

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Nuwaraeliya Municipal Council for the year ended 31 December 2024 comprising with the Balance Sheet as at 31 December 2024 and Income and Expenditure Account, 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 section 219 of the Municipal Councils Ordinance (Chapter 252) and sub-section 10 (1) of 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 Nuwaraeliya Municipal Council as at 31 December 2024, and of its financial performance for the year then ended in accordance with Generally accepted Accounting Practices

1.2 Basis for Qualified opinion

Based on the matters described in Paragraph 1.6 of this report, I express a qualified opinion on the financial statements

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 Municipal Council's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Municipal 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 Municipal Council, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Municipal Council has complied with applicable written law, or other general or special directions issued by the governing body of the Municipal Council ;
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources of the Municipal 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 includes specific provisions for following requirements.

- (a) The financial statements of the Municipal 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) Interest income receivable on two fixed deposits totalling Rs.8,213,313 for the year under review had not been accounted for.	The correction will be made when preparing the final accounts for 2025.	Accounts should be prepared correctly.
(b) Although the total amount of fixed deposit interest received during the year under review for the previous year of Rs 9,763,951 was correctly debited to the investment account, the investment interest receivable account was over-credited by Rs. 4,979,182, amounting to Rs. 14,743,133.	The correction will be made when preparing the final accounts for 2025.	Accounts should be prepared correctly.
(c) Although the interest income on the SWEEP account of Rs. 3,208,898, which had been directly credited to the bank in previous years and during the year under review, had been debited to the cash book in the year under review, it had not been credited to the accumulated fund and the income for the year.	The correction will be made when preparing the final accounts for 2025.	Accounts should be prepared correctly.
(d) 02 dishonoured cheques of Rs.264,321 as at the end of the year under review had not been accounted for under debtors.	The correction will be made when preparing the final accounts for 2025.	Accounts should be prepared correctly.
(e) The penalty fee of Rs.169,614 which was 10 percent for 31 dishonoured cheques relating to the year under review had not been accounted for.	The correction will be made when preparing the final accounts for 2025.	Accounts should be prepared correctly.

1.6.2. Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
As at the end of the year under review, difference of Rs.3,933,871 were observed when comparing the balances of 05 accounts in the financial statements with the balances shown in the schedules.	The correction will be made when preparing the final accounts for 2025.	The balances shown in the schedule should be reconciled with the account balance.

1.7 Non- Compliances

Non-compliance with Laws, Rules and Regulations

Non-compliance with Laws, Rules and Regulations are as follows.

	Reference to Laws, Rules Regulations	Non Compliance	Comments of the Council	Recommendation
(a)	Parliament Acts			
	Municipal Council Ordinance (Chapter 252)			
	Sections 247 (a) to (c)	As of the end of the year under review, trade licenses totalling Rs. 851,200 had not been issued for 125 trading entities.	Action will be taken to recover the arrears amount.	Trade licenses should be issued within the stipulated time.
(b)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
i.	F.R. 571 (3)	525 lapsed deposits totalling Rs.18,733,995 for the period 2009-2022 had not been settled.	Action will be taken to credit into income in the future.	Lapsed deposits must be settled.
ii.	Sections 371 (2) (b) and 05 of the Public Finance Circular No. 03/2015 dated 14 July	Although the advance received should be settled within 10 days of completion of the work or	Preliminary investigations have been carried out and the reports have	The investigation should be completed promptly and the advances should be

2015 as amended	immediately after completion, the total advance amounting to Rs. 1,239,500 obtained by 06 officers over a period of 5 to 08 years had not been settled.	been forwarded to the Commissioner of Local Government for F.R. 104(3) investigation.	settled.
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(c) Other circulars

Paragraph 02 of the Management Audit Department Circular No. DMA/AMC/02/2021/02 dated 24th December 2021	The Internal Audit Division of the Municipal Council had not prepared an internal audit plan for the years 2023 and 2024.	The facts will be investigated and corrected.	An internal audit plan should be prepared.
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2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December amounted to Rs.139,945,011 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 231,769,227 in the preceding year.

2.2 Financial control

Audit Observation	Comments of the Council	Recommendation
The bank reconciliation statement prepared for the month of December of the year under review revealed that 29 unrecognized payments, unrecognized receipts and unrealized cheques totaling Rs. 5,234,580 had not been identified and settled.	Action will be taken to settle.	Unrecognized balances should be identified and corrected.

