the court for the demolition of unauthorized constructions, although a period of 02 years had passed, the court order had not been implemented by the last day of the year under review.	It is accepted that it has not been demolished, and that it will be checked and the relevant measures will be taken	The court order should be followed.
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(e) **Kandy Municipal Council, Standard By-laws No. 1249 and published in the Gazette dated 8 August 2002**

Section 14(02) of the 01 Paragraph	Although it was stated that all the money and cheques received on a daily should be deposited in the bank the next day, the amount of Rs.89,000 to Rs.3,925,423 received by	Banking happened with delayed. It is currently being corrected.	Money should be banked without delay as per provisions of the standard bye-laws
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Shroff between 01st July 2022 and 26th September 2023 had been Banked with delay from 01 to 30 days.

(f) **Financial Regulations of the Democratic Socialist Republic of Sri Lanka**

F R 369(d)

Action had not taken to regarding with expired, un presented 67 checques of Rs.1,736,878.

That it will be investigated and settled in the future

Financial Regulations should be followed.

(g) **Circulars**

(i) Public Administration Circular No.30/2016 dated 29th December 2016

The fuel consumption of 150 vehicles owned by the municipal council had not been checked for a long time.

That the fuel consumption tests have been completed in 02 sections.

The circular should be followed.

(ii) **Local Government Commissioner's Circular No.2016/03 dated 17th March 2016**

paragraph (I) of section 05

Stalls are to be valued at 05 out of 5 years and in the year 2019, a stall valuation was carried out in the George E De Silva market complex after the year 2013 and from 27th June 2019 to 30th May 2023, stall rents of Rs.43,544,737 were billed from 145 stalls, but the stall rents were not collected. Council Decision No. 08/40 dated 28th February 2023 had decided to write off those rents.

As it has been forwarded to the Governor for approval, further action will be taken according to that.

Proceed as per the circular and the valued rent should be charged.

Section 10

The tenants of 21 stalls in George E. De Silva market complex had sub-leased 21 stalls for a monthly rent between Rs.21,000 - Rs.55,650.

That the legal lessees who have been identified as having been given sub leases, have been informed in writing that they will be dealt with according to the agreement.

They should be dealt with as per the agreements for the stalls that have been given sub leases.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the council for the year ended 31st December 2023 amounted to Rs.718,210,138 as compared with the excess of revenue over recurrent expenditure amounted to Rs.627,188,401 in the preceding year.

2.2 Financial Control

Subject

According to the bank reconciliation statements related to the month of December of the year under review of the 02 current accounts maintained at the Bank of Ceylon and the People's Bank, there were unidentified deposits of a total of Rs.7,987,491 and unidentified payments of a total Rs.514,947 and deposited but which had not been realized for a long time. Rs.1,466,987 had not been settled.

Comments of the Council

That it will be identified and settled as soon as possible.

Recommendation

Action should be taken to identified and settled the balances.

2.3 Revenue Administration

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

According to the information presented the Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Revenue source	Estimated revenue	2023			2022			Total arrears as at 31 st December
		Billed revenue	Collected revenue	Total arrears as at 31 st December	Estimated revenue	Billed revenue	Collected revenue	
	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)
(i) Rates & Tax	1,313,439,000	1,229,426,926	1,195,785,986	721,296,042	990,201,000	882,283,117	820,914,617	527,826,312
(ii) Rent income	295,938,000	256,913,388	214,419,265	181,080,589	285,829,000	253,894,168	233,732,302	111,562,800
(iii) License Fees	41,001,000	37,926,246	37,926,246	--	40,305,000	34,770,109	34,770,109	--
(iv) Other Revenue	850,539,000	830,043,693	840,903,061	304,610,238	908,667,000	746,595,031	592,026,297	125,573,111
Total	2,500,917,000	2,354,310,253	2,289,034,558	1,206,986,869	2,225,002,000	1,917,542,425	1,681,443,325	764,962,223

2.3.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the council are given below.

