

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of Rathnapura Municipal Council including the financial statements for the year ended 31 December 2024 comprising the Statement of financial position as at 31 December 2024, Statement of Financial Performance, Cash Flow Statement, statement of changes in equity 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 which should be read in conjunction with provisions in sub-section 10(1) of the Audit Act No. 19 of 2018, Section 219 of the Municipal Councils Ordinance (Chapter 252). My comments and observations which I consider should be reported to the parliament are appeared 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 Rathnapura Municipal Council as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Practices.

1.2 Basis for Qualified Opinion

My opinion is qualified based 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 Municipal Council's financial reporting process.

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Municipal 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 Municipal Council, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Municipal Council has complied with applicable written law, or other general or special directions issued by the governing body of the Municipal Council;
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources 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 Municipal 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 Accounting Deficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	As road repair expenses of Rs. 16,585,615 were capitalized, the Non-Current Assets and Contribution to Capital outlay from Income account was shown to be higher by that amount at the end of the year under review.	Investigate this matter again and work to correct it.	The accounts must be corrected.
(b)	The creditor balance of the roofing industry at the Kanadola Training Center was over-accounted by Rs. 1,474,203, and the value of completed work was over-capitalized by Rs. 433,646.	That correction will be made through journal entries.	The accounts must be corrected.
(c)	04 industry worth Rs. 1,842,562 carried out during the year under review had not been capitalized.	That will be corrected in the 2025 financial statements.	The accounts must be corrected.
(d)	The value of the finished work at the wholesale fish market completed during the year under review had been capitalized at an excess of Rs. 2,723,119.	That corrections will be made through journal entries.	The accounts must be corrected.

(e)	The value of the construction work of the upper floor of the Ratnapura Public Market, which was completed in the year under review, was undercapitalized by Rs. 18,831,160.	That corrections will be made through journal entries.	The accounts must be corrected.
(f)	The value of 02 vehicles had been capitalized by Rs. 30,200,000 more.	That adjustments will be made through journal entries.	The accounts must be corrected.
(g)	The balance payable and receivable from the Provincial Council for the Ratnapura Gem Street development industry had been over-accounted by Rs. 5,276,986.	That will investigate and work to correct it.	The accounts must be corrected.

1.6.2 Unreconciled Control Accounts

Audit Observation	Comments of the Council	Recommendation
There was a difference of Rs. 20,901,614 between the balances as per the financial statements and the balances as per the supporting documents at the end of the year under review in relation to 05 accounting items.	That steps will be taken to identify the deficiencies in the documents and provide correct account balances for the final account of 2025.	The reasons for the difference should be identified and the accounts corrected.

1.7 Non- Compliances

Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Section 247 (1a) of the Municipal Councils Ordinance No. 19 of 1987	No steps had been taken to identify professionals practicing within the boundaries of the	The Local Government Commissioner has informed the Legal	Actions should be taken in accordance with the Municipal Council Ordinance.

Municipal Council and Division and further collect the tax on the action will be taken relevant profession. in accordance with the decisions received.

- (b) Circular No. 98/3 of the Commissioner of Local Government dated 10th December 1998
- Agreements had not been entered into for 12 shops leased by the Municipal Council in the years 2000, 2001 and 2017.
- No agreements have been signed for these 12 shops so far.
- Action should be taken as per the circular.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2024 amounted to Rs. 2,026,801 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 65,567,753 in the preceding year.

2.2 Revenue Administration

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

According to the information submitted by the Municipal Commissioner, 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 income	<u>2024</u>				<u>2023</u>			
	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.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Taxes	39,615,000	38,654,168	42,221,090	39,321,223	35,800,000	40,242,108	41,336,757	38,436,194
Rent	93,154,000	83,498,308	81,582,104	27,328,523	73,181,000	74,250,118	71,876,826	34,800,242
License fees	19,200,000	20,621,546	21,008,997	9,158,835	18,485,000	17,954,340	15,560,390	9,285,500
Other Revenue	<u>106,538,000</u>	<u>106,295,363</u>	<u>101,579,985</u>	<u>-</u>	<u>114,306,000</u>	<u>95,783,213</u>	<u>93,617,268</u>	<u>7,464,313</u>
	<u>258,507,000</u>	<u>249,069,385</u>	<u>246,392,176</u>	<u>75,808,581</u>	<u>241,772,000</u>	<u>228,229,779</u>	<u>222,391,241</u>	<u>89,986,249</u>

