

## **Negombo Municipal Council - 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Negombo Municipal Council including the financial statements for the year ended 31 December 2020 comprising the statement of assets and liabilities as at 31 December 2020, comprehensive income statement, statement of changes in net assets/ equity, 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 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 financial statements give a true and fair view of the financial position of the Negombo 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**

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I express 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**

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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)**

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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 Urban 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.

- 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.
- The following recommendations which I made on financial statements for the preceding year had not been implemented as per the requirement of Section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.2.2(a), 1.2.1(b), 1.2.1(d), 1.2.1(g), 1.2.2(a), 1.2.2(c), 1.2.3, 1.2.5(b), (c), 1.2.6(b)(i), 2.3.3, 3.1(a), 3.5 and 3.6

## 1.6 Audit Observations on the Preparation of Financial Statements

### 1.6.1 Non-Compliance with the Public Sector Accounting Standards for the Local Authorities

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) The Assets of the Sabha had not been revalued under standard No.18.7 and the Lands and Buildings had not been separately recognized according to the letter No.LGD/10A/4/න.ව.ව.2019 dated 22 February 2021 by the Commissioner of Local Government and the Computer and Computer Appliances had not been separately recognized and accounted.	Actions would be taken to revalue after receiving the report of recognizing Assets from the Urban Engineer.	Actions should be taken in terms of Sri Lanka Public Sector Accounting Standards for Local Government Institutions.
(b) The Amount of Rs.73,772,323 received as the Capital Donations for the year under review had not been decaded in the Accounting Policies and accounted even though the expenditure should be deducted out of the Capital Expense Donations and the amount left should be declared as the unrecognized Donations under the Excess under Net Assets According to the No.9.9 as the Note No.10 and the basis used to depreciate the Assets should be declared as a revenue by the Note No.5 in the detailed statement of Revenue.	Inform that the revenue and expenditure that had not been revealed under the Note No.10 had been adjusted in the Accounts.	Actions should be taken in terms of Sri Lanka Public Sector Accounting Standards for Local Government Institutions.

## 1.6.2 Accounting Deficiencies

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<b>Audit Observation</b> -----	<b>Comment of the Council</b> -----	<b>Recommendation</b> -----
(a) The amount of Rs.3,679,900 received on 02 November 2020 as a Phase out of 03 Phases of Capital Expense Donations by the Global Environment Strategies of Japan to build a Resources Recycling Centre in the Land at Meepura had been credited to the miscellaneous deposits even though it should be stated as the Capital Donations received during the year under review.	Inform that it had been stated under the deposits because of that the Project had not been commenced.	Actions should be taken to account it accurately.
(b) An amount of Rs.6,000,000 received by the Divisional Secretary as the rest of the amount of compensation for the Library Project on 07 September 2020 had been credited to the miscellaneous deposits even though it should be stated under the revenue.	Inform that it had been taken into accounts in the year 2021.	Actions should be taken to account it accurately.
(c) According to the Note No.9 of the Detailed Statement of Revenue it had been stated a financial cost of Rs.23,311,492 but it had been included the Loan Instalment of Rs.19,477,308 therefore the Expenditure had been overstated by that amount and the Excess had been understated.	Inform that an error had been occurred when stating the Note No.09.	Actions should be taken to account it accurately.
(d) The amount of over payment for the creditors of Rs.6,764,007 had not been stated as the debtors and deducted by the balance of the miscellaneous creditors and understated the balance of the creditors.	Inform that it would be reported to the audit after it had been settled.	Actions should be taken to account it accurately.
(e) The amount receivable from the not exchangeable transactions of Rs.273,536,362 had been stated in the Statement of Assets and liabilities after deducting 03 payable balances accumulated to Rs.283,450 therefore the receivable amount had been understated by that value.	Actions would be taken to correct it by the accounts for the year 2021.	Actions should be taken to account it accurately.

(f) Even though it had been stated under the Note No.04 of the detailed Statement of Revenue an amount of Rs.356,439,296 as the state transfers for the recurrent expenditure it included an amount of Capital Donations Rs.36,881,243 received by the Outside parties therefore the revenue had been overstated by that amount.	Inform that the actions would be taken to correct accounts in the future.	Actions should be taken to account it accurately.
(f) Employee security of Rs.60,000 of 02 employees had been paid during the year under review but the amount had not been removed by the employee security investments therefore the security investments had been overstated by that amount.	Actions would be taken to correct it by the accounts for the year 2021.	Actions should be taken to account it accurately.
(g) The amount of receivable rent for the office utilized by the Department of Motor Traffic of Rs.909,000 as at 31 December 2020 had not been accounted as receivable.	The amount could not be exactly recognized therefore Inform that it had not been stated.	Actions should be taken to account it accurately.
(h) The Provisions amount of Rs.23,910,885 for 29 Programs of “Sapirigamak” Public Contribution and Rural Infrastructure Development for the year under review had not been stated as receivable.	Actions would be taken to correct it by the accounts for the year 2021.	Actions should be taken to account it accurately.
(i) The 26 Finished and paid in the year 2021 Programs of “Sapirigamak” Public Contribution and Rural Infrastructure Development had not been stated as the creditors for the year under review.	Actions would be taken to correct it by the accounts for the year 2021.	Actions should be taken to account it accurately.