Audit Observation	Comments of the council	Recommendation
Revenue Collection		
(a) The arrears from all sources of income as at 31 st December of last year was Rs.1,001,061,323, and as of the last day of the reviewed year it was Rs.1,206,986,869, so the growth of arrears was 20 percent.	That action will be taken to collect the arrears.	Action should be taken to collect the arrears income.

(b) Rates and Taxes

As of the last day of the year under review, the outstanding rates balance was Rs.205,363,030, and an arrears rates balance of Rs.36,846,801 from 30 rates units where the arrears per unit exceeded Rs.500,000, had not collected in accordance with section 256 of the Municipal Council Ordinance (252 Chapter).

That the action will be taken to collect the arrears rates.

Action should be taken to collect the arrears rates.

(c) Rent

(i) According to 13(1) of the by-laws of the Municipal Council published by Gazette Notice No.1249 and dated on 09th August of 2002 the rent income of Rs.144,543,178 had not been collected from 725 lands that were leased.

Arrears will be collected and legal action will be taken where appropriate

Action should be taken to collect the arrears rent.

(ii) As at 31st December of the year under review, a tender amount of Rs.6,247,952 had not been collected from 07 butches on time in the Central Market.

That the butchers will be tendered and contracted at the appointed time and the tender money will be collected on time.

The arrears stall rent should be collected.

(iii) As at 31st December of the year under review, the outstanding rent of Rs.7,253,371 had not been collected from 54 stalls in Bogambara market complex.

That a board has been appointed by the management committee to check and report in this regard.

Actions should be taken to recover the arrears

(iv)	A total of Rs.24,614,082 rent had not been collected by 263 tenants on the upper floor of the new market complex near the railway station road from 2015 to 31 st of December 2023.	That the Council has taken a decision to giving the opportunity for the 92 space owners who paid money in the year 2022 to continue doing business by at that place and write off the outstanding amount of the remaining 171.	The rent should be collected on time.
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(d) License Fees

All business institutes should pay license fees and carry on business before 31 st March 2023, but if an amount of Rs.27,770,853 has not been paid by 31 st December 2023 but as per 274(c) of the Municipal Council Ordinance (Authority 252) the legal action had not been taken and had not been collected.	That parties who have not paid outstanding license fees will be sued and charged.	The license fee should be charged as per rules and regulations.
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(e) Other Income

(i)	There was a arrears of water income of Rs.184,551,257 and out of which 179 water consumers whose outstanding per unit exceeded Rs.100,000 had not been charged Rs.80,653,971 as of the last day of the reviewed year.	That disconnection activities will continue to be implemented to collect arrears of revenue	The arrears water fees should be collected.
(ii)	As at 31 st December of the year under review, arrears of Rs.95,525,371 from 4206 consumers under the municipal wastewater project had not been charged for a period of 03 years.	That the arrears will be collected by disconnecting the water connections.	Action should be taken to collect the arrears.

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| (iii) | As on the last day of the year under review, arrears of Rs.34,351,290 related to 1,719 advertisement board had not been collected. | That actions are being taken to collect arrears | The arrears income should be collected. |
| (iv) | A garbage tax of Rs.845,761 due from 17 institutions that has been in existence for more than 02 years has not been collected. | That actions are being taken to collect arrears | The garbage fees should be collected on time. |
| (v) | Three-wheeler license fee of Rs.38,730,686, which was outstanding from 1,321 persons for more than 03 years had not been collected. | That action will be taken to collect the outstanding three-wheeler license fees | The three-wheeler license fees should be collected on time. |
| (vi) | Court fines that should have been received from the Chief Secretary of the Provincial Council and other authorities at 31 st December of 2023 were Rs.5,381,772 and stamp duty was Rs.138,656,299. | That action will be taken to collect these money. | Action should be taken to collect the arrears. |

3. Operational Review

3.1 Performance of functions assigned by the Ordinance

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the council under Section 4 of the Municipal Council Ordinance are shown below.

