

1.1 Qualified Opinion

The audit of the financial statements of the Balangoda Urban Council for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of financial performance, statement of changes in equity, cash flow statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, 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 the Sub-section 181 (1) of Urban Councils Ordinance (Chapter 255) and the Provisions 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, 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 2023, 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 express a qualified opinion in respect of the financial statements 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 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'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 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 includes 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 the recommendations made by me in the previous year 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) Machinery maintenance expenses in recurrent form amounted to Rs.113,250 had been capitalized.	When preparing financial statements of the year 2024 this will be corrected.	It should be accurately accounted for.
(b) Land and buildings valued at Rs. 641,893 had been overstated.	-do-	-do-
(c) The opening and closing stock of Ayurvedic medicines amounting to Rs.322,556 and Rs.303,616 respectively had not been accounted for and purchases valued at Rs.599,725 had been debited to the expenses during the year.	-do-	Action will be taken to accurately account for.
(d) A sum of Rs.1,392,773 paid to creditors in the year 2022 as at 31 December 2023 had been shown as payable.	-do-	-do-
(e) Amount payable for 03 works valued at Rs.5,186,322 had been overstated.	-do-	-do-

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|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|---------------------------------|
| (f) | Receipts from debtors in the year 2022 amounted to Rs.108,109 had been re-accounted as receivable in the year 2023. | -do- | -do- |
| (g) | Even though the securities received amounted to Rs.250,000 had been offset against income, had not been accounted for. | -do- | -do- |
| (h) | Accounting for a sum of Rs.742,500 that had paid in cash, had again been credited to the creditors and taken into the expenses. | -do- | -do- |
| (i) | Insurance payments amounted to Rs.196,596 for the next year had been accounted for as an expenditure of the year 2023. | -do- | -do- |
| (j) | There was a difference of Rs.3,024,685 between balances of 03 accounts as at 31 December 2023 as per financial statements and balances as on that date as per primary documents. | This will be corrected in the future. | Incomparable should be compared |

1.6.2 Lack of Written Evidence for Audit

Audit Observation

Updated Register of Fixed Asset and detailed schedules in 04 accounting objects totalled to Rs.498,499,763 had not been submitted.

Comments of the Council

Actions will be taken to keep separate schedules for assets.

Recommendation

Asset records and schedules should be properly maintained.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the expenditure exceeding the recurrent income of the Urban Council for the year ended 31 December 2023 was Rs.905,463 and the income that exceeded the recurrent expenditure of the preceding year as against to that was Rs.4,227,487.

2.2 Revenue Administration

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

According to the details submitted by the Secretary on the estimated income, billed income, collected income and arrears of revenue pertaining to the year under review and the previous year are presented as follows.

Source of Revenue	2023				2022			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total of Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total of Arrears as at 31 December
	Rs .	Rs .	Rs .	Rs .	Rs .	Rs .	Rs .	Rs .
Rates and Taxes	13,145,000	11,352,210	11,452,200	6,119,239	10,777,000	11,611,507	12,335,139	6,156,320
Rents	37,792,000	41,884,327	41,395,622	488,705	36,096,000	35,675,467	34,481,551	860,427
License Fees	2,690,000	2,077,137	2,135,001	-	2,285,000	1,534,728	1,379,728	-
Other Income	<u>29,501,000</u>	<u>29,180,168</u>	<u>35,278,760</u>	<u>-</u>	<u>27,030,000</u>	<u>24,701,612</u>	<u>24,957,583</u>	<u>-</u>
	<u>83,128,000</u>	<u>84,493,842</u>	<u>90,261,583</u>	<u>6,607,944</u>	<u>76,188,000</u>	<u>73,523,314</u>	<u>73,154,001</u>	<u>7,016,747</u>

2.2.2 Performance of Revenue Collection

	Audit Observation	Comments of the Council	Recommendation
(a)	Arrears of rates and taxes of related to the previous year and the year 2023 amounted to Rs.6,119,240 had not been collected and an age analysis of it had also not been prepared.	An age analysis will be carried out after completing of the new rate software.	Arrangements should be made to recover the arrears of revenue.
(b)	A trade stall had been leased out to the same person by revising the annual fees and renewing the contracts without calling tenders since 2017.	It has been a Council decision.	Trade stalls should be provided by tender.

- (c) Despite the manner of levying fees had been published by the gazette notifications, because of determining the rates of a digital billboard in contrary to that, an income of Rs.510,720 had been lost for two years from July 2021.
- It has been ordered by the Chairman in writing to collect fees considering the annual fee as Rs.200 per square foot.
- The loss incurred should be recovered from those responsible.

3. Operational Review

3.1 Public Utility Services

Audit Observation	Comments of the Council	Recommendation
The progress of the construction of the rain water drain system on the roads and the maintenance progress of the existing drains had been at low level of 20 percent 54 percent respectively as per the Performance Report of the year 2023.	Limitation of public expenditure had caused to this.	Essential public facilities should be maintained continuously.

3.2 Idle or Underutilized Assets

Audit Observation	Comments of the Council	Recommendation
The electrical accessories valued Rs.231,175 purchased during the year 2019-2020 had been left unused even up to now.	It is informed that the assets will be used in the future.	Assets should not be left unused.

3.3 Assets Management

Audit Observation	Comments of the Council	Recommendation
The repair works of Balangoda Rest House which was closed in February 2023 for repair work had not been commenced even by October 2023. Due to failure to keep opened the rest house, a monthly income of Rs.300,000 had been lost.	Actions are being taken in order to obtain the approval and necessary loan facilities for the repair.	Assets should not be left unused.