### 1.6.3 Unreconciled Control Accounts

#### Audit Observation

There was a difference of Rs.183,390,158 relevant for 15 item of accounts, between the balances as per the financial statements and the balances as per the corresponding reports.

#### Comment of the Sabha

Inform that actions would be taken to write off from the accounts for the year 2021.

#### Recommendation

Actions should be taken to reconcile the differences and correct.

**1.6.4 Lack of Documentary Evidence for Audit**  
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<b>Audit Observation</b> -----	<b>Comment of the Sabha</b> -----	<b>Recommendation</b> -----
06 balances of accounts accumulated to Rs.431,348,282 could not be satisfactorily vouched because of not presenting the detailed supplementary documents and confirmations to the audit.	Inform that actions would be taken to write off from the accounts for the year 2021.	Actions should be taken to reconcile the differences and correct.

**2. Financial Review**  
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**2.1 Financial Results**  
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According to the financial statements presented, the excess of the Municipal Council amounted to Rs.12,330,794 for the year ended on 31 December 2020 as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.181,543,820.

**2.2 Revenue Administration**  
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**2.2.1 Performance in Collecting Revenue**  
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<b>Audit Observation</b> -----	<b>Comment of the Council</b> -----	<b>Recommendation</b> -----
The Rates in arrears as at 31 December 2020 had been Rs.170,628,000.	The reason for this arrears was the Covid-19 Pandemic.	Actions should be taken to recover the arrears.

**2.2.2 Rent**  
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<b>Audit Observation</b> -----	<b>Comment of the Council</b> -----	<b>Recommendation</b> -----
Actions had not been taken to recover the receivable tender and Stall Rent, other than sealing the stalls, accumulated to Rs.7,650,798 as Rs.2,082,026 from 12 stalls in the Market Complex and Rs.5,568,772 from 06 Stalls in the Market Complex in the new Bus Station	Inform that actions are being taken to recover the stall rent in arrears.	Actions should be taken to recover the arrears.

### 2.2.3 License Fees

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
Legal Actions had not been taken to recover the receivable License Fees of Rs.2,600,725 of the Kochchikade Sub-Office since the year 1990.	Inform that actions are decided to be taken under the Sabha decision.	Actions should be taken to recover the arrears.

### 3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Council through Section 04 of the Urban Council Ordinance, being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people.

#### 3.1 Uneconomic Transactions

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
The quotations had been called under the estimated cost of Rs.15,000,000 to the Phase II of Implementing a Computer System on 14 February 2020 but it had been decided to remake the documents and to call for quotations again because the procedure followed by the Technical Evaluation Committee had violated the Aims described in the Section No.1.2.1(c) of the State Procurement Guidelines therefore the amount of Rs.198,645 that had been spent on calling for quotations as at 06 November 2019 had been uneconomic.	The Quotations had been decided to call again because of the defects in the Documents.	Inform that the cost for re-calling the quotations should be recovered by the liable parties.

#### 3.2 Not Accomplishing the Expected Task

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
Sabha had been granted the approval to lengthen the time frame of the Program to turn Negombo to a Digital City at 03 instances by 06 months each from 10 October 2019 to 18 April 2021, even though the	Inform that the mapping of the roads and drains of 11 Grama Niladari Divisions had been finished.	The Performance should be achieved according to the Project Report.

Assistant Commissioner of the Provincial Council of Gampaha had been stopped recommending the Project because the project had not met with the expected aims and spent above the relevant expenditure heads. The Digital Maps for 11 Divisions out of 31 Grama Niladari Divisions had been already created as at 31 December 2020 and Rs.1,922,172 in the year 2019 and rs.1,615,152 in the year 2020 of salary for 7-20 employees and Rs.250,178 and Rs.213,031 as the Contribution by the Sabha for Employee Provident Fund respectively in the years 2019 and 2020 had been spent by the Sabha and the amount allocated for them by the budget had been Rs.890,000 and Rs.700,000. When considering the Performance compared to the Expenditure spent on the Project had not been in an adequate level.

