

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Maharagama Urban 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 Sub-Section 181 (1) of the Urban Councils 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 Maharagama Urban 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 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 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 include 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 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) The total capital expenditure of Rs. 91,497,619 for projects which works had completed under the decentralized program of Rs. 10,339,053 and Rs. 81,158,566 under the Provincial Development Grants in relation to the year under review had stated as repair and maintenance expenses instead of being capitalized during the year.	The industrial sector has similarly submitted this as a maintenance and repair expenditure.	Capital and recurrent expenditures should be accurately identified and accounted.
(b) Although the capitalized cost of Rs. 42,610,560 which had been spent from the general fund for complete the roads, bridges and culverts during the year but it had overstated by Rs. 7,100,000 due to it had been recorded as Rs. 49,710,560 in the account.	Action will be taken to correct this in 2025.	Actions should be taken to account the assets accurately.
(c) Although the value of the non-completed projects which contracted by the Urban Council as at 31 December 2024 was Rs. 37,082,254 and it had been overstated by Rs. 42,570,577 due to recorded it in the ledger account as Rs. 79,652,831.	Actions will be taken to investigate whether there is work that has not been completed , despite it was contracted and to correct it.	It should be accounted correctly.
(d) The Lands account had understated and the Roads and Culverts account had overstated due to accounting the amount of Rs. 7,100,000 which had been paid by the Urban Council for the	Action will be taken to correct it in the year of 2025.	Assets should be correctly classified and accounted.

acquisition of the Gramber Estate land on Dambahena Road, Maharagama in the Roads and Culverts account.

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| (e) | The Urban Development Authority had commenced the process of acquiring the Siyambala Gahawatta land located on the Maharagama Old Road for the development of Maharagama city and had declared Rs. 94,242,750 as the compensation to be paid under Section 17 of the Acquisition Act. The Urban Council had paid Rs. 30,000,000 to the Urban Development Authority and the remaining compensation amount of Rs. 64,242,750 that payable as at 31 December 2024, had not been accounted. Furthermore, the current liabilities had been understated by Rs. 69,154,987 due to the amount of Rs. 4,912,237 which payable for the acquisition of the Nawinna Stadium to the council that was not accounted under accrued expenditure. | Action will be taken to correct it in the year of 2025. | Should be accounted correctly. |
| (f) | Even though the Urban Council had spent Rs. 13,094,564 on the installation of solar panel systems, but only Rs. 7,104,000 was capitalized and Rs. 5,990,564 was not capitalized, resulting in that the installation account had been understated of that amount. | Action will be taken to correct it in the year of 2025. | Should be accounted correctly. |
| (g) | The service fee income for the year under review had overstated by Rs. 1,752,323 due to the fact that the revenue of Rs. 8,586,481 which received in cash as garbage removal fee in the year under review and Rs. 1,752,323 collected in respect of the previous year, had not accounted on the accrual basis and accounted on the cash basis. | Action will be taken to correct it in the year of 2025. | Should be accounted correctly. |
| (h) | Although the audit had clarified and presented that the total cost of the projects completed in the year under review which financed by the General Fund, Provincial Development Grants and Decentralized Fund was Rs. | An answer can be provided, if it can be explained how the Rs. 370 million was investigated. | Information should be investigated, identified and accounted correctly. |

370,105,680 the industrial cost accounted for was Rs. 352,264,226 along with Rs. 42,610,560 capitalized under fixtures and Rs. 309,653,666 shown as repairs and maintenance in the financial statements. Accordingly, the cost of the projects which have been completed in the unaccounted year was Rs. 17,841,454. However, the reply of the Secretary was mentioned that the Council could not find the cost of Rs. 370 million.

