

Horana Urban Council - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Horana Urban Council 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 changing 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 181 (1) of the Urban Council Ordinance (Chapter 255) 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 Urban Council 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 Principles, 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 Urban Council's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Urban Council 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 Urban Council, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Urban Council has complied with applicable written law, or other general or special directions issued by the governing body of the Urban Council
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources of the Urban council had been procured and 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 Urban Council 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 Council	Recommendation
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The statement of cash flows was not prepared in accordance with the provisions of Chapter No. 3.27 to 3.32 of the Standard.	The statement of cash flows for the year 2023 will be prepared correctly.	The cash flow statement should be prepared in accordance with the public sector accounting standard for local government authorities.
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1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Council	Recommendation
(a) During the accounting of fixed assets amounting to Rs. 2,506,714 received as donations in the years 2020, 2021 and 2022, instead of crediting to the Unrecognized Capital Grant account of excess or deficiency, the donation account was credited. Meanwhile, an amount equal to Rs.9,272 and Rs.304,197, which should be recognized as annual depreciation in the previous year and the year under review, respectively, was not recognized as transfers from the government for non-recurring expenses in the comprehensive income statement.	It will be corrected in the final account of the year 2023.	Government capital grants should be properly accounted.
(b) The repair costs amounting to Rs.514,305 which should have been accounted as expenses had been accounted as assets during the year under review.	- do -	Repair costs should be accounted as recurrent expenditure in the year.
(c) Work-in-progress cost of internal allocation of library investigation unit amounting to Rs.297,659 had been accounted as a debit expense as at 31 December of the year under review.	- do -	Unfinished projects should be accounted as work in progress.
(d) Rs.732,163 had been shown as payable in respect of 17 projects for which the final payments had been made and the retention money had also been released as at 31 December of the year under review.	- do -	After the final payment and retention money are released, the creditor should be write off from the account.

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 Council	of the Recommendation
(a) Section 170 (2) of the Urban Council Ordinance 1988	Prohibition of asset were not used as a last step to recover arrears of assessments.	The notices of property prohibition have been issued for 172 properties.	Action should be taken according to Urban Council Ordinance
(b) 104 Financial Regulations of the Democratic Socialist Republic of Sri Lanka	n at the end of the year under review, a formal examination had not been carried out regarding damage to the engine of the cab.	Investigations are ongoing.	Action should be taken according to Financial Regulation.
(c) Guidance on Valuation of Non-Financial Assets dated 31 December 2018	08 lands and 06 buildings owned by the council were not assessed and accounted by a professional Assessor.	It will be settled in the year 2023.	Action should be taken according to Asset valuation guidelines.

2. Financial Review

2.1 Financial Result

According to the financial statements presented, the expenditure exceeding the income of the council for the year ended 31 December 2022 was Rs.25,910,915 and correspondingly income exceeding the expenditure of the previous year was Rs.30,700,416.

2.2 Revenue Administration

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

According to the information presented by the Council, 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 Taxes	22,768,542	20,183,756	19,505,649	9,832,486	29,545,100	20,920,344	18,421,617	9,237,657
(ii) Rent	40,464,200	7,615,802	14,041,766	4,184,462	39,564,782	8,766,382	9,287,995	6,621,661
(iii) License Fees	3,290,500	481,000	2,571,030	-	2,790,000	462,000	2,160,052	-
(iv) Other Revenue	15,705,750	349,966	18,678,418	119,278	30,627,109	420,160	10,647,390	289,277
	82,228,992	28,630,524	54,796,863	14,136,226	102,526,991	30,568,886	40,517,054	16,148,595

2.2.2 Performance in Revenue Collection

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

Audit Observation	Comment of the Council	Recommendation
(a) According to the assessment period analysis, the deficit between 01 to 03 years was Rs.4,891,034, the deficit between 03 to 05 years was Rs.1,460,648, the deficit between 05 to 10 years was Rs.1,300,239 and the deficit more than 10 years was Rs.435,319.	Due to the Covid epidemic, there was no prohibition of the property, however currently work is being done to issue inspection permits.	Action should be taken to collect the arrears as soon as possible.
(b) The rent arrears was Rs.6,910,938 at the beginning of the reviewed year and Rs.3,430,595 or 50 percent was not recovered during the year.	The notices have been given in writing to pay the arrears	Action should be taken to collect the arrears as soon as possible.
(c) The stamp fees that should have been received from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2022 was Rs.67,728,825.	An amount of Rs.27,893,916 has been received by 31.03.2023.	Action should be taken collect the stamp fees as soon as possible.

3. Operational Review

3.1 Operational Inefficiency

Audit Observation	Comment of the Council	Recommendation
(a) Electricity charges amounting to Rs.1,608,588 receivable from January 2021 from 09 cloth shops and fruit shops located in the old fare premises of the council had not been collected by the end of the year under review.	Although arrears notices have been issued, the amount has not been collected from those fees and it has not been possible to calculate the fee due to the non-receipt of the meter reading.	Arrears of electricity charges should be recovered as soon as possible.

- (b) According to Section 04 of the terms of the lease regarding the lease of the right to use the shops, the shop rooms that were in arrears for more than 03 months were not dealt with and as per Section 07 of the agreement, without extending the lease period for a period of 03 years before the initial lease period exceeded three years. 08 cases of running shops were observed. It has been inform in writing to Shop agreements settle the arrears and renew the agreement. should be renewed.
- (c) Industrial creditor balances of Rs.2,652,542 related to the years 2015-2020 and various creditor balances of Rs.2,348,755 related to the years 2018-2020 had not been settled even at 31 December 2022. It will be settled in the year 2023 The action should be taken to settle the creditor balance.

3.2 Idle or underutilized property, plant and equipment

Audit Observation	Comment of the Council	Recommendation
(a) The fire engine remained idle without running.	The fire engine is out of run as there is no information about the registration.	Should be collected the information about the registration and proceed to run the vehicle.
(b) 08 unregistered intercom phones bought before the year 2020 remained in the stores in underutilized .	According to the board of survey on 31.12.2020, it will be included in the main inventory.	Arrangements should be made to use the telephones.

3.3 Assets Management

Audit Observation	Comment of the Council	Recommendation
The ownership of 41 lands included in the Council's land register had not been acquired to the council.	The arrangements are being taken to acquire to the council.	The action should be taken to acquire the lands owned by the council.