

Kandy Municipal Council - 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kandy municipal council including the financial statements for the year ended 31 December 2024 comprising the Balance sheet as at 31 December 2024, 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) and sub-section 10 (1) of National Audit Act No. 19 of 2018, My comments and observations which I consider should be report to parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Kandy Municipal Council as at 31 December 2024, and of its financial performance for the year then ended in accordance with generally accepted accounting practices.

1.2. Basis for Qualified Opinion

I expressed qualified opinion regarding financial statement on the matters described in paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

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 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) An amount of Rs.8,533,842 had not been accounted which should have been received from the District Secretary of Kandy by the end of the year under review for the development of the Meda Ela.	That will be corrected by journal entry.	The account should be prepared correctly.
(b) Although the sum of Rs.3,655,074 received for 05 development projects implemented by the local authorities during the year under review should have been accounted for under capital income but it had been credited to expenditure.	Since the expenses had been incurred under the development expenditure head, it will be charged to the relevant expenditure head.	The capital income receiving should be accounted correctly.
(c) A balance of Rs.1,294,266 in the World Heritage City Project Fund account had been understated.	That will be corrected.	The accounts should be prepared correctly.
(d) A total sum of Rs.971,887,255, being the unutilized provisions of the year under review and of previous years, had been accounted for under creditors as expenditure without proper settlement.	That the creditor's balances will be settled.	Creditors should be properly forecast and accounted.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
(a) A discrepancy of total sum Rs.247,245,127 was observed when comparing the balances of 09 asset items and one liability item disclosed in the financial statements with the corresponding balances in the schedule.	That will be corrected in future.	Account balances should be reconciled with the corresponding schedule.
(b) According to the financial statements as at 31 December of the year under review, the receivable water revenue of the Water Division amounted to Rs.383,317,040, whereas according to the computerized system the balance was Rs.376,272,288, therefore discrepancy of Rs.7,044,752 had been observed.	Necessary action will be taken immediately to rectify the difference between the account balances through the computerized system.	The account balances should be reconciled with according to the financial statements and the balances shown in the computerized systems.

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| (c) | As at 31 December of the year under review, while the total of fixed assets amounted to Rs.2,275,814,461 but the total of the account for contributions from capital revenue and contributions from donations to capital amounted to Rs.2,271,617,127 thus a difference of Rs.4,197,334 was observed. | The action will be taken to correct when presenting the financial statement to audit in 2025. | The total value of fixed assets should be reconciled with the total balance of the accounts for contributions from capital revenue and contributions from donations. |
| (d) | As at 31 December of the year under review, the temporary loan of Rs.144,586,056 receivable by the General Division from the Water Division had been shown as a temporary loan payable by the Water Division to the General Division as Rs.139,486,056, thus a discrepancy of Rs.5,100,000 had been observed. | This difference relates to previous years. Action will be taken to provide a reply after reconciliation. | The accounts should be reconciled so that the respective account balances to be compared are properly matched. |
| (e) | As at the end of the year under review, sum of the total VAT collected by the Water Division amounted to Rs.288,463,950, but it had been debited to the VAT Control Account as Rs.241,011,145 therefore a discrepancy of Rs.47,452,805 had been observed. | Necessary action will be taken to correct the discrepancies between the accounting records and the computerized system. | Accounts should be properly maintained so as to be reconciled with the control accounts. |
| (f) | According to the computerized system, the total billing of rates relating to the year under review amounted to Rs.386,830,114. However, it had been accounted for in the financial statements as Rs.410,690,388, therefore a discrepancy of Rs.23,860,274 had been observed. | Action has been taken to reconcile and correct the billing of rates by Journal Entry No. 07 dated 05 May 2025. | The accounts should be corrected by reconciling with the computerized system. |
| (g) | The water revenue relating to the year under review amounted to Rs.1,338,950,516 according to the computerized system, whereas according to the ledger account it was Rs.1,299,945,609, there are discrepancy of Rs.39,004,907. | Necessary action will be taken to identify the variations in the computerized system and adjust the accounts accordingly. | -Do- |

1.6.3 Non available of written evidence for audit

Audit Observation

The total amount of Rs.245,958,365 stated in the financial statements could not be satisfactorily verified in the audit due to non-submission of documents and schedules of 03 asset heads and 02 liability heads.

