

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Negombo Municipal Council for the year ended 31 December 2024, comprising the Statement of Assets and Liabilities as at 31 December 2024, Statement of Comprehensive Income, Statement of Changes in Net Assets/equity, Cash Flow Statement for the year then 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 read in conjunction with Section 219 of the Municipal Councils Ordinance (Chapter 252) and Sub-Section 10(1) of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be reported to parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Negombo Municipal Council as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities

1.2 Basis for Qualified Opinion

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

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). 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 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 Statement)

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 skepticism 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 includes specific provisions for following requirements.

- 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.
- In accordance with the requirement of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018, the recommendations made by me in the previous year, except for 1.6.2 (g), are included in the financial statements presented.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local authorities

	Non Compliance with the reference to particular Standard	Comments of the Council	Recommendation
(a)	In accordance with Section 3.28 of Chapter 3 of the Standard, no evidence was presented to the audit as to what adjustment had been made for the surplus of Rs. 69,893,082 in the year under review in calculating cash flow from operating activities, and the adjusted interest expense of Rs. 14,189,143 in the comprehensive income and expenditure statement had not been adjusted to the surplus.	Accepted.	The cash flow statement should be prepared in accordance with the standard.
(b)	In calculating cash flow from financing activities in accordance with paragraph 3.30 of Chapter 3 of the standard, although Rs. 14,189,142 had been paid as long-term loan interest during the year under review, it had not been disclosed under financing activities.	Accepted.	The cash flow statement should be prepared in accordance with the standard.
(c)	As per paragraph 3.26 of Chapter 3 of the Standard, the value of seven-day deposits worth Rs. 150,000,000 as at the end of the year under review had not been disclosed as cash and cash equivalents. As a result, current assets had been understated.	Action will be taken to prevent such mistakes from happening in the future.	The financial statement must be prepared in accordance with the standard.

(d)	In accordance with paragraph 3.7 of Chapter 3 of the standard, budgeted information in the budget documents was not presented in the financial statements.	That will be corrected in 2025.	Financial statements must be prepared in accordance with the standard.
(e)	In accordance with paragraph 6.20 of Chapter 6 of the Standard, the entity had not disclosed the depreciation method used by the entity for each class of property, plant and equipment, the useful life of the asset, or the depreciation rate used.	Action will be taken to prevent such mistakes from happening in the future.	Must be disclosed in the financial statements in accordance with the standard.
(f)	Rs. 480,517,019 was shown as a creditor based on the estimated value in 35 instances where construction had not been carried out in non-compliance with paragraph 2.2 (b) and paragraph 2.4 of Chapter 2 of the standard.	Action will be taken to prevent such mistakes from happening in the future.	Financial statements must be prepared in accordance with the standard.
(g)	Goods that had not been allocated and had not been physically received by the supplier, valued at Rs. 18,637,433, had been accounted for as assets, in non-compliance of paragraph 2.2 (a) and paragraph 2.4 of Chapter 2 of the standard.	The creditors were set aside to pay after the goods were located.	Financial statements must be prepared in accordance with the standard.
(h)	Although, as per the letter of the Commissioner of Local Government No. LGD/10A/4/20.8./2019 dated 12th February 2021, fixed assets should be classified under 14 categories while preparing the financial statements, instead of correctly identifying and accounting for the asset categories of property, plant and equipment, Rs. 29,225,439 had been accounted as other.	That will be corrected in 2025.	Financial statements should be prepared in accordance with the circular.

1.6.2

Accounting deficiencies

Audit Observation		Comments of the Council	Recommendation
(a)	The value of the original estimate for the construction of the Kamachchoda Public Market, which was contracted in month of January 2023, was Rs. 232,853,762, based on a 50 percent limit, and as at 31st of December 2024, work of Rs. 116,426,881 had been certified. Accordingly, although the value of the work in progress should have been Rs.	Creditors have set aside to Compilation the necessary funds for payments.	Correct values should be entered into the accounts.

