Horana Pradeshiya Sabha - 2024

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Horana Pradeshiya Sabha including the financial statements for the year ended 31 December 2024 comprising the Statement of Assets and Liabilities as at 31 December 2024, 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 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 Horana 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

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 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

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

(a) Financial Statements of the Pradeshiya Sabha 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
(a)	According to paragraph 3.32 of Chapter 3 of the standard , when preparing the Cash Flow Statement, It had been adjusted Rs.55,462,460 and expenditure on stock issues amounting to Rs.37,524,679 without any supporting evidence under operating activities. However, interest amounting to	This adjustment had been done due to actual balance of cash and cash equivalents at the end of the year did not tally, and that the Cash Flow Statement would be prepared correctly in 2025.	Financial statements should be prepared in compliance with the Public Sector Accounting Standards for Local Authorities.

	Rs.57,598,307 for the year under review had not been adjusted.		
(b)	According to paragraph 3.29 of Chapter 3 of the Standard, only the interest received in cash during the year should be shown as a cash inflow under investing activities. However, instead of doing so, interest receivable amounting to Rs. 6,295,662 had also been adjusted and as a result, the net cash flow under investing activities had been overstated by that amount as at the end of the year under review.	The Cash Flow Statement will be prepared properly in 2025.	-Do-

1.6.2 Accounting Deficiencies

	Audit Observation	Comment of the Sabha	Recommendation
(a)	Depreciation on machinery amounting to Rs.3,096,026 for the year ended 2022 had been debited to the Motor Vehicles Depreciation Account instead of the Machinery Depreciation Account.	Necessary corrections will be made in preparing the financial statements in 2025.	Accounts should be prepared correctly.
(b)	Due to the incorrect calculation of depreciation on four items of fixed assets as at the end of the year under review, the depreciation expense for the year had been overstated by Rs. 142,354.	-Do-	-Do-
(c)	In calculating the depreciation for the year of review, a sum of Rs. 48,522 had been understated in respect of 31 asset items belonging to three categories of assets	-Do-	-Do-

	purchased in the year 2020 at a total cost of Rs. 640,345.		
(d)	The interest receivable on fixed deposits amounting to Rs. 6,295,662 for the year under review had been credited to the fixed deposit account instead of being credited to the interest receivable account. As a result, the balance of the fixed deposit account had been overstated, and the interest receivable account had been understated by the same amount	-Do-	-Do-
(e)	In the Statement of Comprehensive Income, only Rs.69,739,035 had been shown as capital grants received under other comprehensive income, whereas the actual amount received was Rs.88,274,464.	-Do-	-Do-
(f)	A total sum of Rs.85,000,000, including Rs.29,344,000 allocated to the Horana Divisional Engineer's Office for the construction of the Moragahahena Crematorium, had been capitalized during the year under review although the project had not yet been completed.	-Do-	-Do-

1.6.3 Unreconciled Control Accounts or Reports

Audit Observation	Comment of the Sabha	Recommendation
Differences amounting to Rs.35,330 were observed between the total balances of two accounts shown in the financial statements and the corresponding balances appearing in the schedule/ledger accounts.	Corrections will be made in preparing the financial statements in 2025.	Action should be taken to identify the reasons for the differences and make necessary corrections accordingly.

1.7 Non-compliances 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 Sabha	Recommendation
(a)	The Pradeshiya Sabha Act No. 15 of 1987			
(i)	Section 134(1)	Although the Horana Pradeshiya Sabha area was declared as a developed area by Gazette Notification in 2007, Rate tax had not been levied for all such areas.	Assessments and recovery of rates will be carried out based on the availability of services and facilities.	Action should be taken as per the Pradeshiya Sabha Act.
(ii)	Section158(1)	Rate tax had not been levied on 320 properties identified as unclaimed properties or vacant lands, contrary to the provisions of the Act.	It was stated that legal action will be implemented from 01 July 2025.	-Do-
(b)	Public Administration Circular No.02/2018 of 24 January 2018	Although a Human Resource Development Plan should be prepared ensuring that at least 50 percent of the staff are provided with a minimum of 12 hours of training per year, such a plan had not been prepared for the year under review.	Arrangements have been made to implement training programs.	Action should be taken as per the circular

2. Financial Review

2.1 Financial results

According to the Financial Statements presented, excess of revenue over expenditure of the Sabha for the year ended 31 December 2024 amounted to Rs.95,494,459. as compared with the excess of revenue over expenditure amounting to Rs. 117,136,358 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 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.

