

Negombo Municipality Council - 2022

1. Financial Statements

1.1 Adverse Opinion

The audit of the financial statements of the Negombo Municipal Council including the financial statements for the year ended 31 December 2022 comprising the Statement of assets and liabilities as at 31 December 2022, 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 report to parliament appear in this report.

In my opinion, because of the significance of the matters described in paragraph 1.6 of this report, the financial statements do not give a true and fair view of the financial position of the Negombo Municipal Council as at 31 December 2022 and its financial performance and cash flow for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.2. Basis for Adverse Opinion

I expressed Adverse opinion regarding 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 adverse 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 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 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) 12 items which should be recognized as stock purchased by the council for Rs. 432,900 in the year 2022 had been identified as property and plant contrary to rule 141(i) of the rules on accounting matters relating to the financial administration and paragraph 5.1.(a) of the Standard, rule 156 and paragraph 6.2 of the Standard.	That such errors will not occur in the future.	Financial statements should be prepared as per rules.
(b) Contrary to the method of presenting the cash flow from investment activities mentioned in paragraph EG 6.3 of the detailed explanation of appendix 2 of the standard, the difference of Rs.38,511,110 between the opening balance and the closing balance of the year of non-current investments was shown as fund for the investment.	-do-	Financial statements should be prepared as per standards.
(c) According to EG 6.3 of the detailed explanation in appendix 2 of the standard, loans granted of Rs.27,839,546, instalments of Rs.23,025,194 and interest charges of Rs.4,161,336 were made to the officers of the council during the year under review, but those values were not stated as investment activities.	-do-	-do-
(d) Contrary to Paragraphs No. 9.9 and No. 9.14 of the Standards, capital expenditure allowances of Rs.85,302,075 not recognized in the income of the year under review were shown under short term payables and without showing under the equity.	-do-	-do-
(e) Although the purchases of property plant and equipment were Rs.10,547,709 in the year under review, it was stated as Rs.68,173,261 under the cash flow from investment activities,.	-do-	-do-
(f) In the preparation of the financial statements, according to the FS 3 of the illustrative form of the Public Sector Accounting Standards for Local Governments as per form LG 41/3, Although the accumulated surplus before adjusting the comprehensive income of the previous year should	-do-	-do-

be stated as Rs.130,740,449 in the statement of changes in net assets and equity for the year ending 31 December 2022 of the council it had been stated as Rs. 112,444,953.

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| (g) | Although the net value of changes in accounting policies and incorrect adjustment of prior periods was Rs.34,820,120, it was shown as Rs.53,115,616 in the statement of changes in net assets and equity. | -do- | -do- |
| (h) | In calculating the cash flow from operating activities as per detailed explanation EG 6.2 in appendix 2 of the standard, the difference of Rs.18,792,746 in current liabilities was stated by the council as Rs.37,549,122. | -do- | -do- |
| (i) | According to the detailed explanations in Annexure 2 of the Standard EG 6.4, in the calculation of cash flows from financial activities, although Rs.36,110,911 had been received as capital grants, it had been stated as Rs.48,072,182 overstating by Rs.11,961,271. Also, long-term borrowings amounting to Rs.31,176,000 during the year under review were shown as Rs.70,016,000 in the cash flow. | -do- | -do- |
| (j) | In accordance with the detailed explanation of appendix 2 of the Standard EG 6.2, Although the surplus of the cash flow from operating activities for the year has been adjusted to the interest expense of Rs. 8,612,223 and the interest income of Rs. 10,552,079 and the transaction values in the respective amounts are shown separately under investment and financial activities, it had not been shown. | -do- | -do- |

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Capital grants receipts totalling Rs.1,816,710 during the year under review of 2 computers amounting to Rs.654,000 and office equipment amounting to Rs.1,162,710 were debited to expenses and credited to the accumulated fund instead of being accounted under capital grants and fixed assets.	Corrected by a journal entry in the year 2023 and to be adjusted to the Capital Grants account.	Accounts should be properly prepared.

