

Horana Urban Council - 2023

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 2023 comprising the Statement of Assets and Liabilities as at 31 December 2023, Comprehensive Income Statement, Statement of changes in net assets/ equity, Cash Flow Statement for the year then ended and notes to the financial statements including material accounting policy information 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 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 2023, 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 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 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 Sabha	Recommendation
The statement of cash flows was not prepared in accordance with the provisions of Chapter No. 3.27 to 3.32 of the Standard.	It will be corrected while preparing financial statement 2024 .	The cash flow statement should be prepared in accordance with the public sector accounting standard for local government authorities.

1.6.2 Accounting Deficiencies

	Audit Observation	Comment of the sabha	Recommendation
(a)	Although the depreciation in the year under review for library books amounting to Rs.1,468,857 it had been shown as Rs.150,846 that is understated by Rs.1,318,011.	accounts are kept correctly.	Accounts should be prepared correctly.
(b)	When the error correction occurred in year 2020 those understated of income amounting to Rs.779,061, overstated of other sale income amounting to Rs.217,917, understated of repair expenses amounting to Rs.915,975 and overstated of employee salary reimbursement income amounting to Rs.174,179 respectively, both debit and credit entries had been reconciled to the accumulated fund.	As there was no contingent account, the final result was obtained by adjusting the accumulated fund.	Error corrections should be accounted correctly.
(c)	The crediting of the accumulated fund amounting to Rs.325,704 Rs.297,334 had been credited to the accumulated fund and debtors account in the ledger and had been credited twice to the accumulated fund respectively.	That will be corrected during the preparation of the final accounts of the year 2024.	Accounts should be prepared correctly.
(d)	Although the provision of depreciation of office equipment was Rs.719,071 according to the financial statements, It was shown as Rs.299,668 in the ledger.	Ledger account will be corrected.	Depreciation should be accounted after calculated correctly.

1.6.3. Unreconciled Control Accounts or Records

	Audit Observation	Comment of the sabha	Recommendation
(a)	In the statement of assets and liabilities as at 31st December of the year under review, reserves and provisions and unrecognized capital grants to income were Rs.2,191,984,753 and Rs.35,682,252 respectively, but in the statement of changes in equity it was shown as Rs.2,191,708,353 and Rs.23,540,983 respectively that is understated by Rs. 276,400 and Rs. 12,141,269 .	That will be corrected by the financial statement of the year 2024.	The reasons for the differences should be found and corrected.
(b)	The difference between the balance as per the financial statements of one account as at 31st December of the year under review and the balance as per the related schedule was Rs. 2,118,061 .	-do-	-do-

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	Non – Compliance	Comment of the sabha	Recommendation
(a)	571 Financial Regulations of the Democratic Socialist Republic of Sri Lanka	08 types of deposits amounting to Rs. 2,287,598 which existed beyond 03 years were not regulated.	That will be settled in the future.	Action should be taken in accordance with Financial Regulation.
(b)	Guidance on Valuation of Non-Financial Assets dated 31 December 2018. Section 2.	09 lands and 07 buildings owned by the council were not assessed and accounted by a professional Assessor.	It will be assessed after receiving deeds.	Action should be taken in accordance with guideline.

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 2023 was Rs.24,814,535 and correspondingly income exceeding the expenditure of the previous year was Rs. 25,910,915.

2.2 Revenue Administration

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

According to the information presented by the secretary, estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year are as follows.

Source of Revenue	2023				2022			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)	(Rs)
(i) Rates and Taxes	23,440,788	21,296,813	21,880,547	9,457,132	22,768,542	20,183,756	19,505,649	9,832,486
(ii) Rent	15,417,482	12,575,201	10,775,233	6,396,172	40,464,200	7,615,802	14,041,766	4,184,462
(iii) License Fees	3,404,500	500,000	523,000	(23,000)	3,290,500	481,000	2,571,030	-
(iv) Other Revenue	-	-	-	-	15,705,750	349,966	18,678,418	119,278
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	42,262,770	34,372,014	33,178,780	15,876,304	82,228,992	28,630,524	54,796,863	14,136,226
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2.2.2 Performance in Revenue Collection

