

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Kotikawatta Mulleriyawa Pradeshiya Sabha 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 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 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 accompanying financial statements give a true and fair view of the financial position of the Kotikawatta Mulleriyawa Pradeshiya Sabha 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 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 Pradeshiya Sabha's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Pradeshiya Sabha 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 Pradeshiya Sabha, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Pradeshiya Sabha has complied with applicable written law, or other general or special directions issued by the governing body of the Pradeshiya Sabha ;
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources of the Pradeshiya Sabha 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 Pradeshiya Sabha 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 Sri Lanka Public Sector Accounting Standards for Local Authorities

Non Compliance with the reference to particular Standard	Comments of the council	Recommendation
(a) Contrary to paragraph 3.20 of Chapter 3 of the standard, the amount of long-term loan repayable within one year was not disclosed under current liabilities.	That the necessary steps are being taken to accurate disclosure.	Accurate disclosures must be made as per the standard.
(b) In accordance with paragraph 3.29 of Chapter 3 of the Standard, in calculating the cash flow from investing activities in the statement of cash flows, the payment of employee loans of Rs.15,915,344, the collection of employee loans of Rs.12,813,648, the interest value of Rs.27,641,931 and the interest paid of Rs.1,480,770 were not adjusted to the statement of cash flows and instead of showing the proceeds from the sale of property-related equipment of Rs.9,937,000 and the purchase of property-related equipment of Rs.75,008,814 during the year, they were adjusted as a receipt of Rs.138,601,408 in the statement of cash flows. Furthermore, the investment in fixed deposits of Rs. Instead of Rs.50,000,000, Rs.70,965,606 had been adjusted as a receipt in the cash flow statement.	That step is being taken to properly prepare cash flow.	The cash flow statement should be prepared in accordance with the standard.

(c)	In accordance with paragraph 3.30 of Chapter 3 of the Standard, in calculating the cash flow from financing activities in the statement of cash flows, the capital expenditure grants received in the year under review were adjusted to Rs.83,855,995 instead of Rs.34,498,559 and the repayment of long-term debt was not adjusted to Rs.4,694,400	That step is being taken to correctly prepare cash flow.	The cash flow statement should be prepared in accordance with the standard.
(d)	In accordance with paragraph 3.32 of Chapter 3 of the Standard, in calculating cash flow from operating activities in the statement of cash flows, interest income was adjusted to Rs.209,272,419 instead of Rs.34,264,601 during the year under review, and the decrease in receivables from non-exchange transactions was adjusted to Rs.267,931,399 instead of Rs.117,076,278.	That step is being taken to correctly prepare cash flow.	The cash flow statement should be prepared in accordance with the standard.
(e)	In accordance with paragraph 9.5 of the standard, depreciation (expense) was recognized using the declining balance method, but amortization (income) was recognized using the straight-line method.	That step is being taken to correct the financial statements for the year 2025.	Financial statements should be prepared accurately according to standards.

1.6.2 Accounting Policies

	Audit Observation	Comments of the Sabha	Recommendation
(a)	The depreciation policy for roads, bridges and culverts was contrary with the depreciation policy for other property, plant and equipment. Furthermore, the depreciation policy followed for roads, bridges and culverts was not disclosed in the financial statements.	The value identified during the revaluation was not depreciated, and that was disclosed in the financial statements.	The policies followed should be disclosed in the financial statements.
(b)	Stamp duty and court fines, which were accounted for on an accrual basis until the previous year, were accounted for on a cash basis in the year under review, and therefore 2 accounting policies were based.	Only money received during the year is recognized as income for the year.	If accounting policies are changed, they should be disclosed in the financial statements and the value shown in the financial statements should be confirmed by the audit.

