

Hambantota Municipal Council
Hambantota District

1. **Financial Statements**

1.1 **Presentation of Financial Statements**

The financial statements for the year 2019 had been presented for audit on 28 February 2020 and the summary report of the Auditor General on the financial statements and the detailed management report had been forwarded to the Mayor on 17 June 2020 and 30 June 2020 respectively.

1.2 **Qualified Opinion**

In my opinion, except for the effects of the matters shown in this report, the financial statements of the Hambantota Municipal Council give a true and fair view of the financial position as at 31 December 2019 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.3. **Basis for qualified opinion**

(a) **Accounting Deficiencies**

The following accounting deficiencies were observed.

	<u>Audit Observation</u>	<u>Recommendation</u>	<u>Comments of the Accounting Officer</u>
(i)	An understatement/overstatement aggregating Rs.3,948,063 was observed in 07 items of accounts between the closing balances of the previous year and opening balances of the year under review	Closing balance of the previous year should be correctly brought forward.	Actions will be correctly prepared in future.
(ii)	Provision for debtors and creditors had been overstated in the accounts by Rs.378,274 as at end of the year under review with regard to development activities of properties of the Council.	Balances of debtors and creditors should be correctly brought to account.	Will be rectified in future.
(iii)	Stamp fees receivable had been understated in the accounts by Rs.569,800 as at end of the year under review.	Stamp fees receivable should be correctly brought to account.	Schedule of stamp fees received for January to October 2019 only had been brought to account.

(b) **Unreconciled Accounts**

Audit Observation

The difference between the total balances of 09 items of accounts aggregating Rs.17,363,437 and the related balances appearing in the subsidiary registers/schedules amounted to Rs.751,412.

Recommendation

Correct subsidiary registers relating to balances appearing in the accounts should be furnished.

Comments of the Accounting Officer

Differences will be examined and rectified in future.

(c) **Lack of necessary Documentary Evidence for Audit**

Audit Observation

Necessary Information for audit of 17 items of accounts aggregating Rs.3,662,834 had not been furnished.

Recommendation

Evidence to confirm the balances of accounts shown in the financial statements should be furnished.

Comments of the Accounting Officer

Information could not be furnished due to the unsettled condition prevailed in the country. Action will be taken to furnish correct schedules in the ensuing year. Schedules had been furnished along with the reply for value added tax payable, Nation building tax, stamp fees and for revenue received in advance.

1.4 **Non-Compliance**

1.4.1 **Non-compliance with Laws, Rules, Regulations and Management Decisions**

Reference to Laws, Rules, Regulations And Management Decisions

Non-compliance

Recommendations

Comments of the Accounting Officer

(a) Section 230(1) of the Municipal Councils Ordinance

Rates and taxes had not been assessed and recovered in the areas identified as developed areas within the authoritative area of the Council.

Action should be taken as per provision in the Act.

Rates and taxes will be recovered in all areas during 2020.

(b) Financial
Regulations of
The Democratic
Socialist Republic
of Sri Lanka

(1) F.R 571	Action had not been taken to settle deposits of Rs.231,214 over 02 years.	Action should be taken according to the financial regulation.	Action will be taken according to the financial regulation in future.
(11) F.R.702(3)	Copies of agreements of contracts had not been furnished to the Auditor General.	Action should be taken according to the financial regulation.	Copies of contracts of work will be furnished to the Auditor General in future.
(11) F.RR 1645 (a), (c) and 1646	Daily Running Charts and monthly Performance summaries of each	Action should be taken according to the financial regulation.	In future, action will be taken to furnish performance and daily running charts of all vehicles during month.
	summaries of 24 vehicles of the Council had not been furnished to the Auditor General.		

(c) Other Circulars and
Letters

(i) Circular of the Chief Secretary (Finance), Southern Province No.01/2014 dated 24 February 2014.	Security deposits had not been obtained from 08 officers who are required to furnish them.	Should act according to the provision in the circular.	Security deposits had been furnished by 08 employees by now,
(ii) Paragraph 4.3(a) and (e) of the letter No.PED/REG/2015/08 General(i) of the Director General of Public Finance dated 09 October 2015.	Action had not been taken to recover loan balances of Rs.751,542 from 16 officers who have gone on transfer or who had vacated posts.	Action should be taken according to the said letter.	A sum of Rs.326,790 had been recovered in 2020 from officers gone on transfers. Action will be taken to recover from retirement gratuity/securities in respect of those who had vacated posts.

