

## **Dehiwala Mount Lavinia Municipal Council - 2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Dehiwala Mount Lavinia 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 of equity for the year, Cash Flow Statement and notes to the financial statements including material accounting policy information was carried out under my direction in pursuance of provisions in Article 154 (1) of the constitution of the Democratic Socialist Republic of Sri Lanka and with the provisions of the National Audit Act No. 19 of 2018 read in conjunction with Section 219 of the Municipal Councils Ordinance (Chapter 252). 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 Lavinia Municipal Council as at 31 December 2023, 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. Qualified Opinion**

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

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

#### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the municipal council's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the municipal council is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements.

#### **1.4 Audit Scope (Responsibility of the Auditor for the audit of Financial 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 except the audit matters of 1.6.2 (a) described in paragraph of this report as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

## 1.6 The Audit observations regarding preparation of Financial Statements

### 1.6.1 Non-compliance with Sri Lanka Public Sector Accounting Standards for Local Authorities

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
According to chapter number 3.28 of the standard, the effect of depreciation should be adjusted in the calculation of the cash flow from operating activities, but the cash flow from operating activities was shown to be more than Rs.26,612,960 due to the addition of Rs.75,522,058 to the cash flow instead of the depreciation value of Rs.48,909,098 for the year.	That this error will not occur in the preparation of future financial statements.	Cash flow statement should be prepared correctly.

### 1.6.2 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) Library books worth Rs.3,648,339 purchased in the years 2020, 2021 and 2022 and library books worth Rs.1,947,180 purchased in the year under review had not been recognized as non-current assets and had been shown under expenses.	That library books will be taken into accounts as non-current assets as per the accounting policies after receiving the survey report.	Library books should be accounted for as assets.
(b) In the financial statements, the savings account balance of People's Bank was understated by Rs.42,192,789 and the current account balance was overstated by Rs.42,192,789.	According to the method of transferring the excess balance to the savings account automatically, bank reconciliations have to be prepared by taking the	Account balances should be shown separately and accurately.

savings account and the current account jointly and that the correct account balances are shown in the final account balances of 2023 in the fact that the combined balance is shown in the financial statements.

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| (c) | According to Note 16, the net value of property and equipment in the statement of assets and liabilities should be Rs.588,850,615, but the cost value of Rs.853,362,503 was shown, so the assets had been overstated by Rs.264,511,891.  | In the 2024 account, fixed assets are correctly accounted for through a Depreciation Allocations account and a Work in Progress account correctly. | Should be properly accounted |
| (d) | Although the accounting policies state that the assets are not depreciated in the year of purchase, the depreciation had been calculated for the assets purchased in the year under review and had been stated over Rs.3,271,819.  | That will be corrected in account of 2024  | -Do-                         |
| (e) | According to note 16 of the financial statements, the cost and depreciation value of the non-current assets fully depreciated in the year under review was Rs.11,051,891 and the cost and depreciation value of total assets were removed from the cost and total depreciation value of assets and shown as asset disposals. | -Do-   | -Do-                         |
| (f) | The computer worth Rs.1,094,600 purchased in the year under review had not been accounted under non-current assets and had been shown under expenses.  | That such a situation will not occur in the future.  | -Do-                         |
| (g) | As the value of purchased office equipment of Rs.10,165,196 and goods and equipment of Rs.2,049,442 had been stated under expenses, the assets accounts had been understated by Rs.12,214,638.   | -Do-   | -Do-                         |

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| (h) | Rs.12,770,000 had been made as expenses and made a creditor allocation when air conditioning system had not been installed or contracted.  | The relevant amount had been arranged to be allocated through as creditor in the 2023 due to the problem of making budget allocations for this in the future. | A creditor provision should be made only for the amount actually payable. |
| (i) | In the year under review Rs.5,331,709 as expenditure and a credit provision of Rs.5,198,715 had been made in the absence of any quotation or procurement of generator.   | That action will be taken to adjust the accounts promptly.  | Should be properly accounted  |
| (j) | Although the accounting policies presented with the financial statements stated that the stamp duty revenue received during the year was treated as stamp duty revenue for the year, the stamp duty revenue had been accounted for on accrual basis. | That in future the stamp duty will be accounted for only after receipt of the cheque.   | -Do-  |

