

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Seethawakapura urban council for the year ended 31 December 2024 comprising the Statement of assets and liabilities as at 31 December 2024, Statement of Comprehensive Income, Statement of Changes of Equity/ Net assets, Cash Flow Statement for the year then ended and notes to the financial statements including a 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 read in conjunction with Sub-section 181 (1) of the Urban Councils Ordinance (Chapter 255) and Sub-section 10(1) of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Seethawakapura urban council as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.2. Basis for Qualified Opinion

I expressed qualified opinion regarding the 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 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 Urban Council's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Urban 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 Urban council, and whether such systems, procedures, books, records and other documents are in effective operation,
- Whether the Urban council has complied with applicable written law, or other general or special directions issued by the governing body of the Urban council
- Whether it has performed according to its powers, functions and duties, and

- Whether the resources of the urban 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 includes specific provisions for following requirements.

- The financial statements of the Urban Council 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 financial statements presented includes all the recommendations made by me in the previous year 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 in relation to the preparation of Financial Statements

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

Non-compliance with reference to relevant standard	Comments of the Council	Recommendation
(a) Budgeted information was not disclosed in the set of financial statements for the year under review as required by paragraphs 3.7 and 3.9 (a) of Chapter 3 of the Standard.	That corrective action will be taken when preparing the financial statements for the year ending 31 December 2025.	Financial statements should be prepared in accordance with the Public Sector Accounting Standard for Local Authorities.
(b) Contrary to paragraph 3.26 of Chapter 3 of the Standard, fixed deposits of Rs. 31,580,995 with a maturity of 6 months and above were included in the year-end cash and cash equivalents in the cash flow statement, resulting in an overstatement of the year-end cash and cash equivalents in the cash flow statement by an equivalent amount.	do	do
(c) In accordance with paragraph 3.30 of Chapter 3 of the Standard, the grants received for capital expenditure during the year 2024 amounting to Rs. 24,021,015 were not presented as cash inflows under financing activities in the cash flow statement, resulting in the understatement	That corrective action will be taken when preparing the financial statements for the year ending 31 December 2025.	Financial statements should be prepared in accordance with the Public Sector Accounting Standard for Local Authorities.

of net cash flow generated from financing activities.

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| (d) | As per paragraph 4.14 of Chapter 4 of the Standard, the Council had not made disclosures in the financial statements regarding prior period errors amounting to Rs. 67,289,722 which were corrected in the preparation of the final financial statements for 2024. | That corrective action will be taken when preparing the financial statements for the year ending 31 December 2025. | Financial statements should be prepared in accordance with the Public Sector Accounting Standard for Local Authorities. |
| (e) | According to paragraph 6.13 of Chapter 6 of the Standard, an asset is depreciated from the time it is available for use, but a depreciation policy contrary to this was disclosed in the financial statements of the Urban Council. Accordingly, 08 items of property, plant and equipment worth Rs. 56,140,367 purchased in the year 2024 were not depreciated by the Council in relation to the year under review and the annual depreciation relating to those assets was Rs. 905,281. | It has been stated that since the year 2020, during training workshops on the preparation of final accounts, instructions have been given not to depreciate in the year of purchase and to depreciate for the entire year at the time of disposal, and that a letter from the Commissioner of Local Government has informed us, and that depreciation has been calculated accordingly from the year 2020 to date. | do |

1.6.2 Accounting Deficiencies

Audit Observations	Comments of the Council	Recommendation
(a) A value of Rs. 2,553,210 paid for the Bridges, culverts, roads in the year 2024 among the accounting corrections made by the Urban Council in previous years and in relation to the current year, should have been adjusted to the Bridges, culverts, roads account and the accumulated fund, but since this had not been done, the property, plant and equipment and the accumulated fund had been understated by that value.	That steps will be taken to correct the errors when preparing the financial statements for the year ending 31 December 2025.	The accounts should be prepared correctly.
(b) The closing balance of the Capital Grants Ledger Account was Rs. 105,030,413 and was adjusted under Other Comprehensive Income in the Statement of Comprehensive	That action will be taken to correct this in the preparation of the financial statements for	The accounts should be prepared correctly.

Income. In accordance with paragraph 2.5 of the year ending 31 the Sri Lanka Public Sector Accounting Standard for Local Governments, an entity shall prepare its financial statements using the accrual basis of accounting. Accordingly, the capital grant value of Rs. 49,403,108 for the year under the accrual basis was overstated by Rs. 55,627,305 due to the mismatch under Other Comprehensive Income.

1.6.3 Unreconciled control accounts or records

Audit Observation	Comments of the Council	Recommendation
(a) As per the financial statements as at 31 December in the year under review, the balance of the surplus and deficit account of the Urban Council was Rs. 50,337,772 and as per the schedule, the balance was Rs. 52,773,713 resulting in a difference of Rs. 2,435,941.	That steps will be taken to correct the financial statements for the year ending 31 December 2025.	Steps should be taken to correct the accounting errors in the future.
(b) As per the financial statements as at 31 December in the year under review, the balance of the bank account held by the Urban Council was Rs. 10,057,214 and as per the bank balance confirmation letters, the balance was Rs. 19,018,434 a difference of Rs. 8,961,220.	do	do

1.7 Non-compliance

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

Followings are the cases where non-compliance with laws, rules, regulations and management decisions.

