

Kurunegala Municipal Council - 2024

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of Kurunegala 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, Cash Flow Statement the year ended and 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 which should be read in conjunction with provisions in sub-section 10(1) of the Audit Act No. 19 of 2018, Section 219 of the Municipal Councils Ordinance (Chapter 252). My comments and observations which I consider should be reported to the parliament are appeared in this report.

I do not express an opinion on the accompanying financial statements of the Kurunegala Municipal Council. Because of the significance of the matters stated in the section Disclaimer of Opinion 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 Sri Lanka Public Sector Accounting Standards for Local Authorities 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 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 Observations on the preparation of Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Stamp duty of Rs.575,884 payable to the Inland Revenue Department was shown under various deposits.	Action had been taken to correct in the future.	Stamp duties payable must be accounted for correctly.
(b) The audit fee expense and audit fee payable for the year had been omission from the accounts.	While the audit fee expense for the previous year has been correctly accounted for, the invoice for the audit fee expense for the current year has not been received by December 31, 2024, and therefore the expense has not been accrued.	Since the accounts are prepared on an accrual basis, provision should be made for audit fees and accounts should be maintained.
(c) As at 31 st December 2024, fixed assets worth Rs.951,862 were included in the stock.	Action had been taken to correct.	stocks must be accurately accounted for.
(d) Assets valued at Rs.138,069,759 were accounted for under non-current assets without recognizing their existence.	Since those balances are fixed assets purchased before 2019, a committee will be appointed in the future to examine those assets and documents and identify those balances.	Assets must be accounted for correctly.
(e) 10 industries worth Rs.130,167,441, which were accounted for under creditors in the years 2022, 2023 and 2024, had been capitalized under buildings and fitinas even though they	Action will be taken to correct the capitalized value related to unfinished projects through journal entries.	The value of industrial craditors must be accurately accounted for.

had not been completed by the end of the year under review.

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| (f) | As at 31st December of the year under review, furniture and fittings amounting to Rs.2,484,362 which were not actually purchased were accounted for under non-current assets and creditors. | That the unpurchased value will be corrected through a journal entry. | Must be accounted for correctly. |
| (g) | Clinical equipment worth Rs.1,500,000 which was not actually purchased during the year under review was capitalized under tools and equipment. | Action had been taken to correct it through a journal entry. | Must be accounted for correctly. |
| (h) | At the end of the year under review, Rs.134,147,488 allocated from the annual budget, which had no contractual obligations, had been accounted for under Expenses Creditors. | That allocations have been made according to departmental needs and requests to meet identified expenses. | Must be accounted for correctly. |
| (i) | During the year under review, Rs. 1,981,500 due for two projects implemented under the Provincial Maintenance Program had not been accounted for under Capital Aid Receivable. | Action will be taken to correct the issue in the 2025 accounts. | Must be accounted for correctly. |
| (j) | Rs. 1,044,080 received during the year under review for projects implemented in previous years had been accounted for as income of the year under review instead of being credited to the Capital Aid Receivable Account. | Action will be taken to correct the issue in the 2025 accounts. | Must be accounted for correctly. |
| (k) | Books worth Rs. 138,045 received as donations to the Kurunegala Public Library in the years 2023/2024 had not been accounted for under fixed assets. | That the correction will be made through a journal entry. | Must be accounted for correctly. |
| (l) | Although the value of fixed deposits as per bank confirmation letters as on 31st December of the year under review was Rs. 50,479,357, it was recorded as Rs. 52,687,702 in the financial statements, which was Rs.2,208,345 over stated of account. | That the accounts will be checked and corrected | Must be accounted for correctly. |