Audit Observation	Comments of the Council	Recommendation
(a) The National Water Supply and Drainage Board and the Kandy Municipal Council jointly signed an agreement on 17 th November of 2021 to implement waste water project, and the project was	That although the provision of house connections has stopped due to the discontinuance of JICA loan assistance and the of connections will be made at the	The project should be completed as soon as possible and work to achieve the desired objectives.

started under with an amount of 17 million rupees from the JICA project and 4,060 million rupees from the Government of Sri Lanka. expense of the Municipal Council's provision.

This project has 04 packages, out of which 9,205 household sewage connections and 39 sewage connections to institutions were planned to be provided under 03 packages, but only 3,700 household connections had been connected to the system by the end of the year under review.

Although this project has been implemented based on several objectives, including the objective of improving the quality of life, health and welfare of the people around the Kandy city area the planned sewage connections had not been provided.

- (b) Although huge capital cost was incurred to establish buildings and machinery at Gohagoda dumping site and organic fertilizer production was reduced and 693.74 tons of garbage was transported to Kundasale pradeshiya sabha during the period from 12th December of 2023 to 31st March of 2024 at a cost of Rs.3,142,641. Also, 470,488 kg of fertilizer worth Rs.4,738,680 and 14,111 kg of plastic cubes worth Rs.2,092,282 produced from non-biodegradable waste were piled up in the About 60 tons of decomposable garbage was dumped in Gohagoda daily and out of which about 25 tons are dumped for the existing compost yard. Out of the remaining biodegradable garbage about 15 tons will be disposed of at Digana Aluthwatta after payment. Action should be taken to manage the council's garbage and to sell the products.
- This situation has arisen due to the non-presented of buyers related to the purchase due to the worldwide spread of the Corona epidemic, although the

dumping site without making a suitable arrangement for sale. supply department has called the price quotations and done the necessary work to sell the produced compost and plastic cubes.

3.2 Identified Losses

Audit Observation	Comments of the Council	Recommendation
(a) the recommendations of the investigation board in that report of F R 104(4) investigation report was issued on 12 th July of 2023 regarding the failure to collect an amount of 55 million rupees from the year 2015 until now after leasing the Smile Building No.74, Dalada Street, Kandy to an external party and Although it was ordered to collect the amount of 55 million rupees from the responsible parties and conduct a preliminary investigation against those officials, those orders had not been implemented.	The necessary action will be taken to collect the loss in the future.	Necessary action should be taken as per the orders of the inspection reports.
(b) According to the F R 104(4) investigation report conducted in 2007 regarding the fire of the library owned by the Kandy Municipal Council, an due amount of Rs.31,250,000 had not been collected until the last day of the year under review.	Stakeholders have filed a case for this. That necessary action will be taken after the case is over	Action should be taken to collect the losses.
(c) The water pipe laying project along the main road from Kandy to Katugastota was awarded a tender exceeding the engineering estimate and incurred a loss of Rs.86,668,189 in the year 2017 and while the water pipe equipment was imported an irregularity of Rs.1,500,000 has been made for the expenses incurred by the officials to go abroad to inspect these equipment. However, in relation to this the investigation of F R 104(3) and 104(4) of had not been carried out and necessary action had not been taken.	F R 104(4) General Form 284 has been received, but it has been received without the signature of the Disciplinary Authority, and an inquiry has been made regarding it dated 29.05.2024, and They have agreed the amount of Rs.1,500,000 has been deducted from the final bill payable to the contracting company.	Actions should be taken to recover losses and necessary disciplinary action should be taken against the responsible parties

Since this project there has been some delay to handed over to the Kandy Municipal Council and the Maga Institute has agreed to deduct Rs.5,052,673 as late fees from the final bill.