### 3.3 Not Accomplishing the Objectives

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#### Audit Observation

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An amount of Rs.711,990 had been paid for 12 employees without receiving the approval by the Assistant Commissioner of the Provincial Council for the Project estimated to calculate the number of Street Lamps needed to light up the whole City and to lighten up, that is planned to commence and complete within time frame from 01 January 2018 to 31 December 2018. According to the Project Report the number of Street Lamps had been 18300 and according to that report the numbering the street lamps could be finished within the first 06 months of the project. Because of the lack of supervision of this project the numbering the street lamps had been finished in only 7271 posts of 8 divisions out of 39 Grama Niladari Divisions. The Objectives of this Project had been included in the Project of "Turning Negombo to a Digital City" therefore the Assistant Commissioner of the Provincial Council had been announced that these Objectives should not be in 02 projects.

#### Comment of the Council

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Inform that this Project had been a new Experience therefore it could only be completed the Udayarthopuwa Division within the first 06 months of the Project.

#### Recommendation

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The Performance should be accomplished according to the Project report.



### 3.4 Operational Inefficiencies

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Audit Observation -----	Comment of the Council -----	Recommendation -----
<p>(a.) Agreements had been made on 21 December 2021 for Rs.9,901,223 with the Global Environment Strategies of Japan to build a Resources Recycling Centre in the Land at Meepura by 03 Phases under the donations valued of 43,300 American Dollars but it had been reported on 05 February 2021 the construction of the first steps of the project had to be stopped because of a Protest of the people that the project could not be done on that place. Therefore that construction had been moved to the land where the old abattoir of Kochchikade was located and given to the same contractor but an agreement had not been made. The amount that should be received of Phase 01 out of the 03 Phases had been received of Rs.3,679,900 on 02 November 2020 and the Provisions of Rs.2,633,300 for the Phase II had been obtained by not acknowledging the change of the land and stating that the construction of the basement had been completed on the 31 March 2021.</p>	<p>Inform that the Land had to be changed because of the Protest of the Public.</p>	<p>The Accurate details should be provided to the institutions which offer the grants.</p>
<p>(b.) The Sabha had lost the opportunity to receive a higher price for leasing out the property owned by the Sabha like the Fair and Stalls because of acting out of Regulations of the State Procurement Procedures. Because 06 Assets of the Sabha offered on the same price of the year 2018 in the year 2019 and not making the prices increase even by 10 per cent than the old price the loss occurred by the Sabha had been Rs.3,119,781. The Commissioner of the Local government had been noticed by the Letter No.LGD/06/05/MOS/2019 dated 20 July 2019 to regulate the procedure of letting the Property under legal provisions because it had been revealed that leasing out the property to the previous lessee on a few percentage higher than the old leasing value and violating Sections 228 and 229 of the Municipal Council Ordinance.</p>	<p>Inform that it had been offered under a Sabha Decision.</p>	<p>Actions should be taken according to the State Procurement Guidelines.</p>
<p>(c.) The Open Hall of the Shopping Complex in the New Bus Station had been given to Private Institute for a lease for 25 years onwards 27 February 2019 under a request dated 10 December 2018 but the approval of the Minister in Charge of the Subject had not been obtained. A loss</p>	<p>Actions would be taken to commence the constructions of the Movie Theatre and earn the income.</p>	<p>Actions should be taken to offer on the Government Assessment and increase the income.</p>

had been done on Sabha because of letting on a least price of Rs.8,988,060 mentioned in the year 2007 tender calling under a decision taken by the Sabha without a Government Assessment. Constructions of the Suggested Movie Theatre could not be commenced because of not completing the renovations of the Hall and Sabha had been lost the income that could be received as at 15 February 2021.

(d.) The Thabarumwatta Land had been given as a Car Park to a Private Textiles Shopping Centre on a Government Assessment carried out on 23 of October 2017 for 02 years from the year 2014 and stated the rent as Rs.220,000. The rent had been increased by Rs.150,000 by the 25 November 2017 but no actions had been taken to make a new assessment because the assessment in the year 2019 was valid for 02 years and lease out again. Sabha had not been found out the feasibility to earn income using an employee around the time which this institute is not occupying the vehicle park.

Actions should be taken to offer on the Government Assessment and increase the income.