2.3 Revenue Administration

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

According to the information presented by the Commissioner of the Municipal Council 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

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.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Rates and Taxes	141,090,200	144,303,199	128,387,128	147,190,813	140,549,100	122,819,119	110,778,126	137,974,418
(ii) Rent	94,176,900	59,968,388	54,088,234	71,091,703	111,932,700	63,991,762	53,240,344	70,378,359
(iii) License Fees	23,901,500	23,733,248	14,698,788	41,532,447	22,252,000	26,908,286	25,343,036	34,341,807
(iv) Other revenue	272,454,048	492,990,679	498,485,834	116,873,476	439,352,100	105,425,835	38,853,911	108,658,328
	531,622,648	720,995,51	695,659,984	376,688,439	714,085,900	319,145,002	228,215,4	351,352,912

2.3.2 Performance in Revenue Collection

Audit Observation	Comments of the Council	Recommendation
<p>(a) Rates and Taxes</p> <p>As at the end of the year under review, there was a arrears of assessment of Rs. 87,438,688. Out of this, Rs. 18,653,230 from 81 units with a arrears exceeding Rs. 100,000 per unit, and Rs. 10,999,610 from 160 units with a arrears between Rs. 50,000 and Rs. 100,000 per unit, had not been collected in accordance with the provisions of Section 247 (a) (c) of the Municipal Council Ordinance.</p>	A program has been prepared to seize the properties and collect arrears in 2025.	Arrears of revenue should be collected promptly.
<p>(b) Rent</p> <p>i. As of the end of the year under review, there was total rent arrears of Rs.49,254,797 from 433 stalls. Out of these, 107 stall with rent arrears exceeding Rs.100,000 had a total of Rs.43,169,691 and 32 stalls with rent arrears between Rs.50,000 and Rs.100,000 had a total of Rs.2,238,136.</p> <p>ii. As of the end of the year under review, there was total rent arrears of Rs.3,772,934 from 41 stalls in Gregory Lake. Out of these, there was</p>	<p>Stall sealing and collection of arrears are carried out; further actions will be taken to write off the fake bills.</p> <p>Stall sealing and collection of arrears are carried out and a value of</p>	<p>Arrears of revenue should be collected promptly.</p> <p>Arrears of revenue should be collected promptly.</p>

total rent arrears of Rs.2,918,596 from 10 stall with the rent arrears in one stall exceeded Rs.100,000.

Rs.1,718,365 has been referred to the Hon. Governor for write off.

(c) License Fees

Out of the trade license fee income of Rs. 861,800 as at the beginning of the year under review, 87 percent that is Rs. 757,000, and Rs. 680,000 of the billed income for the year, had not been collected in accordance with the provisions of Section 247 (a) (c) of the Municipal Council Ordinance.

Action will be taken to write off the amounts billed for closed businesses entities and to file lawsuits against non-paying premises.

License fees should be collected within the relevant year.

(d) Court fines and Stamp duty

The court fines and stamp duty due from the Chief Secretary of the Provincial Council and other authorities as on 31st December of the year under review were Rs.411,664 and Rs.78,180,828, respectively.

The audit observations are accepted.

Arrears of revenue should be collected promptly.

(e) Other Income

- i. As of the end of the year under review, there was water bill arrears of Rs.37,784,304 from 5598 water consumers. Out of this, there was water bill arrears of Rs.11,781,696, from 48 consumers with an arrears of more than Rs.100,000 per consumer.
- ii. No amount had been collected from the outstanding advertisement board income of Rs.4,638,033 as at the beginning of the year under review and Rs.2,246,143 from the billed income for the year had not been collected in accordance with Section 254 (a) (1) of the Municipal Council Ordinance.
- iii. As of the end of the year under review, there was a total arrears boat rental income of Rs.6,607,712 from 23 boats in Gregory Lake, of which arrears from 04 boatmen whose arrears exceeded Rs.500,000 totalled Rs.5,218,799 and arrears of 05 boatmen whose arrears was between Rs.100,000 and Rs.500,000 totaled Rs.1,033,882.

Customers who are in arrears for more than three months will be charged by issuing red notices and disconnecting them.

Arrears of revenue should be collected promptly.

Reminders have been issued and legal action is being taken to remove the unpaid boards.

Arrears of revenue should be collected promptly.

The necessary steps will continue to be taken to collect the outstanding boat fees on a weekly basis.

Arrears of revenue should be collected promptly.

3. Operational Review

3.1 Fulfilment of 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 Municipal Councils Ordinance are shown below.

	Audit Observation	Comments of the Council	Recommendation
(a)	According to the report of the Standing Committee on Finance and Law held on 19 November 2020, a by-law on the regulation, control and charging of fees for the Gregory Lake boat service operated for commercial purposes was drafted and forwarded to the Commissioner of Local Government on 03 November 2022, but had not been passed by the end of the year under review.	The Local Government Commissioner has been informed to approve these by-laws, but there is a delay.	The relevant by-laws should be followed up and enacted.
(b)	The Council had not taken steps to enact by-laws to regulate pony racing, which operates as an income-generating industry, in accordance with Section 247 (a) (c) of the Municipal Council Ordinance.	The work on enacting a by-law will be carried out in the future.	By-laws should be enacted to regulate pony racing.