3.3 Visual Disturbances

Audit Observation	Comments of the Council	Recommendation
(a) There is a fraud of Rs.8,277,600 had been done without charging the stall rent during the period from 2018 to 31 st July of 2023 it was recorded in the stall rent register using fraud receipts numbers that stall rent was received from 31 stalls in the market complexes of Kappetipola, Bogambara, Menikkumbura and butches at Central Public Market owned by the Municipal Council.	As the investigation under F R 104(4) should be done by the Central Provincial Local Government Department, the related F R 104(3) has been done and the relevant reports have been forwarded to the Local Government Department on 25 th October 2023.	Un-supervised officers of irregularity should be identified and disciplinary action should be taken to recover lost revenue.
(b) A total of Rs.13,593,790 had been regularized without crediting the council revenue in the transfer of the lease rights of 18 stalls in 04 market complexes of Menikkumbura, Kappetipola, Bogambara and George E. De Silva owned by the Municipal Council the receipts were prepared as fraud and transfer of stalls without receipts from the approval of the Health Committee and the general meeting.	As the investigation under F R 104(4) should be done by the Central Provincial Local Government Department, the related F R 104(3) has been done and the relevant reports have been forwarded to the Local Government Department on 22 nd April 2024.	Un-supervised officers of irregularity should be identified and disciplinary action should be taken to recover lost revenue.
In regarding with this there was no investigation under F.R. 104(4) and action had not been taken to collect the loss and take necessary disciplinary actions.		
(c) The shroff of the Municipal Council had misappropriated an amount of Rs.5,157,042 collected daily in 02 days without banking it. In	As the investigation under F R 104(4) should be done by the Central Provincial Local	Officers who do not check daily banking of money should be

this regard F R104(4) investigations had not been conducted and necessary actions had not been taken. Government Department, the identified and related F R 104(3) has been necessary action done and the relevant reports should be taken have been forwarded to the Local Government Department on 07th February 2024.

(d) In carrying forward quarter to quarter, year to year, balances of the rental records of the stall in the market complexes at Central Market Space, Goodshed Ground Floor, Gohagoda, Katugastota Road, Railway Station Road A and B, Deiyannewela, Dangolla and Aruppala owned by the Kandy Municipal council an irregularity of Rs.1,443,627 had been done in relation to the period from 2016 to 31st August of 2023 by keeping fraud notes and not billing the income. In this regard F R104(4) investigations had not been conducted and necessary actions had not been taken. F R 104(3) inquiry completed and forwarded to the Commissioner of Local Government dated 12th January 2024. The Municipal Council should take action to recover the loss from the concerned officers and take disciplinary action. The Commissioner of Local Government has been informed on 27th October 2023 that a preliminary investigation will be carried out.

That F R 104(4) that the committee shall be appointed and the investigation shall be completed within one month

(e) A primary level (unskilled) laborer of the Municipal council had worked for 04 months from 10th April 2019 to 08th August 2019 and vacated his post. This employee had been paid an amount of Rs.1,792,460 for a period of 04 years from 8th August 2019 to August 2023. There was a loss to the Municipal Council Fund due to non-stop of salary despite being noted as “Transfer” in the pay roll. As the investigation of F R 104(4) should be done by the Central Provincial Local Government Department, the F R 104(3) has been done and the relevant reports have been forwarded to the Local Government Department on 27th October 2023. The Municipal Council should collect the lost revenue from the negligent officer and disciplinary action should be taken.

3.4 Informal transactions

Audit Observation

Comments of the Council

Recommendation

(a) According to the call for tenders made on 12th May 2023 and 02 bids were submitted and rejected tender was fraud for the lease of 100 At the end result is that this bidder's the bid has been rejected due to non-fulfillment Tender and Technical Evaluation

stalls in the upper part of the council car park (Sahas Uyana) belonging to the Kandy Municipal Council for 15 years under the operating lease system was observed.

