

## **1. Financial Statements**

### **1.1 Qualified Opinion**

The audit of the financial statements of the Ja-Ela 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 in Net Assets/ Equity, 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 Ja-Ela Urban Council as at 31 December 2024 and of its financial performance and its cash flows for the year then ended in accordance with the 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 Sub 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:

- Identified and assessed 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.
- Obtained 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.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluated 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

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

- (a) Financial Statements of the Urban Council as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

## 1.6. Audit observations related to the preparation of financial statements

### 1.6.1. Non-compliance with the Sri Lanka Public Sector Accounting Standards for Local Government Institutions

Non-compliance with reference to the relevant standard	Comments of the Council	Recommendation
(a) Although financial statements should be prepared on an accrual basis as per paragraph 2.5 of Chapter 2 of the standard, the stamp duty value of Rs.52,013,639 received during the year under review for previous years had been accounted as income for the year under review.	Arrangements will be made to keep accounts on an accrual basis in the future.	Accounting should be done on an accrual basis.
(b) In accordance with paragraph 3.6 of Chapter 3 of the standard, the balances for the year 2022 had been recorded instead of the comparative balances for the preceding year in the cash flow statement.	The revised cash flow statement is submitted herewith.	Actions should be taken to present the comparative balances in accordance with the standard..

### 1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The expenditure of Rs.1,482,020 incurred for the installation of gates in the year under review had been capitalised to the Land Account, even though it should have been contracted under Buildings and Fittings.	An amount of Rs.1,482,020 was debited to the Fixtures Account and credited to the Land Account in the year 2025.	Actions should be taken to do the accounting accurately.

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| (b) | The expenditure of Rs.2,233,472 incurred for carpeting the front yard of the parking lot of the Municipal Council office premises had been accounted under lands in progress. | Actions will be taken to correct the errors when preparing the accounts for the year 2025. | Actions should be taken to do the accounting accurately. |
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### 1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
A discrepancy of Rs.7,532,408 was observed between the balance as per the financial statements and the balance as per the schedules of 04 account balances included in the financial statements.	The reason for this is that the journal entry was not reconciled to the trial balance.	The schedules should be kept up to date and accounts should be corrected based on them.

## 1.7 Non-Compliances

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

The Instances of Non-compliance with Laws, Rules, Regulations and Management Decisions are shown below.

Reference to laws, rules, regulations, etc.	Non-compliance	Comments of the Council	Recommendation
(a) Rules 333 on Accounting Matters Relating to the Financial Administration of Municipal Councils	Actions had not been taken in accordance with the provisions regarding officers who did not attend 3 follow-up meetings of a tender committee or evaluation committee for a tender task without acceptable reason.	Actions will be taken to inform the council and the Local Government Commissioner in the future.	Financial administration should be carried out in accordance with accounting rules.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
i. 189	Actions had not been taken regarding 04 dishonoured cheques given for payment of assessment amounting to Rs.71,608.	The holders of the dishonoured cheques have been informed.	Actions should be taken to act as per Financial regulations.

- ii. 571                      118 deposits of 04 types of deposits exceeding 02 years had not been regulated.                      Actions will be taken to regulate deposits within 2025.                      Actions should be taken to act as per Financial regulations.
- (c)      Public  
Administration  
Circular
- Paragraph 3.1 of Public Administration Circular No. 30/2016 dated 29 December 2016      During a test audit check of vehicle log books, fuel combustion tests had not been conducted for 26 vehicles owned by the council for a period of between 5 and 10 years.      Arrangements have been made to begin to conduct fuel combustion tests for vehicles equipped with mileage meters.      Actions should be taken to act as per the circular
- (d)      Sections 153 and 157 (II) of the Municipal Council Ordinance      Although by-laws could be made for the maintenance, charging of fees and allocation of public and private markets and fairs, by-laws had not been prepared to formalize and regulate the leasing of shoprooms owned by the council.      Urgent steps will be taken to prepare by-laws to formalize and regulate the lease of shop rooms.      Actions should be taken to prepare bylaws and streamline the work of the council.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, excess of revenue over expenditure of the sabha for the year ended 31 December 2024 amounted to Rs.31,596,151 as compared with excess of revenue over expenditure amounted to Rs.142,785,007 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, estimated revenue, revenue billed, revenue collected and arrears relevant to the year under review and the previous year are shown below.