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| (m) | Although the balance of the Bank of Ceylon loan account as per the balance confirmation letter as on 31st December of the year under review was Rs. 900,740,034, it was accounted as Rs. 933,639,844 in the financial statements, which was over stated by Rs.32,899,810. | Action will be taken to correct the balance as per the bank confirmation letter. | Must be accounted for correctly. |
| (n) | Although the lease and interest as per the balance confirmation letter as on 31st December of the year under review was Rs. 138,005, it was recorded as Rs. 897,639 in the financial statements, which was Rs. 759,634 over stated of the account. | That will be checked and corrected. | Must be accounted for correctly. |
| (o) | As at 31 st December of the year under review, the revenue receivable of Rs. 469,986 from MC Plaza Solar System for the month of December had not been accounted for. | Action will be taken to correct the issue in the 2025 accounts. | Income must be accounted for correctly. |
| (p) | Rs. 11,698,149 had been paid during the year under review for the loan obtained from the Local Loan Development Fund for the construction of the Central Market, and although a further Rs. 390,274,899 was due during the year, no provisions had been made for it. | That the arrears of loans will be allocated and paid through the upcoming budget documents. | Loan installments and interest must be accounted for correctly. |
| (q) | The valuation amount from the key money receivable for the new Central Market project is Rs. 1,197,662,247, of which Rs. 680,960,217 should have been recognized as revenue as of December 31 of the year under review, but due to the accounting of Rs. 1,417,137,000 as revenue during the period 2021 to 2024, capital income had increased by Rs.736,176,783. | Action had been taken to correct the schedules and accounts by incorporating the new assessment. | Must be accounted for correctly. |
| (r) | As at 31 st December of the year under review, the key money receivable for the new Central Market project included the key money value of Rs. 516,702,030 for | This amount is the expected income related to the shops available for sale and action | Revenue must be accounted for correctly. |

	58 shops for which tenders were not awarded, resulting in an increase in outstanding capital income by that amount.	will be taken to account for it correctly.	
(s)	Although the valuation of the new central market housing complex was identified as income for the years 2021 and 2022 at Rs. 682,500,000, the houses had not been tendered and sold as of December 31 of the year under review. Accordingly, the outstanding capital income had been overstated by that value.	The sales process has been delayed due to unforeseen socio-economic reasons, and the sales process is expected to be completed in 2025.	Revenue must be accounted for correctly.
(t)	Pension contributions of Rs. 607,948 payable to the Pension Department from June to December 2024 had not been accounted for.	Action had been taken to correct it in 2025.	Accounts must be prepared correctly.
(u)	Due to the non-accounting of the valuation value of the vehicles as of December 31, 2024, the value of 62 vehicles was understated by Rs. 40,835,000 and the value of 17 vehicles was overstated by Rs.5,750,000.	Will be check and take action to correct it.	The correct assessed value must be accounted for.
(v)	The value of 04 vehicles, Rs.83,000,000, had not been accounted for.	That will check and take action to correct it.	The value of assets must be accurately accounted for.
(w)	When accounting for the value of building and fitinas and computers and equipment, only transactions made between 2020 and 2024 were accounted for, while the value of 204 buildings owned by the Municipal Council that were constructed before 2020 and computers and equipment purchased before 2020 had not been accounted for.	That will check and make corrections.	Must be accounted for correctly.
(x)	As of December 31st of the year under review, the gas stock of Rs. 275,286 held at the Malkaduwawa Crematorium and the fertilizer bags	will be correct the 2025 final account.	Must be accounted for correctly.

and organic fertilizer stock of Rs.2,916,422 held at the Sundarapola Garbage Yard had not been identified and accounted for as stocks.

