Horowpothana Pradeshiya Sabha - 2024

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Horowpothana Pradeshiya Sabha for the year ended 31 December 2024 comprising the Statement of assets and liabilities as at 31 December 2024 and the
Comprehensive Income Statement, Statement of changes in Equity / Net Assets, 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 provisions in sub-section 10(1) of the National Audit Act No. 19 of 2018, 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, 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 2024, 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

I expressed qualified 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 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 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 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 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 Requirements

National Audit Act, No. 19 of 2018 includes specific provisions for 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 the recommendations made by me in the previous year as per the requirement of section 6 (1) (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 Deficiencies

	Audit Observation	Comments of the Sabha	Recommendation
(a)	The surplus was overstated by the fact that the income of Rs. 86,608 from the solar energy system installed in the auditorium for the last 3 months of the year 2023 was calculated as income for the year under review.	Accepted.	The correct value must be accounted.
(b)	Property, plant and equipment were understated by Rs. 400,000 in the statement of assets and liabilities for the year under review due to the removal of the trailer valued at Rs. 150,000 shown under motor vehicles on 08 February 2024 and the tractor valued at Rs. 550,000 not being shown under motor vehicles.	Accepted.	The correct value must be accounted
(c)	Although the stamp duty revenue for the year 2024 was estimated at Rs. 1,000,000, the income statement for the year under review had understated the stamp duty revenue by Rs. 900,000 by stating it as Rs. 100,000.	Accepted.	The correct value must be accounted.

1.6.2 Unreconciled Control Accounts or Records

	Audit Observation	Comments of the Sabha	Recommendation
(a)	The balance in the cash book relating to the bank account of the sabha was Rs. 3,210,163 and as per the bank reconciliation report, the balance was stated as Rs. 3,335,163, hence there was a difference of Rs. 125,000. Furthermore, the balance in the cash flow statement was stated as Rs. 3,403,163.	Accepted.	Corresponding reports should be compared with schedules and corrected.

(b)	Although the net value of property, plant and equipment was stated as Rs. 478,564,616 in the schedule submitted with the financial statements, there was a difference of Rs. 25,009,944 from the statement of assets and liabilities for the year under review which was stated as Rs. 503,574,560.	Accepted.	-Do-
(c)	Although the waste compactor was stated as Rs. 600,000 in the financial statements, it was stated as Rs. 755,166 in the fixed assets register, resulting in a difference of Rs. 155,166.	Accepted.	-Do-

1.6.3 Unauthorized Transactions

Audit Observation	Comments of the Sabha	Recommendation
The total amount of Rs. 3,040,200 in the Pradeshiya Sabha was 04 revenue items namely garbage tax, trade license, shop rent, tube wells, not found balances of Rs. 15,701,802 and 04 items relating to property, plant and equipment in the final financial statements totaling Rs. 18,742,002 had been written off from the financial statements in the year under review. Although the procedure for waiving the amount due was mentioned in accordance with Section 182 of the Pradeshiya Sabha Act No. 15 of 1987, action had not been taken accordingly.	Accepted.	Action should be taken in accordance with the Pradeshiya Sabha Act.

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 2024 amounted to Rs. 30,098,589 as compared with the excess of expenditure over revenue amounted to Rs. 17,772,413 in the preceding year.

2.2 Revenue Administration

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

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

	Source of Revenue	2024 Estimated Revenue	2024 Revenue billed	2024 Revenue collected	2024 Total Arrears as at 31 December	2023 Estimated Revenue	2023 Revenue billed	2023 Revenue collected	2023 Total Arrears as at 31 December
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i)	Rates and Taxes	1,876,800	2,022,400	1,987,000	334,622	1,912,000	1,813,337	1,990,529	1,187,787
(ii)	Rent	16,298,000	10,614,998	10,147,398	6,897,269	10,754,032	11,354,170	10,585,683	7,362,317
(iii)	License fees	440,480	407,750	407,750	-	4,633,500	990,755	1,364,055	1,034,300
(iv)	Other Revenue	6,872,298	6,882,391	6,882,391	-	5,504,150	3,271,366	5,608,599	1,171,855
		25,487,578	19,927,539	19,424,539	7,231,891	22,803,682	17,429,628	19,548,866	10,756,259