2.2.2 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) The arrears of assessment balance as at the end of the year under review was Rs. 30,106,640, and the Council failed to provide a time analysis regarding the arrears balance.	In this regard, it is stated that a time analysis cannot be provided by the currently used assessment software and that various programs are being prepared and implemented to recover arrears of assessments.	Time analyses should be prepared and steps should be taken to collect arrears of revenues.
(b) Although the new valuation for 26 stalls in the Public Market Complex was received from the Valuation Department on 6 th April 2023, the total revenue lost from May 2023 to December 2024 due to the continued charging of the old valuation rent without charging those values was Rs. 6,450,720.	That steps will be taken to obtain a report from the Valuation Department on whether the current plan of the shops and the valuation report provided are comparable, and that rent will be collected in accordance with that report, effective from May 2023.	Steps should be taken to collect the rental income due according to the assessment.
(c) Although the validity period of the agreements entered into with the lessees of 125 shops had expired, new agreements had not been entered into by May 2025. Also, although the shops should be assessed once every 5 years for the revision of the shop rent, the assessment of 195 shops owned by the Council had not been carried out in that manner.	The committee appointed for this purpose is preparing the revised agreement and will issue a reminder to obtain the valuation reports, and once the valuation reports are received, rent will be collected based on the new valuation.	Lease agreements should be renewed, shop rooms should be every 5 years assessed and shop rent collected .
(d) Action had not been taken in accordance with Section 155 of the Municipal Council Ordinance (Chapter 252) regarding the outstanding rent of Rs. 4,133,755 due as at 31 st December 2024 from 60 shops belonging to the Municipal Council.	That payment methods have been prepared according to a time frame in consultation with the lessees to recover the arrears and that steps will be taken to recover the arrears accordingly.	Action should be taken to collect the outstanding revenue.

(e)	When a lessee who had obtained tenders to collect parking fees at three parking lots had not paid the monthly fees as agreed, the council fund had suffered a loss of Rs. 510,229 due to the failure to cancel the tender within 14 days and offset the outstanding fees from the security deposits as per clause 14 of the tender agreement.	A letter of demand has been issued to the lessee through the lawyer, requesting him to pay the remaining outstanding amount by setting aside the deposit for the outstanding amount, and legal action is being taken in this regard.	Action should be taken to cancel the tender and recover the outstanding fees.
(f)	Rs. 4,255,250 due for the previous year for 149 notice boards of 103 institutions had not been collected by May 2025.	Although the relevant institutions have been informed in writing and verbally from time to time to take action to pay the fees for the notice boards for which the fees relating to the previous year have not been paid, the authorized officer has been informed to take action to remove these boards due to non-payment of fees.	Action should be taken to collect the outstanding revenue.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	Although 22 residents who are not employees of the Municipal Council are currently residing in 22 houses located in the Malwala Road and Jalashaya Road areas without entering into an agreement and paying rent, no steps have been taken to recover the rent in accordance with the agreement or to take those houses back to the Council.	That will take action under the National Council of State Local Government Quarters (Repossession) Act, No. 12 of 1978 or the Government Quarters (Recovery Of Possession) Act, No. 7 of 1969.	Steps should be taken to return those houses to the council.

(b) Although more than a year had passed since the Upper Club building, which was leased to the Ratnapura Bar Association, was repossessed, it remained idle as of May 2025. Also, despite instructions from the Governor to prepare and submit a new report as the report prepared by the committee appointed in December 2023 to utilize the property for income generation purposes was incomplete, a formal project plan had not been prepared as at May 2025.	Since the Bar Association has filed a new lawsuit, it may be problematic to incur expenses for the projects before the decision in that case is received, therefore, further work can be carried out after approval is received for the estimate of Rs. 1,600,000, which has currently been submitted to the Governor for approval.	The relevant property should be utilized effectively.
(c) Asset records relating to 03 asset items totaling Rs. 392,896,497 had not been updated and detailed supporting documents had not been prepared.	It will be correct.	Assets register should be updated and detailed sub-documents should be prepared.
(d) The returned cheque balance of Rs. 165,974 had not been settled for comming up several years.	It will be correct.	Work should be done to settle the balance.
(e) The credit balance of the internal transfer account of Rs. 18,913,594, which was carried forward for 04 years, had not been settled.	That the balance will be re-checked and corrected.	Work should be done to settle the balance.
(f) Sector project loans and tractor loans worth Rs. 1,559,433 and Rs. 600,254 respectively, carried forward from before 2021, had not been identified and settled.	That will take steps to correct the situation after receiving confirmation from the Local Loan Development Fund.	Work should be done to settle the balance.

(g)	Action had not been taken to recover the hostel rent of Rs. 8,397,991 due as at 31 st December 2024 from the Urban Development Authority.	Efforts are being made to offset the outstanding Inn rent against the loan obtained by the Ratnapura Municipal Council from the Asian Development Bank.	Action should be taken to recover the arrears or to ensure that the loan amount has been settled.
-----	--	---	---