### 1.6.3 Unreconciled Control Accounts or Records

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) A difference of Rs.32,601,512 was observed when comparing the balances of 13 accounting subjects shown in the financial statements with the balances shown in their related utility documents/reports.	That will be accounted correctly.	The reasons for the differences should be found and corrected.
(b) According to the financial statements, the balance of pension contributions payable on 31 December 2023 was Rs.2,204,656, but according to the information obtained from the Pension Department, the balance was Rs.46,923,629. Accordingly, a difference of Rs.44,718,973 had been observed.	That the payable amount will be identified and payment will be made.	Should be properly accounted

**1.6.4 Documentary Evidences not made available for Audit**

	<b>Subject</b>	<b>Amount Rs.</b>	<b>Non Presented Audit Evidence</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a)	Receivable meat shop tender rents	2,063,684	Schedules	Schedules had not been presented	Schedules should be presented.
(b)	Receivable License fee	4,326,324	-Do-	-Do-	-Do-
(c)	Receivable entertainment tax	295,342	-Do-	-Do-	-Do-
(d)	Receivable VAT	127,092	-Do-	-Do-	-Do-
(e)	Receivable Advertisement board chargers	8,711,264	-Do-	-Do-	-Do-
(f)	Receivable other collection	189,879	-Do-	-Do-	-Do-
(g)	Other receivable	2,998,000	Ledger account	That will be corrected in account of 2024	Related ledger account should be present

**1.7 Non- Compliances**

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

Non-compliances with Laws, Rules, Regulations and Management decisions as follows.

	<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a)	Municipal Council Ordinance (Authority 252) Section 266(a)	Meat shop debtors amounting to Rs.2,471,517 had been written off without the Minister's approval.	The approval of the Minister should be referred to in case of deduction of actual income due. In here the errors in the accounts have been corrected.	The Act should be followed.
(b)	Financial Regulations of the Government of the Democratic Socialist Republic of Sri Lanka Section 571	Deposits of Rs.12,888,177, which were over 02 years old, had not been dealt with as per the financial regulations.	That will be corrected from account of 2024.	The financial regulations should be followed.

## 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 2023 .amounted to Rs.810,103,015 as compared with the excess of revenue over expenditure amounted to Rs.976,156,225 in the preceding year.

### 2.2 Revenue Administration

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

According to the informations presented by the commissioner the Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Revenue source	2023				2022			
	Estimated revenue (Rs) 000'	Billed revenue (Rs) 000'	Collected revenue (Rs) 000'	Total arrears as at 31 December (Rs) 000'	Estimated revenue (Rs) 000'	Billed revenue (Rs) 000'	Collected revenue (Rs) 000'	Total arrears as at 31 December (Rs) 000'
Rates and tax	785,505	834,504	680,471	858,443	430,905	410,476	348,491	629,703
Rent income	15,798	20,522	29,439	13,661	29,732	20,678	22,389	20,107
License Fees	9,325	9,530	5,204	4,326	9,435	5,000	3,915	5,130
Other Revenue	16,456	20,381	24,778	13,887	18,133	17,030	14,240	24,188
<b>Total</b>	<b>827,084</b>	<b>884,937</b>	<b>739,892</b>	<b>890,317</b>	<b>488,205</b>	<b>453,184</b>	<b>389,035</b>	<b>679,128</b>

#### 2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the council	Recommendation
(a) <b>Rates &amp; Tax</b>		
(i) The rates & tax revenue billed for the year under review was Rs. 820,422,202 out of which Rs.327,001,165 or 40 percent had failed to be recovered by the end of the year under review.	As on 31.03.2024, Rs.113,352,685 has been collected from the outstanding and due to the bad economic crisis and the corona epidemic, there was a delay in the payment of rates and there was a situation	Action should be taken to recover the arrears as per the provisions of the Act.

where it was not possible to enter into activities such as property prohibitions.

