

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Thalawakele Lindula Urban 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 sub-section 181(1) of the Urban Councils Ordinance (Chapter 255) 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 the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Thalawakele Lindula Urban 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 this 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 Sub-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 to be prepared.

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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 the 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 the Urban Council 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) Financial statements of the Urban Council are consistent with the preceding year as required by 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 Recommendation Council | |
|-------------------|--|--|--|
| (a) | The purchase of a waste incinerator for a payment of Rs. 3,525,120 in the year 2022 was erroneously accounted for under creditors as of the end of the year under review. | The correction will be made when preparing the final account for 2025. | Accounts should be prepared correctly. |
| (b) | The total amount of Rs. 5,356,780 received for development projects and Ayurvedic medicine subsidy during the year under review should have been credited to the Capital Revenue Account, but the Income contribution for capital application Account had been credited. | -Do- | -Do- |
| (c) | While capitalizing furniture and fixtures and machinery and equipment totalling Rs. 4,162,755 purchased in the previous year, the capital contribution from income account should have been credited, but the accumulated funds account was erroneously credited. | -Do- | -Do- |
| (d) | Although the total purchase of furniture and fixtures, machinery and equipment and library books amounting to Rs. 1,108,581 during the year under review was only debited from the asset account and the cash was credited, the capital expenditure was not debited and the capital contribution from income account was not credited. | -Do- | -Do- |

1.6.2 Documentary Evidences not made available for Audit

| Audit Observation | Comments of the Recommendation Council |
|---|--|
| Due to the non-submission of the Development Projects Creditors' Register, Development Projects Debtors' Register and Advance Register, totalling Rs.33,326,185 relating to 03 subjects shown in the financial statements, it was not possible to satisfactorily verify during the audit. | Action will be taken to maintain accurate records Relevant documents must be prepared and submitted to verify account balances. |

1.7 Non- Compliances

Non-compliance with Laws, Rules, Regulations and Management Decisions

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

| Reference to Laws, Rules Regulations | Non-Compliance | Comments of the Recommendation Sabha |
|--|---|--|
| (a) Parliament Acts | | |
| Section 83.1 of part VI the Planning and Building Regulations, as amended under Section 21 of the Urban Development Authority Act, No. 41 of 1978, published in the Extraordinary Gazette Notification of the Democratic Socialist Republic of Sri Lanka No. 2235/54 dated 08 July 2021, read with Section 08 of that Act. | Certificates of conformity had not been issued for 47 development permits approved during the period from 2018 to 2022. | Steps will be taken to issue certificates of conformity. Certificates of conformity should be issued for buildings used for residential purposes. |
| (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka | | |
| F.R. 571(3) | Action had not been taken to settle 49 lapsed deposits of Rs.6,899,244 deposited between 2014 and 2022. | The arrangements are being made to settle the deposits. Lapsed deposits should be settled. |

(c) Urban Councils
Ordinance No. 18 of 1987
(Chapter 255)

Section 72 (1)

Necessary action had not been taken regarding 48 unauthorized constructions that had been discovered during the year under review. Instructions were given to suspend unauthorized construction and to legalize the construction. Necessary action should be taken regarding unauthorized construction.

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 for the year under review amounted to Rs.9,601,059 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 863,691 in the preceding year.

2.2 Revenue Administration

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

According to the information presented by the Secretary of the Sabha 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 | 6,480,000 | 7,195,606 | 7,625,814 | 4,238,567 | 6,460,000 | 6,177,380 | 5,267,314 | 4,668,775 |
| (ii) Rent | 7,104,000 | 8,909,279 | 10,858,768 | 4,687,577 | 7,733,500 | 11,042,794 | 10,869,206 | 6,637,066 |
| (iii) License Fees | 1,328,500 | 1,461,000 | 1,461,000 | - | 1,676,000 | 1,077,000 | 1,077,000 | - |
| (iv) Other revenue | 22,003,500 | 27,873,927 | 26,260,801 | 8,779,018 | 5,962,600 | 5,055,918 | 3,970,008 | 7,165,892 |
| Total | 36,916,000 | 45,439,812 | 46,206,383 | 17,705,162 | 21,832,100 | 23,353,092 | 21,183,528 | 18,471,733 |

2.2.2 Performance in Revenue Collection

(a) Rates and Taxes

Audit Observation

As at the end of the year under review, there was a balance of assessment arrears of Rs. 4,238,567, out of which Rs. 3,110,555 from 218 assessment units with a deficit of more than Rs. 5,000 per unit had not been collected in accordance with Section 170 of the Urban Councils Ordinance No. 18 of 1987.

