

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 2023 comprising the Statement of assets and liabilities as at 31 December 2023, 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 2023 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.

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) According to the requirement mentioned in Section 6 (i) (d) (iv) of the National Audit Act No. 19 of 2018, except observations 1.6.2(h,i), 1.6.3(a) and 1.6.4 in this report. The recommendations made by me during the year 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 no. 3.28 of the standard and its Appendix 2 in the explanations and guidelines EG 6.2 while calculating the cash flow from operational activities, the evidence was not presented to the audit as to what adjustments had been made as Rs.289,768,000. Investment income	That the observation is accepted.	Adjustments should be made and disclose should be done in the accounts as per standard.

of Rs.22,986,375 which had been adjusted to surplus was not re-adjusted and Rs.1,332,215 which was not adjusted to surplus was adjusted as capital expenditure grants recognized in surplus or deficiency. Moreover, the loan interest expense of the year to be added to the surplus had been reduced by Rs 11,362,763.

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| (b) | In accordance with number 3.29 of the standard and EG 6.3 of the in the explanation and guidance of its Appendix 2, while calculating the cash flow from investing activities, the paid interest Rs. 11,362,763 had been shown instead of received interest Rs. 22,986,375 had been shown as received interest and also Rs. 33,988,649 had been shown as cash outflows for plant machineries and equipment including journal entry transfers of Rs.19,777,602. | - Do - | - Do - |
| (c) | In accordance with number 3.30 of the standard and EG 6.4 of the in the explanation and guidance of its Appendix 2, while calculating the cash flow from financial activities, the capital expenditure grants were Rs. 15,538,788 and had been shown as Rs. 6,542,130 and Rs.11,362,763 of interest payments for long-term loans had not been shown. | That the observation is accepted. | Adjustments should be made and disclose should be done in the accounts as per standard. |
| (d) | According to the Local Government Commissioner's letter No. LGD/10A/4/NG/2019 dated 12 February 2021, fixed assets should be classified under 14 categories while preparing financial statements, but instead of identifying and accounting for the correct items of property, plant and equipment, Rs.29,020,464 had been accounted for other. | - Do - | - Do - |

1.6.2 Accounting deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) In the year 2022 revalued Rs. 388,770,000 for motor vehicles and Rs. 7,047,317 for buildings, Rs. 176,183 and Rs. 15,550,800 respectively in the reviewed year. 15,726,983 had not been done for depreciation	That the observation is accepted..	Accounts should be prepared correctly.
(b) The year under review Rs.109,421,830 incurred for capital expenditure which was recognized as expenditure in the comprehensive income statement was not capitalized under property, plant and equipment.	That the actions will be taken to capitalize those assets next year.	- Do -
(c) In the year 2022, Rs. 26,809,691 incurred for capital expenditure had not been capitalized as property, plant and equipment.	- Do -	- Do -
(d) The security deposit amounting to Rs.140,000 received from 9 officers of the council was deposited in the general deposit account without being indicated in the employee's Security deposit account, and the amount was not invested.	That the fixed deposit accounts will be opened in the future.	- Do -
(e) Fixed deposit interest for the year under review was Rs.22,282,598 but Rs.703,777 more had been accounted as Rs.22,986,375.	That will be corrected in the year 2024.	Accounts should be prepared correctly.
(f) The value of Rs. 9,323,789 related to 8 capital projects carried out from the council allocations in the reviewed year had not been capitalized and accounted as recurring expenditure.	Only Rs. 6,611,719.00 capital cost and that it will be corrected in the year 2024.	- Do -
(g) Although the audit had pointed out in the previous year that the sum of Rs.107,634,195 related to 6 capital projects for the purchase of a generator, which were not completed in the previous year, had been accounted for as recurring expenses instead of being capitalized as work in progress, the mistake was not corrected in the year under review.	That the actions will be taken to capitalize those assets in the next year.	- Do -

- (h) Although it was pointed out in the previous year that the work value of the resource recycling centre of Rs. 32,503,669 which was completed by 31 December 2022, had not been accounted under property related equipment, but the same mistake was not corrected in the year under review. - Do - - Do -

1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
(a) Between the totals of the schedules submitted with the financial statements of the year under review and the balances of 13 accounts in the financial statements, there was an incomparable difference of Rs.62,427,644.	That the actions will be taken to correct in the future	The reasons for the changes should be found and corrected.
(b) In comparison with the inventory related schedule submitted with the financial statements of the year under review, there was a incomparable of 9,972 inventory units worth Rs.12,533,395.	- Do -	- Do -

