

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kesbewa Urban Council for the year ended 31 December 2024 comprising the Statement of Assets and Liabilities as at 31 December 2024, Statement of Comprehensive Income, 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 Sub-section 10 (1) 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 financial statements give a true and fair view of the financial position of the Kesbewa Urban Council as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with the Sri Lanka Public Sector Accounting Standards for Local Authorities.

1.2 Basis for Qualified Opinion

I expressed qualified opinion regarding the financial statements 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 Scope of Audit (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 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 on the preparation of Financial Statements

1.6.1 Non-compliance with the Sri Lanka Public Sector Accounting Standards for Local Government Institutions

Non-compliance with reference to the relevant standard	Comments of the Council	Recommendation
(a) Although budgeted information should be presented in the financial statements in accordance with paragraph 3.7 of Chapter 3 of the Standard, it had not been presented as such.	When presenting financial statements for the year 2025, budgeted information will be presented with the financial statements.	Financial statements should be prepared in accordance with the standard.
(b) Although financial information on local government bodies should be prepared in a manner that is useful to users of financial statements in accordance with paragraph 2.1 of Chapter 2 of the Act, the correct values were not disclosed under the additions of machinery, bins and equipment, furniture, office equipment, buildings and fittings during the year under review in Note 16 of the financial statements prepared by the Council.	The differences between the accounts and the schedules for machinery, office equipment and fixtures had been reconciled by journal entries.	Financial statements should be prepared in accordance with the standard.

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
There was a difference of Rs.1,984,236 when comparing the balance relating to the addition of buildings shown in the financial statements with the relevant schedule.	That there has been a difference between the schedules and balances.	Differences should be identified and corrected.

1.6.3 Lack of Documentary Evidences for Audit

Audit Observation	Comments of the Council	Recommendation
Since the age analysis relating to the outstanding entertainment taxes of Rs.281,047 continuing from before 2006 was not submitted to the audit, it was not possible to satisfactorily vouched that balance, and no action had been taken to recover that amount.	The Governor of the Western Province has given approval to write-off this amount.	Evidence should be submitted to the audit and should be properly adjusted when preparing the accounts for the following year.

1.7 Non-compliances

1.7.1 Non-compliances with Laws, Rules, Regulations and Management Decisions

Instances of non-compliances with Laws, Rules, Regulations and Management Decisions are shown below.

	Reference to Laws, Rules and Regulations	Non-compliances	Comments of the Council	Recommendation
(a)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R. 1653	The mileage meters of 10 vehicles owned by the council had not working, but no steps had been taken to repair them.	Not answered.	Financial regulations should be followed.
(b)	Paragraph 3.1 of Public Administration Circular No. 2016/30 dated 29 December 2016	Fuel combustion tests had not been conducted on 10 vehicles owned by the council.	Not answered.	Action should be taken as per the Circular.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented, excess of income over recurrent expenditure of the Council for the year ended 31 December 2024 amounted to Rs.87,706,703 compared to the excess of income over recurrent expenditure amounted to Rs.564,836,406 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, Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Source of Revenue		2024				2023			
		Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
Rs.'000		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Rates and Taxes		85,000	94,778	63,408	82,978	84,000	90,943	50,671	33,329
Rent		30,066	29,874	31,394	1,312	32,340	29,898	28,237	3,517
License Fee		1,500	1,732	1,732	-	1,550	1,625	1,625	-
Other Revenue		4,000	4,266	4,266	-	260,000	378,627	378,657	-
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Total		<u>120,566</u>	<u>130,650</u>	<u>100,800</u>	<u>84,290</u>	<u>377,890</u>	<u>501,093</u>	<u>459,190</u>	<u>36,846</u>

2.2.2 Performance in Collecting Revenue

The following observations are made regarding the revenue collection performance of the Council.

