

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Chavakachcheri Urban Council including the financial statements for the year ended 31 December 2024 comprising the Balance Sheet as at 31 December 2024, Income and Expenditure Account, Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, under my direction in pursuance of provisions in Article 154 (1) of the constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 181(1) of the Urban Councils Ordinance 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 Chavakachcheri Urban Council as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Practices.

1.2 Basis for Qualified Opinion

I expressed qualified opinion on the matters described in paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Practices, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Urban Council's financial reporting process.

As per 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 cost of the second phase of the building complex constructed with the Local Development Support Project Fund was Rs.11,406,762, which was stated as Rs.9,306,216 in the financial statements.	Steps will be taken to include the financial statements for the year 2025.	Financial statements should be prepared accurately.
(b) Three capital works valued at Rs.33,550,333 completed during the year under review had not been capitalized.	-Do-	Accounts should be prepared accurately.
(c) An estimated cost of Rs.21,646,522 related to 10 construction works that had not been completed was accounted for as creditors.	These outstanding amounts will be settled by making payments.	-Do-

1.6.2 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
There was a difference of Rs.4,285,614 between the balance as per the financial statements and the corresponding balances in the records for 03 subjects.	That adjustments will be made to the financial statements for the year 2025.	The balances in the financial statements should be comparable with the relevant source documents.

1.7 Non-compliances

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Section 160(1) of Chapter 255 of Urban Council Ordinance Act	“K” form had not been issued for 3,034 properties out of 11,527 properties that are to be recovered rates and tax by the Council in the year under review.	The forms were unable to distribute due to property owners being abroad and residing in other regions.	Actions should be taken according to the provisions of the Act.

- (b) Special Provisions on Local Government Institutions, No. 48 of 1971 Although immovable properties located in urban areas were to be assessed once every 5 years for rates and levy of taxes, rates and levy of taxes were based on a total of 11,527 properties assessed in 2013. Further steps will be taken to revalue the property. Action should be taken in accordance with the provisions of the Act.
- (c) Section 11 of Part I of the Gazette Extraordinary No. 2235/54 dated 08 July 2021 of the Urban Development Authority of the Democratic Socialist Republic of Sri Lanka Steps had not been taken to charge extension fees of Rs.1,100,000 for 265 buildings that had not been obtained certificates of confirmation. Steps are being taken to charge extension fees for buildings that have not obtained compliance certificates. In accordance with the provisions of the Act, arrangements should be made to charge fees for extension of time.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2024 amounted to Rs.86,004,086 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 76,124,474 in the preceding year.

2.2 Revenue Administration

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

Information relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

		2024				2023			
	Source of Income	Revenue Estimated	Billed Revenue	Revenue Collected	Revenue Collected	Estimated Revenue	Billed Revenue	Revenue Collected	Arrears as at 31 December
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i)	Rates and Taxes	7,200,000	19,445,891	7,603,668	11,842,223	7,430,000	22,068,154	9,056,496	13,011,663
(ii)	Rent	31,985,400	33,491,969	32,692,189	799,780	25,164,600	39,285,394	38,385,541	899,849
(iii)	Licence Fee	1,021,500	1,424,745	1,424,745	0	984,500	1,048,528	1,048,528	0
(iv)	Other Revenue	<u>47,033,500</u>	<u>46,539,197</u>	<u>46,488,464</u>	<u>50,733</u>	<u>30,607,500</u>	<u>64,027,063</u>	<u>45,635,161</u>	<u>18,391,902</u>
	Total	<u>87,240,400</u>	<u>100,901,802</u>	<u>88,209,066</u>	<u>12,692,736</u>	<u>64,186,600</u>	<u>126,429,144</u>	<u>94,125,731</u>	<u>32,303,414</u>