1.6.2 Unreconciled Control Accounts

	Audit Observation	Comment of the Council	Recommendation
(a)	There was a difference of Rs. 132,579,411 in between the balances regarding to 06 Accounting Items which shown in the financial statements and the balances shown in the related supporting documents.	Answers were not submitted.	Actions should be taken to identify and correct the difference.
(b)	There was a difference of Rs. 4,351,720 in the payable balances at the beginning of the year under review in respect of 17 projects carried out from the common fund.	Answers were not submitted.	Actions should be taken to identify and correct the difference.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over expenditure for the year ended 31 December 2024 amounted to Rs 386,236,482 as compared with the excess of revenue over expenditure amounted to Rs 480,318,446 in the preceding year.

2.2 Financial Control

Audit Observation	Comment of the Council	Recommendation
Although there was a balance of Rs. 112,658,373 in the Bank of Ceylon current account and cash book as of 31 December 2024, the council had lost potential investment income by not focusing on retaining adequate money to cover day-to-day expenses and investing the remaining money in short or long-term investments.	Answers were not submitted.	The council should be focused on investing the remaining funds in short-term or long-term investments.

2.3 Revenue Administration

2.3.1 Estimated Revenues, Billed Revenues, Collected Revenues and Outstanding Revenues

The following is the information on estimated revenue, billed revenue, collected revenue and outstanding revenue for the year under review and the previous year as per the information submitted by the Secretary.

	Revenue source	2024				2023			
		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	251,200	261,667	261,936	248,229	247,433	260,095	244,475	243,218
(ii)	Rent	27,961	26,780	29,050	10,455	25,260	27,461	23,076	15,337
(iii)	Licence Fees	11,600	13,768	13,564	633	6,600	12,327	12,327	-
(iv)	Other Revenue	6,280	9,030	9,030	-	6000	7,141	7,141	-
	Total	297,041	311,245	313,580	259,317	285,293	307,024	287,019	258,555

2.3.2 Performance in Revenue Collection

Observations related to performance in Revenue Collection of the Council are given below.

	Audit Observation	Comment of the Council	Recommendation
(a)	Rates and Taxes		
(i)	The billed revenue was Rs. 255,075,242 for the year under review. It had been failed to recover the billed revenue at the amount of Rs. 81,960,042 or thirty-two percent (32%) from that as at 31 December 2024.	The situation has been stated as at 31 December 2024.	Actions should be taken to recover arrears of rates.
(ii)	Only Rs. 78,638,324 had been collected out of the outstanding rates and tax balance of Rs. 243,217,839 at the end of the previous year according to the revenue progress reports as at 31 December 2024 and Rs. 164,579,515 or sixty-seven percent (67%) had failed to be recovered.	Answers were not submitted.	Steps should be taken to recover arrears of assessments..
(b)	Rent		
(i)	The amount of Rs. 9,201,942 or 60 percent out of the outstanding rent revenue of Rs. 15,337,227 as at 31 December 2023, had failed to be recovered during the year under review according to the financial statements.	Answers were not submitted.	Action should be taken to recover the outstanding rent.
(ii)	There were arrears of Rs. 10,390,155 from 132 stalls as at 31 December 2024. This arrears included of Rs. 2,952,379 which was due from 36 stalls between 01 and 03 years, Rs. 4,339,515 from 24 stalls between 03 and 05 years, and Rs. 1,109,821 from 07 stalls more than 05 years. The failure to take back the ownership of shops that did not pay rent to the Urban Council in accordance with the agreements and lease those to other parties and this had led to the arrears continuing to remain for a long time.	Answers were not submitted.	Action should be taken to recover the outstanding rent.
(iii)	Although the billing of 55 stalls from 195 to 249 of the Maharagama Sathipola stalls had been stopped and the outstanding stall rent of Rs. 3,008,390 had been written off due to their long-term closure, but those stalls had not been utilized for productive purposes as at 31 December 2024.	Answers were not submitted.	Actions should be taken to re-lease the shops and a formal investigation should be conducted regarding the written off rent from shops that have been effectively utilized.
(iv)	As of December 31, 2024, the actions had not been taken to renew the agreements of 72	Answers were not submitted.	The agreement should be renewed and actions

shops which agreements had expired or to take those over to the Trade Place Council and lease those to other parties.

should be taken to collect rent.

