Millaniya Pradeshiya Sabha – 2024

----

1. Financial Statements

1.1 Adverse Opinion

The audit of the financial statements of the Millaniya 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, 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 of the Millaniya 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 Adverse Opinion

I expressed Adverse opinion regarding financial statements 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 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, amounting to Rs.72,414,514 had been adjusted the surplus incorrectly when calculating the net cash flow from operating activities.	Steps will be taken to correct this when preparing the financial statements for the year 2025.	The financial statement should be prepared in accordance with Sri Lanka Public Sector Accounting Standard for Local Authorities.
(b)	According to paragraph 3.29 of Chapter 3 of the standard, amounting to Rs. 36,792,461 had been adjusted incorrectly when calculating the net cash flow from investing activities.	Steps will be taken to correct this when preparing the financial statements for the year 2025.	The financial statement should be prepared in accordance with Sri Lanka Public Sector Accounting Standard for Local Authorities.

1.6.2 Accounting Deficiencies

	Audit Observation	Comment of the Sabha	Recommendation
(a)	Although the net asset value at the end of the year under review amounted to Rs. 153,076,108, the statement of assets and liabilities had shown the net assets as Rs. 326,009,393, which was an overstatement of Rs. 172,933,285 in the financial statements..	Action will be taken to record correctly in the year 2025.	The accounts should be prepared correctly.
(b)	After adjusting the debit and credit entries to the opening balance of the Accumulated Fund Account in the Ledger and the surplus for the year, the correct balance at the end of the year under review should have been Rs. 330,705,051, but it was shown as Rs. 326,009,393 in the Ledger Account and Rs. 292,126,386 in the Statement of Assets and Liabilities.	Action will be taken to record correctly in the year 2025.	The accounts should be prepared correctly.
(c)	The amount of Rs. 5,338,203 in the provisions and reserves account at the end	Steps will be taken to record it correctly in the	The accounts should be prepared correctly.

	of the year under review should have been shown under "Net Assets/Changes in Equity" in the Statement of Assets and Liabilities. However, it had not been shown accordingly.	year 2025.	
(d)	Although the correct value of the accumulated fund in the Statement of Changes in Net Assets/Equity at the end of the year under review should have been Rs. 330,705,051, it had been shown as Rs. 471,528,252. As a result, the balance of the accumulated fund in the Statement of Changes in Equity had been overstated by Rs. 140,823,201.	The value of the accumulated fund amounting to Rs. 326,009,393 has been recorded in the total.	The accounts should be prepared correctly.
(e)	During the correction of errors mentioned in paragraph 1.2 (b) of the Auditor General's Report for the year 2023, an adjustment of Rs. 21,620,280 had been made to the accumulated fund, resulting in the accumulated fund being understated by Rs. 21,620,280.	Action will be taken to correct this preparing the final accounts for the year 2025.	-Do-
(f)	When revalued amounts of the assets in the year 2020 adjusting to the accounts during the year under review, instead of adjusting the difference between the net value of the asset and the revalued values to the accounts, a difference between the cost and the revalued amount of Rs. 1,126,743 had been deducted from the asset account.	-Do-	-Do-
(g)	The value of roads and culverts at the beginning of the year under review should have been Rs. 47,302,677. However, since it had been shown as Rs. 59,691,573 the value of roads and culverts at the end of the year under review had been overstated by Rs. 12,388,896.	-Do-	-Do-
(h)	The value of miscellaneous debtors at the end of the year under review should have been Rs. 38,112,339. However, as it had been shown as Rs. 1,899,244 in the financial statements, the balance of miscellaneous debtors had been understated by Rs. 36,213,095.	Action will be taken to correct this preparing the final accounts for the year 2025.	The accounts should be prepared correctly.
(i)	According to paragraph 3.5 of the accounting policies for the year 2024, the sabha had stated that depreciation would	-Do-	-Do-

	be calculated using the diminishing balance method. However, since depreciation for the year under review had been calculated using the straight-line method with the applicable rates, the depreciation expense in the Statement of Comprehensive Income had been overstated by Rs. 2,009,113.		
(j)	The value of cash and cash equivalents at the beginning of the year under review should have been Rs. 12,580,860. However, as it had been shown as Rs. 19,746,395 in the accounts, the opening balance had been overstated by Rs. 7,165,535. Also, the value of cash and cash equivalents at the end of the year under review should have been Rs. 27,621,735, but it had been shown as Rs. 34,787,270 in the financial statements, resulting in an overstatement of Rs. 7,165,535.	Action will be taken to correct this preparing the final accounts for the year 2025.	The accounts should be prepared correctly.

1.7 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 Decisions	Non – Compliance	Comment of the Sabha	Recommendation
(a)	Pradeshiya Sabha Act No. 15 of 1987 Section 127.	22 cemeteries within the area of the Sabha had not been acquired to the Sabha.	The survey work is currently being carried out.	Action should be taken as per the Pradeshiya Sabha Act.
(b)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka 1645	Although the officers in charge of vehicle log books were required to submit the original copy of the monthly summary of journeys in Form 268(a) along with the daily running charts to the Auditor General on or before the 15th day of the month following the reporting month, this had not been done in respect of 40 vehicles.	Currently being completed and action will be taken to submit it to the Auditor General within a month.	Action should be taken as per the Financial Regulations.

