

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Ambalangoda Urban Council including the financial statements for the year ended 31 December 2024 comprising the Statement of financial position as at 31 December 2024, Income and Expenditure Accounts, Statement of changes in net assets, Cash Flow Statement for the year then ended 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 read in conjunction with Sub-Section 181 (1) of the Urban Council 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 accompanying financial statements give a true and fair view of the financial position of the Ambalangoda Urban Council as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Practices.

1.2 Basis for Qualified Opinion

I expressed qualified Opinion on the matters described in paragraph 1.6 of this report.

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

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally accepted Accounting Practices 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 skepticism 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 economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Report on Other Legal Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) The financial Statements of the Urban 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 Unreconciled control accounts

Audit Observation	Comments of the Council	Recommendation
(a) There was a difference of Rs.1.55 million between the balances related to 08 accounting items shown in the financial statements and the balances shown in the related utility registers as at 31 December in the preceding year.	It will be corrected in the future.	Accounts should be corrected by comparing differences
(b) There was a difference of Rs. 91,622 between the balance of the Property, Plant and Equipment Account and the balance of the Contribution to Capital from Income and Grants Accounts as at the end of the year under review.	That steps will be taken to ensure that the same deficiencies do not occur in the preparation of the financial statements for the year 2025.	The differences should be compared and the accounts corrected.

1.6.2 Documentary Evidence not made available for audit.

Audit Observation	Comments of the Council	Recommendation
Due to the failure to submit updated fixed asset registers, debtor registers and certificates of deposit, 16 accounting subjects totaling Rs. 161.68 million could not be satisfactorily examined.	That steps will be taken to provide proper schedules in the future.	Steps should be taken to submit balance confirmations and correct schedules.

2. Financial Review

2.1 Financial results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2024 amounted to Rs.14.43 million as compared with the excess of revenue over recurrent expenditure amounting to Rs.23.56 million 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 submitted by the Secretary, the following is information on estimated income, billed income, collected income and arrears of income for the year under review and the previous year.

Source of Revenue	2024				2023			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	28,425,000	21,214,421	23,952,664	30,299,018	27,775,000	23,412,643	25,597,905	33,037,261
Rent	27,103,250	20,260,920	15,625,844	17,755,773	26,338,750	19,879,535	18,712,568	13,120,697
License Fees	688,000	2,338,458	2,376,357	-	603,000	535,693	723,703	37,899
Other revenue	32,261,000	20,834,911	20,248,090	2,899,603	30,089,000	19,946,983	21,018,308	2,312,782
Total	88,477,250	64,648,710	62,202,955	50,954,394	84,805,750	63,774,854	66,052,484	48,508,639

2.2.2 Performance in Revenue Collection

The following are observations regarding the revenue collection performance of the council.

Audit Observation	Comments of the Council	Recommendation
(a) Assessment and Taxes		
(i) At the end of the year under review, there was a deficit of Rs. 30.3 million in assessment and taxes, entertainment taxes and water service taxes, and no action had been taken to recover the arrears in accordance with the provisions of Section 170(2) of the Urban Council Ordinance.	That measures are being taken to freeze property to recover outstanding balances.	A system for recovering arrears of revenue should be developed promptly and steps should be taken to recover arrears of revenue in accordance with the

		provisions of the urban Council Ordinance.	
(ii)	Based on the assessment carried out in the year 2018, the council had lost the revenue that could have been earned by levying assessment tax in the year under review.	It is proposed to implement the assessment revision work from 2025.06.02.	The property assessment should be carried out in a timely manner and the assessment tax should be collected.
(b)	Rent		
(i)	Although there is a rent arrears of Rs. 1.11 million from 30 shops and 07 lottery booths owned by the council for a period ranging from 03 months to 19 months, the council had not taken steps to recover the arrears or repossess the shops.	That legal action will be taken.	Action should be taken as per agreements and legal provisions.
(ii)	The possession of 14 shops, including 11 shops in the old shopping complex belonging to the Ambalangoda Urban Council, had not been taken over and used for income generation.	That the relevant shops will be renovated and leased out on a rental basis.	The shops should be renovated within a specific time frame and used for income generation.
(iii)	Although the rent of the shops should be assessed and collected once every 05 years as per paragraph 6 of the Circular No.දපපා/පපාකො /2010/01 dated 27th December 2010 of the Commissioner of Local Government of the Southern Province, arrangements had not been made to revise the rent of 39 shops owned by the Council after the year 2015. Also, the dates of the last assessment of 04 shops in the THW Housing Complex were not submitted for audit.	That steps will be taken in the future to obtain the assessment reports promptly.	The assessment reports should be obtained and the rent and rent collection should be made promptly accordingly.
(iv)	Although there are hotels, restaurants and lodges in the council area that are approved by the Tourism Board and can be taxed at one percent, the council had not taken steps to conduct a survey and collect the tax.	The relevant owners have been informed to act as per the instructions given by the Public Health Inspector and obtain the trade license for the year 2024 promptly.	A survey should be conducted on the hotels approved by the Tourism Board and fees should be collected.

