

1. Financial Statements

1.1 Adverse Opinion

The audit of the financial statements of the Horowpothana Pradeshiya Sabha 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 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 the provisions of the National Audit Act No. 19 of 2018 and the 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, because of the significance of the matters described in paragraph 1.6 of this report, the financial statements do not give a true and fair view of the financial position of the Horowpothana Pradeshiya Sabha as at 31 December 2023 and its financial performance and cash flow for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Adverse Opinion

I expressed Adverse opinion 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 adverse 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 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 and Regulatory Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the 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 financial statements presented includes all recommendations made by me in the previous year except the audit matters of 1.6.1 (d) described of this report as per the requirement of Section 06 (1) d (iv) of the Audit Act No. 19 of 2018.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Although the construction value of the buildings of the new public market project completed in the year 2022 was Rs.26,216,617, it had been overstated as Rs.32,462,342 in the building account and Rs.48,442,160 in the capital grant account.	Accepted.	The correct value should be accounted.
(b) The value of the roads constructed in the year under review was Rs.917,332 but in the statement of Assets and Liabilities it had been overstated as Rs.20,860,955.	-Do -	-Do -
(c) Although no vehicle purchases had been taken place after 01 January 2020, in the year under review Rs.16,515,542 had been credited to the capital grants account as vehicle capital grants.	-Do -	-Do -
(d) Fixed Assets and capital grants of Rs.20,388,313 indicated in the audit of the financial statements of the year 2022 had not been accounted in the year under review, so the fixed assets and capital grants had been decreased by that value.	-Do -	-Do -
(e) The construction of 04 bridges worth Rs.142,700,000 in the year 2020 under the	-Do -	-Do -

provisions of the Ministry of Provincial Councils and Local Government had not been accounted as capital grants.

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| (f) | Although the value of the registered tractor-trailer was Rs.400,000, it had been understated by Rs.40,000 in the Statement of Assets and Liabilities. | Accepted. | The correct value should be accounted. |
| (g) | Purchase of batteries for vehicles amounting to Rs.165,542 had been accounted as fixed assets in the Statement of Assets and Liabilities. | -Do - | Fixed assets should be correctly identified and accounted. |
| (h) | In the year under review, the income received from the solar energy system was Rs.368,191, but in the Comprehensive Income Statement it had been understated as Rs.281,583. | -Do - | The correct value should be accounted. |
| (i) | In the year under review, Rs.495,500 received from the Local Government Department for a seed distribution project had been shown as vehicle rental income. | -Do - | Revenue subjects should be correctly identified and accounted. |

1.6.2 Unreconciled Control Accounts or Records

- | Audit Observation | Comments of the Sabha | Recommendation |
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| (a) There was a difference of Rs.42,700 between the values mentioned in the comprehensive income statement and schedule of 03 items of income and one item of expenditure in the year under review. | Accepted. | Account balances should be compared with corresponding schedules. |
| (b) The unrecognized capital expenditure in the surplus/deficiency of the year under review was Rs.57,220,145 as per the Statement of Assets and Liabilities but as per the Statement of Change in equity it was Rs.112,528,653, there was a difference of Rs.55,308,508. | -Do - | The reasons for the differences should be investigated and corrected. |

1.6.3 Lack of Written Evidences for Audit

	Subject	Amount	Unsubscribed Audit evidences	Comments of the Sabha	Recommendation
		Rs.			
(a)	Machine	15,472,368	Schedules	Accepted	Verifying written evidence should be submitted.
(b)	Depreciation in the year under review	25,674,477	-Do -	-Do -	-Do -
(c)	Rent due before 2022	4,115,439	(i) Schedules (ii) Corroboration files (iii) Age Analysis	- Do -	- Do -
(d)	Licenses Receivables	1,033,300	- Do -	- Do -	- Do -
(e)	Contractual Shop Rents	158,500	- Do -	- Do -	- Do -
(f)	Tender Security Deposit	58,500	- Do -	- Do -	- Do -
(g)	Library Deposits	52,715	- Do -	- Do -	- Do -
(h)	Miscellaneous Deposits 01	2,328,000	- Do -	- Do -	- Do -
(i)	Miscellaneous Deposits 02	22,000	- Do -	- Do -	- Do -
(j)	Miscellaneous Deposits 03	100,000	- Do -	- Do -	- Do -

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of expenditure over revenue of the Sabha for the year ended 31 December 2023 amounted to Rs.17,772,413 as compared with excess of expenditure over revenue amounted to Rs.4,574,537 in the preceding year.

2.2 Financial Control

Audit Observation	Comments of the Sabha	Recommendation
Stamp fees of Rs.2,895,950 and court fines of Rs.1,823,190 received for the Provincial council in the year 2023 had not been used for revenue generation projects but had been used for expenses related to general administrative activities.	Accepted.	This money should be used for income generating projects.

2.3 Revenue Administration

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

According to the information submitted by the Secretary of the Sabha, information related to the estimated revenue, billed revenue, collected revenue and revenue arrears for the year under review and for the previous year are mentioned below.

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.
Rates and Taxes	1,912,000	1,813,337	1,990,529	1,187,787	1,988,400	1,786,680	1,832,939	1,364,979
Rent	10,754,032	11,354,170	10,585,683	7,362,317	11,206,000	6,991,454	7,893,798	6,593,830
License Fees	4,633,500	990,755	1,364,055	1,034,300	5,035,000	813,848	431,548	1,407,600
Other revenue	5,504,150	3,271,366	5,608,599	1,171,855	5,964,000	2,138,473	333,803	3,509,088
Total	22,803,682	17,429,628	19,548,866	10,756,259	24,193,400	11,730,455	10,492,088	12,875,497

2.3.2 Performance in Revenue Collection

Following are the observations regarding the revenue collection performance of the sabha.