116,426,881, it as Rs. 635,220,807 was accounted overstated by Rs. 518,793,926.

(b)	A value of Rs. 34,377,634 in (input) taxes paid on expenses from September 2023 to the end of the year under review had not been accounted for.	That will be corrected in 2025.	Actions should be taken to prepare accounts correctly.
(c)	The first and second bills of the contract for the construction of the new library building, which had an estimated value of Rs. 626,821,982, had paid Rs. 313,410,991. Accordingly, although the value of the work in progress should have been shown as Rs. 313,410,991, it as Rs. 461,223,089, had been overstated by Rs. 147,812,098 more.	The creditors have been allocated for the remaining work on the building.	Actions should be taken to prepare accounts correctly.
(d)	The Rs. 2,450,000 paid for the provision of the e-service for the creation of the Smart City concept and the Rs. 3,145,000 paid for the NECKFA software were shown under computers and accessories instead of being shown under computer software.	That will be corrected in the future.	Actions should be taken to prepare accounts correctly.
(e)	The total amount received in the year under review, Rs. 5,661,484, was shown under the accumulated Fund instead of being shown under the Comprehensive Income of the year under review.	That will be corrected in the future.	Actions should be taken to prepare accounts correctly.
(f)	The depreciation value of Rs. 11,242,872 for the year under review had not been accounted for in respect of the fixed assets purchased from 2021 to 2023, totalling Rs. 111,871,007. Accordingly, surplus and non-current assets were shown to be higher by that amount.	That will be corrected in the 2025 account.	Action should be taken to prepare accounts correctly.
(g)	Although it was stated that the accounting deficiencies worth Rs. 244,569,493 identified in the detailed management audit report of the previous year would be corrected, they had not been corrected in the preparation of the financial statements of the year under review.	That will be corrected from the 2025 account.	Action should be taken to prepare accounts correctly.

(h)	Since the value equivalent to the depreciation expense to be recognized in the year under review in relation to the assets acquired under capital grants in previous years was not shown as capital expenditure grants recognized in the surplus or deficit under other comprehensive income and as transfers made by the government for non-recurring expenses in the revenue, the comprehensive income and other comprehensive income of the year under review were shown less by that amount.	Work will be done to identify the depreciation in 2025.	Action should be taken to prepare accounts correctly.
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1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
There was a unreconciled of Rs. 43,327,811 between the balance as per the financial statements and the balance as per the schedules of 05 account balances included in the financial statements.	That will be correct it in the future.	The schedules should be updated and the financial statements corrected based on that.

1.6.4 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
Due to the failure to submit detailed schedules regarding library books worth Rs. 26,982,070, it was not possible to conduct a satisfactory approximate.	The schedules are being submitted.	Action should be taken to provide evidence confirming the account balances included in the financial statements.

1.7 Non-Compliance

1.7.1 Non-compliance with laws, rules, regulations and management decisions

The instances of non-compliance with Laws, Rules, Regulations and Management Decisions are as follows.

Reference to Laws, Rules Regulations etc.	Comments of the Council	Recommendation
(a) Orders on Accounting Matters Relating to the		

Financial
Administration of
the Municipal
Council dated 24th
December 2019

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| (i) 310 | Although information regarding properties rented out by the Municipal Council should be maintained in a register in accordance with the Sri Lanka Public Accounting Standards for Local Government Institutions in the format prescribed by the Local Government Commissioner, the Council had not acted in accordance with those provisions. | That in the future, steps will be taken to maintain a document that complies with the format prescribed by the Local Government Commissioner. | Financial and administrative rules must be followed. |
| (ii) 312 | The agreements entered into for the lease of the properties of the toilet system located near the Negombo Main Bus Terminal, Rajapaksha Ice Cream Parlour, Etthukala Beach Vehicle car park and toilet did not include a condition that monthly rents should be paid. | A condition will be included in the future. | Financial and administrative rules must be followed. |
| (iii) 395 | Although the annual lease/rental should be based on a calendar year, the council had leased the The berumwatta land as a temporary vehicle parking from 2014 to the same entity for less than a month and for several months and for a period of 1 1/2 years from 01 July 2024 to 31 December 2025. | Tenders will be made under a formal tender process. | Financial and administrative rules must be followed. |