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| <p>(v) The council had 71 shops under contract with lessees without specifying the end date of the contract period. Even though the amount of Rs. 1,778,999 was to be recovered from those shops as at 31 December 2024, it was questionable whether there was a possibility to take legal action regarding those shops.</p> | <p>Answers were not submitted.</p> | <p>The agreements of the 71 shops should be formalized and actions should be taken to recover the arrears.</p> |
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3 Operational Review

3.1 Performing the 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 Council under Section 4 of the Urban Councils Ordinance.

Solid Waste Management

Audit Observation	Comment of the Council	Recommendation
(a)(i) The expenditure of Rs. 88,417,693 had been incurred for the disposal of waste at the Karadiyana waste yard, Rs. 46,583,479 for rented vehicles and Rs. 70,276,344 was incurred for the repair of the vehicles of the council which utilized to transport the waste during the year due to the lack of a formal waste management plan. That is the expenditure for garbage collection and disposal was Rs. 205,277,516 during the year of 2024. Although Section 119 of the Urban Council Ordinance states that waste should be the property of the council, but the council had not taken actions to generate revenue from it or minimize expenses in the year of 2024 and therefore, waste disposal had become a significant expense for the Urban council.	Answers were not submitted.	Actions should be taken to minimize costs by preparing and implementing a formal waste management plan.

(ii)	The Urban Council had not recovered Rs. 8,473,500 from 146 business premises for the collection service of waste generated by business premises operating within the council area as at 30 June 2024. From that, 10 businesses premises had a arrears of Rs. 2,323,650 for more than 05 years and 32 businesses premises had arrears of Rs. 2,910,000 for a period of between 03 and 05 years. The age analysis of garbage charges receivable as at 31 December 2024 was not submitted to the audit.	Answers were not submitted.	Action should be taken to recover outstanding garbage charges.
(b)	Although a revenue of Rs. 10,338,804 was obtained from the removal of commercial waste in the year under review, the council had not enacted a by-law to collect waste tax.	Answers were not submitted.	Actions should be taken to enact a by-law to collect garbage tax.

3.2 Management Inefficiencies

	Audit Observation	Comment of the Council	Recommendation
(a)	Actions had not been taken to settle the total balance of Rs. 5,193,558 in court deposits, security deposits and NBT accounts, which had been in existence since 05 years, in the year under review.	Actions will be taken to correct it in 2025.	Action should be taken to settle the balance.
(b)	There was a balance of Rs. 14,374,561 in the outstanding industrial creditors balance of Rs. 62,627,446 as at 31 December 2024 which that had not been settled for more than 05 years.	Answers were not submitted.	Action should be taken to settle creditor balances..
(c)	The schedules relating to 10 Accounting Items totalling of Rs. 692,225,104 had not been maintained accurately.	Answers were not submitted.	Actions should be taken to maintain schedules accurately.
(d)	Actions had not been taken to revalue the lands belonging to the Urban Council according to the building register submitted during the year under review and the values had not been recorded in the accounts.	Answers were not submitted.	Assets should be revalued and accounted .

(e)	Although instructions have been given regarding the officers to be included in the Field Inspection Committee in accordance with instructions 3.3.(a.), (b.) and (c.) of the Guidelines for Local Government Institutions on issuance of Environmental Protection Permits for Small-Scale Polluting Projects/Processes, due to the failure to act accordingly, it was questionable in the audit as to whether the role of the field committee in preparing the report had been properly performed in accordance with the instructions in 3.3.2 (a), (b) and (c) of the guidelines and whether the intended objectives had been achieved by the field inspection committees.	Answers were not submitted.	Actions should be taken according to the guidelines.
(f)	Although the geotechnical survey report submitted by the Landslide Research and Risk Management Division of the National Building Research Organization regarding the erosion of the bank of the road belonging to the Urban Council near a house on Sigera Road, Madiwela Kotte Road, Siripapura and the subsidence of a part of the 03rd lane of the Madiwela Grama Niladhari Division and the instability of the surrounding area which had stated that the short-term recommendations should be implemented until the long-term recommendations were implemented, but the audit did not confirm that the Council had implemented those short-term recommendations.	Answers were not submitted.	Recommendations in the geophysical survey report should be implemented to manage risks.
(g)	Notwithstanding the Director General of the Disaster Management Center had written to the Urban council Secretary to take action in accordance with the report provided by the Landslide Research and Risk Management Division of the National Building Research Organization regarding the failure to take any action regarding the unsafe situation arising due to the collapse of the mountain on the border connecting Madiwela and Thalapathpitiya via Siripapura, the council had not taken immediate action until the Siripapura Development Foundation made a further request on 25 June 2024. The audit was revealed that this situation has arisen	Answers were not submitted.	Proper controls should be taken place to minimize the risks of long-term soil erosion.