Audit Observation	Comments of the Sabha	Recommendation
(a) Rates and Taxes		
(i) Assessments were being collected based on the property valuation of 1994 and any assessment had not been made based on new constructions, evictions and outstanding assessments of Rs.248,087 had not been collected on 31 December 2023.	That new assessments are being undertaken.	Actions should be made for recovery as per the new assessment and arrears of assessment should be recovered.
(ii) Any program had not been prepared for revision of name list of assessments and expenditure had been incurred in excess of income for collection of assessments.	That this issue will be resolved as per the new assessment.	After the new assessment, name list of assessments should have been revised correctly.
(iii) Garbage tax amounting to Rs.867,300 which should be collected from 128 institutions that have been in existence for a period between 01 and 10 years had not been collected by 31 December of the year under review.	That the shortfall is due to billing for closed entities.	Prompt action should be taken to settle the outstanding balances.
(iv) Business tax amounting to Rs.68,400 from 21 institutions that existed between 01 and 02 years had not been collected by 31 December of the year under review.	That a lawsuit has been filed for recovery.	Actions should be made for recovery.
(b) Rent		
(i) The rent of Rs.356,800 dues for the shops located inside the public market had not been collected by 31 December 2023.	The fact that some of the owners related to this have died and due to the absence of relevant agreements, it is not possible to carry out legal proceedings.	Actions should be made to settle the balance due.

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| (ii) | The arrears of rent of Rs.1,157,430 dues for 39 shops belonging to the Sabha, which existed between 01 and 08 years, had not been collected according to Section 159 (1) of the Pradeshiya Sabha Act. | That the agreements related to these shops are missing in the local government department, so it is not possible to take legal action for recovery. | Actions should be made for recovery from the responsible parties. |
| (iii) | During the year under review, any action had not been taken to collect the arrears of rent of Rs.5,152,943 dues for leases of assets that have been in existence for a period of more than 01 to 08 years. | Due to the lack of agreements in certain shops related to these dues, it has not been possible to prosecute and the rest of the shops have been prosecuted. | -Do - |
| (iv) | A sum of Rs.1,051,944 arrears of rent due from 30 parties for the rental of machines of the local council had not been recovered as at 31 December 2023. | That legal proceedings are being taken for recovery. | Actions should be taken to recover arrears of rent. |
| (c) | License Fees | | |
| | The license fees of Rs.1,034,300 whose parties have not been identified since many years, had not been collected in the year under review. | That the deficit was due to incorrect billing. | Actions should be made to settle the balance due. |
| (d) | Other Revenue | | |
| (i) | A sum of Rs.373,900 outstanding tube well fees due for 177 tube wells had not been collected. | That will be corrected in the year 2024 | Actions should be made for immediate recovery. |
| (ii) | Court fines of Rs.697,693 and stamp duty of Rs.68,259 that should have been received from the Chief Secretary of the Provincial Council and other authorities on 31 December 2023 had not been collected. | That will be recovered in the year 2024. | -Do - |

3. Operational Review

3.1 Performance of functions assigned by the Act

The matters observed regarding the accomplishment of the functions that should be discharged by the Pradeshiya Sabha under Section 3 of the Pradeshiya Sabhas Act, such as, the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and welfare of the people and all amenities within such area, are mentioned below.

Audit Observation	Comments of the Sabha	Recommendation
Under Section 126 of the Pradeshiya Sabha Act, by-laws could have been enacted to fulfill 30 main matters, but by 31 December 2023, any by-laws had not been enacted for those matters.	That the by-laws will be enacted in the near future.	Actions should be made to enact by-laws.

3.2 Management Inefficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) The baling machine at the Garbage Management Center was destroyed by fire in the year 2023, but a formal investigation had not been carried out and necessary actions had not been taken to restore it.	That the Assistant Local Government Commissioner has been informed in this regard.	A formal investigation should be conducted and actions should be taken to recover the loss from the responsible parties and restore the baling machine.
(b) A survey had not been conducted on the vendors engaged in peddling in the Sabha's jurisdiction and a fixed daily fee had not been collected.	That a survey will be conducted and the correct charges will be collected.	Arrangements should be made to collect the correct charges.

3.3 Assets Management

Audit Observation	Comments of the Sabha	Recommendation
(a) Out of 10 shops constructed under the LDSP project, 03 shops had been remained idle.	That attention has been paid to provide meat and fish shops.	Actions should be tried to not to be idle.
(b) Out of the 07 shops in front of the public market, shop numbers 01 and 02 had been remained idle since 2018 due to non-repair.	That Shop Nos. 01 and 02 are not in a condition suitable for lease.	These shops should be made suitable for lease.
(c) The shop room that was given to the Kapugollawa police from 01 July 2021 had not been taken back to the Sabha or the fees were charged according to the contract.	That the relevant parties have been informed to come to the agreement.	Actions should be taken to enter in to contracts to collect the rent.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation

According to the action plan prepared for the reviewed year, the welfare programs of Rs.662,860 were not implemented and it was mentioned that the development of gravel roads, the construction of a water treatment center and industrial projects under various funds are being carried out, but the estimated value for that or the identification of the relevant works. had not been done.

Comments of the Sabha

That these projects will be implemented in the near future.

Recommendation

Actions should be taken to implement the planned tasks.

4.2 Environmental Observations

Audit Observation

The waste management center belonging to the Sabha, which was built at a cost of Rs.3,200,577, was idle and the production of organic fertilizers from the decomposable waste and selection and sale of non-decomposable waste had not been done. As a result, the garbage brought daily from the Sabha area was illegally dumped in the motogonewa reserve.

Comments of the Sabha

That this situation has been corrected by now.

Recommendation

The work of the waste management center should be done properly.