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| (y) | Rs. 3,391,499 incurred for the construction of buildings during the year under review had not been accounted for as non-current assets. | That the correction will be made through a journal entry. | Must be accounted for correctly. |
| (z) | Although Rs. 1,100,000 was allocated as a creditor in the year 2020 for the construction of a crematorium for pets, the project had not been completed and was accounted for under buildings by the end of the year under review. | It will be correct. | The value of the building must be accurately accounted. |
| (aa) | The long-term loan balance that the Municipal Council had obtained from the Local Loan Development Fund and the Bank of Ceylon had not been classified as current and non-current liabilities in the Statement of Financial Position. | It will be correct. | The relevant loan balances must be accounted for correctly. |
| (ab) | Although the loan balance of the Local Loan Development Fund as at 31st December of the year under review was Rs. 788,547,073, it was stated in the financial statements as Rs. 789,238,643, which was Rs. 691,570 more. | Action will be taken to correct the balance as per the confirmation letter from the Local Loan and Development Fund. | Must be accounted for correctly. |
| (ac) | Although the fixed deposit interest income for the year under review should have been Rs. 4,062,977, it had been accounted as Rs. 4,943,097, an excess of Rs. 880,120. | Action will be taken to correct the issue in the 2025 accounts. | Must be accounted for correctly. |

1.6.2 Unreconciled Control Accounts

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| (a) According to the value of the work done in the engineering department, there was a difference of Rs. 1,100,601,691 between the construction cost of the Central Market, Clinic Center and | That will check and correct. | The difference must be identified and corrected. |

Pre-School Building and the capitalized value in the financial statements.

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| (b) | There was a difference of Rs. 19,683,603 between the balance of non-current assets and the balance of the income contribution to capital account as at 31st December of the year under review. | That will check and correct. | The difference must be identified and corrected. |
| (c) | As of December 31st of the year under review, there was a difference of Rs. 276,205,687 between the balance as per the financial statements and the balance as per the supporting documents of 27 accounting items. | That will check and correct. | The difference must be identified and corrected. |

1.6.3 Failure to submit information required for audit

Audit Observation	Comments of the Council	Recommendation
Due to non-submission of schedules and balance supporting information, 09 accounting items totaling Rs. 930,106,447 could not be satisfactorily verified/observed during the audit.	Action will be taken to correct the schedules relating to the 09 accounting items in the future.	Information confirming account balances must be submitted.

1.7 Non- Compliance

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

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

Reference to Laws, Rules Regulations etc.	Comments of the Council	Recommendation
(a) Section 27 of the Municipal Councils Ordinance No. 16 of 1947 and the Government Lands Ordinance	Although the government has absolute ownership of a land assigned to a local government institution under the Transfer Orders and the said local government institution does not have the right to dispose of it to a third party without the prior approval of the President, the land bearing number	After receiving the transfer order, with the expectation of submitting it for approval by His Excellency the President in the future, steps have been taken to lease this property in accordance with the decision taken by the Council at that time in order to prevent it from becoming an idle asset and
		Actions should be taken in accordance with the Municipal Council Ordinance and the Land Ordinance.

	95 of TPS page number 1/50/14, or the land opposite the hospital, was granted a long-term lease from 19 May 2020 to 18 May 2035 in accordance with the General Assembly convention GC-54-2019-02.12.	generate income for the Municipal Council.	
(b)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
(i)	F.R. 751	Arrangements had not been made to record the fitness center has exercise equipment worth Rs. 8,152,527 and the funeral parlor has items, the inventory in a register book.	Steps have been taken to record all existing goods in a inventory register book. Financial regulations must be followed.
(ii)	F. R. 756	The survey reports for the year 2024 had not been submitted to the Auditor General.	That action will be taken to submit it promptly. Financial regulations must be followed.
(iii)	F. R. 1645 (b)	Although the required to keep a vehicle log book in office in accordance with general Form 267 for each vehicle in his custody and to regularly enter all the necessary entries therein, the officer in charge had not acted accordingly.	Currently, logbooks are being kept and updated for all vehicles. Financial regulations must be followed.
(c)	Public Administration Circulars		
(i)	Public Administration Circular No. 01/2002 dated 25th February 2002	The name of the organization was not marked on 94 vehicles owned by the Municipal Council.	Work is underway to mark all vehicles that do not have the institution's name on them. Action should be taken according to the circular.
(ii)	Paragraph 3(1) of Public Administration Circular	Fuel consumption tests had not been conducted on	Fuel consumption testing is currently underway. Action should be taken according to the circular.

