Balangoda Urban Council - 2024
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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Balangoda Urban Council for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and Statement of Financial performance, Cash Flow Statement, Statement of changes in net assets 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 provisions in sub-section 10(1) of the National Audit Act No. 19 of 2018, sub section 181(1) of Urban Council Ordinance (Chapter 255). My comments and observations which I consider should be report to parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the Balangoda Urban 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

I expressed qualified opinion regarding 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 generally accepted accounting practices, 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 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 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 Accounting Deficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	The value of building construction was overstated by Rs. 22,536,970, resulting in an overstatement of the non-current assets and Contribution from Revenue to Capital Outlay Account.	That will be taken to correct the financial statements for the year 2025.	Construction values must be accurately accounted.
(b)	The value of the building constructed to store bales of sand and gravel in the quarry yard, Rs. 445,010, was not capitalized, and the contribution from income to non-current assets and Contribution from Revenue to Capital Outlay Account was understated by that value.	That will be taken to correct the financial statements for the year 2025.	Construction values must be accurately accounted.
(c)	As at 31st December of the year under review, the purchase value of library books was under-accounted at Rs. 67,703, and library books received as donations at Rs. 56,553 had not been accounted for.	That action will be taken to correct in the preparation of the financial statements for the year 2025.	Purchases and donations must be accurately accounted.
(d)	While Rs. 223,020 payable for newspaper advertisements was shown as a supplier creditor, it was also incorrectly shown as a warehouse creditor, resulting in the creditors and operating expenses for the year being overstated by that amount.	That action will be taken to correct in the preparation of the financial statements for the year 2025.	Expenses must be accounted for correctly.

(e)	As the closing stock was undervalued by Rs. 137,750, current assets were understated by that value, and operating expenses for the year were overstated by that value.	That steps are being taken to correct the inventory register.	Stock values must be accurately accounted.
(f)	The revenue grants received during the year under review was Rs. 81,338,747 and the capital aids was Rs. 18,669,445. However, it was accounted for as Rs. 58,638,575 and Rs. 41,369,617 respectively, resulting in an operating surplus of Rs. 21,681,888 for the year being shown as an operating deficit of Rs. 1,018,284.	That when preparing future financial statements, efforts will be made to accurately identify income and expenses and to account accordingly.	Revenue grants and capital aids should be accounted for correctly.

1.6.2 Unreconciled Control Accounts

Audit Observation	Comments of the Council	Recommendation
There was a difference of Rs. 5,027,911 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 02 accounting items.	The difference will be checked and corrected in the future.	The reasons for the difference must be identified and corrected.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of recurrent expenditure over revenue (deficit) of the Sabha for the year ended 31 December 2024 amounted to Rs. 1,018,284 as against with the excess of revenue over recurrent expenditure amounted to Rs. 4,227,487 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 Secretary, the following is the information on estimated revenue, billed revenue, collected revenue and arrears of revenue for the year under review and the previous year.

Source of income	2024 Estimated Revenue Rs.	Revenue billed Rs.	Revenue collected Rs.	Total Arrears as at 31 December Rs.	2023 Estimated Revenue Rs.	Revenue billed Rs.	Revenue collected Rs.	Total Arrears as at 31 December Rs.
Rates and Taxes	22,500,000	22,405,639	19,615,633	9,002,442	13,145,000	11,352,210	11,452,200	6,119,239
Rent	45,326,000	45,767,474	45,527,473	1,389,752	37,792,000	41,884,327	41,395,622	488,705
License fees	2,780,000	3,484,322	3,484,322	-	2,690,000	2,077,137	2,135,001	-
Other Revenue	32,172,000	32,093,700	32,272,671	-	29,501,000	29,180,168	35,278,760	-
	102,778,000	103,751,135	100,900,099	10,392,194	83,128,000	84,493,842	90,261,583	6,607,944

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
Rs. 9,002,443 in arrears of assessments and taxes relating to the year under review and previous years had not been collected, and a time analysis relating to this had not been prepared.	That efforts are being made to recover arrears of assessments, and that the existing assessment computer software cannot provide a time analysis related to arrears of assessments.	Action should be taken to collect the arrears of revenue.

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.

3.1.1 Public utility services

Audit Observation	Comments of the Council	Recommendation
According to the 2024 performance report, the progress in the construction of a proper stormwater drainage system on roads within the jurisdiction of the Municipal Council was as low as 20 percent, and the progress in road and stormwater drainage maintenance was also as low level as 55 percent.	Efforts will be made to maintain this percentage at a high level in the future.	All roads and storm drains within the city should be maintained and improved regularly.

3.2 Management Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	Due to the non-functioning of the recycling unit at the Bus Stand Gully waste Center, gully waste had to be removed 2 times daily by a gully bowser. Although the Municipal Council had incurred a service cost of Rs. 6,491,500 to remove gully waste from this location from January 2024 to 2nd October of 2024 alone, no steps had been taken to repair the gully unit.	That the renovation of this unit will cost a lot of money and that the renovation work has been delayed because the council does not have the necessary funds for it.	The recycling unit at the Gully Waste Center should be repaired.
(b)	Documents regarding 04 asset items totaling Rs. 546,071,213 had not been updated and detailed schedules had not been prepared.	In the future, a revaluation will be carried out to reflect the values of new assets in the accounts and separate schedules will be maintained for the relevant assets.	Steps should be taken to update the fixed asset register and prepare detailed schedules.

3.3 Assets Management

Audit Observation	Comments of the Council	Recommendation
Although the investigation into the disappearance of a 40-inch LED television set worth Rs. 99,200 during the inventory survey of the Balangoda Inn conducted in January 2024 had been completed in accordance with Financial Regulation 104(4), its recommendations had not been implemented by April 2025.	That steps are being taken to recover the amount from the responsible parties.	The recommendations of the investigation conducted in terms of Financial Regulation 104(4) should be implemented expeditiously.