3. Operational Review

3.1 Uneconomic Transactions

Audit Observation	Comments of the Council	Recommendation
The council had purchased 27 stone cubes for Rs. 422,550 at the lowest prices quoted by 03 institutions for the purchase of construction materials, but the cost of obtaining 27 stone cubes was Rs. 321,898 as per the District Price Committee prices, so Rs. 100,652 had been paid more.	In the future, when purchasing construction materials, attention will be paid to the prices set by the District Price Committee, the Provincial Road Development Authority and other relevant institutions and more reasonable purchases will be made.	Payments should be made taking into account the prices determined by the District Price Committee.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
In accordance with Section 120 of the Urban Council Ordinance, a building worth Rs. 1.98 million was constructed on a land in Halwathura area not owned by the council for waste management without a formal waste management plan, and an expenditure of Rs. 739,935 was incurred on two occasions during the year under review for waste management. However, waste management activities were not carried out properly in the said building and land, and environmental problems such as foul odor around the land, increase in animals such as dogs, crows and flies, and accumulation of waste in the mangrove swamp had arisen.	That non-biodegradable waste will be handed over to a private institution, covered with soil, sprayed with chemicals for odor control, and a waste management plan will be prepared.	Waste should be managed according to a formal waste management plan so as to minimize environmental damage.

3.3 Assets Management

Audit Observation	Comments of the Council	Recommendation
(a) The current value of 87 lands owned by the council had not been assessed and the council did not have any information on the use of 25 of them.	A priority list is being prepared to assess the identified lands.	The lands should be assessed and accounted for, and steps should be taken to protect them.
(b) A lease agreement had been entered into with a private company for a period of 50 years from 2013 to develop the inn land belonging to the Urban Council and maintain it for the betterment of the citizens of Ambalangoda, but although the lease period had exceeded 10 years, it remained idle without any development work being carried out, and the Council had not taken any action in this regard.	This company has now been referred to the Local Government Commissioner for further action to take possession of the land due to its violation of the terms of the agreement.	According to the terms of the agreement, the inn land should be used for the betterment of the citizens.

3.4 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
(a) Although according to the Public Administration Circular No. 18/2001 dated 22nd August 2001, every officer who has served in the same workplace for a maximum period of 05 years should be granted annual transfers to allow him to serve in other workplaces, 66 officers of the Urban Council had been employed in the same workplace for a period of between 06 and 30 years in a manner that was not in accordance with it.	That the transfer of employees who meet the qualifications will be implemented after the decision on the relevant transfers is notified to the Council by the Local Government Commissioner.	Action should be taken to implement the transfers as per the provisions of the circular.
(b) 06 officers serving in the posts of Library Assistant, Field Worker and Health Worker had been assigned duties not relevant to those posts.	The services of these employees should be further obtained based on the service requirement until the	Duties relevant to the posts should be assigned.

recruitment of employees for the relevant vacancies is made.

3.5 Vehicle Systems Management

Audit Observation	Comments of the Council	Recommendation
(a) The mileage meters of 10 vehicles owned by the council were out of order and 8512 liters of fuel worth Rs. 2.76 million had been issued without verifying the mileage driven during the non-operational period up to December 31 of the year under review.	Since there is a limited number of vehicles for waste management, even if the mileage meters are out of order, fuel will be issued and the vehicles will be operated after verifying the accuracy of the fuel by technical officers.	The mileage meters should be repaired immediately and an investigation should be conducted and appropriate action should be taken regarding the non-repair work and fuel usage.
(b) A tractor costing Rs. 1,000,386 had been parked on the council premises since 2016 and a tractor vehicle whose cost could not be ascertained had been parked since 2009 without being repaired and had deteriorated.	It was stated that a report has been requested from the Mechanical Engineer of the Local Government Department to take appropriate action regarding these vehicles and action will be taken accordingly.	The vehicles should be repaired and put into use or disposed of without delay.