

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Katunayake Seeduwa 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 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 reported 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 Katunayake Seeduwa 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 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 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 include specific provisions for 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 of this report 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 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) The compensation due amount and late interest amount of Rs. 11,877,580 payable for the Seeduwa Amuna Road Multi-purpose Building land should have been accounted for as a current liability in accordance with paragraphs 2.2 (b) and 2.4 of the standard, but it was not recorded as a contingent liability.	Once confirmed by a council decision, steps will be taken to identify it as a current liability.	Accounts should be done in accordance with the standard.
(b) In accordance with paragraph 3.28 of the standard, in calculating the cash flow from operating activities in the statement of cash flows, the value of stock changes of Rs. 3,086,111 was shown as surplus instead of adjusting as change in working capital, the increase in the value of payables of Rs. 19,731,036 was shown as decrease of Rs. 84,563,534 and the increase in the value of receivables of Rs. 21,118,029 was shown as decrease of Rs. 235,582,728.	This will be corrected when preparing the 2025 accounts.	The cash flow statement should be prepared in accordance with the standard. The values should be stated accurately.
(c) In calculating cash flow from investing activities in accordance with paragraph 3.29 of the standard, although the value of property, plant and equipment purchases in the year under review was Rs. 48,983,230, it was as Rs. 48,396,232, an understated of Rs. 586,998.	That the collection value is indicated.	The cash flow statement should be prepared in accordance with the standard. The values should be stated accurately.

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Recommendation Council
(a) Although The capital expenditure grants identified during the year under review that were included in the comprehensive income statement, should have been deducted from the capital expenditure grants, it was added.	This correction will be made when preparing the 2025 accounts. Accounts should be presented correctly.
(b) Although the depreciation value for the year under review should have been Rs. 64,139,382, it was as Rs. 67,944,777, an overstated by Rs. 3,805,395.	This correction will be made when preparing the 2025 accounts. Accounts should be presented correctly.

1.7 Non- Compliances

1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions

The instances of non-compliance with Laws, Rules, Regulations and Management Decisions are as follows.

Reference to Laws, Rules Regulations	Comments of Recommendation the Council
(a) Rules 395 on Accounting Matters Relating to the Financial Administration of Municipal Councils Although a assessment report from a chartered assessor should always be used when determining the bid value of a property, no steps had been taken to obtain a valuation for the Seeduwa Thursday Weekly Fair and the Averywatte Daily Fair.	Attention will be paid to regarding this. Action should be taken according to the rules.
(b) Paragraph 3.1 of Public Administration Circular No. 30/2016 dated 29 th December 2016 Consumption of fuel had not been tested for 15 vehicles.	Fuel testing is being conducted. Action should be taken according to the circular.
(c) Articles 19 and 20 of the Standard By-Law No. 1947/7 dated 28 December 2015, which was adopted in accordance with the Action had not been taken to remove the notice boards for which fees had not been paid.	Officers have been instructed to pay attention in the future. Action should be taken in accordance with the standard by-laws.

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| (d) | 7.4.1 of the National Procurement Guidelines | Although bid evaluations should have been conducted as soon as possible to allow sufficient time to obtain formal approvals, the bid opening was held on 26 th April 2022 and the bid evaluation was conducted 01 month and 12 days later, that was done on 08 th of June 2022. | That the audit query is accepted. | Action should be taken according to Procurement guidelines. |
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1.7.2 Non -compliance with Tax Regulations

