

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 2022 comprising the Statement of Assets and Liabilities as at 31 December 2022, Comprehensive Income Statement, Statement of changes in net 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 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 Horana Pradeshiya Sabha as at 31 December 2022, 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 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 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 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 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

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

- (a) Financial Statements of the Pradeshiya Sabha 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
The Statement of Cash Flows had not been prepared in accordance with the provisions of the Chapter No. 3.27 to 3.32 of the Standard.	The cash flow statements will be prepared correctly in 2023	The cash flow statement should be prepared in accordance with the Public Sector Accounting Standard for local government authorities.

1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) An amount equal to the depreciated amount of the relevant assets from Government capital grants for non-recurring expenditure incurred in 2020 and 2021, that is, Rs.4,705,208 should be accounted as transfers from the government for non-recurrent expenses in the comprehensive income statement for the year under review, however the same figure was accounted as Rs.2,672,330 in the comprehensive income statement.	It will be adjusted correctly in the financial statements of the year 2023.	Government capital grants should be properly accounted.
(b) 01 January 2020, the value of the compactor was accounted as Rs.12,422,650, while the returned value was Rs.5,750,000 and on that date, the three-wheeler revalue of Rs.900,000 and the trailer with a cost of Rs.308,000 had not been accounted as assets.	-do-	Fixed assets should be accounted for a correct value.
(c) The value of the fixed assets amounting to Rs.1,049,146, which was disposed on the recommendations of the Board of survey in the year 2021, was not removed from the accounts.	-do-	- do -
(d) Although there was only an agreement with the contractor for setting up an official room for the Ayurvedic Medical Officer in Poruvadanda Ayurveda during the year under review, a creditor's provision of Rs.275,000 had been set done for the same and the value had been capitalized as assets.	-do-	Credit provision should not be made for unimplemented projects.

1.7 Non-compliances

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, Regulation and Management Decisions	Non – Compliance	Comment of the Sabha	Recommendation
(a) The Section 158 (a) of the Pradeshiya Sabha Act No. 15 of 1987.	The property was not prohibited as a last step regarding the arrears due from 3,029 assessee owners from 01-10 years.	The property prohibition program will be planned to be implemented in the year 2023.	Action should be taken according to the Pradeshiya Sabha Act.
(b) The Public Administration Circular No. 02/2018 dated 24 January 2018	A human resource development plan was not prepared to identify the training needs of employees and annual performance contracts were not signed for the staff.	The mistake will be corrected in the next years	Action should be taken as per the Public Administration Circular.
(c) Guidance on Valuation of Non-Financial Assets dated 31 December 2018	Although the land and buildings should be assessed by a professional valour, the assessment of the land and buildings was done by a Committee appointed by the Sabha.	The land valuation has been referred to the Valuation Department and the building valuation has been done by the Revenue Inspectors in the year 2019.	The valuation of Land and Building should be done by the Valuation Department.

2. Financial Review

2.1 Financial results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2022 amounted to Rs. 135,849,195 as compares with the excess of revenue over recurrent expenditure amounting to Rs. 108,625,098 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 Sabha, estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year are as follows.

Source of Revenue	2022				2021			
	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 Tax	18,152,892	18,036,889	31,987,194	8,457,587	11,599,001	18,073,742	23,509,376	7,759,879
(ii) Rent	2,291,600	2,002,040	2,276,540	20,500	3,617,100	1,976,740	3,838,362	82,500
(iii) License fees	2,761,000	1,297,879	2,552,803	34,000	2,763,100	1,661,100	2,092,343	171,921
(iv) Other Revenue	172,829,537	-	170,939,034	-	120,444,398	-	108,792,183	-
	196,035,029	21,336,808	207,755,571	8,512,087	138,423,599	21,711,582	138,232,264	8,014,300

2.2.2 Performance in Revenue Collection

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

Audit Observation	Comment of the Sabha	Recommendation
(a) As at 31 December of the year under review, 1,479 assessed units from 01 to 03 years were Rs.3,403,957, 1,042 units from 03 to 05 years were Rs.3,259,491 and 439 units from 05 to 10 were Rs.1,113,624 years. There was also a deficit of Rs.244,552 from 79 units that have been in existence for more than 10 years.	Under the process of banning the property, the appraisal permits will be issue for the properties that are in arrears for more than 05 years and 03 years.	Arrangements should be made to recover the arrears of income as soon as possible.
(b) The court fines that should have been received from the Chief Secretary of the Provincial Council and other authorities on 31 December 2022 were Rs.31,122,097 and stamp fees was Rs.180,016,955.	Rs.16, 122,097 irrecoverable court fines should be written off. So far, stamp fees amounting to Rs.118, 106,387 has been received by the Sabha, and the schedules related to other arrears are being prepared.	The relevant schedules should be prepared promptly and arrangements should be made to collect the arrears of income.

3. Operational Review Assets Management

Audit Observation	Comment of the Sabha	Recommendation
(a) 33 cemeteries within the area of the Sabha were not assigned to the Sabha and the fenced had not been built to protect them.	The acquisition of the cemetery is in progress and since the acquisition has not been done so far, money cannot be spent on its security.	The cemetery should be handed over to the Sabha and the fence boundaries should be cleared.

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| <p>(b) 09 vehicles that were required to obtain revenue licenses for 2020 and 2021 were still in operation without meeting the legal requirement as at 31 December 2022.</p> | <p>The Revenue licenses have been obtained for 04 vehicles so far. And the remaining 05 vehicles are being processed to get revenue license.</p> | <p>Revenue licenses should be obtained for all vehicles and put in to run.</p> |
| <p>(c) According to the Public Finance Circular No. 08/2020 dated 09 December 2020, the vehicles that are not in running condition should be repaired and put to use, although 02 tractors in the Pokunuwita Sub office have not been repaired.</p> | <p>The vehicles will be inspected and referred for repair.</p> | <p>Should be done as per Public Finance Circulars.</p> |