Beruwala Urban Council - 2024
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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Beruwala Urban Council including the financial statements 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 provisions in Sub- Section 10 (1) of the National Audit Act No 19 of 2018, Sub-Section 181 (1) of the Urban Council Ordinance (Chapter 255). 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 Beruwala 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

My opinion is qualified 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 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 of the Urban council had been procured and economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Report on Other Legal Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

(a) Financial Statements of the Urban Council as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.

(b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Non-compliance with Sri Lanka Public Sector Accounting Standard for Local Authorities

	Non-compliance with reference to relevant standard	Comment of the Sabha	Recommendation
(a)	According to paragraph 3.36 (a) of Section 3 of the Standard, when disclosing the measurement basis used in preparing the financial statements, it had been stated that the annual depreciation rate of fixtures and fittings is 10 percent. However, those assets had been depreciated at 20 percent in the financial statements, resulting in overstatement of depreciation on fixtures and fittings by Rs. 237,365.	It will be corrected from the final account of the year 2025.	Financial statements should be prepared in accordance with the Public Sector Accounting Standards for Local Authorities
(b)	The cash flow statement for the year had not been prepared in accordance with paragraphs 3.28 to 3.32 of Chapter 3 of the Standard.	-Do-	The Cash flow statement should be prepared in accordance with the Public Sector Accounting Standards for Local Authorities.
(c)	Although the carrying amount of the classifications appropriate to the volatility should be disclosed in accordance with paragraph 5.14 (b) of Chapter 5 of the Standard, although the closing stock was classified by category under Note 15 to the financial statements, only the total value was stated without showing its values separately.	-Do-	Financial statements should be prepared in accordance with the Public Sector Accounting Standards for Local Authorities.

(d)	According to paragraph 9.9 and 9.14 of Chapter 9 of the Standard, transfers made by the government for capital expenditure and transfers made by the other parties for capital expenditure should be recognized in other comprehensive income. Further, amounts recognized as contributions should be deducted from Other Comprehensive Income when recognized as income. However, neither the Statement of Other Comprehensive Income nor the relevant Notes 05 and 10 disclosed such recognition.	It will be corrected from the final account of the year 2025.	Financial statements should be prepared in accordance with the Public Sector Accounting Standards for Local Authorities.

1.6.2 Accounting Deficiencies

	Audit Observation	Comment of the Sabha	Recommendation
(a)	Capital grants and property, plant and equipment were understated by the amount of Rs. 5,883,532 received for culverts, roads and buildings for the year under review due to non-accounting of capital grants.	Action have been taken to correct the journal entries of the year 2025.	The accounts should be prepared correctly.
(b)	Although Rs. 25,997,887 was credited as a creditor at the end of the year under review, it was adjusted to Rs. 23,940,802 in the ledger account.	This will be corrected in the final accounts of 2025.	The journal entries should be adjusted correctly to the ledger accounts.
(c)	The surplus of the year under review had been understated by Rs. 3,836,471, due to fixed deposit interest of Rs. 3,836,471 had not been shown as income for the year under review.	-Do-	Accounts should be prepared correctly.
(d)	Due to Inventory of Ayurvedic drugs valued at Rs. 890,377 as at 31 December had not been accounted, current assets had been understated by that amount.	-Do-	Accounts should be prepared correctly.
(e)	When correcting the error of December salaries of the previous year amounting to Rs. 6,922,374 had been recorded as salaries receivable amounting to Rs. 7,633,433, only amounting to Rs. 6,922,374 had been adjusted. Therefore, accumulated fund	-Do-	Journal entries should be prepared correctly.

	balance and current assets of the year under review had been overstated by Rs. 711,059.		
(f)	In accounting for the value of capital grants that should have been recognized as income in respect of the year under review, instead of debiting the capital grants account and crediting the government transfer account for non-recurring expenses, the total amount of Rs. 743,111 had been debited to the work in progress account and credited to the accumulated fund.	This will be corrected in the final accounts of 2025.	Journal entries should be prepared correctly.
(g)	According to records of the sabha, capital grants amounting to Rs. 933,996 should have been recognized as income for the year under review, but Rs. 1,000,000 had been shown in the Statement of Comprehensive Income, thereby overstating the surplus by Rs. 66,004.	Answers were not given.	Accounts should be prepared correctly.
(h)	Although the previous year's over-allocation of Rs. 130,322 to creditors should have been debited and the accumulated fund account should have been credited, the creditors' balance and the accumulated fund balance were overstated by Rs. 260,644 respectively due to the debiting of the accumulated fund account and the crediting of the creditors' account.	This will be corrected in the final accounts of 2025.	Journal entries should be adjusted correctly.
(i)	Although the depreciation of library books for the year under review should have been Rs. 434,482 as per Note No. 16 and Accounting Policy No. 3.5, the surplus for the year was overstated by Rs. 237,306 due to it being recorded as Rs. 197,176.	This will be corrected in the final accounts of 2025.	Journal entries should be adjusted correctly.
(j)	When correcting the error of accumulated depreciation amounting to Rs. 143,002 of 08 trailers that were disposed in the year 2022 was not removed from the provision of depreciation account, instead of debiting the depreciation allocation account and crediting the accumulated fund account, the accumulated fund account had been debited and the reserves and provision account was credited.	Answers were not given.	Journal entries should be adjusted correctly.