	Audit Observation	Comments of the Council	Recommendation
(a)	Details of VAT payments to suppliers had not been forwarded to the Commissioner of Inland Revenue for tax management in accordance with letter of the Commissioner's of Inland Revenue No. GIR/2021/02-02 dated 09 April 2021 and Circular No. GIR/2019/03-1(Ins.& cirl) dated 09 July 2019.	Reports will be forwarded to the Inland Revenue Department from 2025.	Action should be taken to send reports as per the circular.
(b)	Where there are reasonable reason that the taxable supply for a taxable period (quarter) may exceed Rs. 15 million or the taxable supply for 12 months may exceed Rs. 60 million in terms of section 3 (2) C of the Value Added Tax (Amendment) Act, No. 16 of 2024, should need to register for Value Added Tax, Registration had not been obtained by the audited date of March 04, 2025. Accordingly, the council had lost a tax of Rs. 22,598,252 at the rate of 18 percent on the total value of income of Rs. 125,545,846, and a value added tax of Rs. 1,004,603 on purchases made on 07 occasions according to the sampling test.	Reports will be forwarded to the Inland Revenue Department from 2025.	An investigation should be conducted to identify the loss incurred to the council fund and state revenue and further action should be taken.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of revenue over expenditure of the Council for the year ended 31 December 2024 amounted to Rs. 69,230,588 as compared with the excess of revenue over expenditure amounted to Rs. 147,401,208 in the preceding year.

2.2 Financial Control

Audit Observation	Comments of the Council	Recommendation
A dishonored cheque of Rs. 61,870, which had been existence for many years, remained unsettled and this value was not recorded in the dishonored cheque register. Management had not paid attention about this.	That the dishonored cheque will be settled in the future.	Action should be taken to settle the dishonored cheque balance.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

According to the information submitted by the Secretary of the Council, information related to the estimated revenue, billed revenue, collected revenue and arrears of revenue for the year under review and for the previous year are mentioned below.

Source of Revenue	Estimated Revenue	2024			Total Arrears as at 31 December	Estimated Revenue	2023		
		Revenue billed	Revenue collected				Revenue billed	Revenue collected	Total Arrears as at 31 December
	Rs. `000	Rs. `000	Rs. `000	Rs. `000		Rs. `000	Rs. `000	Rs. `000	Rs. `000
(i) Rates and Taxes	152,063	151,875	145,281	62,504		152,900	151,740	150,753	55,909
(ii) Rent	12,890	15,811	16,013	730		16,538	11,587	14,008	931
(iii) License fees	4,608	2,891	2,891	-		6,151	4,899	4,899	-
(iv) Other Revenue	195,900	198,137	190,882	32,690		146,901	205,849	196,041	32,460
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	365,461	368,714	355,067	95,924		322,490	374,075	365,701	89,300
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2.3.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Council are given below.

Audit Observation	Comments of the Council	Recommendation
(a) Rates and Taxes		
As at 31 December 2024, the value of outstanding rates and taxes was Rs. 62.50 million, which was 41 percent of the billed revenue of Rs. 151.87 million. The Council had not taken formal action to recover the outstanding balances.	Revenue inspectors and property prohibiting officers are working to recover outstanding balances.	Action should be taken to recover the arrears of revenue.

(b) **License Fees**

Compared to the previous year, the license fee revenue collected in the year under review had decreased by 41 percent, that is Rs. 2,008,000 and the estimated revenue had decreased by 25 percent, that is. Rs. 1,543,000.

Although license fees were charged based on council decisions until December 31, 2023, income has decreased since fees have been charged in accordance with the provisions of the urban Council Ordinance from 1st of January 2024. Action should be taken to recover revenue.

(c) **Other Revenue**

The council conducted a field inspection regarding the long-term display of advertisements boards and found that the fees were not collected on time and the council had lost revenue of Rs. 848,965 from 29 advertisements boards due to delays of between 3 days and 1 ½ years.

Existing advertisements in the field have been identified and relevant institutions have been informed. Advertisements boards fees must be collected on time.

3. Operational Review

3.1 Performing of Functions Enacted by the Act

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Council under Section 4 of the Urban Councils Ordinance are shown below.

Audit Observation	Comments of the Recommendation Council	
(a) Procurement Plan		
The procurement plan, which was prepared with 36 activities, was also prepared outside of sustainable development guidelines.	The 2025 procurement plan has been prepared in accordance with sustainable development guidelines.	Efforts should be made to prepare the procurement plan in accordance with sustainable development guidelines.