1.6.3 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Although the depreciation for property, plant and equipment for the year under review was Rs.22,936,235, it was stated as Rs.23,151,875, thus the surplus was understated by Rs.215,640.	That step will be taken to correct by the financial statements for the year 2025.	Correct values must be accounted.
(b) In the comprehensive income statement for the year under review, project income of Rs.251,896 was shown under interest income under the charge from exchange transactions.	That step will be taken to correct by the financial statements for the year 2025.	Accounts must be classified correctly.
(c) Although Rs.71,264,235 should have been shown as comprehensive income for the year after deducting the capital expenditure identified in surplus or deficit from capital expenditure grants under other comprehensive income in the comprehensive income statement, Rs.167,842,105 had been shown.	That step will be taken to correct by the financial statements for the year 2025.	Correct values must be accounted
(d) The cost of Rs.882,000 incurred for setting up and networking telephone connections had been accounted for as an expense of the year instead of being capitalized.	That step will be taken to correct by the financial statements for the year 2025.	Capital and recurring expenses should be accurately identified and accounted.
(e) A jeep worth Rs.2,800,000, which was assigned by a ministry in the year 2023, was recorded as a grant in the year 2024. The jeep was not depreciated in the year 2024 and Rs.112,000 was recognized as income. The expenditure of Rs.1,398,950 incurred in the year 2024 was capitalized.	That step will be taken to correct by the financial statements for the year 2025.	Accurate accounting must be done.
(f) Regarding the new building of Salmal Uyana Pre-School, only Rs.429,346 worth of work had been completed, while Rs.3,870,109 had been transferred from the work in progress account to the building account by the end of the year 2024.	That step will be taken to correct by the financial statements for the year 2025.	Accurate accounting must be done.

(g)	The balance of the work in progress account and the creditors' account had been overstated by Rs.7,546,528 due to the debit of Rs.8,142,531 to the work in progress account instead of Rs.596,002 for the work done on a crematorium that had been stopped midway.	That step will be taken to correct by the financial statements for the year 2025.	Accurate accounting must be done.
(h)	Fixed assets totaling Rs.718,605 purchased during the year 2024 had not been capitalized.	That step will be taken to capitalize and correct by the financial statements for the year 2025.	Assets must be accounted correctly.

1.6.4 Unauthorized Transactions

Audit Observation	Comments of the Sabha	Recommendation
An amount of Rs.49,750 had been cut off from the outstanding balance of environmental licenses dating back to the year 2020 without any approval.	Approval has been obtained from the Administrative and Management Committee held on 18 June 2024.	Proper approval must be obtained.

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
Sections 127 and 128 of the Pradeshiya Sabha Act No. 15 of 1987 and Section 3 of the Cemeteries and Burial Grounds Ordinance	Steps had not been taken to determine the boundaries of 05 cemeteries located within the council area of authority, transfer them to the council and gazette them.	The Department of Surveying has currently taken steps to obtain the delimitation for those 05 cemeteries.	Take overs should be carried out promptly.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over expenditure of the Sabha for the year ended 31 December 2024 amounted to Rs. 85,936,778 as compared with the excess of revenue over expenditure amounted to Rs.73,425,256 in the preceding year.

2.2 Financial Control

Audit Observation	Comments of the Sabha	Recommendation
As at 31 December 2024, the council had a current account of Rs.148,125,670. Necessary steps had not been taken to invest this money temporarily in a short-term deposit and earn interest income.	That the investment was made in the Money Market account as at 06 February 2025.	Investments should be made in recognized investments

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 Secretary is shown below.

Source of Revenue	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
	'000	'000	'000	'000	'000	'000	'000	'000
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
i.Rates and Taxes	73,537	54,805	58,132	53,330	68,757	48,736	49,212	60,684
ii.Rent	52,006	13,232	18,307	33,355	11,889	11,530	12,243	34,948
iii.License fees	1,920	245	1,797	144	1,450	600	1,149	-
iv.Other Revenue	134,096	-	141,011	-	8,511	3,567	3,567	-
Total	<u>261,559</u>	<u>68,282</u>	<u>219,247</u>	<u>86,829</u>	<u>90,607</u>	<u>64,433</u>	<u>66,171</u>	<u>95,632</u>

2.3.2 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
(a) The value of outstanding rates and taxes as at the end of the year under review was Rs.53,329,966.	The outstanding rates amount for 15 government properties is Rs.2,873,065.	Action should be taken to recover the outstanding balance.
(b) As at 31 December 2024, Rs.16,435,900 was to be collected from the 146 shops of the council.	Action will be taken to recover these outstanding balances in 2025.	Action should be taken to recover the outstanding balance.