Also, according to the terms of Section 40(1)(f) of the Municipal Council Ordinance, 100 stalls had been leased for a period of 15 years on a long term lease basis without obtaining the right of the minister. Action had not been taken to collect the rent from these stalls as per the valuation of Chief valuation officer.

of basic qualifications according to the evaluation of signatures and other matters submitted by this Atlanta company.

Committees should act responsibly and identify fake documents and deal with them according to law.

(b) The sum of tender fees that could have been obtained annually from rent had lost an income of Rs.2,350,000 although meat stalls are to be rent for one year, the mutton stall at Menikkumbura mall had been rent for 16 years from 1st April 2018 to 14 December 2034.

By decision No.2418 dated 23rd February 2018, Rs.153,000 has been given for a period of one year. But during the signing of the contract the contract was signed for 05 years and the tender period was extended for 10 years.

Action should be taken to leased butcher annually.

3.5 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) As at 31 st December of 2023, tender amount of Rs.1,293,638 and stall rent of Rs.559,342 had not been collected from 10 meat stalls whose rent period has expired in Central Market.	Accepted the audit findings and action has been taken to recover these arrears	The arrears should be collected.
(b) 03 stalls of 8/34, 8/35 and 8/36 of Kappetipola Market complex in the year 2018, although tenders were invited for a period of one year, from February 2018 to the last day of the year under review, they had been given to the same tenant without inviting tenders.	That legal action has not been taken	Since the stall which was leased for a year is being maintained without a lease agreement and the form of the stall has been changed, the stall should be

Also, stall no. 8/33 was allowed to be used without permission by this tenant without charging rent, and these 04 stalls were added and the walls were broken to change the form and a business of selling food was allowed to be maintained without entering into a contract. 03 stalls B 09, 10, 11 of Bogambara Market complex were also given informally to cook food in this business. In addition to this, although the tenant obtained interim lease of the 03 stall rooms numbered 8/28, 8/29 and 8/30, demolished the walls and changed the form and maintained it, the legal action had not been taken in this regard.

handed over to the council and necessary action should be taken.

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| (c) | The tenants were given to build stalls on the upper floor of the Torrington Lane Market place owned by the municipal council, and 24 stall were charged as land rent and without doing valuation an old rent had been charged from 23 years. Also, as at 31 st December of the year under review, an outstanding rent balance of Rs.2,044,910 had not been collected from these 24 stalls. | That the arrears are being collected | The stalls should be valued and taxed on time |
| (d) | According to the decision of the case number L 5664 between Kandy municipal council and Kandy Hotel Company, the municipal council had acquired the right of 03 pieces of land of Queen's Hotel. This hotel premises was also not valued after the year 2011, and according to the valuation reports of the year 2011, taking into account the relative increase, an income of Rs.46,395,250 had not been collected for the period from 1986 to 2023. | That Kandy Municipal Council has taken action to collect the outstanding amount from Quince Hotel and that it will take action again to collect the outstanding amount in the future, and if it fails to do so, legal action will be taken. | If the tax is not paid, legal action should be taken and the take over the possession. |
| (e) | The 93 housing units of the apartment complex Situated in No.51/2, Sir Kuda Ratwatta Mawatha, Kandy, owned by GVR Lanka Pvt. issuing the certificate of | According to the recommendation of the Standing Committee on Constitutional Lands | After the valuation notices have been handed over, they have not been |

conformity to that the construction has been completed according to the plan, and after that obtained the valuation on behalf of all the housing units from the municipal valuation department on request of the property owner. Although new numbers were given along with the given valuation registered in the rates register from the year 2018 and rates notices were handed over, the outstanding rates balance of Rs.16,385,668 along with the warrant fee had not been collected.

General Matters and the Management Committee No.407 dated 16th August of 2023, the municipality has not lost any revenue and there has been wrong billing, and making necessary arrangements to refer to the Honorable Governor to cut off the wrong billing.

charged and acted upon in accordance with the Act. Therefore rates should be charged.

