

1. Financial Statements

1.1 Adverse Opinion

The audit of the financial statements of the Wattala –Mabola 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, 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 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 an 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 (SLAuS). 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 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 Standard 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:

- 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 the 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.

- 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 preceding year except for the observations appear in paragraphs 1.6.2(a) and (b) in 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 the Sri Lanka Public Sector Accounting Standard for Local Authorities

	Non-compliance with reference to the relevant standard	Comments of the Council	Recommendation
(a)	Although financial statements should be accounted on accrual basis as per paragraph 2.5 of Chapter 2 of the standard, the stamp duty valued Rs. 62,420,625 received during the year under review for the preceding years had been accounted considering as income of the year under review.	The correction will be done in the final account of the year 2025.	The proceedings should be done in accordance with the standard.
(b)	When adjusting the surplus for the year under review to the cash flow from operational activities in the preparation of cash flow statement as per the paragraph 3.31 of Chapter 3 of the Standard, the depreciation had been adjusted as Rs. 15,438,438 instead of Rs. 15,590,242 with a lack of Rs. 151,804, and the difference of receivables had been adjusted as Rs. 6,050,036 instead of Rs. 5,854,787 with an excess of Rs. 195,249.	The correction will be done in the final account of the year 2025.	The proceedings should be done in accordance with the standard.
(c)	Although the purchase of property, plant and equipment was at the value of Rs. 201,757,372 in the calculation of cash flows from the investment activities in accordance	The correction will be done in the final account of the year 2025.	The proceedings should be done in accordance with the standard.

with paragraph 3.29 of Chapter 3 of the standard, the adjustment had been made as Rs. 202,435,672 with an excess of Rs. 678,300, the although the amount received by selling the equipment was Rs. 1,250, the adjustment had been made as Rs. 6,518,606 with an excess of Rs. 6,517,356, and although the interest received in cash was Rs. 12,428,309, the adjustment had been made as Rs. 2,589,096 with a lack of Rs. 9,839,212.

- | | | | |
|-----|---|--|---|
| (d) | As per paragraph 3.5 of Chapter 3 of the Standard, the presenting the classification of the items mentioned in the financial statements should be maintained as it is from one period to the next. However, the statement of changes in net assets/equity had not been prepared in accordance with the general format of L.G. 41/3. | The correction will be done in the final account of the year 2025. | The proceedings should be done in accordance with the standard. |
|-----|---|--|---|

1.6.2 Accounting Deficiencies

	Audit observation	Comments of the Council	Recommendation
(a)	The creditor over-allocations amounting to Rs. 2,566,045 made and the capital grants receivable in relation to 2 projects carried out under the Rural Road Development Project in the year 2021 had not been corrected even in the year under review.	The correction will be done in the final account of the year 2025.	The adjustments related to the previous years should be made to the opening balance of the year under review.
(b)	Adjusting the cost of a development project amounted to Rs. 225,909 carried out in the year 2023 as an expense instead of being capitalized under property, plant and equipment had not been corrected in the year under review.	The correction will be done in the final account of the year 2025.	The adjustments related to the previous years should be made to the opening balance of the year under review.
(c)	The capital grants receivable for the year under review amounting to Rs. 4,673,387 had not been accounted.	The correction will be done in the final account of the year 2025.	The correct values should be identified and accounted.
(d)	Even if the total capital expenditure grants received in the year under review should have been Rs. 193,652,646, it had been adjusted to the comprehensive income statement as Rs. 198,136,737. Consequently, the income for the year under review had been overstated by Rs. 4,484,091.	The correction will be done in the final account of the year 2025.	The correct values should be identified and accounted.