2.2.2 Performance in Revenue Collection

	Audit Observation	Comments of the Sabha	Recommendation
(a)	**Rates**		
(i)	Out of the arrears of rates of Rs. 243,843 as at 31st of December 2024, the Pradeshiya Sabha had not taken legal action to recover Rs. 237,373 relating to 196 individuals, even though the rates were overdue for more than 05 years.	Accepted.	Legal action should be taken to recover the arrears of rates taxes.
(ii)	Since the 2024 rates register was not maintained up to date and detailed information could not be obtained from the computer software database, it was not possible to verify the balance and cash receipts shown in the financial statements.	Accepted.	Steps should be taken to keep the rates register up to date.
(b)	**Rent**		
	Although income was collected from renting out the motor grader and backhoe loader, arrears of Rs. 281,080 and Rs. 728,750 respectively remained to be recovered at the end of the year under review. Although these arrears have been arrears since 2019, no action had been taken to recover them so far.	Accepted.	Action should be taken to recover from the responsible party.

3. Operational Review

3.1 Performing of Functions Enacted 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 3of the Pradeshiya Sabha Act are shown below.

Audit Observation	Comments of the Sabha	Recommendation
Under Section 126 of the Pradeshiya Sabha Act, by-laws could have been enacted to carry out 30 main matters, but by-laws had not been enacted for those matters as at 31st December 2024.	That action will be taken to enact by-laws in the time of future.	Action should be taken to enact by-laws.

3.2 Identified Losses

	Audit Observation	Comments of the Sabha	Recommendation
(a)	The Ceylon Electricity Board had not provided the sabha with an income of Rs. 90,000 due to the solar power system meter being out of service for the three months of August, September and October of the year 2024.	The Ceylon Electricity Board has repaired the electricity meter.	Action should be taken to recover the receivable income.
(b)	Due to the negligence and delay of the officers, the sabha had failed to make timely payments to the Employees' Trust Fund from January 2020 to June 2024, and a fine of Rs. 80,741 had been paid from the sabha Fund.	Accepted.	Action should be taken for recovery.

3.3 Management Inefficiencies

	Audit Observation	Comments of the Sabha	Recommendation
(a)	Although the Pradeshiya Sabha had collected a total of Rs. 101,656 in stamp duty levied on the issuance of trade licenses, stamp duty deducted on payment from vouchers, and stamp duty deducted on payment of salaries for the period from 2022 to 2024, no steps had been taken to send that money to the Inland Revenue Department by when the audit date.	Accepted.	Stamp duty revenue should be sent to the Inland Revenue Department.

3.4 Management of Vehicle fleet

	Audit Observation	Comments of the Sabha	Recommendation
(a)	During the year under review, fuel inspections had not been conducted on 06 vehicles owned by the sabha.	Accepted.	Arrangements should be made to have the fuel tested.
(b)	Although the total distance driven as at 3rd of January 2025, according to the daily running charts of the sabha-owned cab, was 284,566 kilometers, the total distance driven according to the vehicle's mileage meter was 284,722 kilometers, resulting in a difference of 156 kilometers.	Accepted.	A formal investigation should be conducted and corrective action should be taken.

4. Accountability and Good Governance

4.1. Annual Action Plan

	Audit Observation	Comments of the Sabha	Recommendation
(a)	Although 21 programs worth Rs. 2,000,000 had been estimated from the sabha funds in the 2024 budget for the development of roads, bridges, culverts and infrastructure facilities, the sabha was unable to implement 20 programs worth Rs. 1,950,000 of them.	Action will be made to implement these projects in the future.	Planned tasks should be implemented.
(b)	Rs. 22,800,000 had been allocated for 15 programs to implement other development projects, but 06 programs had not been implemented.	It has been impossible to implement the Local Government Departments due to lack of allocations.	Planned tasks should be implemented.