(f) According to the recommendation of the National Building Research Organization, a land proposed to be given on lease basis belonging to the Dunumadalawa Reserve near Ginihiriya village belonging to the Kandy Municipal Council was declared unsuitable for habitation, but action had not been taken to remove the unauthorized occupants.

That the Management Committee will take a decision based on the recommendations after receiving the report of the National Building Research Organization,.

According to the report of the National Building Research Organization (NBRO), these 02 plots of land have been reported to be unfit for residential use, so the orders should be followed.

3.6 Operational Inefficient Audit Observation

Comments of the Council

Recommendation

(a) Although space in the central market was leased to 113 traders at a monthly rent of Rs.1,000, as at 31st December of the year under review, rent amounting to Rs.13,613,666 had not been collected from these spaces. Even so, those traders earned income by sub-leasing the space to other people at a value ranging from Rs.300 to Rs.500 per day, but action had not been taken to collect the arrears to the municipal council.

If a sub-lease has been made, that the arrears will be collected by following the agreements

Action should be taken to collect the arrears rent on time

(b) Although the stalls in sections B, C, D of Bogambara Market complex had stopped billing since 30th September 2019, it was observed that 18 stalls that were inspected

That the committee will proceed according to the decision to start the billing.

Stalls should be renovated and taxes collected

were doing business from 01 October 2019 to 31st August 2023. During the period, had lost an income of Rs.1,612,500 to the council fund from 20 stalls.

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| (c) | The municipal council fund had lost an rates income of Rs.3,186,036 during the period from 2012 to 2023 in the sample physical inspection conducted regarding the rates collection of 03 public businesses located within the council area of the municipal council due to the rates collection without taking into account the physical changes. | That these deficiencies will be corrected | Rates should be collected considering the physical changes |
| (d) | Although Circular No.2013/06 has been issued for the leasing of land with high commercial value owned by the municipal council and a system to be followed has also been introduced, Even though it existed un-authorized persons are using the land in 790 plots of land in 09 council areas owned by the municipal council. The Municipal Council had lost a lot of income because the land had not been valued and leased. | That the land will be valued and leased contractually | Actions should be taken to value, lease and collect revenue from the lands. |
| (e) | The upper floor of the municipal car park, which consists of 05 units owned by the Kandy municipal council was leased for 15 years in April 2022 through the operating lease system, and the rent of Rs.3,448,333 related to the period from April 2022 to October 2023 had not been collected by the last day of the reviewed year. | As per the valuation report, the lessee has been informed to pay the arrears | Action should be taken to collect the arrears. |
| (f) | In the calculation of monthly water charges as at 31 st December of the year under reviewed, around 1500 water meters are observed which charge fixed charges due to various reasons such as inactive meters, closed meters and meters that have been closed for a long time | Necessary action will be taken in future for inactive meters, closed meters. | The method of collection of water revenue for the municipal council should be formalized |

and cannot be inspected, It was observed that this amount continues to grow and the income of the municipal council decrease.

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| (g) | As there was a arrears of Rs.1,784,870 in the water bill numbered 3066 of one water customer, the water bill was disconnected in September 2016 and the water connection was restored on 10 th October of 2016. 1,624,495 liters of water had been used till 24 th April of 2024, although no billing had been done since that date. However, the arrears and unbilled value had not been charged. In out of that, the customer was provided with water connection through 02 water meters bearing No.3065 and No.13137, and a water fee of Rs.4,642,624 had not been charged till the last day of the year under review. | That the bill related to the water supply of the Sri Dalada Maligawa will be recovered by the Central Provincial Council in the future. | Actions should be taken to recover arrears |
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3.7 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Council	Recommendation
(a) Although it was decided to temporarily lease a portion of the new market complex on Railway Station Road about 5582 square feet for a business place for conducting tuition classes for a period of 05 years, due to the fact that it will not be used for any purpose in the year 2023, as per the minimum bid decided by the Council, at Rs.175,000 each per month an income of Rs.2,100,000 had been lost to the council fund.	That although the management decision No.195 dated 28 th June 2023 decided to prepare the necessary facilities and give lease for a business to maintain tuition classes on the upper floor of the Kandy Railway Station Road New Market complex but the proposal was not implemented.	Action should be taken to earn income by utilizing the assets owned by the council.
(b) 09 vehicles with a total of Rs.22,946,987 in possession of the council have been idle for about 06	That necessary action will be taken in the future	The vehicles should be used effectively