No. 30/2016 dated 29th December 2016 34 vehicles belonging to the Municipal Council.

(d) Circulars of the Commissioner of Local Government

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| (i) | Paragraph 6.1 of the Local Government Commissioner's Circular No. 1984/19 dated 20th November 1984 | Although the payments made in a single month for incentive allowances should not exceed their monthly combined salary, from 2022 to September 2024, incentive allowances were paid in excess of their monthly combined salary on 117 occasions to 14 Revenue Inspectors of the Assessment Division. | As a strategic way to minimize the existing assessment deficit, only a portion of the fines collected by owners for non-payment of assessment taxes, as per the General Assembly Convention GC – 06(06) dated 13th February 2020, have been paid between field staff and office officers as approved by the Assembly. | Action should be taken in accordance with the circular instructions. |
| (ii) | Paragraph 7 of the Local Government Commissioner's Circular No. 1980/46 dated 31st December 1980 | Although it is strictly prohibited for tenant to sub-rent their shops, and in such a case the tenant license should be revoked, the owners had sub-rent the temporary shops that had been provided in place of the shops that were demolished during the construction of the new Central Market Phase III shops. | That the shops that have been given sub-rent will be inspected and further action will be taken. | Action should be taken according to the circular. |

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2024 amounted to Rs150,019,410 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 144,435,202 in the preceding year.

2.2 Financial Control

Audit Observation	Comments of the Council	Recommendation
Bank confirmation letters had not been obtained for the balance of a bank account with a value of Rs. 7,545,153 included in the financial statements.	Action will be taken to obtain bank confirmation letters.	Balance confirmation letters should be obtained and accounted for correctly.

2.3 Revenue Administration

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

According to the information presented by the Commissioner, the information on estimated revenue, billed revenue, collected revenue and arrears of revenue presented for the year under review and the previous year are as follows.

Source of income	<u>2024 Year</u>				<u>2023 Year</u>			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 Decemb	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 Decemb
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Rates and	482,370	723,357	654,686	402,829	494,500	511,538	443,758	334,158
Rent	215,004	100,777	100,426	10,798	116,375	101,548	105,585	10,441
License fees	38,376	29,156	26,156	-	16,402	29,439	29,439	-
Other	38,376	154,223	156,676	119,118	655,365	491,596	501,211	121,571
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Total	774,126	1,007,51	937,944	532,745	1,282,642	1,134,12	1,079,993	466,170
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2.3.2 Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
(a) The billed revenue for the year under review was Rs. 1,007.51 million and Rs. 937.94 million including the arrears of revenue received from previous years had been collected during the year under review. With the arrears of the previous year, Rs. 532.74 million remained to be recovered at the end of the year under review.	Urgent action is being taken to recover the outstanding amounts.	Action should be taken to collect billed revenues and arrears.

(b) Rates and Taxes

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| (i) The assessment tax arrears at the beginning of the year under review were Rs. 334.16 million, of which Rs. 134.75 million had been received during the year under review. Out of the billings relating to the year 2024 of Rs. 723.36 million, Rs. 519.93 million had been received. The assessment balance receivable at the end of the year under review was Rs. 402.83 million. | Urgent action is being taken to recover the outstanding amounts. | Action should be taken to collect arrears and billed revenues. |
| (ii) A long-term lease agreement had been signed with a private institution for a period of 15 years from 01 January 2020 to 31 December 2034 to maintain recreational services related to the Kurunegala Lake. However, as per the agreement, the lessee had defaulted on the payment of monthly fees, and the council had lost an income of Rs. 1,042,000 in the year 2020 due to the council not acting in accordance with the agreement. | The General meeting, GC/6/15/2021/04/08/A/C1 dated 8 April 2021, has passed a resolution stating that due to the COVID-19 situation, fees for the year 2020 will not be collected and that it is appropriate to collect fees in accordance with the agreement from January 2021. | Actions must be taken in accordance with agreements. |

(c) Rent

At the end of the year under review, a key money of Rs. 135,814,922 was due to the council from the 66 new central market stalls that had been leased.

