

Hambantota Municipal Council
Hambantota District

1 Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year under review had been presented to audit on 21 March 2016 and the financial statements for the preceding year had been presented on 27 March 2015. The report of the Auditor General for the year under review had been forwarded to the Commissioner of the Council on 31 August 2016.

1.2 Opinion

In my opinion, except for the effects of the matters shown in paragraphs 1.3.1 and 1.3.5 of this report, the financial statements give a true and fair view of the financial position of the Hambantota Municipal Council as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Deficiencies

The following accounting deficiencies are observed.

- (a) The Balance of the Accumulated Fund Account had been overstated by Rs.944,204 and the balances of the Capital Aid and Work Creditors Accounts had been understated by Rs.472,102 in the financial statements.

- (b) The opening balance of 5 Aid Accounts and the amount received out of the opening balance during the year under review had not been correctly accounted for. As such, the balance of revenue debtors and the revenue of the year had been overstated by Rs.1,549,026.

- (c) A provision for creditors amounting to Rs.1,116,021 had been made for a work not approved during the year under review. As such, the expenditure of the year and the creditors' balance had been overstated by similar amounts.
- (d) The amount approved for 6 work under the Provincial Specific Development Grant for the under review had been understated in the financial statements by Rs.665,302.
- (e) The balance of assets of Rs.203,209 vested with the Municipal Council by the Hambantota Pradeshiya Sabha and 3 balances of liabilities totalling Rs.4,262,501 had not been settled.

1.3.2 Unreconciled Control Accounts

Differences amounting to Rs.513,977 were observed between the balances of 6 items of accounts included in the financial statements and the related balances appearing in the books and schedules.

1.3.3 Accounts Receivable

Action had not been taken even by end of the year under review to recover the galie bowser revenue of Rs.222,130, the revenue from bus amounting to Rs.10,000 and the revenue from Becko machine amounting to Rs.36,750 relating to the previous year.

1.3.4 Accounts Payable

Loans amounting to Rs.895,136 were payable by the Council on behalf of the machinery supplied by the Urban Development Authority under the Asian Development Bank Loan. Of this, payment of 11 half yearly instalments remained dormant even by end of the year under review.

1.3.5 Lack of Evidence for Audit

Board of survey reports subsidiary registers and schedules pertaining to sports equipment totalling Rs.101,660, subsidiary registers, schedules and age analysis relating to outstanding electricity charges and the government capital aid totalling Rs.1,439,414 and age analysis, subsidiary registers and the related information pertaining to Development Reserves amounting to Rs.108,855 had not been furnished and as such these could not be satisfactorily examined in audit.

1.3.6 Non-Compliance with Laws, Rules, Regulations etc.,

The following instances of non – compliance with laws, rules and regulations detailed below were observed in audit.

References to Laws, Rules, Regulations etc.,	Non-compliance
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(a) Financial Regulation of the Republic of Sri Lanka 571 (3)	Action had not been taken to settle 18 balances of lapsed deposits amounting to Rs.2,843,382.
(b) Section 07 of the Public Administration Circular No.25/2014 of 12 November 2014	The Sabha had recruited 15 employees contravening the said provisions and a sum of Rs.1,589,297 had been paid to them as salaries and allowances for the period September 2015 to February 2016 from the funds of the Sabha.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2015 amounted to Rs.5,118,444 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.7,071,810. Accordingly, a deterioration of Rs.1,953,366 was observed in the financial results of the year under review.

2.2 Analytical Financial Review

The following matters are observed.

- (a) The recurrent expenditure had exceeded the self generated revenue of the year under review by 49 per cent as compared with the year 2014 and had exceeded by 133 per cent as compared with the year 2013.

- (b) Except for the revenue aid obtained by the Sabha, the Sabha is unable to meet the recurrent expenditure in whatever manner from its revenue and the recurrent expenditure had rapidly increased.

2.3 Revenue Administration

2.3.1 Performance in collection of Revenue

The following matters are observed with regard to performance in collection of revenue of the Sabha as at 31 December 2015.

- (a) The total recurrent revenue billed for the year under review amounted to Rs.30.3 million, of which, Rs.24.8 million had been collected. Accordingly, the performance in collection of revenue was about 82 per cent.

- (b) The balances of revenue as at commencement of the year under review totalled Rs.9.1 million, of which, Rs.4.6 million had been recovered showing a performance in collection of revenue of about 50 per cent.