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.27,485,061 as compares with the excess of revenue over expenditure amounting to Rs.24,445,212 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 Taxes	11,190,242	11,190,241	10,379,839	859,552	4,440,600	4,025,951	4,024,801	1,150
(ii)	Rent	-	-	-	-	342,000	189,190	189,190	-
(iii)	License Fees	298,750	298,750	305,750	-	610,050	345,750	345,750	-
(iv)	Other Revenue	-	60,000	34,500	43,500	11,810,550	9,405,239	9,405,239	-
		11,488,992	11,548,991	10,720,089	903,052	17,203,200	13,966,130	13,964,980	1,150

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
Other Income The court fines that should have been received from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2024 were Rs.5,200,000 and stamp fees was Rs. 43,720,994.	It has been noted that the stamp duty has been received and action will be taken to recover overdue fines during the year 2025.	The action should be taken to recover the arrears of income expeditiously.

3. Operational review

3.1 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
Although the salary reimbursement value as at the end of the year 2023 was Rs. 203,166, an amount of Rs. 561,844 had been received for the year under review and the excess amount of Rs. 358,678 had been retained in the general deposit account without taking any action	The excess amount of Rs. 358,678 received in the year 2023 will be adjusted to the income in the future.	The excess salary reimbursement should be repaid.

3.2 Idle or underutilized property, plant and equipment

	Audit Observation	Comment of the Sabha	Recommendation
(a)	A usable bale machine in the garbage yard has remained unused since a year, and its value has not been identified or recorded.	The value of the bale machine will be recorded in the future.	The value of the machine should be recorded and used.
(b)	The unregistered stone roller provided by the Boralesgamuwa Urban Council at the beginning of the year 2024 remained idle without being used by the sabha.	If the roads are prepared under the direct contract system in the year 2025, machine is to be used and if the requests of the contractors are received for that.	The stone roller should be registered and used for the activities of the sabha.

3.3 Asset Management

	Audit Observation	Comment of the Sabha	Recommendation
(a)	Although the compost fertilizer production machine installed in the year 2021 at a cost of Rs. 7,699,995 for the production of compost fertilizer had a production capacity of 01 ton per hour, the fertilizer production at	There is not enough market for the fertilizer produced and if fertilizer is produced further, it will be problematic to manage the premises as well as the amount of fertilizer that accumulates.	An adequate market should be found for compost fertilizer and the fertilizer production machine should be used effectively.

	the garbage yard was at a very low level.		
(b)	The stone crusher machine that was acquired at the time of establishment of the Millaniya Pradeshiya Sabha had been idle since 2018 due to not properly maintained and had not been disposed.	The Assistant Commissioner of Local Government has been informed in writing and further action will be taken accordingly.	The machines should be maintained properly and steps should be taken to use or dispose of those machines

3.4 Human Resource Management

	Audit Observation	Comment of the Sabha	Recommendation
(a)	04 secondary level posts and 01 primary level post were vacant in the sabha.	Assistant Commissioner of Local Government has been informed in writing in this regard through the annual staff quarterly report.	Steps should be taken to recruit vacant employees.
(b)	In accordance with paragraph 6.1 of Public Administration Circular No. 02/2018 dated 24 January 2018, human resource development plan should be prepared as every officer given training opportunity at least 12 hours, had not been acted accordingly.	18 hours of training opportunity has been provided for the entire staff.	A human resource development plan should be prepared.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comment of the Sabha	Recommendation
A number of activities/projects expected to be implemented under 26 objectives included in the 2024 Annual Action Plan had been identified; however, their progress had not been measured as at December 2024.	The progress related to the 2024 Action Plan was about 90 percent completed as at 31 December 2024, and the progress of the remaining activities has since been prepared and completed.	The annual action plan should be followed and its progress should be measured.

4.2 Environmental Issues

Audit Observation	Comment of the Sabha	Recommendation
Since the Council did not produce compost in proportion to the amount of waste collected, and due to the lack of a formal system for the sale of compost fertilizer, the compost sales remained at a low level. Consequently, the collected waste had been piled up at the Deldorawaththa garbage yard.	The Solid Waste Management Centre has been informed regarding this issue.	The waste collected daily should be used for the production of compost fertilizer.

4.3 Budgetary Control

	Audit Observation	Comment of the Sabha	Recommendation
(a)	The total estimated recurrent expenditure of the Council for the year 2024 amounted to Rs. 128,420,050, while the actual recurrent expenditure at the end of the year was Rs. 162,354,275, resulting in an excess of Rs. 33,934,225, representing a 26 percent overspend of the estimated amount.	This situation has arisen due to the increase in employee salaries, increase in fuel prices and fluctuation in electricity bills in the year 2024.	The budget estimates should be revised and approval should be obtained.
(b)	The total estimated expenditure for 12 recurrent expenditure items amounted to Rs. 8,981,082, but no expenditure had been incurred under those items during the year under review.	Reasons for not spending have been given.	The budget estimates should be revised and approval should be obtained.
(c)	The estimated expenditure for 04 recurrent expenditure items was Rs. 1,134,500 and more than 75 percent of that amount had not been spent in the year under review.	-Do-	-Do-