

## **Millaniya Pradeshiya Sabha - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Millaniya Pradeshiya Sabha including the financial statements for the year ended 31 December 2021 comprising the statement of assets and liabilities as at 31 December 2021, comprehensive income statement, statement of changes in 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 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 and the Provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be reported 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 financial statements give a true and fair view of the financial position of the Millaniya Pradeshiya Sabha as at 31 December 2021, 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**

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I express qualified opinion based 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**

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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, 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)**

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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 Requirements

National Audit Act, No. 19 of 2018 include 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 recommendations which I made on financial statements for the preceding year are included 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 Non-Compliance with Sri Lanka Public Sector Accounting Standards for Local Authorities

Non -compliance with Reference to the Relevant Standard	Comments of the Sabha	Recommendation
Although the Pradeshiya Sabha has to submit a service performance statement in addition to submitting financial statements in terms of Section 16.5 of the Standard, it had not been so done.	It will be submitted in the year 2022 .	Actions should be taken in terms of Sri Lanka Public Sector Accounting Standards for Local Authorities.

### 1.6.2 Accounting Deficiencies

Audit Observation	Comments of the Sabha	Recommendation
(a) Although a sum of Rs.52,226,872 of capital expenditure grants in 2020 and a sum of Rs.28,191,664 of capital grants received in 2021 should be disclosed under unrecognized capital expenditure/grants in surplus/deficit in the statement of assets and liabilities, the figures were incorrectly adjusted in the statement of changes in equity.	This will be corrected in the statement of assets and liabilities as at 31.12.2022 .	It should be accurately disclosed in the financial statements.

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| (b) | Without disclosing the revalued loss of Rs.3,057,133 on fixed assets, it had been erroneously disclosed as an assets removal in financial statements.   | This will be corrected in the year 2022.   | It should be accurately accounted for. |
| (c) | Due to recording the bank balance of Rs.16,111,439 in the financial statements instead of the cash book balance of Rs.14,123,018 as at 31 December 2021, the cash balance had been overstated by Rs. .1,988,421 . | The fault is acknowledged and actions will be taken to rectify as at 01.01.2021. | It should be accurately accounted for. |

### 1.6.3 Unreconciled Control Accounts or Records

Audit Observation	Comments of the Sabha	Recommendation
There was a difference of Rs. 15,512,495 in between the value shown in the financial statements and the value shown in the corresponding reports in relation to 02 accounting items.	This will be corrected in the year 2022.	Financial statement balances and schedule balances should be the same.

## 2. Financial Review

### 2.1 Financial Results

The revenue exceeding the recurrent expenditure of the Sabha for the year ended 31 December 2021 in the financial statements submitted was Rs. 14,564,920 and the corresponding revenue exceeding the recurrent expenditure for the preceding year was Rs. 13,843,720.

### 2.2 Performance on Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
The court fine and stamp duty receivable from the Chief Secretary of the Provincial Council and other authorities from the year 2018 to the year 2020 as at 31 December 2021 were Rs.1,193,602 and Rs.34,127,839 respectively.	A part of the outstanding amount has been received.	Actions should be taken to collect the arrears of income.

## 3. Operating Review

The matters observed in respect of executing of functions that should have been performed by the Council such as regulation and control, wellbeing of the public, facility and welfare regarding the matters public health, public utility services and public roads under Section 03 of the Pradeshiya Sabha Act are as follows.

### 3.1 Management Inefficiencies

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#### Audit Observation

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Due to the fact that the assets, liabilities, income and expenses due from the Bandaragama Pradeshiya Sabha to the Millaniya Pradeshiya Sabha , which was established as a new Pradeshiya Sabha after 20 March 2018, were not properly distributed until 19 August 2022, it was not possible to maintain the records of fixed assets of the Millaniya Pradeshiya Sabha, take the lands and buildings owned by the Sabha into the books and confirm their security and get proper confirmation of other assets and liabilities. Fixed assets valued at Rs.12,213,570 owned by Millaniya Pradeshiya Sabha were in the fixed assets balance of Bandaragama Pradeshiya Sabha. Further, the Sabha had not prepared a Register of the Fixed Assets which were supposed to be taken over by the Millaniya Pradeshiya Sabha and belonging to the Sabha area .

#### Comments of the Sabha

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Answer was not given.

#### Recommendation

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Distribution of assets should be expedited.

### 3.2 Assets Management

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#### Audit Observation

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The compost production capacity of the hauler which is being used by the Sabah had remained in between 01 to 1.5 tonnes per day. An extent of 27.34 tons were produced and sold in the year 2021 and, the amount was 9.16 tons by 10 August 2022 . But in the year 2021, although the hauler with the production capacity of 01 ton per hour was bought for Rs. 7,129,625, it had not been utilized. In addition to that, an expenditure of Rs.5,000,000 was incurred in the year 2021 for the roof and sewage system of the compost production building. Although there was a goal of collecting garbage from other sabhas and producing compost, it had not been acted for that.

#### Comments of the Sabha

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It has been purchased as the provision is lost and actions will be taken to use in future.

#### Recommendation

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Assets should be utilized.