

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Beruwala Urban Council including the financial statements for the year ended 31 December 2023 comprising the Statement of Assets and Liabilities as at 31 December 2023, Comprehensive Income Statement, 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 the provisions 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, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Beruwala Urban Council as at 31 December 2023, 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

My opinion is qualified 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 skepticism 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 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.

- (a) Financial Statements of the Urban Council as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

	Audit Observation	Comment of the Sabha	Recommendation
(a)	Rs.1,241,255 and Rs.1,007,821 spent for the construction of the first Rajapura Bridge (Phase 11) and the development of Joseph Kure Mawatha respectively had not capitalized in the year under review.	Journal entries are made for correction.	Accounts should be prepared correctly.
(b)	Rs.647,217 payable to a private entity as at 31 December of the year under review was accounted as Rs.1,151,567 in the financial statements.	That will be corrected in the final account of the year 2024.	-do-
(c)	Rs.141,510 due as unpaid leave from 27 employees was not accounted in the financial statements.	-do-	-do-
(d)	The total annual depreciation related to 05 assets namely machines, office equipment, furniture, pots and equipment and library books was understated by Rs.11,424 and the total annual depreciation related to 03 assets namely fixtures, motor vehicle and road bays was overstated by Rs.553,993 for the year under review.	Journal entries are made for correction.	-do-
(e)	Although the statement of assets and liabilities as at 31 December of the year under review should have shown the cash book balance of Rs.11,584,802, it had been shown the bank account balance of Rs.15,490,084 .	The bank statement balance is shown in the account.	The cash balance according to the cash book should be shown in the account.
(f)	The inventory of Ayurvedic goods as at 31 December of the year under review was not counted and accounted.	Journal entries are made for correction.	Stocks should be counted and properly accounted as at 31 December.
(g)	Accumulated depreciation amounting to Rs.143,002 in respect of 08 trailers amounting to Rs.1,824,000 in the year 2022 had not been removed from the depreciation allocation account.	-do-	Accounts should be prepared correctly.

1.6.2 Non reconciled Control Accounts or report

Audit Observation	Comment of the Sabha	Recommendation
There was a difference of Rs3,927,410 between the one account balance of the ledger account and balance of Trial balances as at 31 December year under review.	Will be corrected in the final account of the year 2024.	The reasons for the change should be found and corrected.

1.6.3 Absence of written evidence for audit

Subject	Amount Rs.	Audit evidence not provided	Comment of the sabha	Recommendation
i Payment in Advance	509,650	schedule	This balance will be dealt with in the future	Documents should be prepared and maintained.
ii VAT receivable	384,970	schedule	-do-	-do-
iii Advance	104,244	schedule	-do-	-do-
iv Provincial Council Loan	492,750	schedule	-do-	-do-

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over expenditure of the Sabha for the year ended 31 December 2023 amounted to Rs502,179. as compared with excess of revenue over expenditure amounted to Rs. 12,368,388 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 presented by the Secretary, estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year are as follows.

Source of Revenue	2023				2022			
	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)
(i) Rates and Taxes	20,906,576	20,906,576	13,698,866	16,205,642	15,208,192	15,208,192	16,305,655	17,612,107
(ii) Rent	22,546,242	22,546,242	15,333,131	10,448,792	26,009,270	26,009,270	26,537,046	4,505,078
(iii) License Fees	1,806,800	1,806,800	1,781,600	78,200	200,000	200,000	106,000	137,000
(iv) Other Revenue	-	-	-	-	2,233,200	2,233,200	2,824,824	966,971
	45,259,618	45,259,618	30,813,597	26,732,634	43,650,662	43,650,662	45,773,525	23,221,156

2.2.2 Performance in Revenue Collection

Observations regarding the revenue collection performance of the Council are given below