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| <p>(ii) According to the arrears revenue reports, the opening arrears rates balance of the year under review was Rs.532,240,119 out of which Rs.105,332,307 had been collected in the year under review and Rs.426,907,812 or 80 percent had failed to be collected.</p>  | <p>That the payment of rates tax was delayed due to the late errors in receiving the rates revision reports related to the increase in the annual rates amount of 2023 and the delay in receiving the decision for the respective revisions.</p>   | <p>-Do-</p>  |
| <p>(iii) According to the arrears revenue reports, there was an arrears rates of Rs.763,796,919 on 47136 properties as of 31 December 2023. In this arrears Rs.89,785,947 was to be collected from 1265 properties with a value between Rs.50,001 and Rs.100,000 and Rs.374,486,520 from 1112 rates units with a value of more than Rs.100,000.</p> | <p>Due to delay in recruitment of property prohibition officers and insufficient number of officers, there has been delay in collecting the arrears and after distribution of rates notices belonging to special properties in the year 2013, despite payment being made on due date, the data system shows a huge amount as arrears on calculation of surcharges.</p> | <p>-Do-</p>  |
| <p>(iv) As of the last day of the year under review, the garbage fee income should be collected by the council was Rs.15,568,418.</p>   | <p>That Rs.3,351,369 have been charged by March 2024.</p>  | <p>Action should be taken to collect the arrears garbage fees</p>                        |
| <p>(v) As on the last day of the year under review, the outstanding cable TV revenue of Rs.3,063,101 had not been collected.</p>  | <p>That recovery is in progress.</p>   | <p>Arrears should be collected.</p>  |
| <p><b>(b) Rent</b></p>  |  |  |
| <p>(i) The 26 shops owned by the municipal council had not been rented out as of 31 December 2023.</p>  | <p>They are working on processing to rent the shops in Ratmalana new market complex and they have referred to the valuation department to decide the lowest bid for tendering the shop no. 04 in Kohuwala market complex and that 16 shops in</p>  | <p>The related activities should be done and the shop rooms should be given on rent.</p> |



the Dehiwala market complex were in a weak condition and since the market complex had been taken over by the Urban Development Authority, the damaged shops could not be given for rent due to no further development.

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| <p>(ii) The amount of Rs.1,892,236 had to be charged from those 53 shops were closed without doing business and as at 31 December 2023 in the shopping complex that were rented by the lessees and There was no action taken to collect the arrears of rent from the said shops and according to the agreement, they had not handed over to the council to repaired and leased to other parties.</p> | <p>It has been informed that business activities will not be carried out due to damaged and reminders have been sent to the respective lessees to collect the arrears.</p>  | <p>Action should be taken to collect the arrears and taken over the shops according to the agreement.</p> |
| <p>(iii) The 33 shops with a total arrears with Rs.5,658,694 had not been sealed as at 31 December 2023.</p>   | <p>That all information has been forwarded to the Revenue Inspectorate for sealing those shops.</p>   | <p>Action should be taken to seal unpaid rent shops.</p>  |
| <p>(iv) The rent arrears of 10 properties as on the last date of the year under review was Rs.1,870,580 out of the 15 properties leased by the council.</p>  | <p>That the Revenue Inspectorate has been directed to take over the non-paying properties to the Municipal Council and that the arrears have not been collected due to the lack of a prior agreement between the two parties for properties such as the Saranankara Police Outpost.</p> | <p>The arrears rent should be charged.</p>  |
| <p>(v) Although the business and industry tax revenue billed for the year 2023 was Rs.13,082,400, but Rs.7,080,200 or fifty four percent of it had not been collected.</p>   | <p>Reminder letters to collect business tax have been sent three times to the respective business locations and the list of non-payment businesses has been forwarded to the Chief Revenue Inspector.</p>   | <p>Action should be taken to collect the business and industry tax.</p>                                   |

