

## **1. Financial Statements**

### **1.1 Qualified Opinion**

The audit of the financial statements of the Chilaw Urban 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, statement of changes in equity, cash flow statement for the year then ended including material accounting policy 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 provisions in sub-section 10(1) of the National Audit Act No. 19 of 2018, sub- section 181(1) of the Urban Councils Ordinance (Chapter 255) and. 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 Chilaw 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 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 Sub 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 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

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 all 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 regarding the preparation of financial statements

### 1.6.1 Accounting deficiencies

Audit Observation	Comments of the council	Recommendation
(a) During the year under review, the cost of 04 non-current assets auctioned at Rs. 113,592 and 06 other non-current assets for which the cost was not stated had not been removed from the relevant asset accounts and the revenue contribution to capital account.	Since information regarding the disposal of the relevant assets has not been received for the final account, it has not been possible to post the accounts and steps will be taken to correct this in the final account of 2025.	Accounts should be kept correctly.
(b) The value of 02 cricket mats purchased in the year 2023, amounting to Rs. 113,000, had not been recorded as non-current assets, and the value of a cricket mat received as a donation in the year under review had not been recorded.	Actions will be taken to correct the journal entries in the final account for the year 2025.	Accounts should be kept correctly.
(c) The value of 2120 library books that were misplaced at the end of the year under review had not been removed from the accounts.	Actions will be taken to correct by journal entries in the final account for the year 2025.	Investigations should be conducted regarding missing books and adjustments should be made to the account.
(d) The loan installment amount of Rs. 822,368 payable to the Local loans and Development Fund in the year 2025 should have been shown as current liabilities, but it was shown as non-current liabilities.	Actions will be taken to correct this by showing it as current liabilities in the final account for 2025.	Liabilities should be classified and recorded correctly.

## 1.6.2 Unreconciled control accounts or records

Audit Observation	Comments of the council	Recommendation
A difference of Rs. 12,245,011 was observed between the balances of 05 receivable accounts, with the balance as per the financial statements being Rs. 116,353,389 and the balance as per the schedules being Rs.104,108,378.	Actions will be taken to correct by the journal entries in the final account for the year 2025.	The reasons for the discrepancies should be investigated and accurate account adjustment should be made.

## 1.6.3 Absence of writer evidence for Audit

Audit Observation	Comments of the council	Recommendation
Pre payments worth Rs.8,871,877 could not be satisfactorily verified due to non-submission of pre payment registers and schedules.	The amount of Rs.8,871,777 is an accounting error that has not been resolved for a long time. This has been reported to the Local Government Commissioner's Office for resolution and, in accordance with that approval, action will be taken to correct it in the final account of the year 2025.	Relevant documents should be submitted with the account to verify account balances.

## 1.7 Non- Compliances

### 1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions

Non-compliance with laws, rules, regulations and management decisions are as follows.

Reference to laws, rules, regulations, etc.	Non-compliance	The council's comments	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
Financial regulations 571(2)	No action had been taken to regulate the public deposits worth Rs. 554,393, which had been outstanding for 02 years, in accordance with the Financial Regulations.	Action will be taken to adjust the accounts for the year 2025.	Financial regulations should be followed.

- (b) The Local Government Service Pension Regulations, 1975 and the amendment published in the Government Gazette Extraordinary No. 320/8 dated 07th June 1978

Local Government Pension Regulations Section 36	An amount of Rs. 9.2 million remained to be paid due to non-payment of monthly pension contributions.	Due to the lack of information from the Pensions Department, the relevant monthly bills from January 2020 to date will be paid as per the council decision dated 09th July 2020, and the outstanding amount will be paid after receiving the remaining information.	Action should be taken in accordance with the Pension Regulations and the provisions of the Gazette.
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## 2. Financial review

### 2.1 Financial results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the council for the year ended 31st December 2024 amounted to Rs. 42,498,401 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 49,142,527 in the preceding year.

### 2.2 Revenue Administration

#### 2.2.1 Estimated revenues, Billed revenues, Collected revenues and Outstanding revenues

According to the information submitted by the Secretary, the details of estimated revenue, billed revenue, collected revenue and arrears of revenue submitted for the year under review and the previous year are given below.