Comments of the Council

These balances have been identified and action will be taken to correct them in the future.

Recommendation

The relevant documents and schedules used to verify each account balance should be properly maintained.

1.7 Non- Compliances

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

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation	
(a)	Municipal Council Ordinance (252 Authority)			
Sections of 247(e)	A sum of Rs.5,549,500 had not been collected being 1% tax on the sale of the land plan No. 1205/BOD, located on number 28/12/28/14, George E. de Silva Mawatha and sold at auction.	It is stated that action is being taken to collect a 1 percent tax receivable to the Kandy Municipal Council on the land plots sold and the remaining plots intended for sale by plan No. 1205/BOD.	Tax should be collected on the sale value of the subdivided lands.	
(b)	The Standard By Law of the Kandy Municipal Council dated 26 May 2020, published in Gazette No. 1249 dated 9 August 2002.			
(i)	Section 14 of Part II of Chapter I	Although action should have been taken to receive the value of return cheques in cash for the amounts receivable to the council, but the total of which had accumulated over 15 years to Rs.7,841,558 such action had not been taken in relation to 63 cheques.	From this balance, an amount of Rs.538,694 has been collected, and action is being taken to recover the remaining amount of Rs.7,841,558 by notifying the relevant parties.	The amounts due from return cheques should be properly recovered.
(ii)	Section 13(1) of Part II of Chapter I	Tax rental income of Rs.111,332,699 from 51 land plots that were given for tax had not been collected.	The action is being taken to regularize these lands in accordance with Local Government Commissioner Circular No. 2013/06 after the Municipal Council appointed.	The outstanding tax rent should be collected.
(c)	Sections 4.1 and 4.6 of Paragraph 4.7, Chapter XV of the	The value of the bond was undervalued by Rs.7,304,791. when an officer was sent abroad,	After the audit revealed the discrepancy, it is informed that the officer's security	The value of the security bond must

**Establishments
Code of the
Democratic Socialist
Republic of Sri
Lanka.**

bond should be corrected in accordance with Section 4:7 of Chapter XV of the Establishments Code. be calculated accurately.

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

Financial Regulation
571(3)

Deposits totaling Rs.244,425,149 from 583 cases, which had been outstanding for 2 years had not been properly settled.

Action will be taken on the overdue deposits in accordance with Financial Regulations 570 and 571.

The overdue deposits should be settled.

(e) Circulars

(i) Section 4.1 of the
Public Finance
Circular No.
01/2020(i) dated 12
January 2022.

Monthly allowances for official residences, mobile phones, and internet connections were paid along with salaries to 38 officers, and telephone bills amounting to Rs.2,034,462 for the period from 2022 to 2024 had been paid from the Municipal Council fund for these officers.

It has been recommended that the mobile phone connection provided by the Municipal Council to the officers be considered as an official telephone and that the bills be settled accordingly. Furthermore, the allowance for the officer's personal mobile phone, official residence telephone, and internet connection was paid in accordance with the provisions specified in the referenced circular.

Since it is not permissible to receive two telephone allowances under the circular, the excess allowance paid should be recovered.

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

The fuel consumption of 98 vehicles owned by the municipal council had not been checked for a long time.

All departments to which vehicles have been assigned have been notified to conduct fuel consumption inspections in accordance with the circular.

Fuel consumption inspections should be carried out within the prescribed time.

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 31 December 2024 amounted to Rs.656,103,460 as compared with the excess of revenue over recurrent expenditure amounted to Rs.718,210,138 in the preceding year.