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| <p>(vi) That only Rs.10,343,452 had been collected during the year under review out of the outstanding business and industry tax balance of Rs.97,930,533 as on 01 January 2023 and Rs.87,587,081 or 89 percent had failed to be collected.</p>  | <p>Reminder letters to collect business tax have been sent three times to the respective business locations and the list of non-payment businesses has been forwarded to the Chief Revenue Inspector.</p> | <p>Action should be taken to collect the arrears business and industry tax.</p> |
| <p><b>(c) License Fees</b></p>   |   |   |
| <p>(i) The billed trade license income for the year under review was Rs.9,530,300 and the collected income was Rs.5,203,976. It was only fifty-five percent of the billed revenue.</p>   | <p>That the list of businesses that have not obtained trade licenses in the year 2023 has been forwarded to the Revenue Inspectorate for recovery through legal action.</p>                               | <p>The arrears income should be collected.</p>                                  |
| <p>(ii) For the year under review, there were 1943 shops that should have been issued trade licenses, but only 730 shops had been issued licenses and 1213 shops had done business without obtaining licenses.</p>   | <p>That the list of businesses that have not obtained trade licenses in the year 2023 has been forwarded to the Revenue Inspectorate for recovery through legal action.</p>                               | <p>Necessary action should be taken against unlicensed businesses.</p>          |
| <p><b>(d) Other income</b></p>   |   |   |
| <p>(i) At the end of the year under review, those who obtained tenders for charging parking fees at the places near the National Zoological Department, on both sides of the coastal road and in front of the Ratmalana daily market, had not paid Rs.1,233,582 to the council in terms of parking fees related to the period from December 2022 to March 2023. When the performance guarantee amount was reduced, a further Rs.868,582 had to be charged.</p> | <p>That the files have been forwarded to the Legal Department on 24.01.2024 to take legal action as the tenderers have been issued notices to pay the arrears but the arrears have not been paid.</p>     | <p>The arrears income should be collected.</p>                                  |
| <p>(ii) Out of the outstanding advertisement board balance of Rs.17,821,343 as on the beginning date of the year under review, Rs.6,793,456 remained to be collected as on the last day of the year under review.</p>  | <p>That the arrears are being collected.</p>  | <p>The outstanding advertisement board income should be collected.</p>          |

## 2.3 Surcharges

### Audit Observation

As per the provisions of the Municipal Council Ordinance Rs.2,437,078 was to be recovered on 31 December 2023 for the surcharges imposed by the Auditor General in the period from 1995 to 2015 against the responsible parties.

### Comments of the Council

Unrecoverable amount of Rs.137,312 surcharge for motor car on death of respondents and unable to find the address. A letter has been sent on 31.05.2022 for instructions from the Commissioner of Local Government to take related actions regarding the surcharge regarding the purchase of laptops and no reply has been received so far. That further action is to be taken according to the reply letter.

### Recommendation

Action should be taken to collect the surchargers.

## 3. Operational Review

### 3.1 Performance of functions assigned by the Act

#### Audit Observation

- (a) Although the implementation of a project to sell leaving waste, 17444 tons of leaving garbage had been disposed of at the Karadiyana landfill at a cost of Rs.17,443,650 in the year under review. Even after the implementation of this project, the quantity of leaving garbage collected from May to December 2023 has increased significantly, but the council has not focused on selling the garbage to another party or implementing a compost project and selling manure.

#### Comments of the Council

Due to non-carrying of a significant amount of waste by the contracting party, the disposal was carried out at the Karadiyana waste yard as before and due to the problematic situation of finding enough land for the implementation of a compost project, it has not been possible to arrange the required space for a compost project until now.

#### Recommendation

Action should be taken to generate the income from garbage.

- (b) The council had not prepared a system for the collection and disposal of discarded toothbrushes, CFL bulbs, tempered glass, sheets, baled mixed polythene, baled aluminum wrappers, aluminum food packaging, used tires, rubber related products, tree branches and trunks, wooden parts, all types of electronic waste.

That these wastes could not be sold in the year 2023 and 2024 due to not present a suitable buyers.

A system should be developed for disposal of non-biodegradable waste.