(k)	The surplus had been understated by Rs. 56,826 due to income received for the months of October and December for the surplus electricity units generated by the solar panel, Rs. 27,170 and Rs. 29,656 respectively had not been accounted.	This will be corrected in the final accounts of 2025.	Accounts should be prepared correctly.
(l)	When correcting the error of not capitalizing cost of constructing Joseph Cooray Mawatha, which was completed in 2023 at a cost of Rs. 1,007,821, using capital grants and council funds of Rs. 1,000,000 and Rs. 7,821 respectively, Rs. 1,007,821 had been credited to the accumulated funds account.instead of crediting the capital grants account and the accumulated funds account with Rs. 1,000,000 and Rs. 7,821 respectively.	-Do-	Journal entries should be adjusted correctly.
(m)	It had been shown opening balance of the accumulated fund amounted to Rs. 601,852,761 as prior period adjustments in the Statement of Changes in Equity. Further, instead of showing the surplus of the year Rs. 7,694,809 it had been adjusted comprehensive income amounting to Rs. 6,970,556.	-Do-	Accounts should be prepared correctly.
(n)	According to the Statement of Financial Position as at 31 December of the year under review, net assets should have been Rs. 670,709,699. However it had been shown as Rs. 663,739,149 and according to the Statement of Changes in Equity, net assets balance at that date had been shown as Rs. 608,823,318.	-Do-	-Do-
(o)	Government and private capital grants received for the year under review amounting to Rs. 5,883,532 and Rs. 5,823,500 respectively, totaling Rs. 11,707,032, had not been disclosed under other comprehensive income in the comprehensive income statement.	This will be corrected in the final accounts of 2025 .	Accounts should be prepared correctly.

1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comment of the sabha	Recommendation
There was unreconciled difference of Rs. 31,563,396 between the 07 accounts balances in the financial statements and the balances of schedules/ledgers had not been identified and corrected.	It will be corrected in the year 2025.	Action should be taken to find out the reasons for the differences and correct them.

1.6.4 Lack of evidence for audit.

Audit Observation	Comment of the sabha	Recommendation
The management had been failed to prepare schedules and time analysis for 03 accounting subjects totalling Rs. 8,983,161 and submitted to audit. That.	The schedules will be prepared in the future.	The schedules should be maintained.

1.7 Non-compliance with Laws, Rules, Regulation and Management Decisions

Instances of Non-compliance with Laws, Rules, Regulation and Management Decisions are shown below.

Reference to laws, rules, regulations and management decisions	Non-compliance	Comment of the Sabha	Recommendation
Financial Regulations of the Democratic Socialist Republic of Sri Lanka 1646.	The monthly summary and running charts in respect of 17 vehicles had not been submitted to the Auditor General**.**	Monthly summaries have been submitted up to 28 February 2024 and other summary reports will be submitted.	Action should be taken in accordance with Financial Regulations.

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. 7,694,809 as compared with excess of revenue over expenditure amounted to Rs.502,179 in the preceding year.

2.2 Financial Control

The credit balance of Rs. 310,601 in the People's Bank Current Account which had been inoperative since 2017 without any transactions, had not been reviewed and action had not been taken to close that account during the year under review.

2.3 Revenue Administration

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

According to the information presented by the Secretary, estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year are as follows.

		2024				2023			
	Source of Revenue	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)	Estimated Revenue (Rs)	Revenue billed (Rs)	Revenue Collected (Rs)	Arrears as at 31 December (Rs)
(i)	Rates and Taxes	21,143,319	21,288,975	12,663,573	18,985,255	20,906,576	20,906,576	13,698,866	16,458,437
(ii)	Rent	13,117,100	17,754,300	16,803,350	9,974,805	22,546,242	22,546,242	15,333,131	10,448,792
(iii)	License Fees	1,785,000	2,001,600	2,002,400	(800)	1,806,800	1,806,800	1,781,600	78,200
		36,045,419	41,044,875	31,469,323	28,959,260	45,259,618	45,259,618	30,813,597	26,985,429

2.3.2 Performance in Revenue Collection

Observations regarding the revenue collection performance of the Council are given below.