(e.) The Leasehold of the collection of parking charges from Ettukala Beach Garden Car Park had been given from the year 2003 to 2006 by calling for tenders and there onwards until the year 2019 it had been given to the same lessee by raising the lease rent by 10-20 per cent up to now. The lease rent for the year 2019 had been Rs.2,244,000 and it had been decided by a Sabha decision to offer to the same lessee for the same amount for the year 2020 on 05 October 2019. Even though the Commissioner of the Local government had been noticed by the Letter No.LGD/06/05/MOS/2019 dated 24 July 2019 to regulate the procedure of leasing out the property owned by the Sabha the regulations of the section 229 of the Municipal Council Ordinance had not been obeyed on this. (a request had been received by the Sabha to obtain this Vehicle Park on a lease rent of Rs.3,000,000 before making the Sabha decision and the park had been given on a lease rent less Rs.756,000 therefore A loss had been occurred on the Sabha of that value.)

Inform that it had been given on a Sabha decision.

Actions should be taken according to the regulations of the Municipal Councils Ordinance.

### 3.5 Procurement

#### 3.5.1 Goods and Services

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
<p>(a.) Sabha had purchased exercise books to distribute among the school children through Urban Members for Rs.17,954,896 in the year 2019 and Rs.360,249 in the year 2020 even though it had been estimated only Rs.7,616,901 and violated the regulations in the Section 3.2.2 of the Procurement Guidelines when choosing a supplier for purchasing the exercise books without competitive bids and lost the opportunity to earn favours. The books had been received at several instances after 14 days of ordering that was 17 January 2020 onwards but books of 14 categories of 12950 had not been received as at January 2021. And also 05 urban Members had not been forwarded the Distributions Register as at January 2021.</p>	<p>Inform that the letters are being sent for the Urban Members who did not hand over the registers.</p>	<p>Actions should be taken according to the State Procurement Guidelines.</p>
<p>(b.) Rs.2,623,600 had been paid for supplying gravel to the Kochchikade garbage yard for the year 2020. Even though a licensed supplier for gravel had been registered without calling the quotations from him the supply of gravel for the year 2020 had been offered to the supplier in the year 2019 on a request made on 21 November 2019 out of the Regulations described in the Section 1.2.1 of the Procurement Guidelines and purchased gravel from the institution on 17 June 2020 and 26 August 2020. A confirmation had not been found to prove that this institution had obtain a license to supply gravel for the year 2020. According to the Condition No.03 of the Agreement gravel should be supply in every month maximum 200 cubes and supplied gravel from 23 December 2019 to 04 March 2020 but after that no gravel had been supplied as at 10 February 2021. Covering the Garbage should be done by the Sabha regularly according to the Court decision given by the Divisional Courts of Negombo to a case filed under the Public Nuisance Act but the</p>	<p>State that a loss had not been occurred when considering the cost of procurement and the annual price increase because the agreement had been made under the last year price.</p>	<p>Actions should be taken according to the State Procurement Guidelines.</p>

Sabha had been ignored the terms of the Court Decisions. The Gravel dumped on the Garbage Heap after 14 February 2020 had been under quality soil mixed with stones and even though all the soil delivered had been under quality payments the payments had been done only deducting 05 cubes. Public Health Inspector had been issued a report in-written on 19 December 2019 about a trend of Public Protest against the odour coming out from the garbage and the breed of mosquitoes because the amount of garbage thinned without gravel was higher.

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| <p>(c.) An agreement had been made with a private institution to have the service of a D4E Machine to thin the Garbage from 01 January 2020 for a year and an amount of Rs.4,165,680 had been paid from 01 January 2020 to December monthly. The tender had been offered to the same tenderer of the preceding year under a decision taken by the Sabha on 05 December 2019 on his request made on 21 November 2019 for the year 2020 out of the Procurement Guidelines.</p>   | <p>State that a loss had not been occurred when considering the cost of procurement and the annual price increase because the agreement had been made under the last year price.</p> | <p>Actions should be taken according to the State Procurement Guidelines.</p> |
| <p>(d.) Quotations had been called on 17 October 2019 and chosen the least price institutions by the Technical Evaluation Committee to select an institution to supply the service of cleaning Negombo Bus Station and its surroundings and recommended to obtain the service by paying Rs.541,566 per month. The Sabha gathered on 05 December 2019 had been decided to offer the tenderer offered the 02<sup>nd</sup> least price, the institution which supplied the services for the last time and, because that institution had no any complaints up to now, the well experience they had and also it was located within the authority of Sabha. It could be recognized a loss of Rs.151,608 annually because of choosing the tender with the second least price.</p> | <p>Inform that the quality of the service had been considered other than the price differences.</p>  | <p>Actions should be taken according to the State Procurement Guidelines.</p> |