(c)	The outstanding house rent of Rs.14,492,098 relating to the previous year and Rs.2,814,456 relating to the year under review had not been recovered even at the end of the year under review.	That step will be taken to recover the outstanding amount.	Action should be taken to recover the outstanding balance.
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3. Operational Review

3.1 Performing of Functions Enacted 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 Sabha under Section 3 of the Pradeshiya Sabha Act are shown below.

	Audit Observation	Comments of the Sabha	Recommendation
(a)	According to the action plan prepared for the year under review, an activity was also included to pass new by-laws during the year. However, the Council had not passed any by-laws during the year 2024.	21 draft by-laws were adopted proposals at the monthly general assembly held on 14 October 2021.	Relevant adoption should be made.
(b)	Although the council had received 307 complaints under each of the categories of general public complaints, unauthorized constructions and dangerous trees, 146 of them had not been resolved by the end of the current year.	There are still 146 to be resolved.	Complaints should be resolved promptly.

3.2 Uneconomic Transactions

	Audit Observation	Comments of the Sabha	Recommendation
	During the year under review, the council had carried out an unproductive development activity around a land belonging to the Urban Development Authority at a cost of Rs.1,985,313.	This project was undertaken as the council had no other place to park vehicles.	Before carrying out development activities, steps should be taken to take over ownership of the land.

3.3 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
The fixed asset register had not been updated.	That work has been done to update.	Asset records must be maintained up to date.

3.4 Operational Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
The upcoming programs of technical officers, revenue inspectors and work superintendents had not been approved in the month before the relevant month. It was also stated that duties were performed even on holidays while preparing the subsequent programs.	If fingerprints are not recorded on the machine when receiving programs after the due date, steps will be taken to record the days as leave.	The duties of field officers should be properly supervised.

3.5 Human Resources Management

Audit Observation	Comments of the Sabha	Recommendation
The number of surplus employees arising from Public Administration Circulars No. 25/2014 and No. 29/2019 and the recruitments dated 01 July 2024 was 106. It was observed that these appointments were not included in the approved staff as a surplus employee.	That step will be taken in accordance with Section 71 of the Act to include the approved staff.	Approvals must be obtained.

4. Accountability and Good Governance

4.1 Internal Audit

Audit Observation	Comments of the Sabha	Recommendation
A sufficient internal audit had not been conducted regarding the construction, industries, public facilities, and lands and buildings of the council for the year 2024.	It is planned to be carried out in 2025.	Internal audits should be conducted to cover all divisions..

4.2 Budgetary Control

Audit Observation	Comments of the Sabha	Recommendation
(a) The total estimated provisions of Rs.34,978,053 related to 30 recurrent expenditure items remained.	That the relevant provisions have been remain due to the not generate Expenses.	The allocation of provision and utilization should be done formally.
(b) Although the estimated allocation for development activities in the current year was Rs. 99,090,400, Rs.15,370,318 of it had not been utilized.	That an amount of Rs.83,720,081 had been spent.	The budget document should be used as a control tool.

4.3 Environmental Problems

Audit Observation	Comments of the Sabha	Recommendation
Although the Council had maintained a compost yard as per Section 59 of Chapter 6 of the Municipal Solid Waste Management Rules No. 01 of 2008 of the Western Province, it was not sufficient to produce compost from the entire biodegradable waste in the area of the authority. However, the Council had not paid attention to other alternative methods such as expanding the compost yard or producing biogas using waste.	That installing a biogas unit is a futile action.	Waste management activities should be carried out systematically.

4.4 Sustainable Development Goals

Audit Observation	Comments of the Sabha	Recommendation
Although activities had been planned until 2024 to achieve the Sustainable Development Goals, their progress had not been monitored.	A progress review will be conducted in 2025.	Progress in achieving objectives should be reviewed.