That action will be taken to collect the outstanding key money installments of the leased shops.

Action should be taken to recover the outstanding key money as per the agreement.

(d) License Fees

The annual amount of Rs. 7,805,748 due for advertisement boards in Divisions 03, 05 and 06 of the council area had not been collected.

Final notices have been issued for boards for which fees have not been paid.

Action should be taken to recover money for boards for which fees have not been paid.

2.3.3 Surcharges

Audit Observation	Comments of the Council	Recommendation
A surcharge of Rs. 710,669 was imposed against the responsible persons during the year under review in accordance with the provisions of the Municipal Council Ordinance.	It is expected that further work will be carried out after the surcharge certificates are issued.	That the surcharge certificate will be issued in the future.

3. Operational Review

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 Councils Ordinance

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Out of the balance of Rs.464,596,379 in 07 accounts receivable as at 31st December of the year under review, Rs.46,770,750 was outstanding for more than 05 years. Management had not paid attention to the recovery of this balance.	Since the balances are accumulated from previous years, steps will be taken to examine and recover them.	Action should be taken to recover the balance due.
(b) Out of the balance of Rs. 2,339,604,722 in 16 accounts payable as at 31st December of the year under review, Rs.77,902,440 were overdue for more than 05 years. Action had not been taken to investigate and settle the balances.	That will be to resolve the matter quickly.	Action should be taken to investigate and settle outstanding balances.
(c) Although a cost of Rs. 94,205 was incurred to obtain an electricity supply to the area where the market was held and a cost of Rs.173,892 was incurred to obtain a waste water connection to continuing the Night Bazaar trade project, since this market is not currently operational, the cost incurred had become uneconomical.	Due to shortcomings in the implementation and maintenance of the project, this project had to be temporarily halted.	Projects should be initiated through a formal feasibility study.
(d) As at 31 st December , 2024, there was an unidentified debt balance of Rs. 1,330,170 in the Council's unpaid salary advances.	That the accounts will be checked and corrected.	The balance should be identified and corrected.
(e) The outstanding balance due from the sewerage system as at the end of the year under review was Rs. 168,188,180.	That efforts are being made to recover arrears of revenue through alternative strategies.	Action should be taken to recover the outstanding amount.
(f) The outstanding balance of water charges receivable as at the end of the year under review was Rs. 139,775,763.	That efforts are being made to recover the outstanding amount.	Action should be taken to recover the outstanding amount.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The land where the funeral parlor is located had been taken into use by private parties for catering, hut and Nescafe services without the permission of the Municipal Council or a tender.	The funeral hall belonging to the Kurunegala Municipal Council is provided on a fee basis and the Municipal Council does not provide food and beverages.	Private parties conducting business activities using council property should be controlled.
(b) The Municipal Council is making interest payments on the loan of Rs. 700,000,000 obtained from the Bank of Ceylon and although the relevant loan amount should be fully repaid before August 08, 2025, the Municipal Council had not taken steps to pay any loan installments as of March 31, 2025.	The audit has shown that due to the lack of expected income to repay the loan of Rs. 700 million, the loan installments have not been paid by March 31, 2025 and that action will be taken to obtain a grace period to repay the loan in the future.	The agreement must be followed.
(c) A loan of Rs. 800 million had been obtained from the Local Loan Development Fund on March 23, 2021, and Rs. 400 million of that loan was still outstanding as of March 23, 2025. This amount was to be repaid by March 23, 2026.	The remaining business units in the Central Market Project will be sold to settle the loan.	The agreement must be followed.
(d) Although the administrative functions of the Ranthaliya Rest House, owned by the Municipal Council, had been transferred to the Urban Development Authority, a memorandum of understanding (MoU) entered into between the two parties was not presented for audit.	According to the file, there is no consensus agreement between the Municipal Council and the Ranthaliya Rest House.	Must work under a consensus agreement.
(e) Although the rent of a property for a long term should be revised at least once every 5 years, the rent of the Ranthaliya Rest House leased to the Urban Development Authority was levied at a same rate without revising the rent.	According to the file, there is no information included regarding the revision of rent by the Urban Development Authority.	Must act in accordance with a consensus agreement.
(f) Inspection on construction and rent of 99 shops under Phase III of the Central Market		

