

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Jayawardenepura Kotte Municipal Council for the year ended 31 December 2024 comprising the Statement of Assets and Liabilities as at 31 December 2024, 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 and sub-section 10(1) of the National Audit Act No. 19 of 2018. section 219 of the Municipal Councils Ordinance (Chapter 252). 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 Sri Jayawardenepura Kotte Municipal Council as at 31 December 2024, 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

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 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 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 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 of the Municipal 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 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 except the audit matters of (o), (p), (q) and (r) described in paragraph 1.6.2 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local authorities

Non Compliance with the reference to particular Standard	Comments of the council	Recommendation
(a) The budgeted information in the budget documents prepared by the Municipal Council in accordance with paragraph 3.7 of Chapter 3 of the Standard had not been presented in the financial statements for the year under review.	That will be corrected it in the future.	Must act according to standards.
(b) According to paragraph 3.29 of Chapter 3 of the Standard, when calculating the amount of cash from investing activities in the cash flow statement, Rs.50,245,565 should have been adjusted as investments, but it was adjusted as Rs.41,126,851 and the investment interest of Rs.6,620,945 received from the cash was stated as Rs.17,902,022.	Balances should be recorded to accounted correctly.	The cash flow statement must be prepared correctly according to the standard.
(c) In accordance with paragraph 3.32 of Chapter 3 of the Standard, an adjustment of Rs.10,668,078 had been added in the calculation of net cash flow from operating activities in the cash flow statement, but the manner in which that amount was derived had not been disclosed.	No answers provided.	Must act according to standards.

(d)	In accordance with paragraph 3.30 of Chapter 3 of the Standard, Rs.47,348,231 had been adjusted, although Rs.114,512,019 should have been adjusted as capital expenditure grants received in the calculation of net cash flow from financing activities in the cash flow statement.	No answers provided.	Must act according to standards.
(e)	Contrary to paragraph 6.4 of Chapter 6 of the Standard, the value of work done on contracts that had not been completed as of December 31, 2024 should have been accounted for as work in progress, but the contracted value of those projects, Rs.64,211,217, had been debited to the Building Account.	That will be corrected through journal entries.	Work in progress and work to be capitalized should be identified separately according to the standard.
(f)	In accordance with paragraph 9.5 of Chapter 9 of the Standard, when recognizing government transfers to bear expenses as an expense in the period in which such expenses are recognized, the declining balance method should be used to recognize depreciation expense, but the straight-line method was used.	That will be corrected.	Depreciation should be calculated according to the standard.

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The income for the year was overstated by that amount due to the adjustment of Rs.11,059,301 of interest income received in respect of previous years in the interest income of the year.	That will be corrected through journal entries.	The income for the year should be accurately identified and accounted.
(b) Interest income receivable for fixed deposits of Rs.624,700 had not been accounted for and interest receivable was understated by Rs.19,269 in the statement of assets and liabilities.	That will be corrected through journal entries.	Receivable income should be accounted for correctly.
(c) In accounting for depreciation relating to fixed assets as at 31st December of the year under review, there was an understated of Rs.3,490,790 and an overstated of Rs.5,543,046.	That will be corrected through journal entries.	Depreciation should be calculated and accounted for correctly.

(d)	Due to the failure to maintain accounts according to the festival hall rental income documents, the income and receivable balance for the year were understated by Rs.700,000.	That will be corrected through journal entries.	Income must be accounted for correctly.
(e)	Billboard revenue was under-accounted for by Rs.87,875.	That will be corrected through journal entries.	Income must be accounted for correctly.
(f)	The court fine income received during the year under review amounted to Rs.25,862,717 and was shown under the Warrants and Surcharges Account.	That will be corrected through journal entries.	Revenues should be accounted for under the correct revenue headings.
(g)	Transfers made by the government for recurrent expenditure were overstated by Rs.146,670.	That will be corrected through journal entries.	Correct values must be accounted.
(h)	Rs. 17,592,831 spent on road development was shown under buildings and Rs.1,245,527 for computer purchases was shown under machines.	That will be corrected through journal entries.	The correct assets should be accounted for under the accounts.
(i)	The expenditure of Rs.2,329,150 incurred for the repair of the community hall located in Obeysekarapura had been capitalized.	That will be corrected through journal entries.	Capital and recurrent expenditures should be accurately identified and accounted.
(j)	An over Rs.999,136 had been allocated as a creditor for the repair of the Obeysekarapura Society Hall building.	That will be corrected through journal entries.	Action should be taken to correct over-allocations.
(k)	Rs.76,500 of industrial taxes received prior during the year had not been accounted.	That will be corrected through journal entries.	Accounting must be done correctly.
(l)	Due to the triple entry of creditor balances, creditors were overstated by Rs.36,916,266, expenses by Rs.324,000 and building value by Rs.36,592,266.	That will be corrected through journal entries.	Accounting must be done correctly.
(m)	Rs.1,121,000 incurred for the purchase of 02 protective suits for the firefighting unit had not been capitalized.	That will be corrected through journal entries.	The correct assets should be accounted for under the accounts.