1.7.2 Non -compliance with Tax Regulations

Audit Observation	Comments of the Council	Recommendation
Although information on Value Added Tax paid as per the circular number GIR/2019/03-1 (Ins.cir) dated 09 July 2019 of the Commissioner General of Inland Revenue should be sent to the Commissioner General of Inland Revenue as per its format, input tax details of Rs. 41,055,077 relating to suppliers had not been sent to the Inland Revenue Department.	That will be corrected in the future.	Action should be taken according to the circular.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over expenditure of the Council for the year ended 31 December 2024 amounted to Rs. 192,294,551 as compared with the excess of revenue over expenditure amounted to Rs. 204,958,275 in the preceding year.

2.2 Revenue Administration

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

According to the information submitted by the Municipal commissioner, the estimated revenue, billed revenue, collected revenue and arrears of revenue for the year under review and the previous year are shown below.

Source of Revenue	Estimated Revenue	2024		Total Arrears as at 31 December	Estimated Revenue	2023		Total Arrears as at 31 December
		Revenue billed	Revenue collected			Revenue billed	Revenue collected	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
(i) Rates and Taxes	200,986	256,886	209,067	205,584	167,173	196,520	167,191	227,696
(ii) Rent	335,008	103,674	103,738	38,338	88,791	86,354	86,354	39,103
(iii) License fees	20,653	28,649	28,657	831	15,956	23,997	24,060	2,298
(iv) Other Revenue	918,066	727,063	728,846	13,042	828,788	824,451	829,385	15,692
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	<u>1,474,713</u>	<u>1,116,272</u>	<u>1,070,308</u>	<u>257,795</u>	<u>1,100,708</u>	<u>1,131,322</u>	<u>1,106,990</u>	<u>284,789</u>

2.2.2 Rent

Audit Observation	Comments of the Council	Recommendation
(a) Although the arrears of rent amounting to Rs. 2,371,000 relating to the days when the Kamachchoda Sunday Fair was held had been collected from the money deposited with the council by the lessee, the fine amount of Rs. 22,452,225 and the stamp duty fee of Rs. 23,710 had not been collected for that.	That the amount due will be recovered from the taxpayer.	Action should be taken to recover fines and stamp duty.
(b) In the year 2024, when the relevant tenderer made installment payments after a grace period, Rs. 782,550 for the Kamachchoda Sunday Fair and Rs. 807,700 for the Kamachchoda Wednesday weekly fair had not been recovered on the basis of a 5 percent penalty, and action had not been taken to recover the fine of Rs. 13,882,969 and the stamp duty of Rs. 12,769 that should have been recovered for the outstanding fair installment value for the period from 01 st of January 2024 to 30 th of June 2024 for the Kamachchoda Wednesday weekly fair.	The amount due will be recovered from the lessee.	Action should be taken to recover fines and stamp duty.

3. Operational Review

3.1 Performing of Functions Enacted by the Act

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 are shown below.

Audit Observation	Comments of the Council	Recommendation
(a) By-laws		
Although the Municipal Council is required to obtain authority through a by-law to operate a vehicle park and charge fees in accordance with Sections 267 and 272 of the Municipal Council Ordinance, no by-law had been prepared regarding the car parks operated on	That will be done from next year.	By-laws should be prepared in accordance with the Municipal

the road from near the bridge on the Old Chilaw Road to the Mosque and in front of the Kamachchoda weekly fair in the Negombo area.

Council
Ordinance.