2.2 Financial Control

Audit Observation	Comments of the Council	Recommendation
The unidentified receipts totaling Rs.38,321,267 as at 31 December 2024 had not been settled according to the bank reconciliation statement prepared and presented for the 03 current accounts maintained by the Municipal Council.	Since there is a discrepancy between the values provided by the Water Department, necessary action is being taken to investigate the cause of the discrepancy and correct it, and immediately issue receipt to settle the amounts.	Receipts should be identified and settled.

2.3 Revenue Administration

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

According to the information presented by the Commissioner 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 sources	Estimated revenue	2024			Estimated revenue	2023		
		Billed revenue	Collected revenue	Total arrears as at 31 st December		Billed revenue	Collected revenue	Total arrears as at 31 st December
	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)
(i) Rates & Tax	1,813,439,000	1,786,309,583	2,213,789,037	293,816,588	1,313,439,000	1,229,426,926	1,195,785,986	721,296,042
(ii) Rent income	295,938,000	279,508,560	185,457,247	275,131,902	295,938,000	256,913,388	214,419,265	181,080,589
(iii) License Fees	45,001,000	44,862,954	44,862,954	-	41,001,000	37,926,246	37,926,246	--
(iv) Other Revenue	850,539,000	751,040,610	883,253,090	172,397,758	850,539,000	830,043,693	840,903,061	304,610,238
Total	3,004,917,000	2,861,721,707	3,327,362,328	741,346,248	2,500,917,000	2,354,310,253	2,289,034,558	1,206,986,869

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
(a) Rates and Taxes		
As of the last day of the reviewed year, the outstanding balance of arrears was Rs.293,816,588 from this, Rs.109,386,156 related to 399 units where the arrears ranged between Rs.100,000 and Rs.1,000,000 per unit and Rs.30,052,930 related to 12 units where the arrears exceeded Rs.1,000,000 per unit. Action had not been taken to recover the outstanding balances in accordance with Section 256 of the Municipal Council Ordinance (Authority 252)	Action is being taken to recover outstanding revenue, write off arrears that should be written off and correct error billings.	All collectable arrears should be recovered and outstanding balances that need to be settled should be settled immediately.

(b) Rent

- (i) As of the last day of the reviewed year rent amounting to Rs.10,763,783 from 54 stalls in 3 market complexes owned by the Council had not been collected for the period between 2 to 6 years. Action will be taken to recover outstanding stall rent and approval will be obtained to write off amounts that cannot be collected. The outstanding rent should be collect.
- (ii) The total rent amount of Rs.16,834,700 for the period from 2019 up to the year under review had not been collected from the Peradeniya Rest House. Discussions were held with the Municipal Council management and the relevant officers of the institution, during which it was stated that action will be taken to pay these amounts and that VAT invoices will be issued each month indicating the rent due. The rent should be collected in a timely manner.

(c) Other Income

- (i) As of December 31 of the year under review, the total outstanding water charges amounted to Rs.383,317,040 from this arrears from 416 water consumers each outstanding between Rs.100,000 and Rs.500,000 totaled Rs.76,998,193, arrears from 13 consumers, each outstanding between Rs.500,000 and Rs.1,000,000 amounted to Rs.21,446,739 and arrears from 40 consumers exceeding Rs.1,000,000 total sum of Rs.114,172,626. Action has been taken to send termination notices to all water consumers who have not paid their bills, and to disconnect the water supply of those consumers who do not respond to such notices. Furthermore, the progress of billing for water by government institutions is currently at a relatively high level. Outstanding water charges should be collected immediately.
- (ii) As of the last day of the year under review, water charges totaling Rs.4,502,815 from 926 consumers with same water meter readings had not been collected for a period exceeding one year. Water meter information is being updated as including updating inactive meters, sending letters to water consumers without a residence, inspecting locations where meters cannot be located, and initiating disconnection actions. The revenue should be collected properly by removing the inactive water meters and installing new water meters.