2.3.2 Rates and Taxes

Action had not been taken in terms of Section 252 (1) of the Municipal Councils Ordinance to recover the outstanding rates and taxes of Rs.3,292,501 as at end of the year under review. The Municipal Commissioner had informed me on 28 July 2016 that this arrears had been reduced to Rs.1,637,834 by 30 June 2016.

2.3.3 Lease Rent

The following matters are observed.

(a) Arrears of Revenue

The outstanding stall rent as at end of the previous year amounted to Rs.2,877,739. This arrears had increased upto Rs.3,416,822 as at end of the year under review. However, action had not been taken in terms of Section 253(1) of the Municipal Councils Ordinance to recover this arrears of revenue.

(b) Agreements not updated and sub leasing

- (i) Action had not been taken upto 26 February 2016 to update agreements and to revise the assessment rates of 10 stalls at Thisssa Road in terms of paragraphs 0.5 and 0.6 of the Circular No.දපපා/පපාකො/2010/01 of 27 December 2010 issued by the Southern Commissioner of Local Government.
- (ii) The lessees had sub let those stalls to outsiders for a long time contravening the provisions in paragraphs 12 (I), (II) and (III) of the said circular.

(c) **Lease of second Floor of the Ruhunu Plaza Building**

The following matters are observed.

- (i) The agreement entered into on 01 August 2007 expired on 31 July 2012. But, without following the open tender procedures, it was decided to modernize this floor and to conduct a rest room by giving it on lease to the lessee who had obtained the first floor on lease, on a long term basis, based on a decision made by the Sabha.
- (ii) An agreement had not been entered into with the lessee upto 26 February 2016. Key money or security deposit had not been obtained and the lessee had been allowed to modernize the properties belonging to the Council without the supervision of the Council.

2.3.4 Stamp Fees

The amount recoverable from the Chief Secretary of the Provincial Council and other authorities as stamp fees as at 31 December 2015 amounted to Rs.1,775,774.

3 Operating Review

3.1 Evaluation of Performance

The repairs to the Solid Waste Management Centre Building and the flooring work approved at Rs.999,115 under the 2015 Provincial Specific Development Grant could not be commenced even by 31 December 2015 due to the delay in approving the estimates.

3.2 Transactions without Authority

An expenditure of Rs.197,048 had been incurred on the local government sports festival of the Hambantota District from the funds of the Municipal Council, contravening the decision of the Cabinet of Ministers No.15/විවිධ(051) of 21 May 2015 and Section 188 of the Municipal Councils Ordinance.

3.3 Contract Administration

The following matters are observed.

- (a) Fixing of prisms around the community centre building close to the port village, painting the inner portion of the building, red cementing the renovated inner floor together with fixing of prisms around the community centre building close to the care village, fixing of doors and windows, cementing the renovated inner floor and painting the interior side of the building etc., had not been properly carried out according to the approved specifications.

- (b) A physical verification carried out on 24 February 2016 with regard to the community centre building close to the Care Village revealed that a sum of Rs.37,043 had been overpaid as the thickness of walls had been shown as 9 inches in the payment reports although it was of 7 inches thickness.

3.4 Staff Management

There were 21 vacancies and excess of 9 employees in the approved cadre of the Municipal Council as at end of the year under review. But, action had not been taken to fill the vacancies or to regularize the excess cadre.

4. Good Governance and Accountability

4.1 Budgetary Control

There were savings of Rs.38,325,435 in 2 items of expenditure included in the budget for the year under review and targets amounting to Rs.45,383,537 had not been achieved with regard to 2 items of revenue. Meanwhile, 30 per cent of the self generated revenue had not been set aside for capital expenditure. Due to these reasons, the budget had not been utilized as an efficient instrument of management control.

4.2 Internal Audit

Adequate internal audit had not been carried out in terms of the Circular No.୧୧୩୩/୫
୪/01/ଅ.ୱ.୧୧୧ dated 24 February 2014 issued by the southern Commissioner of Local Government. The consent of the Auditor General had not been obtained for the Internal Audit Programme.

4.3 Audit and Management Committees

Action had not been taken to establish an Audit and Management Committee, even by end of the year under review, in terms of the Management Audit Circular No.DMA/2009 (i) dated 09 June 2009.

4.4 Unsettled Liabilities

The total value of unsettled liabilities of the Sabha as at 31 December 2015 amounted to Rs.7,584,540. Of this, a sum of Rs.229,477 belonged to the previous year.

5. Systems and Controls

Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Budgetary Control
- (c) Revenue Administration
- (d) Staff Management
- (e) Contract Administration