(b) Solid Waste Management

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| i. | Although the Municipal Council had been entrusted with the responsibility of directly or indirectly carrying out or having carried out the cleaning of public drains and roads in accordance with Sections 04, 96 and 100 of the Municipal Council Ordinance (Chapter 252) and the Western Province Municipal Solid Waste Management Rules No. 01, 2008, dated 30th July 2008, the Municipal Council had not taken action to carry out that task. | Clean-ups and public awareness campaigns have been carried out. | Must act according to the laws and work to keep the city clean. |
| ii. | The audit also observed that the public is also affected by the spread of infectious diseases such as dengue due to the accumulation of water due to blockage of drains on the Negombo-Colombo main road and roads within the municipal council area with garbage such as mud and plastic bottles. | Problems arise because there are not enough health workers. | Necessary steps should be taken to prevent infectious diseases by continuously maintaining the drainage system clean. |

3.2 Management Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	From the year 2021 to the year 2023, 18 different creditor balances totalling Rs. 295,790,039 had not been settled.	There are only 7 warehouse creditors balances to be settled.	Action should be taken to investigate the existence and settle the creditor balance.
(b)	From the year of 1981 to year of 2016, 81 various debtors balances totalling Rs. 2,172,222 and from the year of 1986 to year of 2011, 39 warehouse debtor balances totalling Rs. 693,676, totalling Rs. 2,865,898, had not been recovered.	Information is being sought to settle.	The existence of debtor balances should be find and action taken to settle them.

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| (c) | Action had not been taken to regarding recover 51 dishonoured cheques totaling Rs. 879,975 from the year of 1991 to year of 2017. | Information is being sought to settle. | Action should be taken to settle dishonoured cheques balances. |
| (d) | Although all assets should be revalued and accounted for as per the letter of the Commissioner of Local Government No. LGD/10A/4/N.G./2019 dated 01 February 2021, the assets of the council, namely lands and other infrastructure facilities, had not been identified, revalued and accounted. | That is being accounted. | Assets must be identified, revalue, and accounted. |
| (e) | Although the audit had been informed in previous years that the annual rates value of Rs. 7,047,317 given by the Revenue Inspectors for the rates of 26 buildings owned by the Council was stated as the revalued value in the financial statements, the valuation Department would assess it, but this had not been done in the year under review. | Assessments will be carried out in the future. | The carrying amount should be stated in the financial statements. |

3.3 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) In non compliance of orders 317(i)(ii)(iii) and 398 of the Municipal Council Financial Administration Act, the vehicle park on the Old Chilaw Road was leased at Rs. 60,000 per month and the vehicle park in front of the Kamachchoda weekly fair was leased at Rs. 20,000 per month, at the request of the previous leaseholders, without basing it on assessment report of a chartered assessor.	It has been decided to call for quotations and lease in 2025.	Action should be taken based on a formal assessment report.
(b) The Valuation Department had assessed the monthly rent for the Thabarumwatta vehicle park at Rs. 220,000 for a period of two years by letter dated 23rd of October 2017, but due to the fact that a fee of Rs. 430,000 was charged at the request of the institution for the period from 01st of January 2018 to 31st of December 2019, an income of Rs. 4,850,000 had been lost for that rent. Although a new assessment should have been obtained	Despite the tender, no one has not submitted.	A new assessment should be obtained and the lease should be given in accordance with the tender procedure.

for the year 2020, no action had been taken to obtain a new assessment.