1.6.4 Absence of written evidence for audit

Subject	Amount	Un-provided Audit evidence	Comments of the Council	Recommendation
(a) Receivable other fines	Rs. 371,636	Schedules and time analysis	We are working to identify the balances that have existed for several years and will take steps to correct them in the future	Arrangements should be made to provide evidence to the audit.
(b) Receivable electricity charges	31,310	Schedules and time analysis	We are working to identify the balances that have existed for several years and will take steps to correct them in the future	Arrangements should be made to provide evidence to the audit.
(c) Receivable administrative fees	39,864	- Do -	- Do -	- Do -

(d)	Investment interest receivable	4,550,996	- Do -	- Do -	- Do -
(e)	Payable Pension Contributory Funds	625,384	Balance confirmation letter	- Do -	- Do -
(f)	Nation building taxes	1,000	Schedules	- Do -	- Do -
(g)	Roads and bridges	69,878,724	Fixed asset registers and schedules	No answers have been given.	- Do -
(h)	Machinery and equipment	125,352,316	- Do -	- Do -	- Do -
(i)	Other assets	28,158,184	- Do -	- Do -	- Do -
(j)	Apartment rentals	453,242	Time analysis	That the schedule is submitted herewith.	- Do -
(k)	Value added tax payable	5,194,235	Schedules	- Do -	- Do -

1.7 Non-Compliance

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

With reference to laws, rules, regulations etc	non-compliance	Comments of the Council	Recommendation
(a) Chapter VII of Section 38(2) of National Audit Act No. 19 2018	A copy of the written review to be performed by the Chief Accounts Officer was not submitted to the Auditor General that an effective internal control system is maintained for financial control and that the previous review of the effectiveness of that system has been carried out and necessary changes have been made accordingly to continue the system efficiently.	No answers have been given.	Actions should be done according to the Act
(b) Orders on accounting matters related to financial administration of municipal council dated 24 December 2019			

I	395	As per the order, the lease shall be on a celender year basis, but with selected lessees for 7 meat shops for a period of one year from 01 July 2022 to 30 June 2023 and thereafter for a period of one year from 01 July 2023 to 30 June 2024. Agreements had also been made for the lease of the ice cream parlor in Rajapakse Park for the years 2022/2024 and a celender year was not based on it.	No answers have been given	The referenced rule should be followed.
II	398 and 409	The assessed value of the ground floor shops of the Kochchikade library building Rs. 1,500,000 was not based on a valuation report of a chartered valuer and no such valuation was obtained in respect of the lease of 7 meat shops from the year 2020 to the year 2023.	- Do -	- Do -
(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka				
I	F.R. 486	Among the 52 cheques listed under note 12 of the financial statement of the year under review, 50 cheques with a value of Rs.878,157 were balances older than 10 years and the balance had not been cleared during the year under review.	No answers have been given	Actions Should be done as per the Financial Regulation .
II	F.R. 571(2)	Rs. 12,243,285 overdue deposits that exceeded two years had not been settled.	- Do -	- Do -
III	F.R. 880	It was not known who the other officers were to be keep security deposit apart from the property prohibition officers of the council for proceeding as per regulation	- Do -	- Do -
(d) Local Government Circular No. LGD/13/2016(i) dated 03 December 2020				
		Although the monthly rent should be revised every 3 years from the date of engagement on the assessment of the Government Assessor, the shop rent assessment of the F mall was last revised in the year 2017 and the rent for the ground floor shops in the Kochkade library building in the year 2018. Also, for the lease of shops in the shopping complex near the Calton Hotel, decided by the Negombo Municipal Council on 17 October 2008, Rs. 1,680 to Rs. 6,450 per month had been charged.	That the actions will be taken to revise the assessment reports as soon as they are received.	Actions should be taken as per the circular referred to.

2 Financial Review

2.1 Financial Results

According to the presented financial statements, the income exceeding the expenditure of the municipal council for the year ending 31 December 2023 was Rs. 204,958,275 and correspondingly the income exceeding the expenditure of the preceding year was Rs. 12,401,464

2.2 Revenue Administration

2.2.1 Estimated Revenues, Billed Revenues, Accrued Revenues and Outstanding Revenues

According to the information presented by the Municipal Commissioner, the following is the information about estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the preceding.