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

Audit Observation	Comment of the Sabha	Recommendation
(a) Assessments and Taxes		
According to the assessment period analysis, the deficit between 01 to 03 years was Rs.2,623,442 the deficit between 03 to 05 years was Rs.2,380,388 the deficit between 05 to 10 years was Rs.1,132,760 and the deficit more than 10 years was Rs.489,161.	Income is being recovered.	Arrears of income should be recovered promptly.
(b) Rent		
(i) The Inn rent arrears was Rs.2,867,646 at the beginning of the year underreviewed and Rs.2,435,396 or 84 percent was not recovered during the year.	The Ministry of Local Government has been informed in this regard through the Commissioner of Local Government and will proceed accordingly.	-do-
(ii) Although the annual billing of Inn rent was Rs.955,882, no amount was collected during the year.	-do-	-do-
(C) Other Income		
The stamp duty that should have been received from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2023 was Rs.53,663,774.	Rs.38,821,036 has been received as at 31.05.2024 and the balance will be recovered in the future.	-do-

3. Operational Review

3.1 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 Sabha under Section 4 of the Municipal Council Ordinance are shown below.

Audit Observation	Comment of the sabha	Recommendation
According to Section 118 of the Municipal Council Ordinance, the sabha had not maintained gully bowser service to dispose of the sewerage accumulated in the sabha area.	Although requests had done since the year 2017 to provide a gully bowser, the sabha has not received a gully bowser.	Proceed as per the referenced clause.

3.2 Uneconomic transaction

Audit Observation	Comment of the sabha	Recommendation
Although Rs. 4,484,470 had been paid to Nekfa institution for computer networking of the sabha's functions as at the year under review, the work related to the package had not been completed properly.	The package is in working condition when considered as a whole.	All packages purchased should be properly implemented.

3.3 Identified loss

Audit Observation	Comment of the sabha	Recommendation
As per the Financial Regulation 104 of the Democratic Socialist Republic of Sri Lanka, no action had been taken regarding the damage to the engine of the vehicle bearing No. PB-6383 even at the end of the year under review.	The report of the appointed committee was discussed on 29.05.2024 and further work will be done after receiving the final report.	Proceed as per the relvent Financial Regulation .

3.4 Management inefficiency

	Audit Observation	Comment of the sabha	Recommendation
(a)	The balance of Rs.99,995 since 03 years in the current account numbered 719675 was not settled even during the year under review.	That will be settled in the future .	The long outstanding bank balance should be settled.
(b)	Creditor balances and debtors balances of Rs.2,832,498 and Rs.3,444,586 respectively ranged from 03 to 05 years were not settled during the year under review.	A committee has been appointed in this regard and it will be settled in the future.	Long-term payables and receivables should be settled .

3.5 Operational inefficiency

	Audit Observation	Comment of the sabha	Recommendation
(a)	Although the management of the Horana Inn was assigned to the Urban Development Authority by the Gazette Notice No. 105/3 dated 09September 1980, the council was unable to take legal action to recover the arrears of the Inn rents from the year 2021 due to the fact that no formal agreement was reached regarding the payment of monthly fees.	The Ministry of Local Government has been informed in this regard through the Commissioner of Local Government and will proceed accordingly.	Fees should be charged after entered into formal agreement.
(b)	Although the arrears of shop rents ranged from 05 months to 04 years, no legal action was taken against those who did not pay the arrears of shop rent as per the agreement.	That seizure notices have been issued against defaulters.	Proceed as per agreement.
(c)	From the year 2019 to December of the year under review, the shop rent due from 29 shops whose contract period expired was Rs.793,000 and no new contracts were signed or renewed for those shops.	As at 31.05.2024, Rs. 620,250 has been charged from the deficit and arrangements are being made to renew the contracts.	-do-

3.6 Idle or underutilized property, plant and equipment

	Audit Observation	Comment of the sabha	Recommendation
(a)	The fire vehicle remained idle since the year 2018 had not been repaired by the end of the year under review.	No information about the registration of the vehicle and has been referred for repair .	Should be collected the information about the registration and proceed to run the vehicle.
(b)	The tractor gully bowser and compactor remained idle since 2015.	That will be repaired in the future.	Must be repaired and proceed to run the vehicle.

3.7 Assets Management

	Audit Observation	Comment of the sabha	Recommendation
(a)	The value of a trailer owned by the sabha had not been assessed and accounted.	That will be assessed and accounted in the future.	Assets should be valued and accounted.

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| (b) | Although fixed asset registers had been maintained those registers had not been updated at the end of the year under review and no fixed asset register had been maintained in respect of computers. | That a formal fixed asset register will be maintained in the future | Fixed asset register should be maintained properly |
| (c) | The ownership of 41 lands included in the Council's land register had not been acquired to the sabha. | There are no details on how 28 plots of land were obtained and the rest of the land will be acquired to the sabha. | The action should be taken to acquire the lands owned by the sabha. |