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| (c) | The General Assembly held on 3rd of October 2019 had decided to enter into a contract with a private company to provide security services at the places belonging to the council. However, from the year 2021 to the year 2024, the service contract was continuously extended at the request of the previous service provider. | That in the future, efforts will be made to provide lease according to the procurement method. | The government procurement guidelines should be followed. |
| (d) | The following matters were observed during the inspection regarding the lease of the Saturday Night fair: | | |
| (i) | The General Assembly had accepted convention to lease the property to the lessee who was receiving rent from the year 2019 by increasing the rent by 5 percent to the previous year's rent from the year 2022 to 30 June 2024, and a tender had been made for a period of 1 ½ years from 01 July 2024. Accordingly, while the highest bid values were submitted as Rs. 18,960,000 and Rs. 18,000,000, the tender had been awarded for the third highest bid value submitted as Rs. 17,680,000. | The lease will be based on a calendar year from 2026. | Lease should be paid according to the procurement process. |
| (ii) | It was revealed that although it had been agreed to hold the fair and charge fees only within the area specified in Schedule 02 as per condition number 23 of the lease agreement, the lessee was also charging fees from the temporary stalls from near the Bank of Ceylon to the old Regal Cinema premises on Saturdays and that the council was not charging fees from those temporary stalls on those days. | The lessee has been informed. | The terms of the lease agreement must be followed. |
| (iii) | According to condition number 08 of the lease agreement for the Saturday night fair, if the fair fee agreed upon by condition number 02 is not paid within 10 days after the fair date, the second party had agreed to pay a fine of 5 percent per day from the next day, excluding the grace period of 10 days, but when paying the rent to the council for the year 2024, the council had not taken steps to collect the fine of Rs. 3,734,375, | Lessees have been informed to pay arrears of lease. | As per the lease agreement, steps should be taken to collect the money on time and to recover the outstanding balance along with fines. |

which was due for the 21 weeks that exceeded the above period.

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| <p>(e) In granting leases for the period from 5th December 2024 to 5th January 2025 for the construction of temporary shops on 49 plots of land at four identified locations in Negombo City, arrangements had not been made in accordance with orders 316(i), 318, 320, 322(iii), 350, 353, 370 and 377 of the Municipal Council Financial Administration Accounting orders.</p> | <p>That the orders will be acted upon in 2025.</p> | <p>Actions must be taken in accordance with financial administration orders.</p> |
| <p>(f) Although the income received by the council for shop numbers 10 and 13 opposite Green Park Field and shop number 06 opposite the IOC Shed was Rs. 60,000, Rs. 55,000 and Rs. 65,000 respectively, the registered persons who received rent from those shops had paid sub-rents of Rs. 100,000 and Rs. 140,000 each to another external party.</p> | <p>The council has not been informed about it.</p> | <p>If sub leases are granted in accordance with the provisions of the Act, the permission of the Council must be obtained.</p> |
| <p>(g) Although the General Assembly had proposed on 10 January 2023 to expedite the necessary action to transfer the Etthukala Beach Park to the Urban Development Authority and the relevant recommendation reports to transfer this property to the Urban Development Authority had been forwarded to the Land Commissioner through a letter from the Negombo Divisional Secretary, without taking any notice of this matter, action had been taken to tender this property for a period from 01 of July 2024 to 31 of December 2025.</p> | <p>Lease has been providing from July 1, 2023 to June 30, 2024 and the assessment has been given by letter dated 12th of September 2023.</p> | <p>Efforts should be made to increase revenue by provide lease on assessed values.</p> |
| <p>(h) The following matters were observed during an inspection regarding the leasing of land for temporary shops in Negombo during the Christmas season.</p> | | |
| <p>(i) Although the bid values for properties should be determined based on a assessment report of a chartered assessor in accordance with Orders 398 on Accounting Matters relating to the financial administration of the Municipal Council, in relation to this property, which is temporarily leased for the month of December 2024, in accordance with the letter of the Western Local Government Commissioner dated 15th February 2024, when granting temporary</p> | <p>The rates have been approved by the Municipal Commissioner after obtaining a temporarily assessment.</p> | <p>A assessment report from a chartered assessor should be used as a basis and arrangements should be made to enter into an agreement</p> |

shop leases for the Christmas period in December 2024, tenders had been given for the land sizes of 10×10, 05×10, 08×08 and 6×10 feet temporarily leased by the Municipal Council without obtaining a government assessment, indicating minimum values ranging from Rs. 40,000 to Rs. 100,000, and the Council had not entered into an agreement for the temporary shops.