Source of income	2023				2022			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total deficit as on 31st December	Estimated Revenue	Billed Revenue	Collected Revenue	Total deficit as on 31st December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
	'000	'000	'000	'000	'000	'000	'000	'000
(i) Assessment taxes and taxes	167,173	196,520	167,191	244,198	166,010	173,466	150,839	22,627
(ii) Rental	88,791	86,355	86,873	39,103	96,552	72,777	71,667	1,110
(iii) License fees	15,956	23,997	24,060	2,299	16,722	16,861	16,851	10
(iv) Other income	828,788	824,451	829,386	15,692	932,912	739,011	730,397	8,614
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	<u>1,100,708</u>	<u>1,131,323</u>	<u>1,107,510</u>	<u>301,292</u>	<u>1,212,196</u>	<u>1,002,115</u>	<u>969,754</u>	<u>32,361</u>

2.2.2 Revenue Collection Performance

Audit Observation	Comments of the Council	Recommendation
(a) The assessment and tax billed income of the previous year and the year under review had increased by Rs.7,456,000 and Rs.29,347,000 respectively over the estimated income. It was an increase of 260 per cent from 5 per cent to 18 per cent of the estimated income compared to the previous year, an increase in the billed income over the estimated income of the year under review. But in comparison with the previous year, there was a decrease in the revenue collected from the billed revenue from 87 per cent to 85 per cent.	No answers have been given	Estimates should be prepared on realistic
(b) In the year under review, the billed income and the collected income compared to the estimated income, there was a decrease in the billed income by Rs.4,337,000 and an increase in the collected income by Rs.598,000. Accordingly, it was not observed that the estimations were done in a realistic way.	- Do -	- Do -

3. Operational Review

3.1 Performance of functions assigned by the Act

Audit Observation	Comments of the Council	Recommendation
(a) Whereas section 267(1) of the Municipal Council Ordinance may make such by-laws as may be deemed necessary for carrying out the policies and provisions of this Ordinance and section 272(12) of the said Ordinance for the assessment of property and the collection of assessments and taxes and although by-laws can be made by a municipal council for income including, no by-laws have been prepared to formalize and regulate the leasing of shops owned by the council.	Although the Negombo Municipal Council has not passed by-laws regarding the leasing of shop rooms, since 2016 the circulars issued by the Local Government Commissioner and the terms and conditions of the Honourable Governor and the circular instructions and terms will be acted upon.	The by-laws should be framed as per the Ordinance.
(b) No by-laws had been enacted regarding solid waste management	That all activities related to solid waste management are carried out according to the powers received by law from the Western Provincial Council Solid Waste Management Charter.	By-laws should be prepared.

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| (c) | According to Sections 272 (13) and (28)(f) of the Municipal Council Act (252 chapter), no by-laws had been enacted for photography fees at Rajapakse Park. | That the observation is accepted. | By-laws should be prepared. |
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3.2 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) No. LGD/10A/4/NG. dated 01 February 2021. According to the letter of the Commissioner of Local Government bearing G/2019, all the assets should be revalued and accounted for, but from the properties and equipment owned by the council, land, office equipment, fixtures, equipment and machines, computers, devices and software, roads, bridges and culverts and other infrastructures, other assets had not been identified, revalued and accounted for.	That land, buildings, roads, bridges and culverts and other infrastructure, equipment and machines, computers, devices and software are to be revalued in the future.	Assets should be revalued and accounted for.
(b) Instead of the market value of the property and equipment values being revalued by the Valuation Department and recognized as the carrying value, the annual assessment value of Rs.7,047,317 given by the revenue inspectors for the assessment of 26 buildings owned by the council had been shown in the financial statements as the assessment value.	No answers have been given.	- Do -

3.3 Operational inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) According to the order 411(iii) regarding the accounting matters related to the financial administration of the Municipal Council during the lease of 116 shop rooms in the daily market, there was no formal agreement between the Municipal Council and the lessee during the lease of those shop rooms, and it was also observed that only a permit for trading was given to the buyer of the shop lease and as of 31 December 2023, the arrears of rent from 112 shop rooms were to be paid Rs.4,020,758.	The outstanding as on 31 July 2023 Rs. 4,008,209 in progress to be collected.	Arrangements should be made to recover rent for shop arrears.

