

## Dehiwala Mount Lavania Municipal Council - 2020

---

### 1. Financial Statements

---

#### 1.1 Qualified Opinion

---

The audit of the financial statements of the Dehiwala Mount Lavania Municipal Council including the financial statements for the year ended 31 December 2020 Statement of assets and liabilities as at 31 December 2020, Income Comprehensive Statement, Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, 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 provisions of the 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 Dehiwala Mount Lavania Municipal Council as at 31 December 2020, 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 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**, 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 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

-----

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
-----	-----	-----
(a) Action had not been taken to transfer the balance of the existing property, plant and equipment account as at 31 December 2019 to the Reserve and Reservation Account and account for the value of the new property, plant equipment.	The final accounts for the year ended 2020 have been prepared under the new accounting standards and action will be taken to made the corrections for 2019 when preparing the 2021 final accounts.	All fixed assets should be revaluated and accounted for.
(b) Library books value at Rs.476,491 had been purchased during the year 2020 and the library books had not been accounted for under Fixed Assets with the value of the books purchased in previous years.	The value will be calculated and accounted for in the year 2021.	Action should be taken to account correctly.
(c) The net increase in cash and cash equivalent is not correct as the annual depreciation had not been properly adjusted in the preparation of cash flow statements as per Sri Lanka Public Sector Accounting Standards 03.	will be corrected in the accounting for the year 2021.	Action should be taken to account correctly.

- |     |  |  |   |
|-----|--|--|---|
| (d) | Five projects had been approved to provide a capital grant of Rs.7,633,946 for the year under review, Although the Council had stated Rs.6,984,823 as the amount due for the implementation of those projects, it was not mentioned as Capital Grant under Note 10 of the Comprehensive Revenue Statement. | This error occurred due to the inability to identify the expenditure incurred on the implementation of these projects due to the Corona epidemic at the time of preparation of the 2020 accounts. At the preparation of 2021 accounts details will be corrected and account. | Action should be taken to account correctly.                                |
| (e) | A sum of Rs.36,784,996 had been paid to the Waste Management Authority for the disposal of garbage during the year under review .But expenditure had been shown as Rs.39,157,178 in the financial statements, and resulting the expenditure been overstated by Rs.2,372,182.                               | Provisions for more creditors have been made because the bills were not received by the date of the preparation of accounts. will be corrected when the accounting for the year 2021.  | Expenditure for the year should be accurately identified and accounted for. |
| (f) | Security service expenditure for the year under review had been shown more by Rs. 1,750,924.   | Provisions for more creditors have been made because the bills were not received by the date of the preparation of accounts. will be corrected when the accounting for the year 2021.  | Expenditure for the year should be accurately identified and accounted for. |

**2. Financial Review**  
-----

**2.1 Financial Result**  
-----

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2020 amounted to Rs.355,747,136 as compared with excess revenue over recurrent expenditure amounted to Rs.284,365,691 in the preceding year

**2.2 Performance in Revenue Collection**  
-----

**Audit Observation**  
-----

**Comments of the council**  
-----

**Recommendation**  
-----

**(a) Rates and Taxes**

As at 31 December 2020, there were about 86000 properties of which rates can be collected and out of which

Due to the re-closure of the country on the expansion of the first and second wave of

Action should be taken to recover the arrears of rates.

42622 properties had an arrears of rates amounting to Rs.430,760,901.

Covid 19 the payment of rates of assessment tax was significantly decreased due to the stoppage of business. As a result, arrears of assessment tax balance of businesses were added to the list of properties in excess of Rs.100,000.

(b) **Garbage tax**

Since the Council had not entered into agreements with the places where the garbage are disposed, it could not be take legal action to collect the arrears of garbage tax. As action had not been taken to recover arrears of garbage taxes in terms of the Council decision No. 08 (10) 35 dated 18 November 2003 and the instructions of the Committee on Finance, the arrears of garbage tax as at 31 December 2020 was Rs.17,079,650.

Letters for arrears have been sent to recover the arrears, and notice has been given to each business location through the Public Health Inspector and the Health Administrator in charge of the relevant division, and the service has been suspended until payment of the arrears.

Action should be taken to recover the outstanding tax.

(c) **Other tax**

Action had not been taken to recover the arrears of Cable TV income of Rs.4,718,601 and ,arrears of notice board of Rs.9,960,842 as at 31 December 2020 .

Letters have been sent to collect the remaining arrears.

Action should be taken to recover the arrears.

(d) **Stall Rent**

(i) Although the new small trade stalls in Ratmalana and the old big trade stalls in Ratmalana had been relocated, action had not been taken to recover the arrears of Rs.6,968,247 due from those trade stalls.