Source of Revenue	2024				2023			
	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December	Estimated Revenue	Billed Revenue	Collected Revenue	Total Arrears as at 31 December
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
i. Assessments and taxes	24,325	24,546	26,589	50,082	23,782	23,624	11,866	52,125
ii. Rent	52,587	58,403	53,868	52,121	43,837	50,073	29,882	47,586
iii. License fees	2,820	1,493	1,493	-	395	315	315	-
iv. Other income	15,572	5,379	5,379	-	16,553	24,740	24,403	-
Total	95,304	89,821	87,329	102,203	84,567	98,752	66,466	99,711

### 2.2.2 Performance in the Revenue collection

The following are observations regarding the revenue collection performance of the council.

<b>Audit Observation</b>	<b>Comments of the council</b>	<b>Recommendation</b>
(a) <b>Assessment And Taxes</b> The assessment tax arrears as on 15 <sup>th</sup> May 2025 were Rs.43,824,448, of which Rs.4,471,140 were outstanding for less than 01 year, Rs.23,339,204 for more than 01 year but less than 03 years, and Rs.16,014,102 for more than 03 years. No action had been taken to recover those balances.	The owners of properties with large shortages are being notified through letters and red notices are being issued.	Action should be taken to recover arrears of revenue promptly.
(b) <b>Rent</b> As of 15 <sup>th</sup> May 2025, the outstanding rent and lease balance was Rs.47,354,915, of which Rs. 3,374,988 was less than 01 year, Rs. 13,064,755 was more than 01 year and less than 03 years, and Rs. 30,915,176 was more than 03 years. About 59 percent of the outstanding rent balance at the end of the year under review was more than 03 years in arrears and the recovery of arrears remained at a weak level.	Due to the deficiencies of the new shopping complex building, an arrears of Rs.4,699,624 have been referred to the Governor for write-off, and the difference between the shop rent and the ground rent in relation to the 39 shops billed from 2013 to 2022 is to be written off as per the instructions and recommendations of the Local Government Commissioner, and group of Urban Council officers are taking steps to inform the lessees and recover the arrears.	Actions should be taken to recover arrears of revenue promptly.

### 3. Operational review

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 Management Inefficiencies

<b>Audit Observation</b>	<b>Comments of the council</b>	<b>Recommendation</b>
(a) New agreements had not been signed for 12 shops whose agreement period had expired, contrary to the provisions	The lessees have been informed through letters to renew the agreements of the shops.	Agreements should be updated urgently.

of the Circular No. 2019/02 dated 10th January 2019 of the Commissioner of Local Government of the North-West Province.

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| (b) | In 2017, the Shirley Koraya Hall, which is controlled by the council, was provided to the Chilaw Hospital for clinical purposes on a monthly rental basis. This hall was provided to the hospital without a formal agreement, and the rental money had not been collected.                                    | Approval have been requested from the commissioner of Local Government to lease the Shirley Koraya Hall and the Indoor play ground for the next 03 years from April 2025 as per the long request letters of the Director General of Health Services and the Hospital Director. Action will be taken according to the those recommendations in future. | The rent should be collect from hospital under a formal agreement.                                 |
| (c) | It had been more than 4 years since the Urban Council handed over the Chilaw Marians Indoor Stadium building to the Chilaw Hospital for a Covid treatment centre, and no formal agreement had been signed. Even though the Covid pandemic has now ended, no actions have been taken to get the building back. | Approval have been requested from the commissioner of Local Government to lease the Shirley Koraya Hall and the Indoor play ground for the next 03 years from April 2025 as per the long request letters of the Director General of Health Services and the Hospital Director. Action will be taken according to the those recommendations in future. | The indoor stadium should be reclaimed and used for the relevant purpose.                          |
| (d) | Although the land located Chilaw fuel station, which belongs to the Urban Council, had been leased since 2004 under an agreement, the lessee had not paid rent since 2013. An arrears of Rs. 4,874,232 were due at the end of the year under review.  | The matter regarding ownerships of the land located fuel station has been referred to the Local Government's Legal section and action will be taken in accordance with those recommendations.   | The issue of land ownership should be resolved promptly and actions should be taken to acquire it. |
| (e) | 21 air conditioners were purchased at a cost of Rs.2,842,210 in 2018, and 16 of the machines remained idle as of the last day of the year under review due to insufficient electrical capacity to operate them.   | Since there is not enough electrical capacity to operate all of these machines simultaneously, further action will be taken according to the instructions of the Provincial Council Electrical Engineer.  | Action should be taken to obtain the expected return from the purchased assets.                    |
| (f) | The software provided by the Ministry of Provincial Councils, Local Government and Sports in 2018 under   | A committee has been appointed to investigate and review this matter, and the future  | Necessary actions should be taken to   |