Reference to rules, regulations and management decisions	Non-compliance	Comments of the Council	Recommendation
Paragraph 9.1 (b) of Public Finance Circular No.	There were delays of between 16 and 55 days in settling the advances of	The Provincial Finance Rules apply to Western Local Authorities and in accordance with its	The sub-Imprestts should be settled immediately after

01/2020 dated 28 Rs. 140,000 that had been 261.2(g), all advances the work is
 August 2020 given on 15 occasions. were settled before 31 completed.
 December 2024.

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 2024 amounted to Rs.3,027,688 as compared with the excess of revenue over expenditure amounted to Rs.15,143,714 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 secretary 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 sources	Estimate revenue	2024			Total arrears as at 31 December	Estimate revenue	2023		Total arrears as at 31 December
		Billed revenue	Collected revenue				Billed revenue	Collected revenue	
	Rs.'000	Rs.'000	Rs.'000		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
i) Rates and Taxes	36,918	35,218	25,003		10,215	32,285	33,816	21,243	12,573
ii) Rent	48,509	49,018	46,619		2,399	56,454	41,882	37,640	4,242
iii) License Fees	1,305	656	656		0	1,297	567	567	0
iv) Other Revenue	103,060	42,399	40,864		1,535	46,620	34,710	16,736	17,974
	<u>189,792</u>	<u>127,291</u>	<u>113,142</u>		<u>14,149</u>	<u>136,656</u>	<u>110,975</u>	<u>76,186</u>	<u>34,789</u>

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the council	Recommendation
(a) Although the rates and tax revenue billed for the year under review was Rs. 35,217,992 the rates and tax revenue collected during the year was Rs. 25,003,420 it was observed during the audit that the outstanding rates revenue to be collected was Rs. 10,214,572.	Since all the officers of the Revenue Division participated in the assessment revision activities in the last 2 quarters of the year 2024, it was difficult to recover this amount. At present, necessary steps are being taken to recover this arrears of rates and the arrears of rates collected from 01 January 2025 to 31 March 2025 are Rs. 4,710,905.	Steps should be taken to recover the outstanding rates properly.

(b)	Although the billed rental income for the year under review was Rs. 49,018,032 the rental income collected during the year was Rs. 46,618,940 so the outstanding rental income to be collected was Rs. 2,399,093.	Further steps are being taken and notices are being sent to collect the outstanding rental income as at 31 December 2024.	Action should be taken to properly recover the outstanding rental income.
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3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	The council had not been able to take over the unspecified size of the Wewa Forest, which has been maintained by the Municipal Council since 1916, even by February 2025. Due to this, it had not been possible to approve and implement the Rs. 10 million project allocated under the Provincial Council provisions for the development of tourism infrastructure in the local government areas.	From 2019 to now, letters have been sent to the responsible parties with the aim of obtaining ownership of this Wewa Forest land, and according to the notes of the subject officer, measures will be taken to survey the land belonging to the Wewa Forest and provide a maximum of 10 acres of land to the Seethawakapura Municipal Council on a lease basis.	Steps should be taken to identify the exact size of the Wewa Forest and take over the ownership of the Municipal Council.
(b)	Although 181 advertisement boards were identified in the advertisement boards survey conducted for the year 2024, 24 billboards were observed during physical inspection within a distance of about 02 kilometers within the city limits that were not included in it, which were displayed without obtaining a permit, and the estimated income from those advertisement boards was Rs. 385,200.	It is stated that the relevant advertisement boards were installed in the last quarter of the year 2024 and the first quarter of the year 2025 and that the advertising fees payable thereon will be collected before the end of April 2025.	A billboard survey should be conducted every year and efforts should be made to collect the income.

3.2 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
The approved number of employees of the Council was 175 and the actual number of employees in service was 179. There were 22 vacancies in this, and there was a surplus of 19 primary category officers and 10 secondary category officers.	The approved number of employees of the Council was 175 and the actual number of employees in service was 180. As of 31.03.2025, the number of vacancies was 21. There was a surplus of 10 secondary category officers and 19 primary employees.	Steps should be taken to fill the vacancies.

4. Accountability and Good Governness

4.1 Annual Action Plan

Audit Observation	Comments of the Council	Recommendation
(a) Although the intervention for public complaints as an institution is targeted on a daily basis, the physical progress is only 64 complaints per year.	38 complaints have been received regarding dangerous trees and that number has not been included here.	Physical progress related to public complaints should be increased.
(b) Although the target was to hold 08 staff meetings per year, the performance remained at a very low level with only 03 physical progress.	Arrangements will be made to hold staff meetings as scheduled during these years.	Arrangements should be made to hold staff meetings as scheduled.

4.2 Budgetary Control

Audit Observation	Comments of the Council	Recommendation
(a) Payment of Poverty Relief - of the allocation allocated for providing clothes to pregnant mothers, Rs. 360,050 or 72 percent remained unutilized.	Since applications for the remaining provisions have now been received, creditors have been allocated for those activities.	Arrangements should be made to utilize the funds for relevant purposes.
(b) The allocation for the construction of the upper floors of the new shopping complex was Rs. 38,600,000 and the total expenditure as at 31 December 2024 was Rs. 3,195,415 so the utilization of the allocation was only 8.3 percent.	Since the work was not completed in the year 2024, the construction work was not carried out.	The allocation should be collected after a proper study.