	Audit Observation	Comment of the sabha	Recommendation
(a)	Rates and Taxes The arrears of rate in the beginning of the year was Rs.17,612,107 and Rs.8,772,609 or 49 percent had not been collected during the year.	The action is being taken to recover the arrears.	The action should be taken to recover the arrears of income as soon as possible.
(b)	Rents The arrears of rent in the beginning of the year was Rs. 4,505,078 and Rs. 3,235,682 or 72 percent had not been collected during the year.	That legal action has been taken.	-do-
(c)	License Fees The outstanding business tax was Rs.272,400 at the beginning of the year under review and any amount was not recovered during the year.	-do-	-do-
(d)	Other income The stamp duty that should have been received from the Chief Secretary of the Provincial Council and other authorities on 31December 2023 was Rs. 10,793,535.	That the schedules have been prepared and sent to the Provincial Revenue Department.	-do-

3. Operational Review

3.1 Performance of functions assigned 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 Sabha under Section 4 of the Municipal Council Ordinance are shown below.

	Audit Observation	Comment of the sabha	Recommendation
(a)	Rs.1,580,970 had been spent during the year under review on renting the chain loader for thinning the garbage at Halawala Vettimarajpura land and compost was not produced from the decomposing garbage due to the absence of a garbage yard.	No compost yard for produced the compost.	Action should be taken to manage the waste while minimizing the cost of waste.

- (b) A license should not be issued for the sale of meat unless it complies with the conditions mentioned in the special gazette dated 28 December 2015, but 07 butchers who did not meet the relevant conditions were given licenses to sell meat from January to October 2023.
- That the licenses are revoked on violation of the conditions of the by-laws.
- Licenses shall not be issued unless it is in compliance with the conditions.

3.2 Disputed Transactions

Audit Observation	Comment of the Sabha	Recommendation
<p>The letter of the Assistant Commissioner of Local Government No. ACLGK/D3/De//01 dated 06 April 2022 in relation to the development of a road by Chairman of Beruwala Municipal council belonging to the Beruwala Pradeshiya Sabha which does not belong to the Beruwala Municipal council had been informed to act as per section 184 of the Municipal Council Ordinance. However, no action had been taken by the Local Government Commissioner's Office even as at end of the year under review and court fees had been paid amounting to Rs.254,000 from the council fund for the cases assigned to the Municipal Council by an external party against the above development work carried out personally by the Chairman, from the year 2020 to February 2023.</p>	<p>It has been submitted to the Local Government Commissioner and further action will be taken after the verdict.</p>	<p>Follow-up must be done by the Local Government Commissioner's Office and the personal expenses of the Chairman cannot be spent from the council fund.</p>

3.3 Management inefficiency

Audit Observation	Comment of the sabha	Recommendation
<p>Although the management of the Beruwala Inn was given to the Urban Development Authority by the Special Gazette No. 105/03 dated 09 September 1980, the Council is unable to take legal action against the non-payment of the deficit of Inn rent amounting to Rs.1,157,116 due to non-availability of written agreement regarding that.</p>	<p>That all the documents were destroyed by the fire in the archives.</p>	<p>legal arrangements should be made to collect the inn charges.</p>

3.4 Operational inefficiencies

Audit Observation	Comment of the sabha	Recommendation
<p>(a) 03 shops had not been entered into agreement since 2016 in the sabha's public market.</p>	<p>Legal action will be taken</p>	<p>Should be entered to agreement before lease the shop.</p>
<p>(b) Rs.3,454,500 due from April to October 2023 for the public market butcher shop had not been collected by the end of the year under review.</p>	<p>-do-</p>	<p>shop rents should be recovered promptly.</p>

3.5 Idle or underutilized property, plant and equipment

Audit Observation	Comment of the sabha	Recommendation
The bodybuilding center located in Beruwala, Maradana with body building equipment worth Rs.1,075,410 had been idle since 2022 due to the absence of a body building coach and there was a risk getting corrosion due to the direct exposure of the bodybuilding equipment to the sea wind .	Taking action in the future.	The bodybuilding center should employ a trainer and utilize.

3.6 Asset Management

Audit Observation	Comment of the sabha	Recommendation
A cab used by the sabha Since the year 2012 had not been acquired to the name of the sabha.	Necessary documents have been submitted to the Local Government Department.	Assets must be acquired to the sabha.