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| (b) | The loan amount of Rs.31,176,000 received from the Local Loan Development Fund during the year under review was debited to the Accumulated Fund account instead of debiting the relevant income account while correcting the accounting as income under receipts for other recurrent expenditure. | That such errors will not occur in the future. | -do- |
| (c) | An expenditure of Rs.80,763,837 incurred for the library building from the Local Loan Development Fund and council fund in the year under review was accounted as a recurrent expenditure. | That the payments made for capital expenditure be removed and arrangements made for comprehensive income. | -do- |
| (d) | The total payment of Rs.187,384,163 for the construction of the library building up to 31 December 2022 was not capitalized under property, plant and equipment as unfinished work. | That the building revaluation be carried out in the future year and the asset account will be shown correctly in the financial statement. | -do- |
| (e) | The loan installment value of Rs. 29,853,600 paid in the previous year for 5 compactors provided on loan basis by the Local Loan Development Fund was credited to the account of contribution to income from the capital application instead of being credited to the accumulated fund in the year under review. | In the capitalization of assets in the future, that the account of contribution to income from the capital application maintained from previous years will be removed. | -do- |
| (f) | According to the old accounting system, the property plant and equipment of Rs. 10,547,708 had been capitalized by the account of contributing to income from capital application, so the value of that account had increased by that amount. A value of Rs. 6,356,163 in the capitalized property plant and equipment was also accounted as an expense from stores issues. | That assets are directly capitalized without deducting asset costs from expenses in the future. | -do- |
| (g) | The 3 vehicles included in the stores stock valued at Rs.27,433,329 as at 31 December 2022 without removing it from the stores stock was assessed its value as Rs. 20,300,000 at the revaluation of vehicles in the year under review and had been accounted under the property plant and equipment. Due to this, the value of the stores stock was overstated by Rs.27,433,329. | That will be corrected by a journal entry in the year 2023. | -do- |

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| (h) | Audit fees of Rs.1,632,000 were not accounted for in the year 2021 and no provision was made for audit fees in the year under review. | That the audit fees for the year 2020 were paid from the provisions provided for the year 2022 and that the audit fees for the year 2021 will be paid in the year 2023. | -do- |
| (i) | Since the receipts forward of Rs.277,294 from shop leases, Rs. 160,644 from public market stalls and Rs.8,376 from butcher tender rents were deducted from receivables from exchange transactions, so the receivable balance was understated by Rs.446,314. | That it will be separated into future deficit and future receipts. | -do- |
| (j) | A sum of Rs.107,634,195 had been accounted as recurring expenses instead of being capitalized as unfinished in relating to 6 capital projects which were not completed in the year under review and for the purchase of a generator. | That will be shown under the future unfinished work. | -do- |
| (k) | Out of the capital grants of Rs.1,822,490 received from the Central Government for 6 projects during the year under review, repair costs of Rs.1,155,002 for 4 projects were capitalized under roads, culverts and bridges instead of being accounted as expenditure. | That will be corrected by a journal entry in the year 2023. | -do- |
| (l) | Recurrent expenditure of Rs. 116,424 done in relating to 3 projects in the year under review had been capitalized as on roads, culverts and bridges., | -do- | -do- |
| (m) | Although 6 projects worth Rs.95,920 and 17 projects worth Rs.11,865,351 in the year 2021, which were accounted as capital grants in the year under review were completed, those values were not accounted as creditors. | That such errors will not occur in the future. | -do- |
| (n) | Since the comprehensive income was calculated as stating the total value of capital grants receipts in 2022 was Rs. 85,302,075 including receipts as capital grants in the year under review and the balance of Rs.37,229,894 as at 01 January 2022, the comprehensive income was overstated by Rs.37,229,894. | That only the capital grants received in the relevant year will be adjusted for future comprehensive income. | -do- |

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| (o) | Rs.125,310 spent on newspaper advertisements for the registration of suppliers for the year 2022 was adjusted to the accumulated fund without stating as an expenditure in the year under review. | That the cumulative payment was made by mistake. | -do- |
| (p) | Although the work of the resource recycling centre had been completed by 31 December of the year under review, the amount of Rs.32,503,669 spent on it had not been accounted for under property plant and equipment. | A building revaluation will be done in the future and this building will be capitalized. | -do- |

1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
According to the financial statements of the year under review and the schedules submitted with the financial statements, there was an unreconciled difference of Rs.33,355,440 in 10 account balances.	That will be looked into in the future.	The reasons for the differences should be found and corrected.

