

Horowpothana Pradeshiya Sabha 2022

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Horowpothana Pradeshiya Sabha 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 assets/ equity, 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 the provisions of the National Audit Act No. 19 of 2018 and the Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987. My comments and observations which I consider should be report to parliament appear in this report.

I do not express an opinion on the financial statements of the Pradeshiya Sabha. Because of the significance of the matters described in basis for Disclaimer of opinion section of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

I expressed Disclaimer of opinion on the matters described in paragraph 1.6 of this report.

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 Standard 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 responsibility is to issue the auditor's report on the financial statements of the Pradeshiya Sabha based on the audit conducted in accordance with the Sri Lanka Auditing Standards. However, because of the matters described in basis for Disclaimer of opinion section of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.5 Report on Other Legal and Regulatory Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the 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 financial statements presented includes all recommendations made by me in the previous year as per the requirement of Section 06 (1) d (iv) of the Audit Act No. 19 of 2018.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Policies

Audit Observation	Comments of the Council	Recommendation
(a) As per paragraph 3.6 of Accounting Standard for Local Governments - 2017, the financial statements had not been presented comparably with the previous year's information.	Accepted.	Sri Lanka Public Sector Accounting Standard for Local Governments should be followed.
(b) As per No. 3.13 (d) of Accounting Standard for Local Government - 2017, a cash flow statement had not been presented with the financial statements.	- Do -	- Do -

1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) In the reviewed year, the asset renting revenue had been understated by Rs.1,064,667.	Billing is done based on assumptions.	The correct value should be accounted.
(b) In the reviewed year, the market revenue had been overstated by Rs.2,057,060.	Actions will be taken to rectify.	- Do -
(c) In the year under review, the billboards revenue had been overstated by Rs.188,080.	Due to the installation of new billboards, the trail balance shown more.	- Do -
(d) As at 01 January 2022, the income due from court fines had been understated by	This change is due to the accounting of court fines in	- Do -

- Rs.386,468. the year 2021 on an estimated basis.
- (e) The stamp duty due for the years 2020 and 2021 had been understated by Rs.673,250. Actions will be taken to rectify. - Do -
- (f) The amounts of Rs.4,995,000 worth of solar power system constructed and 11 computers, printers and photocopiers worth Rs.2,060,590 purchased from the LDSP project and Local Government Department had not been accounted as property & equipment and as capital grants. - Do - Property plant and equipment should be properly identified.
- (g) The value of Rs.13,331,923 worth of fixed assets that construction was completed in the year 2021 had not been accounted as fixed assets. - Do - - Do -
- (h) The value of Rs.5,822,118 of certified work as at 31 December 2022 related to the reconstruction of Horowpothana Market from the provisions of the LDSP project had not been accounted. Accepted. The correct value should be accounted.
- (i) In the year under review, the amount of provision received from the Local Government Department for a local grain production project under the Women Empowerment Project had been understated by Rs.100,000. - Do - - Do -
- (j) During the year under review, the expenditure of Rs.495,000 for installation of a lawn mower for the tractor had been shown as recurring expenditure. - Do - The correct value should be accounted.
- (k) In the year under review, although capital grant receipts were Rs.6,770,923 but in the statement of comprehensive - Do - The correct value should be accounted.

income, under other comprehensive income, it had been overstated as Rs.9,258,803.

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| (l) | In the year 2021, Rs.19,138,084 paid for creditors and Rs.10,176,160 for LDSP project had been shown under financial cost as the non-recurring expenses of the year under review. | - Do - | The correct value should be accounted. |
| (m) | The creditor balance of the year 2021 and the creditor balance of 2022 of Rs.2,312,707 had been shown as an expense of the year under review. | - Do - | - Do - |
| (n) | The amount of Rs.1,722,041 of the library books as at 31 December of the reviewed year of the council had not been disclosed in the statement of asset and liability or notes. | - Do - | The value of library books should be disclosed in the financial statements. |
| (o) | The depreciation related to fixed assets amounting to Rs.69,854,429 as at 31 December of the year under review, had not been calculated and accounted. | - Do - | The correct value should be accounted. |

1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Council	Recommendation
(a) In relation to 05 subjects, there was a difference of Rs.3,853,391 between the value shown in the statement of assets and liabilities and the value shown in the schedules.	Actions will be taken to rectify.	Schedules should be compared with corresponding records.
(b) Regarding 02 subjects, there was a difference of Rs.86,000 between the value and the book value as per the statement of assets and liabilities.	- Do -	Correction should be done by pointing reasons for differences.

1.6.4 Documentary Evidences not made available for Audit

Audit Observation	Comments of the Council	Recommendation
(a) In the year under review, the properly balanced ledger accounts related to assets, liabilities, income, expenses and equity accounts of 179 account subjects with a total value of Rs.1,145,363,099 had not been submitted, so they could not be satisfactorily verified and monitored during the audit.	Will proceed to submit.	Ledger accounts should be prepared before preparing financial statements.
(b) Debit balances of Rs.671,679,814 and credit balances of Rs.658,480,461 relating to the previous year had not been accounted as opening journal entries. Also, journal entries and ledger accounts of Rs.167,830,375 had not been maintained in the year under review.	Accepted.	Opening ledger accounts and journal entries should be presented.
(c) The depreciation amount of Rs.316,162,079 worth of assets as at 01 January 2022, Rs.2,060,590 worth of computer and equipment receipts unaccounted in 2021 and Rs.13,331,923 worth of construction projects had not been shown in the comprehensive income statement and asset liability statement, so the correct expenses and asset values could not be confirmed.	- Do -	Depreciation should be done correctly.
(d) The value of capital expenditure grant recognized in surplus/deficit in the year under review had not been mentioned in the statement of comprehensive income and due to non-calculation of depreciation in the year under review, those values had not been recognized. In the year under review only Rs.29,258,803 had been shown as capital grants.	- Do -	Correct capital grants should be identified and depreciated.

