

Horana Pradeshiya Sabha - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Horana Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the statement of assets and liabilities as at 31 December 2021, comprehensive income statement, statement of changes in equity, 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 Sub-section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 and the Provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be reported 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 Horana Pradeshiya Sabha as at 31 December 2021, 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 express qualified opinion based 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 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 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 include specific provisions for following requirements.

- (a) The financial statements of the Pradeshiya Sabha 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 recommendations which I made on financial statements for the preceding year are included 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 Sabha	Recommendation
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(a) Due to failure to account for the interest related to 02 fixed deposits of Rs.2,818,055 in the National Savings Bank on accrual basis, the income for the year had been understated by Rs.183,174.	This will be corrected in the financial statements of the year 2022	It should be accurately accounted for
(b) The capital expenditure grants amounting to Rs.90,514,145 were received during the year 2020 and as it was failure to recognize the value of nearly Rs. 9,051,414 related to the year under review under the transfers from the government, the surplus for the year had been understated by that amount.		
(c) In the disclosure of unrecognized capital grants in surplus or deficit in the statement of changes in net assets and equity as at 31 December 2021, although the balance of Rs. 81,462,730 excluding the identified portion of the income of the year from capital grants for capital expenditure in 2020 and a total of Rs.198,700,175 including capital grants received during the year Rs.117,237,445 should be shown in the statement of changes in net assets/equity, only a sum of Rs.117,237,445 received during the year had been disclosed.		

- (d) Provisions had not been made as at December 2021 for an amount of Rs.98,943 payable as Local Government Pension Contribution at the end of the year under review. This will be corrected in the financial statements of the year 2022. It should be accurately accounted for.

2. Financial Review

- 2.1 The revenue exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2021 in the financial statements submitted was Rs. 108,625,098 and the corresponding revenue exceeding the recurrent expenditure for the preceding year was Rs. 93,739,445.

2.2 Performance Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
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(a) Within the court fines receivable amounting to Rs.45,000,000 as at 31 December 2021, there was a balance of Rs.4,666,323 receivable for the year 2019 .	An answer related to the observation has not been submitted.	} Actions should be taken to collect the income.
(b) Within the stamp duty receivable as at 31 December 2021 amounting to Rs. 206,784,998 there were Rs.44,510,071 related to the year 2018 and Rs.74,770,436 related to the year 2019 .	The Stamp Duty Schedules have been handed over to the Provincial Revenue Department.	

3. Operating Review

The matters observed in respect of executing of functions that should have been performed by the Council such as regulation and control, wellbeing of the public, facility and welfare regarding the matters public health, public utility services and public roads under Section 03 of the Pradeshiya Sabha Act are as follows.

3.1 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
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(a) Although 34 pieces of bodybuilding equipment had been purchased at the cost of Rs. 4,181,609 on 14 January 2021 for the	It was impossible to transfer to the public use due to lack of staff.	Assets should be utilized.

bodybuilding center located in Seelaharita Park, the equipment remained unused and underutilized by August 2022 .

- (b) Although Mawak Oya Hela Bojunhala was built in the year 2021 at a cost of Rs. 10,138,217 under the provisions of the Provincial Council, it was used due to lack of toilet facilities. Further, although an estimate of Rs. 9.1 million has been prepared for the construction of toilets for the building, as the construction of toilets had not been commenced even by 09 August 2022, the building had remained unusable.
- Actions are being taken to obtain necessary approvals for construction of toilet system.
- The toilet system should be constructed soon and the assets should be utilized.