years, but have not been repaired or auctioned.

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| (c) | A water bowser owned by the council had been repaired at a cost of Rs.729,690 but the bowser had been parked in the mechanical workshop for 03 years without running condition. | That necessary action will be taken in the future | The assets should be used effectively |
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3.8 Assets Management

Audit Observation

The Central Market, Central Market vegetable section and Torrington by path Market complex have not been renovation for many years, which had causing inconvenience to consumers and traders.

Comments of the Council

Action will be taken to repair in future.

Recommendation

Action should be taken to repair as soon as possible

3.9 Delays in projects, tasks or capital works

Audit Observation

Planned 429 projects worth Rs.578,851,567 had not been completed between 2019 and 2023.

Comments of the Council

No comments

Recommendation

The planned tasks should be performed

3.10 Procurement Management

Audit Observation

- (a) The vehicle spare parts had been purchased in 35 times at a cost of Rs.3,974,845 without calling for quotations according to Sections 04, 06, 07 of Part III of the By-laws of the Municipal Council published in Gazette No.1304/18 dated of 05 September 2003. It was revealed during the examination thus confidentiality was not preserved of the files that out of the 35 times where the

Comments of the Council

That the answers will be given in future.

Recommendation

The procurement process should be done in a formal manner

above prices were called, the prices in 28 times were obtained by hand in sealed envelopes without being submitted.

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| <p>(b) A bidder was selected at a cost of Rs.1,557,200 and an amount of Rs.969,975 was paid in accordance with clauses 4, 6, 7 of the standard by-laws of the municipal council published in Gazette No.1304/18 dated 05 September of 2003, bid invitations were obtained by telephone without calling for prices quotations and for the opening ceremony of the new auditorium of the Municipal Council stage background LED screens, For stage lighting shows and video recording.</p> | <p>Due to insufficient time for procurement, concerned institutions were notified by phone and informed to submit the prices quotations, and the prices will be published on 08th December 2023. Although it is mentioned that it will be opened at 10.00, it has been missed to mention that it should be sent in sealed envelopes. That the offered price is compared with the market price and that this company was chosen because it has experience in this regard and is located closest to the Kandy Municipal Council.</p> | <p>The procurement process should be done in a formal manner</p> |
| <p>(c) If the tender was rejected, but the tenderer in question had not been blacklisted due to the fact that the tenderer selected for the hand-over of the lease right to maintain the boat service in Kandy lake for 05 years had submitted fraud documents.</p> | <p>That the tenderer will be black listed.</p> | <p>The procurement process should be done in a formal manner</p> |

3.11 Defects in Contract Administration

Audit Observation	Comments of the Council	Recommendation
<p>(a) According to the contract agreement for the construction of the community hall in Katukele, which was being constructed by spending Rs.5,443,629 as of the last day of the year under</p>	<p>The contractor has been informed in writing to return the overpaid amount. Accordingly the contractor has been requested to be recovered</p>	<p>Actions should be taken against the officers to identify the officers who recommended payment for unfulfilled work.</p>

review, the work of the project should have started on 13 October of 2020 and the work should be completed on 13th October of 2021, but its construction was abandoned by the last day of the year under review. An amount of Rs.1,478,703 had been paid more than the amount of work that had been accomplished in total 12 items.

overpaid amount is Rs.1,151,993 from the retention of industry of the construction of the multi-purpose building in Dodamwala and by this contract.