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| (ii) | While there was an missing in the bidding process for the two temporary shops No. 1 and 2 opposite the railway station, the Municipal Commissioner had, without any consideration in this regard and without obtaining any justification report from the tender committees or evaluation committees or any other form, informed the Council to calculate the average of the prices presented by the tenderers and obtain the relevant amount. Therefore, the Council had lost an income of Rs. 135,000 which could have been obtained by awarding the contract at the highest price presented by a tenderer. | It was decided to charge fees based on the average of the prices presented. | Efforts should be made to generate the maximum revenue that the council deserves. |
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3.4 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Council	Recommendation
Although it was planned in 2017 to use the first floor for the library and the ground floor for commercial purposes, as of 18th May 2025, 9 years after the construction began, the expected public services from this building had not been provided.	The leasing of the commercial portion has been delayed due to the delay in the government's assessment.	Public property should be utilized to the maximum efficiency.

3.5 Procurement Management

Audit Observation	Comments of the Council	Recommendation
(a) A master procurement plan should be prepared in accordance with Guideline 4.2 of the 2006 Government Procurement Guidelines and Format 4.2.1 of the Procurement Manual and the expected procurement activities for a	A procurement committee will be appointed and operational in 2025.	Procurement guidelines should be followed.

minimum period of 3 years should be listed in accordance with 4.2.1(b) of the Guidelines. However, the procurement entity had not prepared a master procurement plan and the procurement process for acquiring security services had not been included in the annual procurement plans prepared from the year of 2020 to year of 2024.

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| (b) | Although, as per 2.4.1 of the 2006 Government Procurement Guidelines, Procurement Committees and Technical Evaluation Committees are responsible for the entire procurement process, a Procurement Committee was not appointed for the procurement process to select a institution to provide security services for Rajapaksha Park and its premises. | A procurement committee will be appointed and operational in 2025. | Procurement guidelines should be followed. |
| (c) | While an institution had offered 40 watt LED bulbs with a 2-year warranty period at a price of Rs. 2,410 per unit, the council had purchased 1,175 40 watt LED bulbs from another institution at a higher price of Rs. 4,140 per unit between 01 st of January 2024 and 30 th of August 2024, thereby making an overpayment of Rs. 2,032,750. | That has selected bulbs with I 65 technology. | Should also consider cost-benefit when purchasing. |

3.6 Defects in Contract Administration

Audit Observation	Comments of the Council	Recommendation
(a) The following matters were revealed during the inspection conducted regarding the completion of the remaining works in the construction of the two-storey library building with commercial facilities.		
(i) The two-storey library building with commercial facilities was constructed by the original contractor, who cancelled the contract due to poor performance, but due to non-encashment of the performance bond of Rs. 7,855,091, the amount due to the Council Fund of Rs.	The performance guarantee has been cancelled and the advance guarantee has been cashed.	When agreements are broken, steps must be taken to act in accordance with the agreement.

7,855,091 and the benefits thereon from 20 November 2019 had been lost.

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| (ii) | Due to the failure to procure a suitable consultant and contractor for the construction in a transparent manner and ineffective supervision of the construction work, the construction of the library building, which was to be completed on 23 rd June of 2017 for Rs. 157,101,803, was halted midway and accordingly the contractor, who completed the remaining parts on 09 th of September 2024, had to pay Rs. 313,410,992 for the construction of the complete two-storey building, including price fluctuations due to high inflation, of Rs. 206,393,566. | The relevant institutions were selected according to the tender procedure. | The reasons for the payment to the contractor and the consulting firm despite the observed inefficiencies should be investigated and further action should be taken. |
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- (b) The following matters were observed during the inspection of the construction of the Kamachchodiya Dudley Senanayake Central Market Building (Phase 01).
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| (i) | The scope of work of the 3-storey contract, which was contracted to be completed on 18th of January 2023 at a value of Rs. 479,642,845 and completed on 12 th of October 2023, was limited to 2 floors. However, an advance of Rs. 99,240,517 had been paid based on the total contracted amount. | Charged in instalments from bills. | Actions should be taken in accordance with the National Procurement Guidelines Supplement and the terms of the contract agreement. |
| (ii) | Although the contract period should have been extended for reasonable reasons as per the conditions of the contract agreement 8.7, since the reasons given are unacceptable, a delay fee of Rs. 45.8 million at the rate of Rs. 119,911 per day for 382 days should have been charged from the contractor, but action had not been taken accordingly. | That late fees will be charged in the future. | Late fees should be collected according to the terms of the contract agreement. |