Comments of the Recommendation Council

Further steps are being taken to collect the outstanding balance. Arrears of revenue should be recovered promptly.

(b) Rent

Audit Observation

As at the beginning of the year under review, there was a arrears of Rs. 3,788,963 in Rest house rent and as at the end of the year under review, there was a further arrears of Rs. 2,988,963, indicating that the recovery of the arrears remained at poor level.

Comments of the Recommendation Council

Further steps are being taken to collect the outstanding balance. Arrears of revenue should be recovered promptly.

(c) Other Income

Audit Observation

As of the end of the year under review, a total of Rs.477,000 in weekly fair fees had not been collected.

Comments of the Recommendation Council

Further steps are being taken to collect the outstanding balance. Arrears of revenue should be recovered promptly.

(d) Court fines and Stamp duty

Audit Observation

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.4,300,159 and Rs.4,250,760 respectively.

Comments of the Recommendation Council

Schedules will be submitted and fees will be collected. The arrears should be recovered.

3. Operational Review

3.1 Fulfilment of 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 are shown below.

Audit Observation

Comments of the Recommendation Council

Abounded Tasks

10 development projects totalling Rs.16,906,650 that were planned to be completed during the year under review were abandoned without being completed..

There is no financial provision for it until the end of 2024.

Projects should be planned by identifying the need and making provisions.

3.2 Management inefficiencies

Audit Observation

Comments of the Recommendation Council

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|-----|--|---|---|
| (a) | The total balance of 05 accounts receivable as at the end of the year under review was Rs.1,080,708. Therein, the balance over 5 years was Rs. 979,289. | Steps are being taken to recover the arrears of revenue. | Receivables should be collected. |
| (b) | Losses totalling Rs.3,065,427, identified through 04 Financial Regulation 104 (4) inspections conducted in previous years regarding losses and damages, had not been recovered from the parties recommended in the inspection reports for a period of between 1 ½ and 4 years. | Steps have been taken to recover it. | Recommendations in inspection reports should be implemented and enforced. |
| (c) | Although the 10-year lease period for the Wanigasekera Place daily fair in Thalawakelle expired on October 1, 2024, the building had not been taken back to the Urban Council. | Legal proceedings are being carried out. | Actions should be taken in accordance with agreements. |
| (d) | Although it has been over 11 years since the boats were purchased in 2013 at a cost of Rs. 761,900 to maintain a recreational boat service in the Upper Kotmale Reservoir, the relevant project has not been implemented. | Arrangements are being made to transfer the boats to another institution. | The reasons for non-implementation should be investigated and action should be taken. |
| (e) | The values of 60 storage items in the general storage register had not been identified and accounted for. | It will be accounted for after obtaining an assessed value. | The relevant material values should be identified and accounted for |

- | | | | |
|-----|--|---|------------------------------------|
| (f) | Action had not been taken to settle the dishonoured cheques of Rs. 607,345 and pension advances of Rs. 55,020. | The balance will be confirmed and action will be taken to recover it. | Action should be taken to recover. |
|-----|--|---|------------------------------------|

3.3 Idle or underutilized Property, Plant and Equipment

Audit Observation

Comments of the Recommendation Council

04 vehicles worth a total of Rs.14,670,000 had been idle or underutilized for a period of between 1 and 7 years.

It will be sent for repair. Assets should be repaired and utilized or disposed of.

3.4 Assets Management

Audit Observation

Comments of the Recommendation Council

Unclaimed Assets

The ownership of 02 vehicles used by the council had not been taken over.

Works are being done to take over. Action should be taken to take over ownership of the assets.

3.5 Human Resource Management

Audit Observation

Comments of the Recommendation Council

- | | | | |
|-----|---|--|--|
| (a) | The performance of the council and its ability to deliver public services remained at poor level due to 25 vacancies in 14 posts including Secretary, Librarian, Development Officer, Technical Assistant, Pre-School Warden, Watchman, Public Health Inspector, Health Administrator, Ayurvedic Medicine Compounder, Backhoe Operator, Revenue Inspector, Technical Officer, Health Worker and Management Assistant. | The Chief Secretary has been informed to fill the vacancies. | Vacancies should be filled. |
| (b) | A loan balance of Rs. 886,668 had not been collected from eight transferred and retired officers. | Action is being taken to recover the loan. | Action should be taken to settle the loan balance. |