(d) Stamp Duty

- The stamp duties amounting of Rs.54,831,030 had to be received as at 31 December 2024 from the Chief Secretary of the Provincial Council and other authorities. Action will be taken to collect this amount. The Revenue should be collected.

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) During the year under review, only a minimum of 5% of perishable garbage had been used for fertilizer production, while 95% of the collected garbage had not been utilized. Further, no proper actions had been implemented for the sale of the produced fertilizer. Suitable measures had not been taken to minimize the disposal of non-perishable garbage non-recyclable waste into the environment.	Although steps had been taken to sell this compost fertilizer in 5kg packs for home cultivation, as well as to sell it at divisional level based on council proposals, those efforts too were unsuccessful. Therefore arrangements had been taken to sell the 5kg packs at a reduced price of Rs.60 each without any profit as a solution to the waste problem through the city center, the Vehicle park and the Gohagoda production plants.	The Council should take necessary actions to manage the garbage in its possession and to sell the production.
(b) Out of the Municipal Council area 109 garbage bins valued at Rs.1,557,950 had not been issued to the public which had been available since the period 2022–2024 and had been kept in storage as at 31 December of the year under review. As a result, the intended objective had not been achieved.	The 45 divisions of the Public Health Inspector working in the relevant area had been instructed to distribute the garbage bins to the public. However, it was revealed that the people did not obtain these bins due to the increase in their price.	Necessary awareness should be created and action should be taken to distribute the garbage bins.

3.2 Identified Losses

Audit Observation	Comments of the Council	Recommendation
According to the computer-printed records of water bills, in certain cases, some water consumers had not paid their water charges, but the printed records indicated as if payments had been made, resulting in an excess of water charges being created for the consumers. In some other cases, the amounts actually paid by the consumers were defectively recorded as higher than the payments made, thereby also creating excess water charges. Due to these excesses, a financial loss of Rs.835,111 had been caused to the Council Fund from 06 water consumers who were subjected to the review.	It was revealed that when payments were made by consumers, due to wrong in entering consumer numbers, such payments could be credited to a different consumer's account.	The defects in the computer system should be rectified and water charges should be collected under proper supervision.

3.3 Visual Disturbances

Audit Observation	Comments of the Council	Recommendation
(a) Although a decision had been taken by Municipal Council Resolution No. 8/7 dated 12 December 2022 and Management Committee Decision No. 746 dated 30 November 2023 to call for quotations from the agencies engaged in grease production, without calling quotations from such agencies, quotations had been obtained only from other external institutions. Accordingly, during the previous year and the year under review, 4,140 kilograms of grease valued at Rs.19,860,300 had been purchased from suppliers who had submitted higher prices than those of the production agencies. As a result, an additional sum of Rs.9,637,560 had been paid due to the failure to consider the prices of the agencies engaged in grease production.	Up to now the Kandy Municipal Council had followed the procedure of calling for quotations from registered suppliers for the purchase of grease and had not invited tenders either from the representative agencies or from other institutions.	A procurement procedure that ensures the maximum benefit to the Municipal Council Fund should be identified and implemented, and the parties responsible for the losses should be charged.
(b) According to the newspaper advertisement published on 20 May 2024 for the purchase of cement relevant to the year under review, the prices received had decreased to Rs.1,673.73 per 50 kg bag of cement at the opening on 12 June 2024. Although it had been possible to purchase cement at this reduced price, during the period from 02 July 2024 to 28 August 2024, on four times 2,400 bags of cement had been purchased at the higher price of Rs.2,250 per bag and resulting in a loss of Rs.1,383,048 had been occurred.	The quotations had been called for purchases throughout the year and purchases had been made according to fluctuations/changes in prices as pointed out. Therefore, it was stated that even in the future when issuing an order though agreements may be entered into the current market price would be inquired from the contracted institution and purchases would be made accordingly.	A procurement procedure that ensures the maximum benefit to the Municipal Council Fund should be identified and implemented, and the parties responsible for the losses should be charged.
(c) A loss of Rs.1,320,477 had been occurred when purchase was made from a supplier who offered a higher price although in the absence of obtaining written evidence that the selected institution unable to supply the equipment the supplier who offered the lowest price was selected for the supply of sports equipment to the Sports Department.	No comments	-Do-
(d) Four quotations were received for the purchase of sports and bodybuilding equipment worth Rs.3,420,000 during the year under review. Upon examination of the suppliers who offered the lowest prices it was observed that the quotations	Quotations had been requested from both Sun Energy Holding Private Limited and Eser Marketing Fitness Private Limited. When submitting their	Before purchasing bodybuilding equipment necessary action must be taken regarding the failure to disclose information