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| <p>(iii) According to the second edition of the Notice No. (I.CTAD/1D/04) issued by the Construction Industry Development Authority (CIDA) in June 2009, the actual cost of submitting the insurance and security guaranty and a fee of 5 percent on top of that should be paid, but despite that limit, the financial institution and the contractor had been paid Rs. 734,085 and Rs. 1,404,335 respectively under subject numbers B11 and B12 without taking into account the cost incurred by them. Similarly, Rs. 175,000 had been paid under primary work B17 without confirming whether any damage was caused to other parties.</p> | <p>The necessary information will be presented after consulting with the consulting firm.</p> | <p>Further action should be taken to find out the reasons for overpayments.</p> |
| <p>(iv) Although the amount payable to the insurance company for the risk insurance of Rs. 488,776,124 taken out by the contractor was Rs. 308,887, the consultancy firm had certified and paid Rs. 1,367,615 under various types of insurance. Furthermore, the insurance coverage had not been extended in accordance with the extension of the contract period up to 31st of December 2024.</p> | <p>The necessary information will be presented after consulting with the consulting firm.</p> | <p>Further action should be taken to find out the reasons for overpayments.</p> |
| <p>(v) According to the physical audit inspection conducted on 18th February 2025, the following matters were observed regarding the work subjects and work carried out in relation to the above construction, which had been paid up to Bill No. 07.</p> | | |
| <ul style="list-style-type: none"> • For the facilities to the Site Engineer under Work Item B18, was paid Rs. 378,450 for the maintenance and removal of a temporary office building of not less than 100 square meters, sufficient for ten persons, air-conditioned, but upon physical inspection it was only a temporary office premises | <p>The necessary information will be submitted after consulting with the consulting firm.</p> | <p>Further action should be taken to find out the reasons for overpayments.</p> |

measuring 7.5×20 feet in length and width, i.e. 13.5 square meters, without toilets.

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| <ul style="list-style-type: none"> Although Rs. 233,750 was paid for the construction, maintenance and removal of an air-conditioned meeting hall for 20 people under Work Item B 21, such a building was not allocated or used and meetings and discussions related to the construction were held at the Municipal Council office. | <p>The necessary information will be submitted after consulting with the consulting firm.</p> | <p>Further action should be taken to find out the reasons for overpayments.</p> |
| <ul style="list-style-type: none"> While Rs. 199,750 was paid for the telephone, electricity, fax and water under Work subject Item B19, Rs. 66,000 was paid for the use of communication services under Work subject Item B20. | <p>The necessary information will be submitted after consulting with the consulting firm.</p> | <p>Further action should be taken to find out the reasons for overpayments.</p> |
| <ul style="list-style-type: none"> The audit revealed that although Rs. 780,030 was paid for a temporary office building with rest areas and toilets for the site staff, there was a 13.5 square meter cabin without toilets and rest facilities, and that it had also been removed before the contract period had expired by the audit date of 18 February 2025. | <p>The necessary information will be submitted after consulting with the consulting firm.</p> | <p>Further action should be taken to find out the reasons for overpayments.</p> |
| <ul style="list-style-type: none"> Although the area of the field should have been indicated as shown in the architectural plan, Rs. 225,000 had been paid for its use as a warehouse without recording anything there. | <p>The necessary information will be presented after consulting with the consulting firm.</p> | <p>Further action should be taken to find out the reasons for overpayments.</p> |
| <ul style="list-style-type: none"> Although Rs. 229,500 had been paid for the provision of a room for a kitchen, a canteen and a lounge for the staff as per work subject B 28, such premises did not exist and payment had also been made under work subject B 26 for the staff lounge. | <p>The necessary information will be presented after consulting with the consulting firm.</p> | <p>Further action should be taken to find out the reasons for overpayments.</p> |