### 3.2 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) According to section 02 of the letter on street lamp maintenance, switching on and off issued by the Local Government Department (Western Province) on 17 May 2002 although it was stated that it is the responsibility of the council to introduce a counting system that can find out the date of installation of each electric pole and even the light bulb that is used by naming (numbering) the street lamp posts installed in the area of the council had not been identified and numbered.	That an amount of Rs.1,000,000 has been allocated through the 2024 budget for the project of numbering street lamp posts in the municipal council area.	Electric poles should be numbered.
(b) The action had not been taken to recover the deposit of Rs.1,735,225 receivable to the council from the year 1983 to 2017.	If the money deposited in the council from 1983-2017 has been completed, it will be recovered from the relevant institutions in the year 2024.	Deposit money should be obtain if the job completed.
(c) Land, buildings, roads, culverts and other infrastructure had not been accounted.	That necessary action are already being taken for accounting of land and buildings in future.	Action should be taken to accounted.
(d) The responsible party related to the rates tax fraud committed in the year 2019 should be identified and the amount of Rs.145,490 should be recovered and at the end of the year under review, the amount had been shown as less deposits.	As the investigations have been completed and the final decision has not yet been received, it has not been possible to settle this amount and the service of the employee who committed the offense has been suspended.	The relevant money should be collected.

### 3.3 Assets Management

#### Failure to ensure security of assets

##### Audit Observation

At the end of the year under review, 206 plots of land belonging to the Municipal Council had been identified and title deeds or title certificates had been obtained from those lands only for 48 plots.

##### Comments of the Council

That the council has decided to obtain title certificates for all land which don't have deeds.

##### Recommendation

Action should be taken to obtain land deeds/title certificates.

### 3.4 Procurement Management

##### Audit Observation

(a) The procurement committee dated on 31 November 2023 had recommended to buy a barrel of colas for Rs.28,800, but in December 2023, by buying 15 barrels at Rs.33,000 per barrel from another company, had to be pay Rs.63,000 more.

##### Comments of the Council

That the order was given to the earlier supplier on 50% basis with a view to sustaining the works at the site till the completion of the tender procedure.

##### Recommendation

It should be done in favor of the council.

(b) 01 barrel of colas at Rs.34,200 each and 25 barrels were ordered on 06 April 2023, but the goods were received at the warehouse on 21 November 2023. But during this period, although the price of a barrel had dropped to Rs.28,800, had to pay Rs.135,000 more due to not canceling the order.

That strict instructions have been given to ensure that such incidents do not happen again.

Action should be taken to purchase proper manner.

### 3.5 Deficiencies in contract administration

##### Audit Observation

(a) The contract for the construction of a body building center in the Mihidu Mawatha clinic building was only 40 percent completed by the contractor, as the contractor had requested a 60 percent price increase and a time

##### Comments of the Council

Since the employees in the council do not have the appropriate technical knowledge to carry out the remaining parts of this project, estimates are being prepared and work is

##### Recommendation

Remaining parts of the project should be completed.

extension, although it was decided in the November 2022 General Meeting that the remaining parts of the contract would be performed by council employees and the rest of works had not been started by the end of the year under review.

currently being done to be carried out by a registered contract agency of the council.

(b) In the year under review, budget allocations of Rs.206,335,022 were made for 04 projects, but no steps were taken to implement those projects.

The implementation of these projects was stopped due to the abnormal increase in the price of building materials due to the economic crisis prevailing in the country. But as a creditor, provisions have been allocated for the next years and thus expected to fulfill these projects.

Action should be taken to implement the budget allocated projects.

### 3.6 Human Resource Management

#### Audit Observation

As at 31 December of the year under review a loan balance of Rs.4,412,457 had not been recovered from employees who was retired, deceased, suspended and transferred.

#### Comments of the Council

It has been difficult to find the details of the debtors related to the said loan balances, but a committee has been appointed subject to the approval of the Special Management Committee to deal with the said loan balances and that steps will be taken to recover the said amount in the future.

#### Recommendation

Action should be taken to collect outstanding loan balances.

### 3.7 Vehicle System Management

#### Audit Observation

The council had 22 vehicles in idle condition and they had not been repaired and used or disposed of.

#### Comments of the Council

That the said vehicles and machinery will be disposed this year as it is not economically effective to repair the said vehicles and machinery.

#### Recommendation

Should be repaired and taken to use or disposed.