(n) Although a water tank worth Rs.306,800 was issued in the year 2024, the stock balance at the end of the year was overstated due to the fact that it was not removed from the stock value.	That will be corrected through journal entries.	Physically verified stock values should be stated in the financial statements.
(o) While correcting the deficiency observed in the year 2023, the stock account was over-credited by Rs.605,400.	That will be corrected through journal entries.	Error corrections must be made correctly.
(p) The building account had been debited while correcting the accounting of the late interest of Rs.31,120,027 paid in relation to the unpaid bill balance of Rs.35,738,704 regarding the construction of the Janajaya City Supermarket observed in the year 2023.	Action will be taken to accurate accounting.	Error corrections should be made under the correct account classification.
(q) The correction relating to the rates receivable balance of Rs.466,539 observed in the year 2023 had not been made in the year under review either.	That will be corrected by journal entries.	Error corrections must be made correctly.
(r) During the preparation of the financial statements of the previous year, the fact that creditors of Rs.6,481,525 had been accounted for in both the sundry creditors and warehouse creditors accounts had not been corrected in the current year.	That will be corrected by journal entries.	Error corrections must be made correctly.

1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
There was a difference of Rs.47,213,952 when comparing the balances related to 15 accounting items shown in the financial statements with the balances shown in the relevant supporting documents.	All accounts will be corrected before on 31 st of August 2025.	Changes should be identified and corrected.

1.6.4 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
Sufficient information had not been submitted to the audit regarding the how to prepare in which the value of Rs.2,175,351 relating to 02 accounting items shown in the financial statements was calculated.	The future work will be done and its how to prepare are presented in the annex.	The way values are formed should be presented.

1.7 Non- Compliances

1.7.1 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)	The Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka Financial Regulations 1645	A problematic situation had arisen regarding fuel consumption for vehicles due to the failure of the council's drivers to properly maintain daily running charts.	Drivers have been informed and GPS checks will be used to gain insight into fuel consumption.	Actions should be taken in accordance with the financial regulations.
(b)	Paragraph 05 of Public Administration Circular No. 30/2016 dated 29th December 2016	The departure and arrival times, mileage, and the initial signature of the officer using the vehicle were never recorded in the driving logbooks.	All drivers have been informed and fuel will only be released if the running charts have been properly completed.	Action should be taken as per the circular.
(c)	Public Finance Circular No. 01/2020 dated 28th August 2020 and Circular No. 371(5)	The advances of Rs.851,300 issued by the Council had not been settled on the due date.	That such delays will not occur in the future.	Actions should be taken as per the circular and financial regulations.
(d)	Local Government Department Circular No. LGD/04/2016 dated 28th April 2016	Prior approval of the District Assistant Commissioner of Local Government had not been obtained as per the circular when releasing the fixed deposit worth Rs.190,000,000.	That it is not an act contrary to the circular.	Necessary approval should be obtained as per the circular.
(e)	Paragraph 2.8.1(b) of the Procurement Guidelines	Due to the absence of an officer with subject knowledge in the Technical Evaluation Committee for the	The primary focus is on price as well as condition.	Proceedings should be conducted in accordance with

purchase of firefighting protection suits, the firefighting protection suits worth Rs.1,121,000 were purchased after being inspected by the Officer-in-Charge of the Firefighting Services Department.

the Procurement Guidelines.

(f) Procurement Procedure Code

(i) Paragraph 1.2.1

The rejected company was ahead of the selected company in all requirements when purchasing firefighting safety suits, and the council had to pay Rs.630,000 more because it purchased from the selected company.

Safety has been given priority in the work being performed.

Procurement procedures code should be followed.

(ii) Paragraph 7.7.1

As the Technical Evaluation Committee had recommended a higher price without giving a reason for not selecting the lowest price, an additional amount of Rs.1,137,476 had to be paid for the purchase of iron items.

An evaluation committee has selected the most suitable suppliers for the council, considering the lowest price, quality and brand.

Procurement procedures code should be followed.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over expenditure of the Council for the year ended 31 December 2024 amounted to Rs. 308,552,531 as compared with the excess of revenue over expenditure amounted to Rs. 210,290,184 in the preceding year.

