

Horana Pradeshiya Sabha - 2020

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 2020 comprising the statement of assets and liabilities as at 31 December 2020, comprehensive income statement , statement of changes in net assets/ 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 . 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 Horana Pradeshiya Sabha as at 31 December 2020 , 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, 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local Authorities

Audit Observation	Comments of the Sabha	Recommendation
<p>(a) Although it had been stated that a statement should be included in the notes to accounts stating that the accounts were prepared in accordance with the SLAPS when preparing the accounts of the Local Government Institutions in terms of Paragraph 3.2 of Sri Lanka Public Sector Accounting Standards for Local Authorities 2017 , such a statement had not been included in the notes to the accounts.</p> <p>In recognizing current assets, although the loan and interest payable to the Local Credit Development Fund during the year 2021 amounting to Rs. 2,313,410 should be disclosed under current liabilities in terms of 3.20 (b) of the Sri Lanka Public Sector Accounting Standards for Local Authorities 2017 , it had not been so accounted for.</p>	<p>Actions will be taken to correct through financial statements of the year 2021.</p> <p>Actions will be taken to disclose loans and interest payments pertaining to the year 2022 under current assets by the financial statements for the year 2021.</p>	<p>Financial statements should be submitted in accordance with the Accounting Standards.</p> <p>Debts and interest payments should be disclosed in financial statements in accordance with the Accounting Standards.</p>

1.6.2 Accounting Deficiencies

Audit Observation -----	Comments of the Sabha -----	Recommendation -----
(a) By not following the accrual concept when computing fixed deposit interest income for the year ended 31 December 2020, considering the interest income to be accounted for as Rs.3,062,653, as Rs.4,162,217, the revenue for the year had been overstated by Rs. 1,099,564 .	Actions will be taken to correct through financial statements of the year 2021.	Actions should be taken to correct the accounting error.
(b) Although the fixed deposit value as at 31 December 2020 should be taken into account as Rs.54,116,156 since considering that value as Rs.54,144,864, the value of fixed deposit had been overstated by Rs. 28,708 .		
(c) When paying for annual service contracts pertaining to the photocopiers and computers, the expenditure for the year had been overstated by Rs.149,736 By not applying the payments made for the year 2021 to the accounts as pre-payments.	Actions will be taken to correct through financial statements of the year 2021.	Actions should be taken to correct the accounting error.
(d) Even though the Member allowance for the month of December 2020 amounting to Rs.699,194 had been received on 06 January 2021 , as that amount was shown under the balances receivable amounting to Rs.765,000, receivables had been overstated by Rs. 65,806 .		

2. Financial Review

2.1 Financial Results

The revenue exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2020 in the financial statements submitted was Rs. 93,739,145 and the corresponding revenue exceeding the recurrent expenditure for the preceding year was Rs. 12,933,277 .

2.2 Revenue Administration

2.2.1 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
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(a) The annual bill for business tax was Rs. 2,486,340 and of that, a sum of Rs. 2,300,600 had not been recovered during the year.	It is mentioned that steps are being taken to recover the arrears which have not been recovered so far.	Actions should be taken to recover the arrears of revenue.
(b) The court fines and stamp duties receivable from the Chief Secretary to The Provincial Council and Other Authorities as at 31 December 2020 were Rs.30,000,000 and Rs.183,205,547 respectively	It has been submitted to the Magistrate Courts for the certification activities of schedules.	Actions should be taken to recover the arrears of revenue.