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| (i) | Although it was decided in accordance with the General Meeting Resolution No. GC/06/08/2021/02/10/ AR/03 to pay 2/3 of the key money in 5 installments and to levy a fine of 10 percent on tenderers who delay payment, as of July 05, 2024, due to non-collection of the key money as scheduled, action had not been taken to recover the fine of Rs. 2,823,623. | Since a case is ongoing regarding these shops, collection of money, commencement of business activities and activities in the shops have been suspended. | Action should be taken to recover fines. |
| (ii) | As the case number SC/FR/212/2021 regarding the shops is still ongoing, the council is losing Rs. 13,896,000 per year in shop rent income due to the inability to recover the monthly shop rents paid by the Government valuation Department for the shops on 04 January 2023. | A case is being investigated regarding the shops. | Action should be taken to recover shop rent. |
| (g) | The parking area at the public fair only charges tolls on Wednesdays, Saturdays and Sundays and is closed on the remaining days, leaving the grounds idle, resulting in a significant loss of revenue to the council. | Although the fair area is large, there is little demand for this location not in held fair days. | Efforts should be made to make maximum use of council property. |
| (h) | Although 15 parking lots had been identified within the city, the urban Council's poor supervision of those lots had resulted in the loss of a large amount of revenue that could have been earned daily. | Currently, these parking lots have been put out to tender. | Efforts should be made to increase sources of income. |
| (i) | Although the clear possession of 62 lands out of the 92 lands used by the Council had been confirmed, only one land worth Rs. 08 million owned by the Municipal Council had been accounted for as of December 31st of the year under review. | That work is underway to assess and settle the ownership. | Fixed asset register must be kept up to date. |
| (j) | In accordance with a written order of the Mayor and the Municipal Commissioner regarding the rent of the toilet land in front of the hospital, the Revenue Inspector had charged a monthly ground rent at a temporary valuation of Rs.25,000. Although the Government Valuation Department had stated on July 6, 2023 that an annual rent of Rs.1,137,600 should be | The assessment report has been received on May 28, 2025, and further action will be taken accordingly. | Action should be taken to collect the value related to the valuation report. |

charged, no rent had been charged at that valuation amount.

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| (k) | An unauthorized construction was underway at No. 191/12 B, Colombo Road, Kurunegala, in violation of the conditions of the Certificate of Conformity No. BA/66/2022 issued by the Municipal Commissioner on 21 September 2023 for the construction of a commercial building. | A letter dated May 27, 2025, requesting formal approval has been sent. | Action should be taken to control unauthorized construction. |
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3.3 Transactions of Contentious Nature

	Audit Observation	Comments of the Council	Recommendation
(a)	Contrary to the letter of the Director General of the Urban Development Authority No. 05/01/119 dated 26 February 1992, the Planning Committee had commenced its work during office hours and received Rs. 166,000 as allowances without covering the two hours after office hours.	That allowances will be paid in accordance with the relevant circulars and that steps will be taken to check and recover any payments made outside of these.	Action should be taken as per the circular.
(b)	During the period from January to September 2024, 07 officers representing the Municipal Council on the Planning Committee had signed off on participating in the Planning Committee and received Rs. 248,000 as allowances while on leave on 123 occasions (no attendance or departure as per the fingerprinting transcript).	That will check and provide answers.	Action should be taken to recover the money paid for holidays.
(c)	In violation of Section 188 of the Municipal Councils Ordinance No. 16 of 1947 and paragraph 4.2 of the Local Government Commissioner's Circular No. 1984/19 dated 20 November 1984, Rs. 17,331,751 was paid as commission from warrants relating to outstanding assessments during the period from 2020 to September 2024.	There is an incentive to collect unpaid assessment taxes and there is no direct harm to the council's revenue.	Actions should be taken in accordance with the Municipal Council Ordinance and Circular.