Source of income	Estimated income	2024			Estimated income	2023		
		Billed income	Collected income	Total Deficit as on 31 December		Billed income	Collected income	Total Deficit as on 31 December
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
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Assessment & Taxes	48,212	43,051	42,210	40,122	49,802	48,635	56,599	38,748
Rents	19,028	18,013	21,879	6,089	19,607	20,487	23,936	10,032
License	1,820	1,371	1,361	-	3,203	1,247	1,249	5
Charges								
Other income	118,396	93,312	88,984	159	117,104	132,480	103,806	50
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	<u>187,456</u>	<u>155,747</u>	<u>154,434</u>	<u>46,370</u>	<u>189,716</u>	<u>202,849</u>	<u>185,590</u>	<u>48,835</u>

## 2.2.2 Performance in the Revenue collection

The observations on the revenue collection of the Council are given below.

Audit Observation	Comments of the Council	Recommendation
(a) <b>Assessment and Taxes</b>		
(i) The total assessment and tax arrears as at the end of the year under review were Rs.40.12 million Rs. 15,216. in relation to the Ja-Ela Inn which existed before the year 2014, remained outstanding from 05 assessment units and although a new building was constructed in the year 2014 and this Inn is being maintained, a new assessment number had not been assigned for it and a new assessment had not been made.	Due to a case between the Urban Development Authority and the Ja-Ela Municipal Council regarding the ownership of the Ja-Ela Inn, it has been necessary to refrain from imposing taxes on the advice of lawyers.	Action should be taken to recover arrears of revenue, recover income from assets and settle the ownership of assets and recover assessments.
(ii) Out of the balance of Rs.40.122 million as at 31 December of the year under review, Rs.8,750,638 had been assessed as arrears between 3 and 5 years, Rs. 4,902,922 between 5 and 10 years and Rs.15,120,408 above 10 years. The attention of the Municipal Council had not been drawn to the recovery of these arrears.	Actions are taken to conduct a site inspection, seize movable property and collect outstanding taxes promptly.	Actions should be taken to recover the arrears of revenue promptly and act accordance with the Pradeshiya Sabha Act.
(iii) Although the estimated value of entertainment tax for the year under review was Rs. 4,400,000, the billed value was Rs.2,348,771 and actions had not been taken to recover Rs.888,677 of the billed income.	Actions had been taken to demolish the Vista Cinema in 2024 and recover the outstanding balance related to the Cinemax Cinema.	Actions should be taken to recover outstanding amounts expeditiously.
(b) <b>Rents</b>		
An arrears of Rs.1,470,011 under Trade Place Rent 1 and an arrears of Rs.4,517,081 under Trade Place Rent 2 remained to be recovered as at the last day of the year under review.	Since there is a case between the Urban Development Authority and the Ja-Ela Municipal Council regarding the ownership of this inn, it has been necessary to refrain from charging rent on the advice of the lawyers.	Actions should be taken to recover the arrears of revenue.

(c) **License Charges**

Although the Ja Ela Inn has been operating since 2014, a trade license had not been issued for it.

Since there is a case between the Urban Development Authority and the Ja-Ela Municipal Council regarding the ownership of this inn, it has been necessary to refrain from imposing taxes on the advice of lawyers.

A trade license should be issued to carry out the business.

(d) **Other income**

Although the estimated other income for the year under review was Rs.118,396,000, since the billed value was Rs.93,312,000, the unbilled value of the estimated value had been as high as Rs.25,084,000.

This was due to the decrease in fixed deposit interest rates, the slowdown in compost yard operations and decrease in warrant fees and fines due to the poor collection of assessment arrears.

Actions should be taken to prepare the estimates accurately.

(e) **Court fines and stamp duties**

Actions had not been taken to collect the court fines due from the Chief Secretary of the Provincial Council and other authorities for the months of October and November of 2022 and the stamp duty revenue due for the months of May and July to December of 2023.

Actions are being taken to prepare Schedules presently.

Actions should be taken to collect the outstanding funds promptly and utilize effectively.