1.6.4 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
14 account balances worth Rs.239,992,014 as at 31 December of the year under review could not be satisfactorily verified in the audit due to non-submission of registers, schedules, journal entries and balance confirmations.	That will be corrected in the future year.	Arrangements should be made to provide the necessary evidence for the audit.

1.7 Non- Compliances

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

Instances of non-compliance with laws, rules, regulations and management decisions are mentioned below.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(I) F. R. 371(5)	Interim imprest of Rs.2,259,142 which was given to the officers of the council in 83 instances had	That steps are being taken to settle the outstanding advances.	Should be acted as per the referred rule.

not been settled by 31 December of the year under review.

(II) F. R. 486	54 outstanding cheques amounting to Rs.880,169 as at 31 December of the year under review had not been recovered.	That making arrangements to settle balances that is more than ten years old in the outstanding cheques register.	-do-
(III) F. R.571(2)	Rs. 8,783,870 2 years past 168 deposits had not been regulated.	Even if inquiries are made in the year 2022 from the relevant departments to receive the deposit income past 02 years, the deposit money should continue to be kept in the deposit documents.	-do-
(IV) F. R.880	Other than the community hall custodians of the council, other officials were not made surety.	No answers provided.	-do-
(b) Local Government Commissioner's Circular No. LGD/09/2019(I) dated 24 August 2020	The council had not taken steps to approve the advance account limits.	-do-	-do-
(c) Circular No. LGD/10A/4/N.Gi/2019 dated 22 January 2021 Paragraph 02	Although the council should recognize the changes in net value during the revaluation of assets under a separate column as reserves and allocations in the statement of changes in equity, as property withdrawals of Rs.268,070,274 in removing the book value of motor cars, and the revaluation of motor cars and buildings as property	That the financial statements will be presented correctly in the future.	Should be acted as per the referred circular.

purchases of Rs.395,817,317 had been adjusted separately to the accumulated fund by the council.

- (d) Local Government Commissioner's letter No. LGD/10A/4/N.Gi/20 19 dated February 12, 2021
- Although fixed assets should be classified under 14 categories in preparing the financial statements, the assets amounting to Rs.1,219,250 were classified under 9 categories and computers and accessories were listed as machines and machinery in the financial statement of the year under review.
- At present, the assets owned by the council are being revaluing and will be presented separately according to categories in the future final account.
- Should be acted as per the referred letter.

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 2022 amounted to Rs.12,401,464 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 58,059,856 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 presented by the Commissioner, information relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Source of Revenue	2022				2021			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at December 31	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)
	000'	000'	000'	000'	000'	000'	000'	000'
(i) Rates and Taxes	166,010	173,466	150,839	22,627	164,406	170,789	137,087	33,703
(ii) Rent	96,552	72,777	71,667	1,110	77,082	49,692	37,058	12,634
(iii) License Fees	16,722	16,861	16,851	10	13,812	14,479	14,495	(17)
(iv) Other revenue	932,912	739,011	730,397	8,614	694,977	593,808	682,842	(89,034)
	<u>1,212,196</u>	<u>1,002,115</u>	<u>969,754</u>	<u>32,361</u>	<u>950,277</u>	<u>828,768</u>	<u>871,482</u>	<u>(42,714)</u>

2.2.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Council are given below.