(b) **Solid Waste Management**

i.	A by-law for waste management had not been prepared as per the provisions of Part VI of the Municipal Councils Ordinance No. 18 of 1987.	That necessary action will be taken to enact a by-law in the future.	Waste management should be streamlined by enacting a by-law.
ii.	25 tractor loads of biodegradable waste collected daily from 75 percent of the council area and non-biodegradable waste had been dumped for many years on a 10-acre swampy land in Ambalamulla belonging to the Land Reforms Commission, and the council had provided an opportunity to separate and sell 12,000 kilograms of iron, 18,000 kilograms of plastic and 6,000 kilograms of glass collected annually to external parties.	That special attention will be paid in the future.	Actions should be taken to properly dispose of garbage and the revenue generated from it should be transferred to the council fund.
iii.	Although there are 25 factories in the council area of authority, only 6 of them collect waste, and information on the methodology of disposing of waste generated by other factories was not submitted to the audit.	That special attention will be paid in the future.	Garbage should be disposed of properly and a healthy environment should be created for the people.

(c) **Public complaints**

02 public complaints received in the year 2023 and 03 public complaints received in the year 2024 had not been resolved by 31st December of the year under review. These complaints were of a nature that required the special attention of the Council.	That the Local Government Assistant Commissioner will act in accordance with the instructions.	Public complaints should be resolved as soon as possible.
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3.2 Management Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	The council had not taken steps to survey the trading boards in the council area of authority and collect fees.	A survey is being conducted to collect revenue from trade-related advertisements at trading locations.	A survey conducted about the trading board in area of the authority and action should be taken to levy fees.

(b)	While an amount of Rs. 22,444,000 had been deposited with the Katana Divisional Secretary for the acquisition of lands in the Urban Council area, steps had not been taken to take over the ownership of lands worth Rs. 10,244,000, which pertains to a period between 01 and 07 years, up to 31 December 2024.	The council has taken the initial steps and will take steps to carry out other activities in the future.	Action should be taken to settle the ownership of the lands and take over.
(c)	Although Rs. 1,657,692 was spent on purchasing a computer software system for mixed revenue, water bills, stock and warehouse management, networking system and service fees, the target of performing the tasks through the software had not been achieved.	It is expected that all receipts and payments will be entered into the software and monthly reconciliation statements will be compared in the future.	Should work towards achieving the expected goal by software system.
(d)	In the procurement related to the mapping of the road system with street lights within the urban council boundry, a procurement schedule had not been prepared as per guideline 4.2.2 (a) of the Government Procurement Guidelines, and the dates and times of the committee meetings had not been fixed as per guideline 2.11.1 (b). Similarly, the procurement guidelines 3.8, 4.3.1 (a), 2.8, 2.11.1 (a), 2.11.2, 2.11.3 (a), 2.12 (a), 5.1.1 (a)(b), 5.2.1 (a)(b), 5.6.1(a), 6.3.3 (a), 6.3.6, 7.9 and 9.7.2 had not been followed.	That the procurement guidelines are being followed.	The instructions in the Procurement Guidelines should be followed.
(e)	Out of the total debtor balance of Rs. 11,665,080 as at the end of the year under review, Rs. 962,076 was more than 05 years. The management had not paid attention to the recovery of this amount.	That it will be resolved quickly in 2025.	Debt balances must be settled.
(f)	As at 31st of December 2024, out of the total creditor balance of Rs. 142,787,792, there was a balance of Rs. 2,371,611 over 5 years, a balance of Rs. 161,764 between years 3 and 5, and a balance of Rs. 11,076,462 between years 1 and 2.	Payments will be made or removed in 2025.	The existence of creditor balances should be checked and settled.