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| <ul style="list-style-type: none"> • While sanitation and transportation expenses for the construction staff were included under Work subject B 26, Rs. 325,600 had also been paid under Work subject B 29. | <p>The necessary information will be presented after consulting with the consulting firm.</p> | <p>Further action should be taken to find out the reasons for overpayments.</p> |
| <ul style="list-style-type: none"> • Under Work Subject B 33 to B 42, under Contractor Facilities, Engineer Facilities Contract Management and Supervision, Resident, Engineer, Quality Control Engineer, Site Safety Officer, Technical Officer Electrical, Technical Officer Air Conditioning, Quantity Surveyor, Designer, Construction Supervisor (Foreman) and Additional Technical Officer, out of the Rs. 6,190,000,000, Rs. 4,256,550 had been paid without providing information about the professionals and confirming that those professionals contributed to the development of these constructions. | <p>The necessary information will be presented after consulting with the consulting firm.</p> | <p>Further action should be taken to find out the reasons for overpayments.</p> |
| <ul style="list-style-type: none"> • Rs. 316,800 and Rs. 154,000 had been paid for the planning (Setting out) under preliminary work subject B 43 and B 44, and Rs. 843,200 had also been paid under work subject B 45 to B 49, although progress reports, quality control inspector reports, etc. had not been submitted. Similarly, despite the declaration that a health, safety and well-trained environmental professional would be employed, Rs. 198,000 was paid under Work subject B 50 without taking action, Rs. 520,000 was paid under Work subject B 66 for the use of equipment even though it was included in the construction price, and Rs. 231,000 was paid under Work subject B73 for the preparation of access roads free of mud and the provision and certification of a washing bay for such activities without verifying that such conditions had arisen and the expenses had been incurred. Similarly, under Work subject B74, Rs. 162,500 was paid for the construction of temporary emergency | <p>The necessary information will be presented after consulting with the consulting firm.</p> | <p>Further action should be taken to find out the reasons for overpayments.</p> |

pavements even though conditions had not arisen.

- The audit observed that although Rs. 507,850 was paid on 07 June 2018 for examining the suitability of the land and obtaining the soil test report, no such construction took place, resulting in a loss to the council fund.
- The necessary information will be submitted after consulting with the consulting firm.
- Further action should be taken to find out the reasons for overpayments.

3.7 Identified Losses

Audit Observation	Comments of the Council	Recommendation
Project of construct the Talahena Sub-office building on the land where the Talahena Maternity Clinic is located, owned by the council, from 10th of December 2022 to 30th of May 2025, without obtaining Governor's approval or carrying out any construction and without providing a signed report from the consulting firm, resulted in a total of Rs. 3,500,000 in consultancy fees and Rs. 318,734 in soil testing fees, totaling Rs. 3,818,734. It was an identified loss.	That no answer has been given.	Actions should be taken to find out the reasons for making payments when construction has not been completed and take further action.

3.8 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
(a) As at 31 st December 2024, there were 6 senior level vacancies, 3 tertiary level vacancies, 42 secondary level vacancies, 36 primary level vacancies and a surplus of 01 post in the Council's staff.	The actual number of senior-level employees is 11 and the actual number of secondary-level employees is 185.	Steps should be taken to fill the vacancies.

- (b) As at 31st December 2024, Rs. 105,481,400 was due from 563 officers who had taken disaster, property and bicycle loans. Of this, Rs. 1,704,976 was due from officers who had left the service, retired, died and transferred, and no action had been taken regarding the loan balance of Rs. 64,485, which was more than a year old and was due from 21 officers. That action has been taken to recover. Action should be taken to recover the loan balance.