

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Millaniya Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the Statement of Assets and Liabilities as at 31 December 2022, Comprehensive Income Statement, Statement of changes in net 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 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 Millaniya Pradeshiya Sabha as at 31 December 2022, 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 Generally accepted Accounting Practices 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
According to Chapter No. 3.27 to 3.32 of the standard, the adjustments to be made to the surplus under the operating activities of the cash flow statement were not made correctly and the purchases of property, plant and equipment of Rs.531,808 under the investment activities had been overstated.	The corrections will be made when preparing the financial statements of the year 2023	Cash flow statement should be prepared in accordance with Public Sector Accounting Standard for Local Government Authorities.

1.6.2 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) 08 projects valued at Rs.6,171,987 implemented in the year under review were accounted as recurring expenses, although they should be accounted as fixed assets.	The error was corrected.	Recurrent expenses and capital expenses should be properly accounted.
(b) The amounting Rs. 2,461,669 of capital expenditure grants for the construction of net fences around the Lenavaraplayground and Patakada children's playground was correctly accounted in the year 2021 however it had been accounted as recurrent expenses by Journal No. 06 and 08 of the reviewed year.	The incorrect accounting has been corrected.	-do-
(c) In the year under review, Rs.1,999,993 received as capital grants for the development of Patakada Children's Playground had been accounted as transfers from the government for recurrent expenditure.	- do -	-do-
(d) An estimated of Rs.550,000 in January 2022 for painting the Ayurveda building and the library building had been accounted as expenses without carrying out any repairs.	- do -	Expenditure should be identified and accrued.

- (e) The amount of depreciation of capital expenditure grant assets received in the year 2020 was overstated by Rs.487,060 and the depreciation of vessels and equipment for the year under review was also understated by Rs.415,785. - do - The correct values should adjust to the final accounts.

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
In the Pradeshiya Sabha Act No. 15 of 1987			
(i) Section 127	26 cemeteries within the area of the Sabha had not been acquired to the Sabha.	The money has been paid to the Kalutara Senior Surveyor on 21.06.2022, however the survey work has not been done so far. The Millaniya Divisional Secretary has sent reminders from time to time	The survey work should be completed promptly and handed over the Cemetery to the Sabha.
(ii) Section 154.	Although the Sabha should levy a tax of 01 percent of the sales value of the land auctioned and sold within the area of the Sabha, contrary to that, the tax was levied based on the assessed value of the land.	As land is sold on payment basis, it takes a long time to know the sale value. Therefore, based on the report of the Assessing Officers, 1% tax has been levied	Action should be done as per the Pradeshiya Sabha Act.

2. Financial Review

2.1 Financial results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2022 amounted to Rs. 6,637,183 as compares with the excess of revenue over recurrent expenditure amounting to Rs. 14,564,922 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 Sabha, estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year are as follows.

Source of Revenue	2022				2021			
	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 Taxes	3,197,440	4,433,669	4,366,325	67,345	2,087,100	3,542,376	3,399,033	143,343
(ii) Rent	402,000	218,362	218,362	-	502,000	333,886	-	402,000
(iii) License Fees	1,379,050	344,090	339,590	4,500	416,300	416,300	492,610	444,610
(iv) Other Revenue	39,661,100	37,296,591	32,847,465	4,449,126	33,916,800	32,643,437	19,945,614	12,697,823
	44,639,590	42,292,712	37,771,742	4,520,971	36,922,200	36,935,999	23,837,257	13,687,776

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) The court fines that should have been received from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2022 were Rs.3,132,028 and stamp fees was Rs.11,638,539.	The schedules have been prepared and sent to the relevant institutions before 31.12.2022 and Rs. 6,885,193 have been received by 01 May 2023. The schedules of Rs. 1,005,000 related to the year 2021 have been handed over.	The action should be taken to recover the arrears of income promptly.
(b) Any income had not been earned by 10 May 2023 from the 03 advertising board installed at a cost of Rs.803,900 in December 2022.	Negotiations are underway with several agencies to sell advertising board. Expect to sell those boards as soon as possible in the future.	Board sales should be expedited and revenue collection expedited.

3. Human Resource Management

Audit Observation	Comment of the Sabha	Recommendation
Although annual performance agreements are required to be signed for all the staff working in the Sabha, performance agreements were not signed for the year under review.	It will be rectified from the year 2023 and that it is currently being processed.	Annual performance agreements should be signed for all staff.

4. **Accountability and Good Governance**

Internal Audit

Audit Observation	Comment of the Sabha	Recommendation
Although an internal audit plan had been prepared including 12 audit subject areas for the year under review, sufficient audits were not conducted regarding the expected audit areas by that plan and only 04 internal audit reports had been issued during the year.	Action will be taken correct in the future.	Internal audit should be strengthened.