Audit Observation	Comments of the Council	Recommendation
(a) Due to the Council's failure to collect rates and taxes in accordance with Section 170 of the Urban Councils Ordinance, the arrears of rates and taxes balance, according to the financial statements as of 31 December 2024, was amounted to Rs.82,977,422, of which the outstanding arrears due from 54 rate units exceeding Rs.50,000 was Rs.5,400,025.	That the steps are being taken to recover the outstanding amounts.	Action should be taken to recover arrears of revenue promptly.
(b) Although rates and taxes are required to be assessed every 5 years in terms of Section 20 of the Taxation and Valuation Ordinance No. 30 of 1946, rates and taxes were levied in the year under review based on the property valuation carried out in the years 2012/2013.	The last property valuation was conducted in 2018 and valuation work is in the initial stages for 2025.	The property should be appraised for rates and taxes.

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| (c) | Out of the garbage tax arrears of Rs.2,542,643 as at 01 January 2024, for which the opening balance could not be accurately ascertained, 45 percent, equivalent to Rs.1,153,393, had not been collected in the year 2024. Accordingly, the total garbage tax value to be collected as on 31 December 2024 was Rs.2,307,893 and the Council had not taken positive steps to collect it. | The balance shown as of 01 January 2024, is the outstanding balances from 2018 to 2023, and the necessary steps are currently being taken to collect those outstanding balances. | Action should be taken to recover outstanding garbage taxes. |
| (d) | Lease agreements had not been signed for 170 out of the 336 stalls owned by the council. | The contracts of 261 stores have been renewed as at 29 April 2025, and only 75 stores have contracts to be renewed. | Action should be taken to recover arrears of rent. |
| (e) | A sum of Rs. 1,311,910 had been due from 76 shops as at 31 December 2024. | Steps have been taken to recover an amount of Rs. 861,910 as at 29 April 2024 and steps are being taken to recover the remaining amount. | Action should be taken to recover arrears of revenue. |
| (f) | Action had not been taken to recover the total arrears of Rs. 206,260 relating to the vehicle parking property leased on an annual tender. | Once approval is received for the parking lot, further work will be carried out and a report will be made to the auditor. | Action should be taken to recover arrears of revenue. |
| (g) | Steps had been taken in the year 2024, to collect Rs.2,978,450 for only 178 billboards notified by the owners of the billboards in the Urban council area. Steps had also not been taken to collect information through a survey on billboards and prepare a database. | Steps have been taken to remove 19 unpaid billboards from view and in the future, steps will be taken to maintain the billboard fee register up to date through a formal survey. | A survey of billboards should be conducted, a database should be prepared, and recovery should be made accordingly. |
| (h) | The billed fee for 41 registered transmission towers was Rs. 710,472 and revenue of Rs. 463,762 had not been recovered as at 31 December 2024. | The balance of Rs. 463,762 that could not be recovered as of 31 December 2024 includes the arrears from previous years, of which Rs.242,026 has been recovered so far and steps are being taken to recover the remaining amount. | Action should be taken to recover arrears of revenue. |
| (i) | Action had not been taken to recover the stamp duty of Rs. 191,823 that had accrued since 2017. | Further work is being carried out regarding outstanding stamp duties. | Action should be taken to recover arrears of revenue. |

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The council had failed to recover the advance amount of Rs. 169,203 that was due from a private company since 2007.	Since this file, which is over 12 years old, has not been found, therefore, no information has been found about the contractor.	Action should be taken to recover the money due immediately after finding the file.
(b) Within the Provincial Council's creditor balance of Rs.39,115,571 as of 31 December 2024, a balance of Rs.1,394,254 had been included relating to the year 2021, but no action had been taken to settle that balance.	Of this outstanding balance, a sum of Rs.185,154 has now been settled.	Action should be taken to settle outstanding loan balances.
(c) Tender security deposits of Rs.2,545,050 from the year 2021 to the year 2023 had not been settled.	That the 5 balances totaling Rs.115,850 will be settled in the future.	Steps should be taken to clear overdue deposits.
(d) The council had failed to construct a protective fence or wall for the protection of 05 cemeteries, and the lack of a protective wall meant that the lands owned by the cemeteries were at risk of being illegally occupied.	The construction of protective fences in the cemeteries will be carried out after the Survey Department draws the plans and marks the boundaries and provides them to the council.	The security of cemeteries should be ensured.