3.2 Management Inefficiencies

	Audit Observation	Comments of the Council	Recommendation
(a)	In order to maintain a food court (Hela Bojun Hala) in Victoria Park, it had been granted to the Department of Agriculture under an annual lease rent of Rs.430,000 in 2016, the arrears ground rent of Rs. 2,257,500 had not been collected for the period from 2016 to 2022.	The Department of Agriculture has agreed to assess and transfer this Hela Bojun Hala to the Municipal Council and the rent due will be set off against from the money to be paid for it.	Rental income should be collected.
(b)	Although the restaurant located in Victoria Park owned by the council had been leased through tender, Due to the inability to carry out the business properly as a result of not having properly prepared agreement and failure to provide the basic facilities to the lessee, the Municipal Council had lost Rs. 2,360,697 in rent for the period 2011 -2021	Lawsuits have been filed to recover outstanding tender installments from 2011 to 2021 and from August 1, 2023 to July 31, 2024, and further steps are being taken to release the overpaid amount to the	The arrears in tax should be collected and overpayments should be settled.

	and Rs. 4,083,800 in total tender income due from 01 January 2023 to 31 July 2024. Also, although the party that obtained the tender rent for the period from January 1, 2023 to December 31, 2023 had only traded for two months and had withdrawn from trading activities in May 2023, no steps had been taken to recover the losses incurred by the council from the annual tender amount and the instalment amount of Rs. 1,323,000 that had been paid up to that point and settle the remaining amount.	tenderer.	
(c)	From the year 2019 to the end of the year under review, A hotel registered with the Sri Lanka Tourism Board with 29 rooms, located on Haddenhill Road in the Municipal Council area, had been charged only a tax amount of Rs. 3,315 annually without correctly assessing the annual value and levying assessment tax. After issuing a re-inquiry on this matter, the property was provisionally assessed and the amount of assessment tax to be collected, including the outstanding annual tax from 2019 to 2020, was identified as Rs. 786,830, but that amount had not been collected.	Further steps will be taken to levy assessment taxes based on the temporary valuation of the property.	Assessments should be levied according to the new provisional valuation of the property.
(d)	The council had lost a large amount of revenue by collecting only Rs. 4,000 in annual assessment tax for a large commercial property with an area of 44,625 square feet located at the Glenfall of the Municipal Council area since 2019 without properly assessing the annual value.	This property will be assessed in conjunction with the main property in this location for the owner, and the outstanding taxes will be calculated and collected from 2019 onwards.	Property should be accurately assessed and assessment taxes should be levied.
(e)	Although certificates of conformity had been issued for the 16,000 square feet hotel with 32 rooms located within the Municipal Council area of authority, it had not been properly assessed and assessment tax had not been levied.	That the arrears of assessment tax due for the period during which the new assessment was implemented from the date the certificate of conformity was issued for the relevant building will be levied.	Property should be accurately assessed and assessment taxes should be levied.
(f)	The balance of general supply creditors due as at the end of the year under review was Rs.8,890,404. Of this, Rs.346,585 was over 05	Despite informing the relevant institutions, no requests have been	Creditor balances Should be settled.

	years and Rs.1,324,905 was between 2-4 years.	submitted for past payments.	
(g)	The total debtor balance at the end of the year under review was Rs.86,576,919. Therein, the total outstanding balance beyond 05 years was Rs.25,541,259, between 3 to 5 years was Rs.23,202,801 and between 1 to 3 years was Rs.11,701,993.	Actions are being taken to examine the facts and settle the values.	Receivable balances should be collected.

3.3 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Council	Recommendation
As of the end of the year under review, 05 vehicles worth a total of Rs. 2,157,500 had been remained idle or underutilized for a period of between 03 and 15 years, and 07 vehicles whose value could not be determined had been remained idle or underutilized for a period of between 02 and 17 years.	The relevant assets have been referred to the Valuation Department for an assessment in order of disposing it.	It should be repaired and used or disposed of.

3.4 Assets Management

Audit Observation	Comments of the Council	Recommendation
Non Acquired assets The ownership of 11 plots of land with buildings used by the Municipal Council had not been acquired.	Advice has been sought from the Divisional Secretary and the Land Commissioner regarding acquisitions.	The ownership of properties owned by the council should be taken over.

3.5 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
(a) When comparing the approved staff with the actual staff at the end of the year under review, there were 97 vacancies. Out of these, 14 vacancies were in the posts of Engineer, Revenue Inspector, Public Health Inspector and Management Service, which remained a severe obstacle to the proper functioning of the institution.	The number of vacancies has now been reduced to 97 and that necessary steps are being taken to fill the remaining vacancies.	Essential vacancies should be filled.

(b)	As of the end of the year under review, a total of Rs. 4,324,533 in employee loans had not been collected from 75 employees who had died, retired, been dismissed and transferred.	The employee loans of transferred officers are being collected through journals and monthly reduction.	Outstanding employee loans should be collected promptly.
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4. Accountability and good governance
Internal Audit

Audit Observation	Comments of the Council	Recommendation
Although the Internal Audit Unit of the Municipal Council was established under a Chief Internal Auditor and two Assistant Officers, the performance remained at a minimal level as only 04 internal audit reports were issued during the previous year and the year under review.	The audit work was delayed due to the fact that nearly 30 F.R. 104 (03) inspections were carried out and the audit work will be carried out properly in the future.	Internal audit should be implemented properly to strengthen internal control.