3.3 Operational Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	In accordance with Rule 347 on Accounting activities relating to the Financial Administration of the Urban Council, a tender schedule had not been	Action will be taken to correct it in the future.	The leasing of properties should be done in accordance

	prepared during the tender process for 07 properties for which annual rent was granted, and action had not been taken in accordance with Rule 330, 335, 341 and 373 of the Municipal Council Financial Rules.		with the financial rules of the Urban Council.
(b)	The fine of Rs. 1,677,409 due for a building rented to an institution had not been recovered as at 10th of March 2025.	Legal action will be taken in the future.	Action should be taken to recover fines.
(c)	While the stamp duty expenses payable by the auctioneer for the registration of the public land portion to be transferred to the council upon the sale of the minimum auction land of 88.82 perches in accordance with the Urban Development Authority Planning and Development Order/Regulation 23(2) of 2021 is Rs. 111,000,000 As the property was registered at a value of Rs. 100,000, the Council Fund had lost Rs. 2,218,000 in stamp duty revenue due for Rs. 110,900,000 at the rate of 2 percent as per the Stamp Duty Act No. 12 of 2006 (Special Provisions).	This action will be taken to convert it into a proof of payment under the Western Province Finance Charter No. 1980.	An investigation should be conducted into this matter, those responsible should be identified, and the losses incurred should be recovered.
(d)	Although the land allotted in accordance with Section 23(2) of Part II of the Planning and Development Orders/Regulations published in the Gazette No. 2235/54 dated 08 July 2021 should be transferred to the relevant authority without any charges as per Annexure vi of Form "A" of Schedule 1 hereto, action had not been taken accordingly when allocating the of the auctioned public plot of lands.	That the procedure shall be as per Annexure vi of Form "A" of Schedule I.	Actions should be taken in accordance with planning and development orders/regulations.

3.4 Assets Management

Audit Observation	Comments of the Recommendation Council	
Failure to perform maintenance and repairs		
The Tata Gully Bowser, valued at Rs. 1,150,000, remained in the garage from August 2023 to 31st of December 2024, without any work being done to complete the repairs.	The reason for the delay is that the parts needed for the repair have to be imported from India.	Repairs should be carried out properly and assets should be used efficiently.

3.5 Defects in Contract Administration

Audit Observation	Comments of the Council	Recommendation
(a) The project to construct a protective fence around the Kasagahawatta Resource Center had been completed by a single bidder who submitted a bid of Rs. 4,635,945 without obtaining approval of a project plan. Guidelines 2.11.1(d) and 4.2.2 of the Government Procurement Guidelines 2006 had not been followed.	That will be correct it in the future.	National procurement guidelines should be followed.
(b) In 2024, Rs. 3,717,015 was paid for additional work without issuing a variation certificate stating the reason for the contract variation, the parties responsible for it, etc., as per the Procurement Guidelines for 10 industries operating in the year.	That in the future, payments will be referred to a variable committee.	Action should be taken in accordance with the National Procurement Guidelines.

3.6 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
The posts of Secretary, a Technical Officer (Civil), 02 Management Assistants, 02 Pre-School Teacher, 08 Driver and 01 Welder were vacant, while the posts of 3 Revenue Inspectors, which directly affect the revenue generation function, were vacant since 02 January 2013, 11 th May of 2014 and 20 July 2015 respectively.	Officers have applied for vacancies.	Efforts should be made to manage the staff in a manner that enables the council to carry out its work efficiently.

4 Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comments of the Council	Recommendation
The action plan was not prepared in accordance with paragraph 13 of Government Finance Circular No. 02/2020 dated 28 August 2020 and progress reports indicating the half-yearly and annual progress review and achievement of identified targets for the year under review were not prepared and submitted for audit.	The 2024 action plan has been reprepared.	Work should be done to prepare the action plan as per the instructions in the circular.

4.2 Internal Audit

Audit Observation

The internal audit plan had not been prepared based on the identification of risks and the quantification of those risks in accordance with the Millennium Development Goals and management audit circulars, and solid waste management, procurement, warehouse inspection, health and community sector performance, and the accuracy of provisional valuation of assessed property had not been examined.

Comments of the Recommendation Council

Action should be taken to check the accuracy.

Actions should be taken in compliance with the Millennium Development Goals and management audit circulars.