3.2 Assets Management

Audit Observation	Comments of the Council	Recommendation
(a) The ownership of 14 cemeteries within the council area had not been acquired.	The Kesbewa Divisional Secretary is working on transferring the 14 cemeteries and the necessary investigations and deficiencies will be completed by the council.	The ownership of cemeteries should be taken over.

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| (b) | The current account maintained on behalf of the Urban Development Authority with a balance of Rs. 47,764,431 remained idle in the year 2024 without any funds being utilized. | Not answered. | It should be used for productive purposes with the approval of the Urban Development Authority. |
| (c) | One of the council's vehicles was in a defunct state as at 31 December 2024, and the fiber boat was abandoned unused in the Madapatha dump yard. | Not answered. | The assets of the council should be utilized effectively. |

3.3 Delays in Executing Activities

Audit Observation	Comments of the Council	Recommendation
An agreement was signed with a private company on 05 March 2020, to construct the new Kesbewa building within 18 months at a cost of Rs. 613,238,034, and the agreement was later renewed on 10 February 2023. Although it was agreed to complete the construction work by 26 September 2023, the construction work of the building had not been completed by 31 December 2024, as per the new agreement.	As a detailed response should be provided to this, a further 14 days are required as per the instructions of the Works Superintendent.	Construction work should be completed promptly.

3.4 Human Resource Management

Audit Observation	Comments of the Council	Recommendation
(a) In addition to the staff of the approved cadre, a sum of Rs.16,232,802 had been paid from the Council fund as salaries and allowances in the year under review to 64 employees who had been recruited for the Council's projects.	A sum of Rs. 16,232,802 has been paid from the council fund to 64 employees in the year under review under project requirements.	Only approved staff should be used for the work of the council.
(b) The outstanding employee loan balance as at 31 December 2024 was Rs.1,797,497, as a sum of Rs.226,323 from a suspended employee, Rs.61,238 from an officer who left the service, Rs.922,318 from 07 retired and deceased officers, and Rs.587,618 from 06 transferred officers. Out of this, the	Regarding the employee loan of Rs. 108,580 of a deceased health worker, it could not be recovered due to the heirs had not came forward to receive the death gratuity, and steps are	Action should be taken to recover outstanding loan balances.

outstanding balance of 04 officers for more than 10 years was Rs.379,193. being taken to recover the remaining loan balance.

4 Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observation	Comments of the Council	Recommendation
Although the financial statements for each financial year should be submitted to the Auditor General on or before 28th February of the following financial year in accordance with Section 16(2) of the National Audit Act No. 19 of 2018 and Rules 08 on Accounting Matters Relating to the Financial Administration of the Western Provincial Urban Councils as enacted by the Extraordinary Gazette No. 2155/7 dated 24th December 2019, the financial statements for the year under review had been submitted on 09 May 2025.	Not answered.	Financial statements should be submitted on time.

4.2 Budgetary Control

Audit Observation	Comments of the Council	Recommendation
(a) Although, the Urban Council had allocated a total provision of Rs.424,583,700 for 22 capital expenditure projects in the 2024 budget, the actual expenditure incurred was amounted to Rs.99,076,213.	Not answered.	The budget should be used as a effective control tool.
(b) Out of the budgeted allocation of Rs.10,700,000 made for 10 expenditure codes, a sum of Rs.7,006,893 had not been utilized as of 31 December 2024, as a result underutilization had been ranged from 29.65 percent to 99 percent.	Not answered.	The budget should be used as a control tool.
(c) The amount of Rs.29,000,000 had been allocated for 11 expenditure heads such as distribution of exercise books, food security and poverty relief payments under the Welfare Expenditure Subject, and mobile clinic programs, community hall playgrounds, environmental works and vaccination of stray dogs under the Health Expenditure Subject and no expenditure had been incurred as of 31 December 2024.	Not answered.	The budget should be used as a control tool.