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| (e) | The details of Rs.35,813,811 adjustments made to the accumulated fund through the creditor account and Rs.34,785,534 adjustments made through the debtor account had not been submitted in the year under review. | - Do - | Confirmations should be submitted. |
| (f) | Schedules related to machinery worth Rs.45,615,006 and equipment worth Rs.169,500 had not been submitted for audit. | No comments. | - Do - |
| (g) | As at 31 December of the year under review, the certificates confirming the balance of Rs.13,669,158 relating to 03 current accounts maintained in 02 state banks had not been submitted for audit. | - Do - | - Do - |

1.7 Non- Compliances

1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Observations related to non-compliances with Laws, Rules, Regulations and Management decisions are shown below.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Public Administration Circular No. 09/2009 (1) dated 17 July 2009	The fingerprint machine installed in the council had been inactive since 2020.	Accepted.	Actions should be taken as per the Public Administration Circular.
(b) North Central Provinces - Local Government Commissioner's Circular No. 2019/02 dated 31 December 2019	The Daily Receipt Classification Register (LG 04) and the Monthly Progress Report on Revenue Collection (LG 06) to be maintained on a	- Do -	Actions should be taken as per the Circulars.

daily and monthly basis had not been prepared.

- (c) Asset Management Circular No. 05/2020 dated 02 October 2020 Actions had not been made for repairing or disposing of idle vehicles. Actions will be taken to auction. - Do -

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of expenditure over revenue of the Sabha for the year ended 31 December 2022 amounted to Rs.7,216,319 as against the excess of revenue over expenditure amounted to Rs.24,094,849 in the preceding year.

2.2 Revenue Administration

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

Information 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	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 Taxes	1,988,400	1,786,680	1,832,939	1,364,979	1,822,000	1,697,632	1,612,972	1,411,238
(ii)	Rent	11,206,000	6,991,454	7,893,798	6,593,830	9,591,000	1,938,060	1,467,430,	7,496,174
(iii)	License Fees	5,035,000	813,848	431,548	1,407,600	4,562,000	7,,286,756	6,252,456	1,035,300
(iv)	Other revenue	5,964,000	2,138,473	333,803	3,509,088	4,298,000	1,279,394	2,238,522	1,704,418
		24,193,400	11,730,455	10,492,088	12,875,497	20,273,000	12,201,842	11,571,380	11,647,130

2.2.2 Performance in Revenue Collection

Following are the observations regarding the revenue collection performance of the sabha.

Audit Observation	Comments of the Council	Recommendation
(a) Rates and Taxes		
(i) Rates and taxes were being levied on the assessment of 1994 and on 31 December 2022, Rs.234,083 should have been charged as arrears of rates and taxes income.	All information has been sent to the Local Government Department for preparation of new assessments.	Necessary action to recover the rates and taxes should be taken immediately as per the new assessment.
(ii) As at 31 December 2022, arrears of garbage tax were Rs.933,700.	Part of the outstanding amount has been recovered.	All arrears should be recovered.
(b) Rent		
(i) Asset renting outstanding balances of Rs.4,304,506 were since more than 01 to 08 years.	As these are long-standing balances and cannot be recovered, necessary actions will be taken to cut them off.	A formal approval should be obtained for the cut-off.
(ii) As at 31 December 2022, the amount of Rs.1,106,394 were dues from 32 parties for the rental of machines of the council.	Action will be taken to charge.	Action should be taken to charge.
(c) License Fees		
The amount of Rs.1,043,300 were due from many years.	- Do -	- Do -
(d) Other Revenue		
The outstanding stamp duty of Rs.1,667,950 and court fines of Rs.1,841,139 were due on 31 December 2022.	Action will be taken to charge.	Action should be taken to charge.

3. Operational Review

Performance 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 Section 3 of the Pradeshiya Sabha Act are shown below.

Running slaughterhouses

Audit Observation	Comments of the Council	Recommendation
(a) In relation to slaughterhouses in Alikimbulakada, Ihala Agunochchi, and Timbiriyattawala, the approval required to obtain slaughterhouse licenses had not been given in accordance with the Slaughterhouse Ordinance No. 09 of 1893.	Actions will be taken according to the test and recommendations of the medical officers and public health inspectors.	It should be ensured that the slaughterhouse facilities are in proper condition.
(b) According to the Section 09 of by-law 32 of the General Standard By-laws Gazette Notification dated 23 August 1988, charging a fee of not more than Rs.10 per 01 kg for the use of the logo of the Sabha for the meat to be inspected and the details of the slaughtered animals had not been taken by the Sabha in accordance with the relevant format.	Accepted.	Action should be taken to collect the fees and get the details of the animals being slaughtered.

4 Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Observation	Comments of the Council	Recommendation
The financial statements of the reviewed year should be submitted to the Auditor General before 28 February 2023, but the financial statements belonging to this council had been submitted for audit on 10 April 2023.	Accepted.	Accounts should be submitted on time as well as correctly.

4.2 Environmental Observations

Audit Observation	Comments of the Council	Recommendation
(a) The waste management center at Mookalana, Moragoda, which was built at a cost of Rs.3,203,577 in the year 2012, had been completely idle and there was no organic fertilizer production.	There are cases of closure due to lack of employees.	It was observed that it has not been operated for a long time.
(b) The garbage collected in the area was dumped in the Motogonewa reserve without any classification.	Garbage disposal to this site has been stopped now.	Regular garbage disposal should be done.