- | | | | |
|-----|---|--|---|
| (e) | A sum of Rs. 610,628 as transfers made from the government for non-recurrent expenditure had been understated in the revenue of the comprehensive income statement | The correction will be done in the final account of the year 2025. | The correct values should be identified and accounted. |
| (f) | A sum of Rs. 728,430 to be debited to the Library Books Account by Journal entry 40 had not been debited, and a sum of Rs. 172,449,851 had been debited to the Capital Grant Account instead of the Rs. 173,128,151 that should have been credited. As a result, the value of the Library Books had been understated by Rs. 728,430 and the Capital Grant by Rs. 678,300 in the financial statements. | The correction will be done in the final account of the year 2025. | The adjustments made through journal entries should be accurately included in the accounts. |
| (g) | As the adjustment made through the journal entry 66 had not been recorded in the accounts, the debtors and capital grants had been understated by Rs. 7,202,305 each. | The correction will be done in the final account of the year 2025. | The adjustments made through journal entries should be accurately included in the accounts. |
| (h) | Although the depreciation of motor vehicles for the year under review should have been Rs. 2,980,891, it had been stated in the financial statements as Rs. 3,383,033 with an excess of Rs. 402,142. | The correction will be done in the final account of the year 2025. | The correct values should be identified and accounted. |
| (i) | Although the balance of the statement of changes in equity as at 31 December 2024 was Rs. 6,499,022,413, the net assets/equity in the statement of assets and liabilities as at that date was shown as Rs. 6,534,319,274. Consequently, the statement of assets and liabilities was not balanced by a sum of Rs. 35,296,861. | The correction will be done in the final account of the year 2025. | The steps should be taken to balance the accounts. |
| (j) | Although the sundry creditors account had been debited by Rs. 755,371 and the road in progress account had been credited by the said amount through a journal entry, the credit entry of the road in progress account had not been recorded in the account. Consequently, the road in progress account had been overstated by Rs. 755,371. | The correction will be done in the final account of the year 2025. | The journal entries should be accounted accurately. |

- | | | | |
|-----|--|--|---|
| (k) | The actions had not been taken in the year under review to correct the debit balance of the suspense account of Rs. 8,150,079 existing since the year 2023. | The correction will be done in the final account of the year 2025. | The suspense account balances should be identified and corrected. |
| (l) | Even if the other comprehensive income for the year in the comprehensive income statement was Rs. 197,089,718, the capital expenditure allowance not included in the surplus in the statement of changes in equity had been shown as Rs. 181,487,211 | The correction will be done in the final account of the year 2025. | The correct values should be identified and accounted. |

1.6.3 Unreconciled Control Accounts or Records

Audit observation	Comments of the Council	Recommendation
A difference of Rs. 24,139,600 was observed between the balance as per the financial statements of 06 account balances included in the financial statements and as per the schedules related to those.	The correction will be done in the final account of the year 2025.	The schedules should be maintained up to date and the accounts should be prepared accordingly.

1.7. Non-compliance

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)	Section 20 of the Rating and Valuation Ordinance No. 30 of 1946	Even if the assessment tax is required to be assessed by the Valuation Department every 5 years, the billing had been done based on the valuation carried out in the year 2009.	The survey on annual values for the new valuation in the year 2025 has commenced.	The proceedings should be done in accordance with the instructions of the Act and the efforts should be made to obtain maximum income.

- (b) Financial Regulation 104 of the Democratic Socialist Republic of Sri Lanka
- The investigations had not been carried out in accordance with the financial regulations regarding the accidents related to 03 vehicles in January, May and June 2024.
- The arrangements will be made in future to proceed in accordance with financial regulations.
- The investigations should be conducted as per the regulations and those who are responsible should be determined.

2. Financial Review

- 2.1 According to the financial statements presented, excess of revenue over expenditure of the sabha for the year ended 31 December 2024 amounted to Rs.29,310,500 as compared with excess of revenue over expenditure amounted to Rs.82,282,720 in the preceding year.

2.2 Financial Control

Audit observation	Comments of the Council	Recommendation
The proceedings had not been done regarding 03 dishonoured cheques amounting to Rs. 235,699 received for assessment tax and rent related to the years 2008, 2009 and 2012.	The investigation committee report has been given stating that the outstanding balance is irrecoverable.	The steps should be taken to settle the matter.

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, estimated revenue, revenue billed, revenue collected and arrears relevant to the year under review and the previous year are shown below.