	Audit Observation	Comment of the sabha	Recommendation
(a)	**Rates**		
(i)	The arrears of rate in the beginning of the year was Rs. 16,458,437 and Rs. 10,359,853 or 63 percent had not been collected during the year.	A portion of the rate of tax has been collected in the year 2025.	Action should be taken to collect the arrears expeditiously.
(ii)	The annual billing was Rs. 21,288,975 and Rs. 8,625,402 or 41 percent of it had not been collected during the year.	A part of the assessed tax had been collected in the year 2025.	Action should be taken to collect the current year income.
(b)	**Rents**		
(i)	The total arrears of the butcher shop rent for the year under review amounted to Rs. 8,228,301 and no amount had been	That legal action has been taken.	Action should be taken to collect the arrears expeditiously.

	collected during the year.		
(ii)	Although the annual estimate of the butcher shop rent for the year under review was Rs. 500,000 the annual billing was Rs. 4,801,200 resulting in a variance of Rs. 4,301,200 or 860 percent between the estimate and the billing.	There is variability due to competitive tender prices being submitted	Action should be taken to minimize the variability between the estimated value and the actual .

3. Operational Review

3.1 Management Inefficiency

Audit Observation	Comment of the sabha	Recommendation
Advance account balance of Rs. 411,100 as at 31 December had been included unresolved balance of Rs. 104,244 which had been outstanding since 1999 and no action was taken to settled it during the year under review.	Governor has been directed to obtain approval to write off.	Action should be taken to settle the balance.

3.2 Operational inefficiencies

Audit Observation	Comment of the sabha	Recommendation
Although the management of the Beruwala Inn was given to the Urban Development Authority by the Special Gazette No. 105/03 dated 09 September 1980, the Council is unable to take legal action against the non-payment of the deficit of Inn rent amounting to Rs1,395,554 as at 31 December of the year under review due to non-availability of written agreement regarding that.	All documents were destroyed by the fire in the archives in year 1984.	Legal arrangements should be made to collect the inn charges.

3.3 Disputed Transactions

	Audit Observation	Comment of the sabha	Recommendation
(a)	Beruwala Urban Council had purchased 28 computer software systems from a private institution on 26 August 2019, 13 January 2020 and 03 June 2020 amounting to for, Rs.		

	4,595,000, Rs. 2,995,000 and Rs. 4,350,000 respectively, valued of of Rs. 11,940,000 and the following observations are made in this regard.		
(i)	Although a total of Rs. 900,000 was spent to acquire software for allocating sports fields and town halls online, these systems had not been implemented due to the lack of sports field facilities and a town hall.	inquiries had been made from that institution regarding the possibility of acquiring other software.	Sabha funds should not be spent on non-financial activities.
(ii)	17 out of the 28 computer systems purchased had not been implemented and the computer software that had been implemented had not been utilized with the expected efficiency as at end of the year under review. The sabha had not taken action for occured a financial loss of nearly Rs. 6,895,000 in accordance with Financial Regulations 104 and 156 against the parties responsible for purchasing unnecessary software without having sufficient physical and human resources and making payments contrary to the terms of the agreement.	sabha will be taken action in accordance with financial regulation if this software cannot be implemented properly after correcting the deficiencies.	Action should be taken in accordance with Financial Regulations .
(b)	Although the Assistant Commissioner of Local Government had informed on 06 April 2022 to take action in terms of Section 184 of the Municipal Councils Ordinance No. 255, as the former Chairman of the Beruwala Municipal Council had developed a road belonging to the Beruwala Pradeshiya Sabha area, which does not fall within the jurisdiction of the Beruwala Municipal Council, no action had been taken even by the end of the year under review.	Sufficient advice had not been received from the Department of Local Government. on this matter.	Follow-up must be done by the Local Government Commissioner's Office and take action as per the referenced section.

3.4 Idle or underutilized property, plant and equipment

Audit Observation	Comment of the sabha	Recommendation
The bodybuilding centre located in Beruwala, Maradana with body building equipment worth Rs.1,075,410 had been idle since 2023 due to the absence of a body building coach and there was a risk getting rapid corrosion due to the direct exposure of the body building equipment to the sea wind .	It will be installed after the completion of the construction work on the upper floor of Ayurveda building.	Action should be taken to establish a bodybuilding center, ensure the safety of the equipment, and generate income..

4. Accountability and Good Governance

4.1 Sustainable Development Goals

Audit Observation	Comment of the sabha	Recommendation
Although Rs. 2,716,000 had been allocated to achieve 07 sustainable goals, 04 sustainable development goals for which Rs. 300,000 had been allocated had not been achieved.	Procurement activities are ongoing.	Action should be taken to achieve the goals.