- (b) As of the last day of the year under reviewed, the multi-purpose building in Dodamwala, which was being constructed at a cost of Rs.7,783,230, had not prepared the estimated measurements in the contract for the construction of the ground floor and had been paid an extra amount of Rs.939,212 more than the amount of work that had been completed in 06 work items.

As mentioned in 2.1 of No.2, an extra 0 has been added to the price and it has been mentioned as Rs20,000. for item 15 in second bill and there has been an overpayment because it was not noticed while checking the bill.

But later the contractor has submitted the third bill where the price has been corrected

That the payment should be made for the work done and the officers who overpaid up to the fraud price should be identified and action should be taken. Since the payment for the water tank was made from the last bill, it cannot be corrected the concerned officials should be identified and action should be taken.

Also, while the tenderer had applied Rs.2,000 per cubic meter for cutting of soiled work subject number 15 and Rs.1,503,720 per 83.54 cubic meters had been paid fraud indicating Rs.20,000. And for work item number 76 (R3), the tenderer had applied for Rs.15,000 for a 500 liter plastic water tank, but due to the payment of Rs.150,000, an irregularity had been done by overpaying Rs.135,000.

Since the amount of Rs.15,000 submitted by the contractor of the water tank was printed as Rs.150,000 since the preparation of technical evaluation reports, it has been used as Rs.150,000 in the agreement. That this has been corrected in the third bill

3.12 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
(a) At the end of the year under review, there were 491 vacancies related to 70 approved carder and 33 excess employees related to 03 positions.	That all recruitments are temporarily suspended as per policy decision taken by the Government.	Vacancies should be filled.
(b) According to the transfer policy for officers of the Central Provincial Public Service, officers who have completed more than 05 years of service at one post should be subject to transfers, but as on the last day of the year under review, 48 officers had served between 05 years and 35 years was continuously employed in the municipal council.	Annual transfers have not been implemented for the officers of the Sri Lanka Engineering Service in the last 5 years. Since the Chief Ayurveda Officer belonging to the Sri Lanka Ayurveda Service has been appointed to that position for a short time and is already the senior most officer of the Kandy Municipal Council, further duties will be performed based on the need of the service.	Transfer policy should be implemented
(c) As per 251 of Chapter XVIII of the Procedural Rules of the Public Service Commission published in Special Gazette No.2310/29 dated on 14 th December 2022, although approved transfers are to be made. It was observed that the council appointed employees shall not be transferred to different departments within the Municipal Council and worked at one place for number of years.	That the internal transfer of labor officers appointed in connection with the municipal council between divisions will be done in the year 2024.	An internal transfer system should be established
(d) Employee loans of Rs.10,305,691 had not been collected from 110 retired, deceased and officers who have vacated post the for a period of 02 to 13 years.	The council has been informed about the recovery of the loan balances of the employees who have left the service / died / retired / suspended from work, and the	Action should be taken to collect the arrears.

loan balances of 06 employees will be collected from the guarantors.

3.13 Vehicle Systems Management

Audit Observation

In the issue of grease for 03 vehicles in the year 2023 by the mechanical workshop, the amount of grease to be obtained according to the number of machine hours of those vehicles worked is 173 kg, but since the amount of grease obtained is 609 kg and the 436 kg of grease had been issued over and Rs.2,390,325 had been misused.

Comments of the Council

That the necessary action will be taken regarding in the future

Recommendation

The required amount of grease should be issued on the type of vehicle.

4. Accountability and good governance

Environmental issues

Audit Observation

Environmental damage had occurred due to the dumping of soil, building removal materials and other materials in the Kalaldora canal in the area of Kandy, and the accumulation of silt in the Mahaweli River and the release of sewage into the Kalaldora and Hali canals.

Comments of the Council

That action will be taken in the future

Recommendation

The damage to the respective reserves should be checked and necessary action should be taken