Revenue Source	2024				2023			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Deficit as at 31 December
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
-----	-----	-----	-----	-----	-----	-----	-----	-----
Rates and Taxes	60,627	59,630	67,764	54,386	57,393	60,027	71,580	54,376
Rents	30,431	34,085	6,345	21,302	21,123	27,410	26,576	,17684
License Charges	3,552	1,326	3,089	16	954	1,106	1,099	1,769
Other Revenue	100,856	-----	91,016	-----	190,723	-----	223,429	-----
Total	<u>195,466</u>	<u>95,041</u>	<u>168,214</u>	<u>75,704</u>	<u>270,193</u>	<u>88,543</u>	<u>322,684</u>	<u>73,879</u>

2.3.2 Performance in Revenue Collection

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

	Audit observation	Comments of the Council	Recommendation
(a)	The revenue collection in the current year had decreased by 51 percent compared to the year 2023.	The answers have not been given.	The revenue should be collected with no delay and the actions should be taken to utilize the money in the most efficient manner.
(b)	The balance of the assessment tax arrears amounting to Rs. 54,386,185 as at 31 December 2024 included a sum of Rs. 7,332,147 related to the current year, and Rs. 6,142,781 for a period of 1 to 3 years, Rs. 6,725,645 for a period of 3 to 5 years, Rs. 22,839,544 for a period of 5 to 10 years, and Rs. 11,346,068 older than 10 years.	The steps will be taken to proceed regarding the arrears by collecting the arrears using the employees of the council, identifying documents for rectifications, and conducting surveys on this matter.	The actions should be taken to recover the outstanding balances with no delay.
(c)	88 percent; that is Rs. 18,699,045, from the outstanding rental income amounting to Rs. 21,304,928 as at 31 December 2024 was a balance older than 10 years.	The steps are being taken to write off an amount of Rs. 12,495,427.87 from the unrecoverable arrears of rental income.	The actions should be taken to recover the outstanding balances with no delay.

3. Operational Review

3.1 Management Inefficacies

	Audit observation	Comments of the Council	Recommendation
(a)	The fees had not been collected from 6 billboards out of 14 billboards inspected on Colombo-Negombo road.	The actions are taken to recover the amount.	The billboard fees should be collected and the money should be used effectively.
(b)	The steps had not been taken even by the end of the year under review to collect the amount of Rs. 7,566,044 due from the Wattala Divisional Secretariat in relation to 05 projects from the year 2021 to the beginning of the year under review.	The matter will be investigated and the necessary actions will be taken in the future.	The actions should be taken to recover the money due with no delay.

3.2 Defects in Contract Administration

Audit observation	Comments of the Council	Recommendation
The following observations are made regarding the Averiwatta Road Development Project of St. Nicholas Mawatha which was developed with a sum of Rs. 3,000,000 under the Provincial Development Grants.		
(a) Although the contract should have been awarded to the relevant society subsequent to the verification of the qualifications mentioned under 2.3 of the Public Finance Circular No. 01/2021 dated 29 September 2021, the contract had been awarded without confirming whether the qualifications had been fulfilled.	The activities of the 03 Community Development Societies owned by this Municipal Council will be inspected annually by the Community Development Officer and the steps will be taken to provide a report.	The proceedings should be done as per the circular instructions.
(b) Although the application for awarding the contract stated that the Society; mentioned under 2.3 (i) of the Circular referred in paragraph 3.2 (a) above, has financial resources and that a bank account is being maintain in the Bank of Ceylon for that and it contains a balance of Rs.1,158,087.02, a certified copy of the bank account passbook had not been obtained to prove it.	The steps have been taken to include a copy of the bank account balance for the files in use for the year 2025.	The proceedings should be done as per the circular instructions.
(c) Although the Council should prepare a schedule indicating the activities and time for the completion of the projects in line with the guideline 4.2.2 of the Government Procurement Guidelines, the proceedings had not been done so.	A timetable will be prepared according to government procurement guidelines in the future and it will be included in the file.	Proceedings should be done in accordance with the Government Procurement Guidelines

3.3 Human Resource Management

Audit observation	Comments of the Council	Recommendation
There were 02 senior level vacancies, 10 secondary level vacancies, and 13 primary level vacancies in the council totalling to 25 vacancies as at 31 December 2024.	The requests have been submitted in respect of filling all the vacancies.	The employees should be managed in a way that objectives of the organization are achieved.