### 3 **Operational Review**

#### 3.1 **Management Inefficiencies**

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) Since the inventory and stores management software worth Rs.655,000 and the payroll management software worth Rs.865,000, which were installed in 2022, had not been operational by	Actions will be taken to update the software system related to employee loans and personal files and the payroll management software system promptly.	Actions should be taken to utilize public funds in the most efficient manner.

March 2025, these expenses had become a wasteful expenditure.

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| (b) | An environmental protection license had not been obtained from the Central Environmental Authority for the crematorium owned by the council. | The necessary further actions are being taken to obtain the license. | Actions should be taken to obtain an environmental license. |
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### 3.2 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Out of the 22 shoprooms leased at St. Mary's Road, arrangements had not been made to enter into lease agreements with the lessees for 14 shops and arrangements had not been made to collect the outstanding shop rent for 3 shops.	Actions will be taken to recover the remaining outstanding amounts promptly.	When renting out shop premises, actions should be taken to enter into a formal agreement and collect arrears of rent.
(b) The Council had granted the lessee the shoproom bearing No. 01 at Colombo Road which was given by the Council without an agreement in 1986 and the lessee had subleased it and the Council had entered into an agreement with the sub-leaseholder in 2008. However, the agreement did not specify a period for the termination of the agreement or a monthly rent amount. Further, the monthly rent assessment had not been obtained after the year 2023 in accordance with Rule No. 408 (iii) on Accounting Matters relating to the Financial Administration of the Municipal Council.	The Valuation Department has been notified to provide a new valuation for these shops and reminders have also been issued.	When renting out shop premises, actions should be taken to enter into a formal agreement and carry out a timely rent assessment.
(c) Although the monthly rent for every immovable property leased out in accordance with Rule 408 (iii) of the Accounting Act relating to the financial administration of the Municipal Council should be assessed every 03 years from the date of the agreement, the lease had been re-performed at the original rent amount without a new assessment being made for the 23 shops at the Railway Road.	The Valuation Department has been notified to provide a new valuation for these shop rooms and reminders have also been issued.	According to financial regulations, actions should be taken to carry out a new assessment every 3 years.



(d)	Among the small business premises near the public market, the Council did not have any details regarding the lease agreement or the agreed period other than the name of the documented lessee in respect of 08 of the shoprooms and 09 shops had arrears of Rs. 406,767 in rent for a period ranging from 02 to 24 months by 31 December 2024.	Actions will be taken to recover the outstanding amounts promptly.	Actions should be taken to keep lease agreements up to date and to collect arrears promptly.
(e)	The portions of the Lake City land that could not be sold by the auctioneer, which included a tank in extent of 01 acre 03 roods 0.26 perches and a triangular portion remaining after the subdivision, had been assigned to the council for public purposes. The council had not specifically identified this portion of land.	The tank has prevented the residents of the housing complex from facing the risk of flooding.	Actions should be taken in accordance with Gazette No. 392/9 dated 10 March 1986 regarding auctioned lands.

### 3.3 Asset Management

	<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a)	Although according to the document provided by the council, during the physical inspection of the land of Thudella, Nawasigahawatta in extent of 1 acre, 1 rood, 36.4 perches under deed number 8201, 12 houses had been constructed in the land thereon, the council had not given approval for it.	The Municipal Council has not given approval for the construction of these houses.	A program should be established to control unauthorized construction.
(b)	151 bundles of legal size paper purchased in 2015 were still lying idle in the store at the end of the year under review.	Actions will be taken to ensure the safety of all stored items after the new building being constructed on the council premises is completed.	Actions should be taken to identify needs accurately, make purchases and maintain stocks safely.
(c)	27 office employees who went on retirement, left the service or transferred had not received and returned 57 library books.	Actions will be taken to recover the value of those books from them.	Actions should be taken to retrieve the books.

(d)	Although library books worth Rs.363,268 were recommended for destruction and their value had been removed from the accounts, they were still in the library even by 5 March 2025	Actions will be taken to remove that value from the accession Register.	Actions should be taken to implement the recommendations of the Board of Survey.
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### 3.4 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
27 vacancies for 12 positions had remained vacant in the council.	The Commissioner of Local Government (CLG) has been informed about these vacancies through quarterly reports and in writing.	Actions should be taken to fill the vacancies.