

## **Horowpathana Pradeshiya Sabha - 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Horowpathana Pradeshiya Sabha for the year ended 31 December 2020 comprising the statement of assets and liabilities as at 31 December 2020 and the statement of comprehensive income, statement of changes in net assets/equity, cash flow statement, and other explanatory information, including a summary of significant accounting policies, 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 172 (1) of the Pradeshiya Sabhas Act, No.15 of 1987 and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be presented in 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 Horowpathana Pradeshiya Sabha as at 31 December 2020, and of its financial performance and cash flow for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards for Local Authorities.

#### **1.2 Basis for Qualified Opinion**

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My opinion is qualified 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**

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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 Sub-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 to be prepared.

#### 1.4 Scope of Audit (Auditor's Responsibility in Auditing Financial Statements)

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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 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 the Pradeshiya Sabha 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

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National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

- (a) As the Financial Statements have been submitted in accordance with the new Accounting System in terms of Circular No. 2019/02 issued by the Commissioner of Local Government, North Central Province on 31st December 2019, this statement cannot be compared with the preceding year in accordance with Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- (b) The recommendations made by me during the previous year are included in the financial statements presented as required by Section 6(i)(d)(iv) of the National Audit Act No. 19 of 2018.

## 1.6 Audit Observations on the Preparation of Financial Statements

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### 1.6.1 Accounting Deficiencies

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<b>Audit Observation</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
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(a) The cost of constructing 10 culverts amounting to Rs.2,165,148 to be accounted for as capital expenditure for the year under review had been considered as recurrent expenditure and debited to the road repair account.	Accepted.	Capital expenditure should be accounted for correctly.
(b) Although the purchase of fixed assets during the year under review was Rs.1,908,573, the purchase of fixed assets under the investments activities in the cash flow statement had been stated as Rs.3,261,800, thus overstating by Rs.1,353,227.	Accepted.	Cash flow statement should be prepared accurately.

## 1.7 Non-compliance

### 1.7.1 Non-compliance with Laws, Rules and Regulations

Instances of Non-compliance with Laws, Rules and Regulations are given below.

	<b>Reference to Laws, Rules and Regulations etc.</b>	<b>Non-compliance</b>	<b>Comment of the Sabha</b>	<b>Recommendation</b>
(a)	Pradeshiya Sabha Act, No. 15 of 1987.			
(i)	Section 182	Rental income of Rs.1,196,240 to be received for leasing assets in the year 2017 and stated in the accounts as at 31 December 2019 had been written off from the accumulated fund without obtaining proper approval.	Accepted	Approval should be obtained in terms of Section 182 of the Pradeshiya Sabha Act for writing off.
(ii)	Section 182	Outstanding licence fee revenue of Rs.1,033,300 had been written off from the accumulated fund without obtaining formal approval.	Accepted	Approval should be obtained in terms of Section 182 of the Pradeshiya Sabha Act for writing off.

## 2. Financial Review

### 2.1 Financial Results

According to the financial statements presented, the recurrent expenditure of the Sabha in excess of the revenue amounted to Rs. 54,369,989 for the year ended on 31 December 2020 as compared with the corresponding recurrent expenditure exceeding the revenue for the preceding year amounting to Rs. 11,375,770.

## 2.2 Revenue Administration

### 2.2.1 Performance in Collecting Revenue

Audit Observation -----	Comment of the Sabha -----	Recommendation -----
<p><b>(a) Rent</b> -----</p> <p>Necessary action had not been taken to recover the arrears of rent amounting to Rs. 7,025,544 due as at 31 December of the year under review.</p>	<p>A notice has been made to analyse this matter and to take further action.</p>	<p>Section 159 (1) of the Pradeshiya Sabha Act should be followed.</p>
<p><b>(b) Licence Fees</b> -----</p> <p>Necessary action had not been taken to recover the arrears of licence fees amounting to Rs. 80,400 due as at 31 December of the year under review.</p>	<p>A notice has been made to analyse this matter and to take further action.</p>	<p>Section 159 (1) of the Pradeshiya Sabha Act should be followed.</p>
<p><b>(c) Other Income</b> -----</p> <p>Necessary action had not been taken to recover the charges for garbage amounting to Rs. 1,073,450 due as at 31 December of the year under review.</p>	<p>Action will be taken to enact by-laws and thereby, recover this arrears.</p>	<p>Action should be taken to recover the arrears of charges for garbage.</p>