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the council	Recommendation
The outstanding rates balance of Rs.10,229,606 as at the end of the year under review due from 6,008 properties, out of which Rs.5,029,388 from 1,805 properties over 10 years old and a balance of Rs.306,304 was more than 10 years. Similarly, a stamp duty balance of Rs.3,866,215 was over 14 years old.	Action will be taken to collect the arrears.	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 deposited the balance of Rs.87,000,000 in the Fixed Deposit Account for the year under review had been invested in fixed deposits with the aim of earning interest income without taking any action to utilize it for development work related to public utility services.	Development works will be implemented after obtaining the relevant approvals.	Steps should be taken to implement development activities related to public utility services.
(b) By the end of the year under review, steps had not been taken to implement 08 projects estimated at a total cost of Rs.31,564,203, which were planned to be implemented by using the Development Funds of the Council in the year under review and previous years.	Steps have been taken to implement the tasks.	Steps should be taken to implement the planned activities within the stipulated time frame.
(c) Approximately Rs.3,056,000 in revenue had been lost due to non-payment of rent from 02 shops owned by the council.	Although the council called for tenders, no one submitted a bid	Steps should be taken to lease appropriately.
(d) Steps had not been taken to transfer 38 non-refundable bid deposits totalling Rs.34,071,000 to revenue.	It cannot be transferred to income due to acts contrary to agreements.	Appropriate action should be taken to recover it as revenue for the council.

3.2 Operational Inefficiencies

Audit Observation	Comments of the council	Recommendation
Although a Certificate of Conformity (COC) should be issued after confirming that buildings have been constructed according to Section 15(1) of the Housing and Town Improvement Ordinance No. 15 of 1915, Certificates of Conformity had not been issued for 265 development permits granted for building construction by the end of the year reviewed.	Notification has been issued to obtain certificates of compliance.	Steps should be taken to issue a certificate of conformity.

3.3 Assets Management

Audit Observation	Comments of the council	Recommendation
(a) Steps had not been taken to repair and reuse 02 vehicles that had been idle for a period of 01 to 05 years.	Steps have been taken to repair it.	Steps should be taken to repair and reuse.
(b) Although 114 equipment in main store stock such as aluminum, tarpaulin, electric motors, and water tanks valued at Rs.7,907,786 were recorded in the inventory schedule of the Council, they were not physically available.	Further action is being taken.	An investigation into the matter should be conducted promptly and appropriate action should be taken.
(c) Six lands and 29 wells totalling Rs.72,150,000 had been included in the financial statements as fixed assets, but they had not been owned by the Council.	Action has been taken to acquire to the Council.	Ownership of the assets should be settled.
(d) Eight buildings on lands not owned by the council had been renovated at a cost of Rs.7,270,377 in contrary to paragraph 1.1 of the Finance Commission Circular No. 2016/01 of 30 December 2015.	Actions have been taken to obtain title deeds.	Action should be taken according to the circular.

3.4 Defects in Contract Administration

Audit Observation	Comments of the council	Recommendation
Although details of Value Added Tax (VAT) payments must be notified to the Commissioner General of Inland Revenue with a copy to the Auditor General before the 15 of the following month after making such payments according to guideline 5.4.12 of the Procurement Guidelines of	Necessary steps have been taken to send it to the relevant institutions in the near future.	Action should be taken in accordance with the procurement guidelines.

the Democratic Socialist Republic of Sri Lanka, 96 VAT payments amounting to Rs.9,060,292 were made during the year under review, the Council had failed to notify the relevant parties regarding these payments.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comments of the council	Recommendation
Due to the fact that there were variations from 15 percent to 41 percent in 05 revenue items, from 12 percent to 86 percent in 05 expenditure items and 31 percent in one capital expenditure item when comparing the estimated revenue and expenditure with the actual revenue and expenditure according to the budget prepared for the year under review, the budget had not been used as an effective management control tool.	The fluctuations were due to unexpected income and high expenses.	Needs should be identified and the budget should be prepared carefully.

4.2 Environmental Observations

Audit Observation	Comments of the council	Recommendation
(a) Approval had been granted by the Council to 56 industrial establishments that were engaged in commercial activities without obtaining trade licenses in accordance with the National Environment Act No. 47 of 1980, as amended by Acts No. 56 of 1988 and No. 53 of 2000, and the regulations in force thereunder.	They will be issued an environmental permit after receiving a satisfactory report.	Steps should be taken to renew trade licenses in accordance with the National Environment and the regulations in force thereunder.
(b) In the year 2016, for the production of organic fertilizers under Pilisaru Project, A land at a cost of Rs.4.69 million and a donated garbage grinding machine remained unused and damaged. Also, the collected waste had not been classified into biodegradable and non-biodegradable and had been dumped of in an informal manner at the solid waste centre.	Action has been taken.	Attention should be paid to the proper management of solid waste and the production of organic fertilizer.
(c) In the area selected for disposal of solid waste, effective measures had not been taken to control mosquito breeding by spraying mosquito oil and removing the odor for the last 02 years.	Action is currently being taken.	Garbage should be disposed of in an eco-friendly manner.