

## **Horowpothana Pradeshiya Sabha - 2021**

### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Horowpothana Pradeshiya Sabha for the year ended 31 December 2021 comprising the statement of assets and liabilities as at 31 December 2021 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 paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Horowpothana 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**

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 Responsibility for the Audit of 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 financial reporting process of the Pradeshiya Sabha.

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 to be prepared.

#### 1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed and identify and assess the risks of material misstatement of the 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 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

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

- (a) As per requirement mentioned in Section 6(1) (d) (iii) of the National Audit Act No. 19 of 2018, the financial statement of the Pradeshiya Sabha is corresponded with financial statements of the previous year.
- (b) The recommendations made by me during the previous year are included in the financial statements as requirement 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

### 1.6.1 Accounting Policies

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
According to Sri Lanka Public Sector Accounting Standard No. 3.7 for Local Authorities, financial statements should be presented with budgeted information in the budget documents prepared in relation to that period, but the notes to the comprehensive income statement and cash flow statement of the Pradeshiya Sabha for the year under review were presented without budgeted information.	Accepted.	Should be accounted values correctly.

## 1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) When the last year's depreciation calculation, the depreciation was calculated twice and the value of the depreciation had increased by Rs. 18,941,715 due to the non-correction of that value.		Previous year's adjustments should be done correctly.
(b) Non- capital grants of Rs. 41,529,584 in the year under review had been accounted as capital grants.		Should be prepared accounts correctly.
(c) Capital grants receiving of Rs. 10,995,500 in the previous year were indicated in the comprehensive income statement as capital grants receiving for the year under review.		
(d) Although the transfers made by the government for non-recurrent expenses in the year under review were Rs. 293,370, it was overstated as Rs. 81,109,035 in the statement of comprehensive income.		
(e) Rs. 11,435,263 were accounted as debtors for non-completion and abandoned projects as at 31 December of the year under review and Rs. 15,938,019 as creditors for non-completion projects.	Accepted.	Certified work values only should be accounted.
(f) When paying Rs. 129,900 in the year under review from the allocated audit fee of Rs. 135,000 in previous year, it was re accounted as expenditure.	Accepted.	Should be prepared accounts correctly.
(g) Although the account code 200-299 mentioned in appendix 2 of the Sri Lanka public Sector Accounting Standard for Local Authorities were mentioned as 205 library books under current assets, the assets of the Pradeshiya Sabha as at 31 December of the year under review amounting to Rs. 1,722,041 were not disclosed in the statement of assets and liabilities or notes.		

### 1.6.3 Unreconciled Control Accounts or Reports

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
There was a difference of Rs. 101,894,276 when comparing the balances of 07 assets and liabilities account subjects and 03 account subjects of the cash flow statement with the corresponding reports.	Accepted.	Values should be accounted correctly.

### 1.7 Non-compliances

#### Non-compliance with Laws, Rules, Regulations and Management Decisions

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

<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the council</b>	<b>Recommendation</b>
(a) Public Finance Circular No. 02/2015 dated 10 July 2015	11 Vehicles worth Rs. 1,390,000 in inactive condition were not repaired and used or disposed.	Arrangements will be made to auction in future.	Should be act as per the circular.
(b) Section 3.1 of the Public Administration Circular No. 30/2016 dated 29 December 2016.	04 Active vehicles owned by the council had not been tested the fuel consumption.	Arrangements will be made to do fuel test.	Should be act as per the circular.

## 2. Financial Review

### 2.1 Financial Results

According to the submitted financial statements, the income exceeding the recurrent expenditure of the council for the year ended 31 December 2021 was Rs. 24,094,849 and the correspondence income exceeding the recurrent expenditure of the previous year was Rs. 16,486,566.

## 2.2 Revenue Administration

### 2.2.1 Performance of the Revenue Collection

Audit Observation	Comments of the Council	Recommendation
(a) Assessments and Taxes		
No action was taken to collect the arrears of garbage tax amounting to Rs. 1,089,450 as at 31 December of the year under review.	No comments.	Should be collect the arrears.
(b) Rentals		
(i) No arrangements were made to collect Rs. 1,098,930 unpaid shop rents from 19 shops from 01-09 years.	Will be searched and corrected it in future.	Action should be taken to recover the money.
(ii) Rs. 777,787 to be received for the rent of assets and Rs. 5,519,457 to be charged for the lease of assets as at 31 December of the year under review were not recovered from a period of 01-03 years.		
(c) License Fee		
The outstanding trade license fee amounting to Rs. 1,035,300 had not been recovered as at 31 December of the year under review.	It will be corrected in the year 2022.	Accounts should be made correctly with evidences.

## 3. Operational Review

The following are the facts observed regarding the performance of the council's duties of regularizing and controlling the matters of public health, public utility services and public roads and the welfare, convenience and welfare of the people under section 3 of the Pradeshiya Sabha Act.

### 3.1 Identified Losses

Audit Observation	Comments of the Council	Recommendation
(a) Rs. 1,228,789 had been lost due to the expiry of the performance bond of 02 projects that had been abandoned without completion in Horowpothana city.	It will be checked and acted in future.	The responsible parties for the loss should be recovered.
(b) A vehicle belonging to the council had been paid Rs. 336,952 from the council fund as repair expenses due to an accident in March 2019. The observations of F.R. 104 were not made for identify the responsible parties for this loss.	Payment has been made due to council approval.	

### 3.2 Controversial Transactions

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
Rs. 2,385,644 of income to be received from asset leases in the year 2020 and 2021 had been cut off without obtaining the approval of the Governor and based on the decisions of the council.	The accounts were corrected under a council approval for a period of 04 months and 7 days.	The approval of the Governor should be obtained instead of the minister in subject in order to cut off the receivable income.

### 3.3 Delays in Projects, Tasks or Capital works

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) 52 projects that had been made provisions of Rs. 89,000,000 under Rural Development Programme -2021 were abandoned after contracting.	This project is canceled.	Action should be taken to implement the projects that were allocated provisions.
(b) Rs. 425,011 was spent on 03 projects contracted for Rs. 18,718,416 in the year under review, but those projects had been abandoned by 31 December 2021.	Due to the shortage of goods and price fluctuations in the time of the project started, the contractor did not done constructions.	Action should be taken against the contractors as per the agreements.