the Library Automation Project had been inactive since 2021.	implementation of this project will be determined by the decision of that committee.	implement the software.
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| (g) The value of 03 payable accounts at the end of the year under review was Rs.39,600,869, of which the value of the balances outstanding for more than 03 years was Rs. 11,822,252. No action had been taken to settle these payable balances. | The necessary action will be taken to pay payable balances based on the information provided by the subject officers. | The existence of payable balances should be investigated and resolved. |
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### 3.2 Assets Management

Audit Observation	Comments of the council	Recommendation
(a) Actions had not been taken to acquire the ownership of 39 lands, playgrounds and cemeteries maintained and controlled by the Urban Council.	Requests have been made to obtain transfer orders for 39 lands. The chilaw divisional secretariat has sent a report prepared on the ownership of 19 of these lands. Survey fees were paid to obtain transfer orders for 09 lands.	Actions should be taken to acquire the relevant assets owned by the council.
(b) A temple, 3 car parks and a half-constructed building had been maintained without permission of Urban Council on a 160-perch plot of land of commercial value, located facing the Chilaw-Kurunegala main road, belonging to the Urban Council.	It has been notified to be removed The constructions. A complaint has also been referred to the Chilaw Police to stop the unauthorized constructions.	Necessary action should be taken to protect council properties.

### 3.3 Human Resource Management

Audit Observation	Comments of the council	Recommendation
As at 31st December 2024, there were 01 vacancies in the tertiary grade, 42 vacancies in the secondary grade and 69 vacancies in the primary grade.	Requests have been made time to time to fill vacancies, Recruitment have been stopped by National Budget Circular No.of 03/2022.	Actions should be taken to fill vacancies in posts.



#### **4. Accountability and good governance**

##### **4.1 Budgetary control**

<b>Audit Observation</b>	<b>Comments of the council</b>	<b>Recommendation</b>
The allocated funds of Rs.8,106,000 for 67 expenditure votes remained completely unused due to the preparation of estimates without properly identifying the needs and the failure to carry out budgeted tasks as planned.	Since the Urban Council prepares a project budget, provisions are allocated for the expenditure heads of each project. The requirements for the year 2025 will be properly identified, estimates will be prepared and the budgeted tasks will be carried out as planned.	Needs should be prioritized, funds should be allocated accordingly, and projects should be implemented.

##### **4.2 Environmental Issues**

<b>Audit Observation</b>	<b>Comments of the council</b>	<b>Recommendation</b>
The Urban Council does not have a solid waste management center and the garbage collected daily from the council area is disposed of on a private coconut land.	The council does not have sufficient land to construct a compost yard for solid waste management, and Chilaw Plantation Company has agreed to provide land. Accordingly, it is expected to construct a compost yard in that land based on the provisions received.	Solid waste management should be streamlined.

##### **4.3 Sustainable Development Goals**

<b>Audit Observation</b>	<b>Comments of the council</b>	<b>Recommendation</b>
The Council had identified 12 Sustainable Development Goals and planned to implement 76 activities to achieve those goals in the year 2024. 32 of those activities had not been completed during the year under review.	The rainfall during the year under review was instrumental in achieving the desired targets and all programs will be implemented in 2025.	Action will be taken to improve the lives of the people by achieving sustainable development goals.