2.2 Financial Control

	Audit Observation	Comments of the Council	Recommendation
(a)	According to the bank reconciliation statement, unidentified payments of Rs.2,088,267 and unidentified receipts of Rs.7,544,411 had been identified and adjust to the accounts.	Work is underway to identify this payment.	It should be identified and accounted for correctly..
(b)	According to the bank reconciliation statements, the value of unpresented cheques exceeding 06 months, amounting to Rs.667,012 and uncleared amounting to Rs.2,591,389, had not been adjusted to the accounts.	Action will be taken to corrected.	Accurate accounting must be done.

2.3 Revenue Administration

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

The information on estimated revenue, billed revenue, collected revenue and arrears of revenue for the year under review and the previous year submitted by the Municipal Commissioner is shown below.

		2024				2023			
	Source of Revenue	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.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
(i)	Rates and Taxes	298,500	294,287	276,448	214,812	283,200	268,546	279,125	197,088
(ii)	Rent	92,177	142,253	83,658	115,323	100,073	72,890	72,339	45,619
(iii)	License fees	60,477	54,252	54,916	-	38,476	42,215	42,215	-
(iv)	Other Revenue	233,410	143,853	172,196	2,041	1,344,534	629,122	632,330	4,192
	Total	684,564	634,645	587,218	332,176	1,766,283	1,012,773	1,026,009	246,899

2.3.2 Performance in Revenue Collection

	Audit Observation	Comments of the Council	Recommendation
(a)	Rates and Taxes		
(i)	The rates balance due as at the end of the year under review was Rs.183,820,792, an increase of 10	The arrears of rates has increased due to a 250 percent increase in fees due to the rates revised.	Action should be taken to recover the arrears balance.

percent compared to the previous year.

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| (ii) The balance of entertainment tax of Rs.2,781,679 due from the cinema hall within the council area of authority was due from the year 2019. | A letter has been submitted to the Local Government Commissioner taking a recommendation to cut off the outstanding entertainment tax. | Action should be taken to recover the arrears balance. |
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(b) Rent

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| (i) The total rental income due at the end of the year under review was Rs.115,323,795. | That step will be taken to recover the arrears of rent next year. | Action should be taken to recover the arrears balance. |
| (ii) The balance receivable from 276 shops in the Janajaya City Supermarket was Rs.37,362,861. | That step will be taken to recover the arrears of rent next year. | Action should be taken to recover the arrears balance. |
| (iii) Although the billing value of Rs.84,498,576 has been recognized in the income statement as per the new assessment for shop rent, there is uncertainty regarding the recovery of the balance receivable of Rs.70,203,357. | The new assessment has now been received by the council and is scheduled to be implemented in the future. | Action should be taken to recover the arrears balance. |

(c) Court fines and Stamp duty

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| The stamp duty billed for the year under review was Rs.600,000,000 and the stamp duty due at the end of the year under review was Rs.245,135,400. Furthermore, court fines of Rs.3,677,906 were due at the end of the year under review. | That step will be taken to collect outstanding court fines. | Action should be taken to collect fees without delay. |
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3. Operational Inefficiencies

3.1 Uneconomic Transactions

Audit Observation

It was revealed that out of the bills submitted by the Chief Municipal Engineer and the Municipal Engineer in settlement of Rs.770,370 received as advance and in reimbursement of Rs.352,940 personally spent in relation to the works to be carried out by the Industrial Division of the Council, the bills relating to Rs.554,520 and Rs.53,575 respectively were fake bills.

Comments of the Council

A committee has been appointed and future action will be taken based on the committee's preliminary investigation.

Recommendation

Investigations should be conducted and disciplinary action taken.

3.2 Management Inefficiencies

Audit Observation

- (a) Although the contractor had increased the agreed value of the work done in the project of construction of a retaining wall with a push-open gate and iron fence for the firefighting service unit from Rs.3,891,750 to Rs.4,199,437, the variation orders had not been prepared and the approval of the Municipal Commissioner had not been obtained in accordance with guideline 8.13.3 of the Procurement Guidelines. Also, the Technical Evaluation Committee that had been appointed was not a committee in accordance with guideline 2.8.4 and a Procurement Committee had not been appointed in accordance with guideline 2.7.5. Although the Technical Evaluation Committee had recommended the second lowest priced bid, reasonable reasons had not been given for rejecting the lowest price.

Comments of the Council

That no revision of the estimates is necessary as the suspense expenditure remains within the limit.

Recommendation

Procurement guidelines should be followed.

