

1. Financial Statements

1.1 Adverse Opinion

The audit of the financial statements of the Minuwangoda 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 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 reported to parliament appear in this report.

In my opinion, because of the significance of the matters described in paragraph 1.6 of this report, the financial statements do not give a true and fair view of the financial position of the Minuwangoda Urban council as at 31 December 2024 and its financial performance and its cash flow for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.2 Basis for Adverse Opinion

I expressed adverse 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 adverse 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.

- 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.
- 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

Audit Observation	Comments of the Recommendation Council
(a) In accordance with paragraph 3.28 of Chapter 3 of the Standard, In calculating the cash flow from operating activities , comprehensive income in flow calculation which was redundant in the statement as Rs.9,880,437 instead of Rs.5,741,146 , Rs.4,139,291 more. The depreciation value of the year is Rs. 19,134,640 Although it is Rs. 14,586,519 as Rs.4,548,121 less and working capital. Final inventory value difference at adjustment , Although it is Rs.131,601, it is Rs. 7,551,410 , Rs.7,419,809 more had also been adjusted . Rs. 5,581,172 the investment interest income adjusted to the comprehensive income of the year under review had not been deducted from the surplus.	That will be corrected. The cash flow statement should be prepared according to the standard.

(b)	In calculating the cash flow from investing activities in accordance with paragraph 3.29 of Chapter 3 of the Standard, according to Note 15 of the financial statements of the year under review, the value of fixed deposits including interest on fixed deposits had increased by Rs. 36,808,404 as at the end of the year under review, but the interest received or reinvestment had not been disclosed under cash flows from investing activities in the statement of cash flows.	That has been corrected by the revised cash flow statement.	Cash flow should be prepared according to the standard.
(c)	According to Section 9 of the Standard and its Appendix 2, when accounting for transfers from the government for non-recurring expenses, the cost of the expense should be recognized in the period in which the expenses are recognized in the same way as depreciation is calculated in accordance with Section 9.5 of the Standard, but it was not recognized accordingly.	That has been corrected by the revised cash flow statement.	Cash flow should be prepared according to the standard.
(d)	Although the net cash flow of cash and cash equivalents in the cash flow statement for the year should have been Rs. 12,829,068, it was shown as Rs. 21,898,691, more by Rs.9,069,623.	That has been corrected by the revised cash flow statement.	Cash flow should be prepared according to the standard.

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) Although the interest income for the year under review was Rs. 4,916,097, it was recorded as Rs. 6,121,572, which is Rs. 1,205,475 more than the amount accounted.	That has been corrected by the revised comprehensive income statement.	Values must be accurately identified and accounted.
(b) There was a difference of Rs. 18,301,361 between the balance of the accumulated fund in the statement of changes in equity and the balance as per the ledger as at the end of the year under review.	That has been corrected by the revised statement of changes in equity.	Accounts should be prepared correctly.

(c)	Although the receivable of fixed deposit interest was Rs. 1,423,240, it was stated as Rs. 2,629,215, which is Rs. 1,205,475 more.	That has been corrected by the assets liability statement.	Values must be accurately identified and accounted.
(d)	Cash deposits directly credited to the bank account held in the bank reconciliation as at 31st December of the year under review amounted to Rs. 2,725,113, salary reimbursements of Rs. 4,548,993, fixed deposit interest of Rs. 107,129, solar power generation income of Rs. 123,351 and stamp duty of Rs. 4,594,710, totalling Rs. 12,099,296, had not been accounted.	That it will be included in the income account for the year 2025.	Accounts should be prepared correctly.
(e)	During the year under review, the solar panel system with a value of Rs. 6,679,550 for services rendered was not recognized under assets and was included under work in progress, while the amount of Rs. 123,351 received in cash in December and the value of the number of units offset against the office bill had not been recognized and accounted for as income.	That it will be accounted for as an asset in the year 2025 and taken into income.	Accounts should be prepared correctly.

1.6.3 Unreconciled Control Accounts

Audit Observation

There was a difference of Rs. 69,431,063 between the financial statement total value and the total value as per the schedules of 05 account balances included in the financial statements of the year under review.

Comments of the Recommendation Council

The schedules are not correct. The schedules should be kept up to date and financial statements should be prepared accordingly.

1..6.4 Suspense Accounts

Audit Observation

As at 31 December of the year under review, net assets in the statement of assets and liabilities were Rs. 1,570,007,868 and the statement of net assets/changes in equity was stated in Rs. 1,496,425,357 as a result suspense balance of Rs. 73,582,511 in the statement of assets and liabilities.