		2024				2023			
	Source of Revenue	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 Tax	23,179,649	25,340,234	29,178,734	3,521,326	15,483,588	15,838,693	12,858,172	7,359,824
(ii)	Rent	2,044,000	1,963,600	1,994,100	20,500	2,091,000	1,996,560	1,945,560	51,000
(iii)	License fees	1,520,000	2,179,253	2,164,253	20,000	3,717,000	4,693,176	4,670,176	5,000
		26,743,649	29,483,087	33,337,087	3,561,826	21,291,588	22,528,429	19,473,908	7,415,824

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
Rent		
In respect of shop rooms Nos.17 and 30 at Padukka Road and No.21 at Panadura Road, it was observed that the original tenants had died and their family members continued to occupy the shops. However, despite the expiry of lease agreements, the ownership of these shops had neither been legally transferred nor re-tendered.	The process of regularizing shop allocations has commenced.	Shop ownerships should be legally transferred in accordance with regulations.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
The total tender deposits from the year 2017 to the year 2022 amounting to Rs. 357,188, and the total contract and interim deposits from the year 2018 to the year 2020 amounting to Rs. 4,571,575 had not been settled by the end of the year under review.	Actions are being taken to minimize the contract and interim deposit balances	Actions should be taken to settle the unsettled deposit balances.

3.2 Idle or underutilized property, plant and equipment

Audit Observation	Comment of the Sabha	Recommendation
The waste incinerator, which was completed on 01 April 2021 at a cost of Rs. 8,500,000, was inoperative in the year 2023 after a preliminary inspection was conducted with the participation of the Central Environmental Authority, the National Engineering Research and Development Centre of Sri Lanka, the Waste Management Authority and the officers of the Pradeshiya Sabha. However, it was informed that further tuning should be done due to excessive smoke emission from this incinerator, but the sabha did not take action in this regard, and this incinerator has remained idle since the year 2023.	It is expected that the incineration activities here will officially commence in the future.	Steps should be taken to complete the deficiencies and put the incinerator into use.

3.3 Asset Management

Audit Observation	Comment of the Sabha	Recommendation
A cab used by the sabha had not been taken over in accordance with the Western Provincial Secretary's Circular No. 01/2016 dated 29 February 2016.	A request has been made to the Chief Secretariat to hand over the cab to the Horana Pradeshiya Sabha and to issue free revenue licenses.	The untaken assets should be taken over.

3.4 Defects in Contract Administration

Audit Observation	Comment of the Sabha	Recommendation
Although the construction work for the renovation of the lower floor of the Mawakoya Hela Bojunhala with an estimated cost of Rs. 3,950,000 was completed on 28 March 2024, the ground floor had not been used for any purpose during the year under review due to the construction work being carried out without a formal feasibility study.	Letters have been sent to the Valuation Department	Action should be taken to utilize the unused portions.

3.5 Human Resource Management

	Audit Observation	Comment of the Sabha	Recommendation
(a)	There were 17 vacancies as per the approved number of officers for 10 posts among the secondary and primary level posts of the sabha. That the	Local Government Commissioner has been informed.	Vacant employees should be recruited
(b)	Although 38 officers were employed in the post of Development Officer which was not included in the approved staff, that post had not been approved.	The Development Officers have been referred for approval.	approved staff should be revised.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comment of the Sabha	Recommendation
The progress of 08 planned programs in the annual action plan for the year under review was less than 50 percent	The progress of projects carried out under physical planning and road construction is 100 percent.	The annual action plan should be followed.

4.2 Internal Audit

Audit Observation	Comment of the Sabha	Recommendation
Although the internal audit plan prepared for the year under review included audit objectives under 34 activities, audits were not conducted as planned for 8 sectors. Furthermore, while it was reported that monthly and quarterly reviews were carried out for 21 sectors, the audit observation reports had not been submitted to senior management.	That internal audit reports will be submitted to the General Assembly for continuous internal audit inquiries and follow-up.	Action should be taken as per the internal audit plan.

4.3 Environmental Issues

Audit Observation	Comment of the Sabha	Recommendation
It was observed during the physical inspection on November 07, 2024 that a large amount of non-biodegradable waste had been collected without sorting in the premises where the waste incinerator was built. No program had been implemented to bale that waste.	Arrangements have been made to purchase a new baling machine.	A formal program should be prepared to remove non-biodegradable waste.

4.4 Sustainable Development Goals

Audit Observation	Comment of the Sabha	Recommendation
17 goals have been introduced to maintain sustainable development in Sri Lanka and the sabha had prepared a sustainable development plan for the current year with a view to achieving only 03 goals. Out of the 10 programs planned under this, 03 programs with an allocation of Rs. 80,500,000 had not been implemented.	There was not enough time to complete two projects and the process of taking over the Ingiriya Theatre is underway.	Action should be taken according to the sustainable development plan.