(b) No action had been taken to recover the balance of Rs.23,287,498, which was Continuously descendant receivable for the projects related to the years 2017, 2019 and 2021 under government assistance.	That the correct balances are identified and adjusted through journal entries.	Action should be taken to settle the outstanding balance.
(c) Proper action had not been taken to recover the amount of Rs.290,919,869, which was due to the Council for a long time, even at the end of the year under review.	The answers will be provided before on 31 st of August 2025.	Action should be taken to recover the arrears without delay.
(d) Management had not taken steps to submit the following details to the audit.		
(i) Way the balance of VAT receivable at the beginning of the year under review, which was Rs.75,270,927, decreased to Rs.39,997,137 at the end of the year	The difference in the VAT account will be corrected before on 31 st of August 2025.	The way values are formed should be presented.
(ii) Ways fixed assets amounting to Rs.120,328,061 were acquired out of Rs.223,679,512 acquired during the year 2024 under the purchase of property-related equipment	That information regarding the unrepresented value of Rs.120,328,061 will be identified and submitted before on 31 st of August 2025.	The way values are formed should be presented.
(iii) Stock verification documents relating to Rs.141,576,136 of the stock balance of Rs.185,765,056 as stated in the financial statements as at 31 December 2024.	The reasons for this difference have been identified and work is underway to correct the deficiencies.	The reasons for the difference should be identified and confirmed for audit.

3.3 Idle or underutilized Property Assets

Audit Observation	Comments of the Council	Recommendation
The parking lot in front of the Janajayasitti Shopping Complex, the parking lot in front of the Municipal Council, and the parking lots at Rajagiriya Gardens, Buthgamuwa Road, and Chapel Road had not been developed as revenue-generating places.	Tenders were called for all the parking lots on two occasions, but no bidders have come forward and arrangements will be made to tender again in the future.	Appropriate actions should be taken to generate income.

3.4 Assets Management

Audit Observation	Comments of the Council	Recommendation
Actions had not been taken to take over the legal ownership of 13 lands used by the council.	Not commented.	Action should be taken to take over ownership of the lands.

3.5 Procurement Management

Audit Observation	Comments of the Council	Recommendation
The council had incurred a loss of Rs.3,824,424 due to purchasing goods from two other institutions instead of purchasing from those institutions, despite the fact that there were institutions that had offered lower prices and a reasonable warranty period.	There have been instances where the council has had to incur additional costs due to the deterioration of quality due to the purchase of light bulbs without checking the quality, and where purchases have been made at the lowest prices, the items received have been shown to be of very low quality.	Efforts should be made to purchase quality goods at minimum cost.

3.6 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
(a) As at 31 December 2024, there were 175 vacancies in the approved staff of the Council.	The Provincial Council has been informed about all these vacancies.	Actions should be taken to fill the vacancies in essential posts.

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| (b) | It was confirmed during the on-site inspection conducted on 28 February 2024 that although there were 36 drivers receiving permanent salaries, 13 of them had not reported for duty and were not at the council premises. As the permanent drivers were not performing their duties properly, the council had recruited two drivers on a labour purchase basis and paid Rs.601,600 to the two drivers up to 31 May 2024. | Efforts are being made to recover from the employees the overtime obtained worked by the 13 drivers without any duty. | Permanent drivers should be deployed and labour purchase should be avoided. |
| (c) | Staff loans of Rs.5,700,607 had been outstanding for a long time. | A committee has been appointed and necessary steps are to be taken based on the committee's decision. | Action should be taken to recover outstanding staff loans. |

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Observation	Comments of the Council	Recommendation
In terms of Section 16(2) of the National Audit Act, No. 19 of 2018 and Order 8 of Gazette No. 2155/6 of 24 December 2019, the financial statements of the Council as at 31 December 2024 were required to be submitted to the Auditor General on or before 28 February of the following financial year, but the financial statements of the Council were submitted on 27 June 2025, 118 days late.	That financial statement will be provided before on 28 February 2026.	Action should be taken in accordance with the National Audit Act and the Gazette Notification.

4.2 Annual Action Plan

Audit Observation	Comments of the Council	Recommendation
Although a control report had been prepared and submitted instead of preparing a performance report to show the progress towards the end of the year in the action plan prepared for the tasks to be performed by the Council according to the annual budget, the progress of the tasks included in the action plan had not been clearly presented.	About the progress of the action plan is included in the control report.	Efforts should be made to clearly present the progress of the tasks included in the action plan.

4.3 Budgetary Control

Audit Observation	Comments of the Council	Recommendation
(a) The total provisions for 272 expenditure items, amounting to Rs.148,411,000, were completely remain.	There is a remain of provisions in the council's expenditure items due to reasons such as the lack of government provisions and provincial council provisions.	The budget document should be used as an effective control tool.
(b) Although Rs.58,916,300 was allocated for 42 expenditure items, more than 75 percent of it was not spent and that amount was Rs.51,139,364.	Attention will be paid to regarding this in the coming years.	The budget document should be used as an effective control tool.