Comments of Recommendation the Council

That has been corrected and submitted. Accounts should be prepared correctly.

1.6.5 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
Due to the non-submission of detailed schedules, it was not possible to satisfactorily verify the allowance of capital expenditure balance of Rs. 107,058,687 as per Note 10.	That has been corrected and submitted.	Actions should be taken to submit schedules 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 etc.	Non-compliance	Comments of the Council	Recommendation
(a)	Rules on accounting matters relating to the financial administration of the Urban Council		
(i) 312(V)	When the council tendered the physical fitness center, it was not specified in the newspaper advertisements whether the physical fitness center would be equipped or not, so interested parties were unable to know all the information. Accordingly, tender advertisements had to be published again by publishing tender advertisements without proper planning.	That the bids were called correctly the second time.	The rules referred to in the rules on accounting should be followed.
(ii) 395	The council had assessed the bid values for 21 properties without obtaining a valuation report from a chartered assessor.	A letter has been submitted to obtain a valuation from a chartered assessor.	Bid values should be determined based on a valuation report from a chartered assessor for the property.

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. 5,741,146 as compared with the excess of revenue over expenditure amounted to Rs.13,239,491 in the preceding year.

2.2 Financial Control

Audit Observation	Comments of the Council	Recommendation
(a) As at 31 st of December 2024, stamp duty receipts of Rs. 4,594,710 had been held idle without being utilized or invested due to the failure to issue a receipt and record it in the cash book.	Action will be taken to ensure that such evasions do not occur in the future.	The loss to the council fund due to the period of inactivity should be determined and action should be taken to recover it and use or invest it in the future.
(b) It was observed that although the salary reimbursement money was also credited to the bank, it was not recorded in the books and was carried forward for a long time. Accordingly, an amount of Rs. 4.6 to 23.3 million had been kept idle without being invested throughout the year 2024.	That it will be corrected by taking it into income.	Public money should be utilized in the most efficient and effective manner. Investments should be made.
(c) The value of deposits, presumed to have been deposited by shop owners who were destroyed by fire in 2019, but whose depositors were not specifically identified, was Rs. 2,725,113 as at 31 st of December 2024. Although the money could have been taken to the cash book for use, it had been kept idle without taking action accordingly.	The necessary actions are being taken to record the deposited money.	The loss to the council fund due to the period of inactivity should be determined and action should be taken to recover it and use or invest it in the future.
(d) More than Rs. 60,000,000 in the council's current account remained idle throughout the year 2024. If this money had been invested in a fixed deposit, the council fund would have lost an interest income of 11 percent per annum, or Rs. 6,600,000.	Further action will be taken to fixed deposit the balance in the cash book.	Public funds should be utilized as efficiently and effectively as possible.

2.3 Revenue Administration

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

According to the information presented by the Secretary, the estimated revenue, billed revenue, collected revenue and arrears of revenue for the year under review and the previous year are shown below.

Source of Revenue	2024				2023			
	Estimated Revenue	Revenue billed	Revenue collected	Total Arrears as at 31 December	Estimated Revenue	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
Rates and Taxes	20,470	20,330	18,248	15,849	19,000	18,866	16,900	12,109
Rent	33,615	23,220	38,248	5,244	67,006	22,417	21,298	3,072
License fees	921	400	1,442	277	901	367	442	204
Other Revenue	32,304	-	21,891	7,891	31,525	11,610	11,610	9,425
	87,310	43,950	79,829	29,261	118,432	53,260	50,250	24,810

2.3.2 Performance in Revenue Collection

Audit Observation		Comments of the Council		Recommendation
(a)	Billing was about 50 percent of the estimated total revenue for the year under review, while the revenue collected was about 69 percent. Therefore, the estimation of total revenue was not observed to be realistic.	Estimated revenue is based on an estimate and billed revenue is based on a survey.		Estimating total revenue should be done realistically.
(b)	As at 31 st December of the year under review, according to the time analysis report, out of the total outstanding rates balance of Rs. 15,710,560, as the balance over 05 years was Rs. 5,264,509, the balance between 2 and 3 years was Rs. 3,825,940 and the balance under 01 year was Rs. 6,620,111 had been to recover to council.	A survey is being conducted on arrears of rates properties.		Action should be taken to collect arrears of revenue.