had been submitted by the same company at the same address. It was further observed that purchases had been made based on these fraudulent quotations.

quotations, Sun Energy Holding Private Limited offered the Treadmill American Fitness T 55A Taiwan at Rs.689,000, while Eser Marketing Fitness Private Limited offered the Treadmill XT 185 at Rs.703,000. It was observed that both quotations were submitted for the same type of equipment but with different models and brands.

about these institutions when going to inspect the equipment.

3.4 Informal transactions

Audit Observation	Comments of the Council	Recommendation
(a) A portion of land measuring 21.70 perches identified as Plot No. 02 of the plan number 6980 assigned to the Municipal Council on 14 July 1975, has been occupied by an individual without authorization. The unauthorized occupant had further transferred a part of this land to another person. Although a declaration was later prepared claiming that the above-mentioned individuals had created a forged deed and subsequently transferred it to the spouse but the legal action has not been taken in this regard.	A committee of inquiry will be appointed, and action will be taken after receiving the investigation reports.	Legal action should be taken against the unauthorized occupants and their activities in order to safeguard the property.
(b) It was observed that two plots of land, measuring 2.22 perches each and belonging to the Municipal Council under rates numbers 205 and 207 in Katugastota town, had been allowed by the Municipal Council for business activities to be carried out by two parties without a lease agreement or any collection of fees. Furthermore, unauthorized construction of three and two-story buildings on these lands was constructing.	Since the leasing of the land has been temporarily suspended until a new council is appointed, the relevant documents are intended to be submitted for approval once the new council assumes office.	The land owned by the Municipal council, which has very high commercial value, should be utilized in an organized and productive manner, and legal action should be taken regarding any unauthorized activities.
(c) A four-storied building with two housing units was constructed without approval although a building development permit was issued on 04 January 2018 for the construction of a two-storied building at No.	It is stated that further actions are being carried out to issue unauthorized construction notices and to take legal actions regarding unauthorized constructions.	The activities of the Planning Division should be carried out under proper supervision, the issuance of building development permits and certificates of

88, Katugastota–Matale Road but the council had not taken any legal action in this regard.

compliance should be systematized and proper follow-up activities should be maintained.

- (d) Although a development permit was issued on 11 October 2012 for a period of one year to construct a building at premises bearing rates numbers 67 and 69 the work had not been completed by 17 July 2024 and the period had not been extended. The Planning Committee had recommended taking legal action in this regard on 10 June 2024, but no action had been taken.

According to the file, the contractor had been informed on 27.06.2016, based on the Planning Committee’s decision that construction should be carried out in compliance with building development permit No. 442. However, since construction has not yet been completed in accordance with that plan and an application for a certificate of compliance has not been submitted. Therefore a re-inspection regarding this construction has not been carried out.

The activities of the Planning Division should be carried out under proper supervision, the issuance of building development permits and certificates of compliance should be systematized and proper follow-up activities should be maintained.