due to the lack of proper control over soil excavation over a long period of time.

(h) An inventory of all property maintained by the Urban Council should be maintained, in accordance with Rule No. 42 on accounting procedures relating to the financial administration of Urban councils and even though a survey of property should be conducted at the end of each financial year and the inventory prepared in accordance with the Sri Lanka Public Sector Accounting Standards for Local Government Institutions and maintained in accordance with the format prescribed by the Commissioner of Local Government but actions had not been taken accordingly.	Answers were not submitted.	Actions should be taken in accordance with regulations and accounting standards.
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3.3 Assets Management

Audit Observation	Comment of the Council	Recommendation
An amount of Rs. 13,717,577 had been paid for the acquisition of the Nawinna Stadium to the Urban Council and it had been informed that a further Rs. 4,912,236 had to be paid to the Urban Development Authority (Land Development and Management). But actions had not been taken to pay the said amount and take over the assets.	Answers were not submitted.	Action should be taken to take over the stadium.

3.4 Identified Losses

Audit Observation	Comment of the Council	Recommendation
During the year, the total number of LED lights issued from the warehouse as per the warehouse bin card was 12,793 and the total number installed as per the daily light installation summaries maintained by the Electrical Department was 12,002 according to the inspection regarding the issuance and installation of LED lights. Accordingly, a shortage of 791 lights was observed and the value of that was Rs. 1,601,775.	Answers were not submitted.	Actions should be taken against the shortage of lights in accordance with Financial Regulations.

3.5 Procurement

Audit Observation	Comment of the Council	Recommendation
When submitting the recommendations for the purchase of photo cell 230W 10A (for 3 Bulbs) by the Technical Evaluation Committee, had recommended the purchase from the company that had submitted the highest price of Rs. 1,650 out of 02 companies that had submitted prices with the same warranty period, without providing reasons for not recommending the lowest price, resulting of that it had been incurred in a loss of Rs. 412,500.	The sample was checked and the decision to purchase was made based on the quality when purchasing a Photo cell 230W 10A (for 3 Bulbs).	Purchases should be made in accordance with the Procurement Guidelines.

3.6 Contract Administration

Audit Observation	Comment of the Council	Recommendation
(a) Notwithstanding the construction contracts should be awarded to community-based organizations after verification and confirmation of eligibility by the committees as per paragraph 2.3 of the Public Finance Circular 01/2021 dated 29 September 2021, in the audit it was not confirmed whether such verification and confirmation of eligibility had been conducted in respect of 18 construction contracts with a total value of Rs. 62,420,000.	Answers were not submitted.	Instructions of the Circular should be followed when assigning construction work.