3. Operational Inefficiencies

3.1 Performance

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 Council	Recommendation
The budgeted amount of garbage collection for the council was Rs. 2,300,000 and the actual collection for the year was Rs. 1,230,000, so the collection progress was about 53 percent compared to the budget. Although the council had collected 233,801 kilograms of biodegradable garbage and 99,500 kilograms of non-biodegradable garbage annually, that garbage had been discarded without being considered a resource.	Priority has been given to waste management rather than generating income from waste.	Actions should be taken to properly dispose of garbage and the revenue generated from it should be transferred to the council fund.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The meeting hall built on the upper floor of the new shopping complex was leased to an external party for a period of 3 years from November 2023 at a monthly rent of Rs. 30,000 without a valuation by a chartered assessor.	It has been decided to rent it out at a valuation monthly of Rs. 30,000.	The valuation should be carried out by chartered assessor.
(b) Although the refundable security deposit amount was to be paid in one go as per the tender conditions, only Rs. 75,000 of the security deposit of Rs. 153,000 pertaining to the Physical Fitness Center had been paid and the remaining amount had been allowed to be paid in installments.	That the entire rental security deposit has been received.	Bids must be processed in accordance with the terms and conditions.
(c) Out of the 21 properties tendered annually by the Council, 07 properties had not been leased during the year under review.	That 7 properties owned by the council have not been able to lease.	The council should take steps to generate revenue by giving lease annual tender property.

3.3 Improper Transactions

Audit Observation	Comments of the Council	Recommendation
(a) A fixed deposit of Rs. 05 million had been maintained with People's Bank with no maturity date at an interest rate of 8.75 percent per annum since on 21 st of September 2023.	As indicated by the audit, action have been taken to invest in a way that the most benefits.	Action should be taken to utilize public money as efficiently as possible.
(b) It had been decided to transfer the amount of Rs. 05 million, which was at an interest rate of 3.75 percent in the year 2021, to a seven-day deposit on 07 th of September 2023.	As indicated by the audit, action have been taken to invest in a way that the most benefits.	Action should be taken to utilize public money as efficiently as possible.

3.4 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
As at 31 st December 2024, there were 19 vacancies, including 02 senior level vacancies, 11 primary level vacancies and 06 secondary level vacancies, based on the approved and actual number of employees in the Council.	Notifications regarding this have been made continuously.	Staff should be managed to provide maximum service to the people.

3.5 Defects in Contract Administration

Audit Observation	Comments of the Council	Recommendation
(a) The following facts were revealed regarding the minimal involvement of the council in the construction of the new shopping complex opposite the bus stand, which had been built by the Urban Development Authority and handed over to the council, and the construction not being carried out as required.		
(i) The construction of the new shopping complex had been carried out in several stages and before its completion, the council had taken over the shops in parts and handed them over to the lessees. Accordingly, the building constructed by an external party had not been put into use until it was completed and handed over.	It has been decided to enter into an agreement with the lessees based on the new assessed value.	After the construction is completed, the property should be formally handed over to the council and the lease should be given.

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| (ii) | <p>The shops on the third floor had been closed by the lessees as the building had not been constructed according to the correct plan due to the absence of the Council's involvement in the initial discussions regarding the construction. The shop owners had not been provided with the necessary common facilities for each floor and there had been complaints that the toilets in the shopping complex near the water tank were constantly overflowing due to the weaknesses in the construction and design. The failure of the Council to take steps to prepare the building constructed on the Council's property to the proper standard was problematic for the audit.</p> | <p>Those public facilities have not been installed in the plan.</p> | <p>Action should be taken to establish public facilities before giving lease.</p> |
| (b) | <p>The Minuwangoda Divisional Secretariat had approved the construction of a multi-purpose building under the Decentralized Budget Program-2024, but after the lapse of time, the project was considered an urgent matter and a designer was selected directly without appointing consultancy services through the procurement process to prepare the plan, without further work being carried out until April 2024. Although it had been informed that a suitable plan should be prepared and submitted promptly, the council had not entered into a formal agreement with the consultant, including the date on which the work should be completed and handed over, service conditions, etc.</p> | <p>It has been informed that projects approved under the 2024 Decentralized Budget Program under MF/02/20 issued by the Ministry of Finance must be completed before on 31st of July 2024.</p> | <p>According to the procurement methodology, a consultant should be selected and a contract should be entered into with that institution to carry out the projects.</p> |

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Observation

Although, as per Rule 8 of the urban Council Financial Administration Accounting Rules, as mentioned in the Extraordinary Gazette No. 2155/7 of 24 December 2019, the accounts for the next financial year should be presented to the Auditor General on or before 28 February of the succeeding financial years, the financial statements for the year under review were presented to the Auditor General on 08 May 2025 after a delay of 69 days.

Comments of the Recommendation Council

No answers were given. The account should be presented on the due date as per the rules.