3.5 Management Inefficiencies

Audit Observation

Comments of the Council

Recommendation

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| (a) | A sum of Rs.1,714,200 paid on 01 February 2017 for the construction of an Amano roofing sheet cover for the weekly fair vendors at Ahelepola Kumarihamy Mawatha, under the Strategic Cities Development Project based on credit had not been reimbursed. | That action will be taken to recover in the future. | The advances should be settled timely. |
| (b) | Regarding the total sum of Rs.17,125,780 in irregularities revealed in the previous year, the inquiries under Financial Regulation 104(4) and recoveries had not been done. | Action should be taken to identify the parties responsible under Financial Regulation 156(1) and since the recommendations of the Financial Regulation 104(4) inquiries have not yet been issued therefore recovery is still pending. | The relevant investigations should be completed immediately to recover the losses and the officers responsible for the irregularities should be identified and subjected to disciplinary action. |
| (c) | As of December 31 of the year under review, the total of 10 receivable account balances amounted to Rs.179,293,880. Out of this the balance for periods between 1 to 3 years totaled Rs.75,049,053, while balances exceeding 3 years totaled Rs.95,686,505. | Final notices have been issued to collect the outstanding tax and tender fees, and the matter has been referred to the municipal legal officer to take further legal action against the defaulters who have not yet made payments. | Receivables should be collected. |

3.6 Transactions of Contentious Nature

Audit Observation	Comments of the Council	Recommendation
<p>During the year under review the Procurement and Management Committee had decided to purchase a minimum of 9,900 SR-type galvanized iron bars of 10 mm, 12 mm, and 20 mm sizes, valued at Rs.9,985,000 from the institution that submitted the lowest bid. The 12 mm and 20 mm bars were sent to the Faculty of Engineering at the University of Peradeniya for quality testing, and based on the reports received, they failed the quality inspection and the lot was rejected.</p> <p>However, at that time of the 10 mm steel bars were sent to the University of Moratuwa instead of Peradeniya University upon the request of the supplier. Reports were obtained stating that the quality inspection was successful and Rs.7,336,650 was spent to purchase 7,500 of the 10 mm rods. This was observed to have caused discrepancies in the reports obtained.</p>	<p>The Kandy Municipal Council has obtained laboratory test reports regarding the purchase of 10 mm, 12 mm, and 20 mm steel bars. The 10 mm steel bars were tested by the University of Moratuwa, while the 12 mm and 20 mm bars were tested by the University of Peradeniya on two separate occasions. Accordingly, the University of Peradeniya reported that the 12 mm and 20 mm bars did not meet the specified standards, whereas the University of Moratuwa confirmed that complied with the relevant specifications, and quality reports were obtained.</p>	<p>All 10 mm, 12 mm, 16 mm, and 20 mm bars should have been tested at the University of Peradeniya, and since the strike had ended during that period, it would have been possible for the University of Peradeniya to conduct tests on all the steel bars.</p>

3.7 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Council	Recommendation
<p>(a) Eight Community Boards under the Department of Sports had been closed for periods ranging from 2 months to 5 years. In these closed community boards bodybuilding equipment and machines, sports items, and inventory goods totaling approximately Rs.1,862,039 remained idle. According to a physical inspection conducted at the Getambe sports ground a stock of goods worth Rs.169,300 purchased for the cricket academy was also ideal.</p>	<p>After taking actions to fill the staff vacancies, the relevant community halls can be reopened and the equipment can be made available for productive use.</p>	<p>Assets should be productively utilized to ensure that public services are effectively delivered.</p>
<p>(b) Four vehicles belonging to the council, valued at Rs.12,446,987, had remained idle and underutilized for a period ranging from 7 to 10 years.</p>	<p>It was reported that the necessary actions are being taken to conduct a tender based on the valuation obtained from the Valuation Department, and that actions are also underway to sell the machines</p>	<p>Action should be taken to either repair and utilize or dispose of it.</p>

identified as D4C and D41A03 either as scrap iron or as machinery.