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| <p>(b) Even though a contract was signed with the organization of farmers on 14 November 2024 for the construction of a protective side wall near the “Sudu Bodiya” on the Weera Uyana Roundabout Road at an estimated cost of Rs. 4,990,000, the contract did not include the widening of the road and schedules and work plans regarding the work descriptions and rates had not been prepared and signed properly. The physical inspection did not confirm whether it was possible to reduce congestion by widening only the middle part of the road and it was not confirmed in the audit whether the expected objectives had been achieved with the cost of Rs. 4,921,567 incurred for the construction of the side wall.</p> | <p>Answers were not submitted.</p> | <p>Actions should be taken to prepare bills of quantities and plans and enter into formal contracts when awarding contracts and capital works should be planned and implemented in a manner that achieves the desired objectives.</p> |
| <p>(c) Although a work contract value of Rs. 4,990,000 was agreed into with a senior citizen society on 31 July 2024 for the carpeting and development of Galawilapura 3rd Mawatha, Homagama, , the plans, maps, work details and rate related to the schedules the work details with the agreed upon promissory note, had not been prepared and formally contracted. It was revealed during the physical inspection of this contract that only 182.8 meters of Galawilapura 3rd Road had been carpeted and that even had been done in two parts of 136 and 46.8 meters. An area of approximately 4 meters in length had not been carpeted. Even though Rs. 809,116.50 had been paid for 154.5 cubic meters under item number 9 of the payment report at rate of Rs. 5,237 per unit, but the amount payable for that work according to the road toll schedule issued by the Western Provincial Engineering Bureau was Rs. 4,236 per cubic meter, thus the project cost had been increased by Rs. 154,654.50.</p> | <p>Answers were not submitted.</p> | <p>Actions should be taken to enter into a formal contract and ensure that the prescribed rate is paid for the specified work as per the road toll schedule.</p> |

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| <p>(d) Notwithstanding a contract was signed with a community society on 12 December 2024 for the construction of the side wall of the Amu Atamulla Road section at an estimated cost of Rs. 4,950,000 but the plans, maps, work description and schedule of rates related to the project had not been signed as per the contractual agreement..The two estimates had been prepared for the project and an approval had not been obtained although the work description in the second estimate had changed. It was controversial that payments were recommended before this project, which had completed in 09 days and it had paid Rs. 4,857,986 on 30 December 2024 even though it should be taken at least 21 days to ensure the quality of the project after the concrete work was completed. Furthermore, under item number 15 of the payment report (Tractor & Tailor (3Ton) (Bo-17)) for the construction project which had completed in 09 days, by the payments were made for 12 days at Rs. 12,821 per day, an overpayment of Rs. 38,463 had been paid resulting of that.</p> | <p>Answers were not submitted.</p> | <p>Actions should be taken to prepare accurate estimates and obtain approval, to enter into contracts formally when awarding construction contracts and to ensure the quality of the work. In addition, overpayments should be recovered.</p> |
| <p>(e) Non Commenced Projects</p> | | |
| <p>(i) Although an agreement was reached with a farmers' organization on 31 July 2024 for the repair of the Thalapathpitiya Gale Well at a cost estimate prepared on 17 August 2023 at the amount of Rs. 1,750,000 but the project had not commenced as at 22 January 2025.</p> | <p>Answers were not submitted.</p> | <p>Project should be carried out in accordance with the agreement.</p> |
| <p>(ii) A contract was signed with a senior citizen organization in December 2024 for the painting and renovation of the Godigamuwa Crematorium at an estimated work value of Rs. 2,000,000 and The date of signing the contract had not mentioned in the promissory note. Although the project was to be completed and handed over within 02 months from the date of signing the</p> | <p>Answers were not submitted.</p> | <p>Actions should be taken to formally enter into agreements and ensure that the project is properly carried out.</p> |

contract, the relevant project had not been commenced by 18 March 2025.

- (f) A contract was signed with a community society on 21 September 2020 for the construction of the first floor of the two-storey community society building at the Kohila Kotuwa site on Neelammahara Road, Maharagama at an estimated cost of Rs. 4,000,000 but public objections had arisen regarding this construction. As per the request made by the protesters that the existing pre-school building be renovated with the approved funds and the two-storey building be covered with slabs which uncovered part by a slab and constructed it properly accordingly the council had paid Rs. 23,328 for a condition report from the National Building Research Organization for the building. The council had not responded to the notice issued on 24 January 2022 to pay Rs. 45,057 to the National Building Research Board and to obtain the report and after being notified again to pay Rs. 56,037 then the council had to pay Rs. 10,980 that more than the amount paid on 30 January 2024.
- Answers were not submitted. Construction should be planned according to proper standards and identifying the needs of the public.