3.4 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Council	Recommendation
29 items worth Rs. 5,357,688, purchased from time to time by the Municipal Council since 2016, were in the stores without being issued, and of these, 14 items worth Rs. 1,741,913 had been purchased even before 2020.	Arrangements will be made to exchange information with the National Water Supply and Drainage Board and to use it for locations identified in the field.	According to the Procurement Guidelines, when procuring goods and services, actions should be taken according to the need and in accordance with the procurement plan.

3.5 Assets Management

Audit Observation	Comments of the Council	Recommendation
(a) Even as of the year under review, no action had been taken to remove the private bus stand that was being operated on land owned by the council, action had not been taken to remove the unauthorized constructions carried out by a construction company.	A request has been sent to the Divisional Secretary requesting that the Ulpathewatta land be transferred to the Kurunegala Municipal Council.	The council should take over the lands and remove unauthorized constructions.
(b) Although the 4.74 perches of land allocated for the public toilet in front of the Kurunegala Teaching Hospital was government land, it had not been taken over by the council and a 3-storey building had been constructed there.	The necessary action are being taken to take over the property from the Municipal Council.	It should be taken over by the council.
(c) The Wilgoda slaughterhouse land had not been taken over by the Municipal Council by the date of audit.	The necessary action are being taken to take over the property from the Municipal Council.	It should be taken over by the council.

3.6 Contract Administration

Audit Observation	Comments of the Council	Recommendation
(a) Although the contract period for the Kurunegala Lake Landscape Project Phase III ended on December 30, 2023, the works of paving interlock stone, planting and weeding, worth Rs. 1,377,750, had not been completed by July 2024.	The officers of the Engineering Services Corps who had contributed labor have now left as their time has expired, and the work can be completed after receiving the interlock stones.	Work should be carried out according to agreements.

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| <p>(b) The contractor had abandoned the work, which was worth Rs. 1,091,019, which is almost 27 percent of the contracted estimate, related to the renovation of the old community hall in Polattapitiya.</p> | <p>Payments have not been made for items under number 9 and those works have been carried out under the direct labor of the Municipal Council.</p> | <p>Work should be done according to estimates.</p> |
| <p>(c) An advance of Rs. 1,445,847 had been paid on 26 May 2022 in accordance with a contract signed with a contractor company on 06 January 2021 for the construction of shops at the Kurunegala Main Bus Stand for a sum of Rs. 4,819,537, blocking public access and gathering places and restricting the space for proper handling of buses. Although the construction was suspended as per No. NWP/GOV/AD/02/16/13 and the letter of the Secretary to the Governor of the North-West dated 12 July 2022, the advance of Rs. 1,445,847 given to the contractor for this construction had not been recovered as of 31 December of the year under review.</p> | <p>That the relevant action are being taken to recover the advances.</p> | <p>Action should be taken to recover the advance amount paid.</p> |
| <p>(d) Inspection of the recovery of the advance payment made for the construction of the clinic center and preschool building</p> | | |
| <p>(i) Although, in accordance with the Conditions of Contract No. 14.2 of the contract agreement, 20 percent of the remaining contract amount could be paid after deducting the Provisional Sums, the Municipal Council had paid Rs.46,424,517 based on the total contract amount, and therefore, an excess amount of Rs.8,442,000 had been paid to the contractor as an advance, contrary to the conditions.</p> | <p>That action have been taken to settle this amount.</p> | <p>Procurement guidelines should be followed.</p> |
| <p>(ii) According to the initial contract agreement, the commencement date of the work was identified as 21 April 2021 and the completion date was 13 October 2022, and the contract period had been extended up to 31 January 2024 as per the time extensions. Accordingly, the time had not</p> | <p>The completion of the project has been delayed due to reasons such as the need to go to arbitration regarding overpayments and the impact on the contractor's financial flow. However, in this regard, the</p> | <p>Procurement guidelines should be followed.</p> |

been extended again from 31 January 2024 to 31 December 2024, which is the date of audit, and work worth Rs.20,698,861 had not been completed from the advance payment.

necessary work is being carried out to complete the work within three months according to a new revised work plan.