3.8 Procurement Management

Audit Observation	Comments of the Council	Recommendation
(a) In terms of Section 40(1)(e) of the Municipal Council Ordinance, 100 trade stalls at Sahas Uyana had been leased on a rental basis for 15 years without obtaining the approval of the Minister. Although two valuations had been submitted by the Chief Value for these trade stalls, action had not been taken to implement those valuations and charge rent accordingly.	It was reported that, due to the difference between the daily and monthly stall rents given in the first valuation and the fact that the premises had already been leased by that time, a revaluation was requested on 7 December 2023. Accordingly, a monthly rental valuation of Rs.664,000 for the 100 trade stalls was issued on 30 October 2024, and the respective lessees have been informed to make payments accordingly.	Approval specified under the Ordinance should be properly obtained and rent should be charged according to the valuation reports so that no loss is incurred to the Council.
(ii) According to the tender called on 12 May 2023 only two bids had been submitted for leasing of 100 trade stalls at Sahas Uyana under the operational lease system for 15 years. One of the bids had been rejected and it was observed that this bid had been fraudulently prepared.	Although evaluations were carried out regarding the signatures and other aspects of one of the two institutions that submitted bids, the final outcome was that it was rejected due to not complete the basic qualifications. Furthermore, at the time of opening the tender, the bidders were present and it was noted that this bidder had not submitted the bid security.	Action should be taken under the competitive bidding system in a manner that does not cause losses to the Municipal Council Fund and necessary legal actions should be enforced against bidders who engage in irregularities and thereby eliminating obstacles to the competitive bidding process.

3.9 Defects in Contract Administration

Audit Observation	Comments of the Council	Recommendation
(a) Construction of Toilet complex in ground floor of Council building- Rs.4,875,552		
(i) According to the instructions of the Provincial Engineer (General) issued under letter No. 4/4/Engineer (General) dated 30 January 2024 it had been informed that overhead and profit should be added at 20	In the 2024 Building Standard Rates (BSR) it has been specified that overhead and profit should be added at 26 percent to the rates for estimates below Rs.5 million.	The action should be taken in accordance with the instructions issued by the relevant regulatory institutions when preparing estimates.

percent for industries below Rs.5 million. Accordingly it was show under However in the estimate prepared on 30 the category of estimates below August 2024 profit was included at 26 Rs.5 million. percent and resulting in an over payment of Rs.371,194 had been made for 37 work items.

- (ii) Under work item No. 26, a payment of Rs.236,000 had been made for floor tiling and under work item No. 27 a payment of Rs.795,000 had been made for wall tiling. However, according to the physical inspection, the quantity of tiles laid showed that an excess payment of Rs.255,960 had been made for floor and wall tiling. Further, under work item No. 27 an overpayment of Rs.25,207 at Rs.2,481 per square meter had been made for an excess area of 10.16 square meters for the wall tiling of the ground floor toilet was recorded as having been installed up to a height of 1.97 meters, but the physical inspection revealed a height of 1.79 meters.
- When measuring the floor and wall tiles, allowances for wastage had also been added. The overpayment may have occurred due to a recording error reading 1.79 meters as 1.97 meters while noting the height on the measuring tape. Therefore action is being taken to recover the over payment from the contractor, the Kandy Multi-Services Cooperative Society.
- Payments should be made correctly based on accurate measurements under the proper supervision of the supervising officers.

3.10 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
(a) When comparing the council's approved staff with the actual staff, there were 317 vacancies in 4 sectors, while 36 excess positions were observed in 3 sectors. The existence of vacancies in several key sectors had an adverse effect on the institution's operational performance.	The relevant parties have been informed to recruit suitable officers to fill the vacancies.	Vacancies should be filled and public services should be carried out efficiently.
(b) As of the end of the year under review a sum of Rs.17,941,033 had not been recovered from 196 officers who had been transferred, retired, deceased, resigned, or suspended. Additionally the outstanding loan balances of Rs.783,647 for 06 officers who were transferred into the service as of 31 December of the year under review had not been settled for periods ranging from 2 to 4 years.	Action is being taken to recover the outstanding loan balances of officers who are deceased, retired, resigned, or suspended.	Action should be taken to recover outstanding loan balances and to settle loans that are due for settle.