Audit Observation	Comments of the council	Recommendation
(a) Rates and Taxes		
(I) The council had not collected Rs.138,510 entertainment tax due for the year 2020 as at 31 December of the year under review.	No answers provided.	Efforts should be made to recover the arrears and provide relief.
(II) Out of Rs.3,067,661 arrears of business tax in the Kochchikade sub-office as at 01 January 2022, only Rs.700 had been collected during the year under review.	-do-	should be done to collect the arrears of revenue.
(b) Rent		
(I) Any information about the outstanding balance of Rs.1,018,536 from 10 years ago as market rent receivable was not submitted to the audit.	No answers provided.	Arrangements should be made to identify outstanding balances.
(II) The balances of Rs.453,242 house rent due for 81 houses in 3 housing schemes remained from the year 1987, which was stated under receivables from exchange transactions, had not been recovered.	-do-	-do-
(c) License Fees		
Since only Rs.2,025 out of Rs.1,842,561 arrears of trade license revenue held at the Kochchikade sub-office as at 01 January 2022 was collected during the year under review, the progress in collection of arrears revenue was minimum level.	That this matter will be answered after the arrears recovery meeting scheduled to be held on 13.06.2023.	-do-
(d) Inn rent		
Rs. 2,100,313 receivable for inns in the years 2020 and 2021 was not recovered in the year under review.	No answers provided.	-do-

(e) **Key coins**

The key coins of Rs.5,838,059 that have been in existence for more than 5 years were not recovered. -do- -do-

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) It was observed that Rs.2,781,165 is 78 percent of the total stores credit balance which belonged to the period from 2018 to 2020 out of the stores credit balance of Rs.3,567,266 in the year under review.	No answers provided.	Debt balances should be settled.
(b) Fixed deposits related to the surety amount of Rs.305,904 of 7 property prohibition officers since 1991 were released and deposited under mixed deposits.	That the deposit money and interest money of two officials are being taken into the income of the council.	Those deposits should be returned to the relevant officers or taken as income.
(c) The value of 2 vehicles was revalue and accounted as Rs.2,400,000 among the vehicles recommended for disposal in the 2018 board of survey.	No answers provided.	Should be removed the value of vehicles recommended for disposal from the books.

3.2 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Council	Recommendation
7 assets amounting to Rs.16,611,626 purchased and received as donations during the period from the year 2018 to the year 2020, remained unused in the stores as at the date of audit.	No answers provided.	Assets should be purchased according to the needs.

3.3 Procurement Management

Audit Observation	Comments of the Council	Recommendation
(a) The bid was awarded to a private company for Rs. 31,800,000 on the recommendation of the technical evaluation committee of the solar panel project started under the Net Plus aid system and even though it was informed that Lanka Electricity Private Company had completed other works except getting the electricity connection by 31 May	That due to unexpected cost escalation and delay in payment could not be completed within the expected time frame.	Monitoring of the projects should be done and the project should be made operational.

2022, the project had not been made operational by 31 May 2023.

- (b) The following matters were observed regarding the purchase of electrical goods by spending Rs.9,276,007 for the year 2022.

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| (I) | As guidelines 4.1.1, 2.5, 2.8.1 (b) of the 2006 Government Procurement Guidelines were not followed, Rs.37,500 for 250W Sodium vapor bulb (screw) type electric bulbs and Rs.25,000 for 1000 37W-40W LED screw bulb type electric bulbs purchased in the year 2022 was also paid more. | No answers provided. | Procurement guidelines should be followed. |
| (II) | Prices were sent from 6 institutions for Trip Switch 30 A and although the Technical Evaluation Committee had recommended to purchase an item for Rs.4,950 without comparing the warranty period, 01 item of these items had been purchased for Rs.4,750 in the year 2022. The price of Rs.4,750 was not offered by any of the companies that called for the quotation. | -do- | -do- |

3.4 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
(a) Out of 489 posts at the primary level, 337 were actual employee posts and 152 vacancies and one additional employee were employed. Also, among the 413 employees currently employed, the number of employees who were employed according to the public administrative circulars was also 75.	The local government commissioner has been informed in writing on several occasions that the daily duties of this institution will be affected due to the mentioned vacancies, and the recruitment has been temporarily stopped by the letters and circulars issued on several occasions. Therefore, these institutions did not get the opportunity to fill the vacancies in the institutional positions.	Vacancies should be filled.

- (b) A loan balance of Rs.1,720,116 to be recovered from 35 officers who died while serving in the council, a loan balance of Rs.32,740 related to 7 retired officers, a loan balance of Rs.1,222,106 to be recovered from 24 officers who left the service of the council and a loan balance of Rs.24,526 due from 10 officers who were transferred from the council had not been recovered.
- That the loan balance is being recovered.
- The council should take steps to recover or write off the balances.