- (iii) Although the advance money should have been deducted from the interim payment certificate issued after the advance money was paid in accordance with the Conditions of Contract No. 14.2(9) of the contract agreement, the advance money had not been collected through payment bills Nos. 01, 09, 10, 11, 12 and 13.

This advance amount has not been collected through the first bill. Furthermore, with the aim of completing the previous audit inquiry and correcting the omission that had occurred, steps have been taken to collect the money through bills Nos. 09, 10, 11, 12, 13, 14 and finalize the collection.

Procurement guidelines should be followed..

- (iv) Since the contract period has not been extended by December 30, 2024, and there is currently no legal agreement between the Municipal Council and the CCD contractor, the necessary action had not been taken to convert the advance security provided into cash and offset it against the remaining advance amount to be recovered.

Since only 75 percent has been completed and 90 percent has not been reached, no steps have been taken to convert the advance guarantee into cash, as the 15th bill is still being examined at this time.

Procurement guidelines should be followed.

- (v) The contract period ended on 31 January 2024, but the work on the contract had not been completed by 31 December 2024. According to the Conditions of Contract No. 8.7, Rs. 23,212,258 as Liquidated Damages should have been deducted from the bill payable to the contractor, but action had not been taken to reduce that amount.

All overpayments have been collected, and necessary action are being taken to complete the work expeditiously within a new revised work plan.

Procurement guidelines should be followed.

(e) **Bodybuilding Center Building**

- (i) It was observed that the exercise equipment had been damaged due to sunlight entering the building through the glass, and during the rainy season, water accumulate inside the building due to water leaking into the building through the glass.

The contractor who carried out this construction has not retention money released, and the contractor has been informed to repair the water leaking into the building through the glass and the cracked walls.

Action should be taken to complete the deficiencies.

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| (iii) To repair the water leakage on the slab of the Fitness Center building, only 28 columns were constructed on the slab at a cost of Rs. 1,032,594, and due to the inability to construct a roof, the expected water leakage could not be prevented. | The original plan of this building was for 4 floors, and as of now, 2 floors have been constructed, this situation has arisen due to water accumulating on the upper slab during rainy days, and action are being taken to correct it. | Proper plans should be made and action should be taken accordingly. |
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3.7 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
(a) Although the approved staff of the Municipal Council should have 07 Revenue Inspectors, as of December 31, 2024, only one officer was in service and for a long time, the relevant officers for that post had not been recruited and the work had been covered by office assistants, drivers, laborers, watchers and 10 employees recruited in a daily basis.	Requests have been submitted to the Chief Secretary to fill the existing revenue inspector posts.	Action should be taken to fill vacancies and formal assignment of duties should be made.
(b) Action had not been taken to recover the outstanding debt of Rs. 750,942 from 07 transferred, deceased and retired officers.	These officers have been transferred and have been informed to settle the loan.	Action should be taken to settle arrears of loan balances.
(c) 55 loan balances worth Rs. 3,903,951 that had been accounted for had not been included in the staff loan register.	Action had been taken to staff loan balances enter into the register.	Staff loans must be entered into the register and update to the date.

4. Accountability and Good Governance

4.1 Unanswered audit queries

Audit Observation	Comments of the Council	Recommendation
The Municipal Council had not responded to 07 audit queries issued in relation to the audit conducted in the year under review within the on time and queries had been made regarding matters worth Rs.32,338,170.	The answers are being prepared and will be submitted within two weeks.	Responses to audit inquiries must be submitted within the specified time.