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| (b) | Regarding the lease of 69 shops related to the F shopping complex building, during the sample inspection of 10 shops, 06 shops had not been entered in to agreements. Also, as of 31 December 2023, the arrears of rent from 59 shops were to be collected at Rs. 2,049,584. | That the actions is in progress to be with an agreement | Agreements should be reached to agreement and arrears should be collected. |
| (c) | Agreements had been entered into with 4 tenderers on 21 September 2015 to lease the ground floor shops of the Kochchikade library building on a long-term rental basis and after the construction of the building, the lease was granted from 02 June 2016 on a provisional assessment of Rs.3,500 and Rs. 108,150,700 shop rents for 03 shops had been in arrears. | No answers have been given. | Arrears should be collected. |
| (d) | Contrary to the Local Government Circular No. LGD/13/2016(i) dated 03 December 2020, Keerthisinghe Road Chicken Shop and Keerthisingha Road Beef Shop had been leased for the year 2021 was also for the to the same lessees who had been given in the year 2020 for the same amount of lease in 2020. From 01 January to 31 March 2022 and again to 30 June 2022, it had been leased to the previous lessees for 6 months without entering into a lease agreement or tender process and was entered in to agreement for a period of one year from 01 July 2022 to 30 June 2023. Also, the council had not taken actions to recover the outstanding amount of Rs. 105,390 from the lessee who had sealed and blacklisted Visthreen Mawatha beef shop even by 31 December 2023. | That the council has arranged to give the same amount to the lessees in 2020 as the procurement activities requires time. | Actions should be taken as per the circular. |
| (e) | A permanent or occasional tender committee had not been appointed for the tender work related to the lease of the ice cream parlour in Rajapaksa Park for the years 2022/2024 and the lessee selected by a tender call was not handed over the keys to open the ice cream parlour on 28 October 2022, and the ice cream parlour was leased to the old lessee. As there was a delay of 08 months to open the ice cream parlour, the council lost the rental amount of Rs. 202,404. | That the new lessee has not paid the security deposit within the relevant period, and has arranged to lease it to the old lessee. | Tender works should be carried out as per financial rules. |

3.4 Asset Management

	Audit Observation	Comments of the Council	Recommendation
(a)	As of 31 December 2023, there were 16 quarters owned to the council, but no inventory records had been maintained for them. Out of those quarters, 3 quarters had been demolished and 9 quarters were unused, but the reasons for that had not been submitted to the audit. In the year under review, there had not been done a goods verification for quarters.	That the goods physical Verification will be done in the year 2024	Goods physical verification should be done.
(b)	In terms of 757(2)(b) of the Finance Regulations, the decision of the Chief Accounts Officer should be recorded in Form T&A 66 and then a copy of the form should be submitted to the concerned department and the other copy should be sent to the Auditor-General for filing as a bill of lading voucher confirming the error adjustments. However, this had not been done.	That copies of the physical verification reports of the year 2024 will be forwarded to the Auditor General.	Actions should be done in according to Financial Regulation

3.5 Human Resource Management

	Audit Observation	Comments of the Council	Recommendation
(a)	As on 31 December 2023, there are 6 vacancies and 01 surplus in 05 senior level posts in the staff of the council. There were 2 vacancies in 02 posts at tertiary level, 34 vacancies in 14 posts at secondary level, 132 vacancies and surplus in 01 post in 14 posts at primary level.	That the total number of vacancies is 166.	Actions should be done to fill Vacancies.
(b)	In addition to the approved and actual number of employees, 33 employees had been employed for 03 primary level posts as per Public Administration Circular No. 25/2014 and 20 employees had been employed for one primary level position as per Public Administration Circular No. 29/2019.	The observation is correct.	Approved cadre should be maintained.
(c)	The council had invested Rs.150,000 security deposits money deposited by 05 Property Prohibition Officers in 07 fixed deposit accounts and for that the interest amount of Rs.117,229 credited to the current account of the council from 2014 to 2023 and had been retained in the general deposit account. As the interest amount was retained in the deposit account without being reinvested, there was a reduction in the benefits received for the officers who had given security deposit at the end of the relevant period.	No answers have been given.	Deposits should be returned to concerned officials or taken into revenue.

(d) As of 31 December 2023, Rs. 175,050 were due as festival and special advances from 47 officers who died, retired, left of the service, transferred to outside places and for other reasons, out of which the loan balance of Rs. 120,251 due from 38 officers had been more than one year. Also, Rs. 9,054,670 was due on 31 December 2023 from 72 officers who took disaster, property and bicycle loans. Out of which Rs. 4,386,846 was a debt balance more than a year old that should be collected from 45 officials. However, the council had not taken steps to recover or write off that debt balance.

- Do - Arrangements should be made to recover or write off the balance.