Part of the rent of new small trade stalls and old large trade stalls in Ratmalana had been recovered.

Action should be taken to recover the arrears.

(ii) In addition to the sealed stalls, action had not been taken to recover rent income from 40 stalls during the year under review.

The lease holders have objected due to physical deficiencies of shops to the increase in rent and if the repairs will be done agreed to come for agreements. The council had stated that the repairs will not be effective and that development work

Action should be taken to recover the arrears.

will be carried out in the future.

- (e) **Property Rent**  
 Rent arrears of Rs.5,778,407 due from 14 properties as at 31 December 2020 had not been recovered during the year under review. Action is being taken to recover this money. There was a slight delay due to Covid 19. Action should be taken to recover the arrears.
- (f) **Licence fees**  
 According to the records, there are 1793 shops which are required to issue trade licenses for the year 2020, but only 500 shops have been issued licenses and 1293 shops have been operating without obtaining licenses and not paying the license fee. According to the gazette notification, no charges were levied for industrial levies and they were registered as places where license to be obtained. But in the year 2021 the gazette notification has been corrected. Charges are being collected. Identify the shops that need to be licensed and issue licenses.
- (g) **Court Fines**  
 Although the value of court fines collected by the courts for the period from 2016 to 31 December 2020 was Rs.84,140,132, action had not been taken to recover it from the relevant institutions during the year under review. Schedules for court fines for the year 2018 have been prepared. Schedules for 2019 are being prepared and it was unable to go to court in the face of the Covid 19 epidemic situation to prepare schedules for 2020. Action should be taken to collect revenue.

### 2.3 Surcharges

#### Audit Observation

In terms of the provisions of the Municipal Council Ordinance Rs.3,563,042 was to be recovered as at 31 December 2020, in respect of surcharges imposed by me in previous years against the responsible parties.

#### Comments of the Council

Not replied.

#### Recommendation

Action should be taken to recover the surcharge balance immediately.

### 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 Act are shown below.

### 3.1 Identified Losses

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
Action had not been taken to recover the loss and to take disciplinary action in respect of the financial fraud of the assessment tax of Rs.145,470 committed on 18 November 2019.	A panel of inquiry has been appointed into the formal disciplinary inquiry and the inquiry has not yet commenced due to the prevailing situation in the country.	Investigations should be completed immediately and action should be taken to recover the loss.

### 3.2 Operational Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
The Council had paid Rs.87,844 on 05 September 2016 as an arrears of water bill for the years 2009 and 2010 as respect of the official residence at No.14, Anagarika Dharmapala Mawatha. Although the council had informed by the letter dated 4 September 2018 to recover that from the pension gratuity of the relevant officer but it had not been recovered even by 31 December 2020.	Information has been submitted to the Local Government Commissioner, the disciplinary authority, to initiate a formal disciplinary inquiry into the matter.	Action should be taken to recover the amount due.

### 3.3 Idle or underutilized Property, Plant and Equipment

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
Twenty five shops constructed at Dehiwala Junction at a cost of Rs.25,751,793 had been handed over to the lessees and action had not been taken to collect the rent for the year under review.	As electricity and water connection were not provided for each shop those were not leased out. Institutions have been informed to obtain the connection.	Action should be taken to recover the rent.

### 3.4 Asset Management

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
One Rood and 4.10 perches land in the floor plan No.4/89 of Mount Lavinia	The Mount Lavinia Hotel has been informed in writing that the	Action should be taken to recover arrears.

Hotel Road was leased to the Mount Lavinia Hotel for use as a vehicle park. Due to the shortcomings in the lease agreements of the Municipal Council, the arrears of the property rent as at 31 December 2020 was amounted Rs.4,636,516 and it was unable to recover the lease rent from the lessee.

agreement entered into several years ago will expire on 31.05.2020. Therefore the new valuation value is being assessed.

### 3.5 Deficiencies in the Contract Administration

-----

#### Audit Observation

-----

Although Rs.20,784,031 had been paid to the contractor for the construction of the stadium at Dehiwala S de S. Jayasinghe Stadium ,Payment details and survey reports pertaining to the amount of work had not been submitted to the Council by the Consultancy and the work on the relevant project had not been completed even by 31 December 2020.

#### Comments of the Council

-----

Due to the Corona Epidemic which occurred during the period from 16.03.2020 to 28.06.2020, the country was inactive and the duties of government institutions were not functioned. Consultations are also being held with the Chief Legal Officer to negotiate the completion of the project.

#### Recommendation

-----

Project should be completed without delay.