3.2 Operational Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	In terms of condition number 03 of the agreement entered into on 13th March 2002, the monthly market rent for the lease of the old bus stand shopping complex for every 05 years was assessed by the Valuation Department in the year 2022 at Rs. 460,000. In this regard, during the discussion held on 24th August 2022, the Council and the lessees had agreed to pay the new assessed rent and enter into a new agreement, but as the new assessed rent had not been collected by December 2024, the Council fund had incurred a loss of Rs. 6,160,000. Furthermore, the Rs. 240,000 due as late fees for the period from April to August 2022 had not been collected.	The legal officer was consulted on how to proceed with the revision of the rent after considering the new assessment report and the lease agreement. Accordingly, it was advised that the lease can be revised in 2027 as per the agreement and that steps will be taken to recover the amount of Rs. 240,000 due to the Municipal Council from April to August 2022.	Necessary legal action should be taken to recover the newly assessed rent and late fees.
(b)	In accordance with Section 247C(1) of the Municipal Councils Ordinance No. 19 of 1987 (Chapter 252), where any land within the limits of a Municipal Council is suitable for the construction of buildings or is suitable for permanent or regular cultivation or where, in the opinion of the Council, the	The Divisional Secretariat and the Agrarian Services Department have been informed in writing to obtain information regarding vacant lands, fallow fields and other lands that are not currently being developed within the Ratnapura Urban Council limits. After receiving the	Actions should be taken in accordance with the Municipal Council Ordinance.

land can be developed for any purpose at a reasonable cost, the Council shall, unless otherwise provided, impose annually on the owner of such land a tax not exceeding 02 percent of the capital value of the land. Although the minutes of the General Council meeting dated 29 May 2019 had also decided to collect information from landowners and act in accordance with the Act, as of May 2025, such lands had not been identified and taxed.

report, a survey will be conducted, the information will be obtained, forwarded to the Valuation Department, and further action will be taken after receiving the valuation.

3.3 Improper Transactions

Audit Observation

While Section XVI of the National Budget Circular No. 03/2022 dated April 26, 2022 and the National Budget Circular No. 08/2022 dated November 25, 2022, had instructed not to spend public funds on ceremonies and openings held by state institutions, contrary to that, Rs. 944,050 was spent from the Municipal Council funds for the inauguration ceremony of the construction of the Rathnapura New Town Urban Park held on March 27, 2024.

Comments of the Council

During the discussion held on that day, the Chief Secretary informed that the expenses incurred for organizing the ceremony to commence the construction of the Rathnapura Urban Park would be reimbursed from the administrative funds allocated for the project, and that the expenses were borne by the council and that letters had been sent to the relevant institution to obtain reimbursement of the expenses incurred.

Recommendation

Steps should be taken to reimburse expenses incurred contrary to circular instructions..

3.4 Procurement Management

Audit Observation

- (a) Although the rain gutters and downpipes purchased for the roof of the Kanadola garbage yard did not comply with the specifications, Rs. 118,500 was paid based on the

Comments of the Council

Rain gutters have been provided as per the specifications and have been installed at the Kanadola garbage yard, and since the relevant size of water pipes

Recommendation

Payment must be not made for supplies that do not conform to the specified specifications.

recommendation given by the Technical Evaluation Committee that they comply with the prescribed specifications.

are not available in the market, arrangements have been made to have them specially prepared and to bring.

- (b) During the year under review, the Municipal Council had paid Rs. 1,350,000 for the purchase of asphalt without verifying whether the asphalt supplied complied with the prescribed standard (SLS ISO 9001-2015).

Currently, when purchasing asphalt, purchases are made after obtaining quality inspection reports from order to order.

Payments should be made after verifying whether they comply with the prescribed standards.

3.5 Defects in Contract Administration

Audit Observation	Comments of the Council	Recommendation
(a) An overpayment of Rs. 551,800 had been made for 04 work items in the construction of the Public Market Wholesale Fish Market.	Payments were made based on the market price as per the bill submitted by the society in relation to the date and time the work was completed.	Overpayments must be recovered.
(b) Although the work to repair the Public Fair access road using Asphalt Concrete, valued at Rs. 1,639,142, was completed on 20 th July 2024, stones were still falling off the road as of April 2025 due to the fact that it had not been completed to the required standard.	There may be sections of Primix that have not been properly compacted at the ends of the road, and that steps will be taken to sweep and remove them. If any broken sections are observed after doing so, steps will be taken to have the association that carried out the work correct them.	Development projects must be completed to the required standards and their monitoring must be formalized.

3.6 Management of Vehicle fleet

Audit Observation	Comments of the Council	Recommendation
A tipper vehicle that had been recommended on October 16, 2023, by the Technical Committee for	That the vehicle had to be repaired by another institution due to the lack of interest in repairing the vehicle by	The repair should be done without delay.

Identifying Vehicles to Be Discarded, as being suitable for repair and re-entry into service, had not been repaired by May 2025. approved garages around Ratnapura.

4. Accountability and Good Governance

Sustainable Development Goals

Audit Observation	Comments of the Council		Recommendation
A long-term plan for achieving the Sustainable Development Goals had not been prepared by May 2025.	The Sustainable Development Plan for the period 2024-2026 is being prepared.	A sustainable development plan should be prepared and implemented.	A sustainable development plan should be prepared and implemented.