2. **Financial Review**

2.1 **Financial Results**

According to the financial statements presented, the excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2019 amounted to Rs.2,017,429 as against the excess of recurrent expenditure over revenue of the preceding year amounting to Rs.1,198,539.

2.2 **Revenue Administration**

2.2.1 **Estimated Revenue, Revenue Billed, Revenue Collected and the Arrears of Revenue**

Information relating to the estimated revenue, revenue billed, revenue collected and the arrears of revenue furnished for the year under review and the previous year appear below.

Source of Revenue	2019				2018			
	Estimated Revenue	Revenue Billed	Revenue Collected	Total Arrears as at 31 December	Estimated Revenue	Revenue Billed	Revenue Collected	Total Arrears As at 31 December
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Rates and taxes	6,528,291	7,548,639	7,058,897	2,229,058	5,627,613	6,086,497	4,377,135	1,919,022
Rent	28,221,051	21,585,957	21,120,705	916,238	14,909,185	15,237,900	4,753,682	459,282
Licences Fees	3,512,000	4,327,471	3,633,621	746,950	5,053,000	4,214,873	4,061,123	149,500
Other Revenue	3,782,000	8,679,625	5,340,257	4,436,387	10,798,000	9,580,086	17,123,628	4,298,160
Total	42,043,342	42,141,692	37,153,480	8,328,633	36,387,798	35,119,356	30,315,568	6,825,964

2.2.2 **Rates and Taxes**

Audit Observation

Recommendation

Comments of the Accounting Officer

- (a) Action had not been taken to recover rates and taxes of Rs.2,187,558 receivable as at end of the year under review. Action should be taken to recover revenue from rates and taxes. Out of the arrears, a sum of Rs.235,465 had been recovered by 30 May 2020.
- (b) Although rates and taxes should be assessed every 05 years, taxes for the year under review had been recovered on the basis of assessment made in 2013. Assessment should be revised every 05 years. The Department of Valuation had commenced work on 08 July 2019 and completed it on 17 January 2020. The said assessment report had not been received at the Council yet.

2.2.3 **Rent**

Audit Observation

Recommendation

Comments of the Accounting Officer

- Feasible estimate had not been prepared as the estimated revenue from rent amounted to Rs.28,221,051 and the actual Feasible annual estimates should be prepared. Agree with the audit paragraph.

revenue billed amounted to Rs.21,585,957.

2.2.4 **Licence Fees**

<u>Audit Observation</u>	<u>Recommendation</u>	<u>Comments of the Accounting Officer</u>
(a) Feasible estimates had not been Prepared as the estimated revenue from licence fees amounted Rs.3,512,000 and and the revenue billed amounted to Rs.4,327,471.	Feasible annual estimates should be prepared.	New advertisement boards had been installed during the year which were not in existence at the time of preparation of accounts and as such the estimates differed from the actual revenue.
(b) The licence fees receivable as at end of the year under review amounted to Rs.93,750. These balances included balance of Rs,61,250 remaining as arrears for 02 to 03 years.	Action should be taken to recover arrears of licence fees.	Of the arrears, Rs,8,500 had been recovered by 30 May 2020. Action will be taken to recover the balance in future.

2.2.5 **Court Fines and Stamp Fees**

<u>Audit Observation</u>	<u>Recommendation</u>	<u>Comments of the Accounting Officer</u>
The Court fines and stamp fees receivable from the Chief Secretary of the Provincial Council and other authorities as at end of the year under review amounted to Rs.112,000 and Rs.3,284,500. respectively.	Intensive action should be taken to recover arrears of court fines and stamp fees.	Out of the arrears of court fines and stamp fees, Rs.112,000 and Rs.2,640,000 respectively had been recovered. Action will be taken to recover the remaining arrears.

3. **Operating Review**

3.1 **Performance**

The following matters were revealed with regard to duties to be fulfilled by the Council in terms of Section 4 of the Municipal Ordinance such as regularization and control of matters relating to Public highways, healthy environment of the public, facilities, welfare etc.

(a) **Bye-Laws**

<u>Audit Observation</u>	<u>Recommendation</u>	<u>Comments of the Accounting Officer</u>
Although by-laws should have been enacted for fulfillment of 32 main functions in terms Section 272 of the Municipal Councils Ordinance, 29 bye-laws only had been enacted by end of the year under review	Action should be taken to enact bye-laws.	The remaining 03 bye-laws pointed out in the audit observation had not been adopted, Of these, Articles XI and XXIV are not relevant to the Municipal Council. Bye-laws under XXIII for advertisement boards had been adopted.

(b) **Sustainable Development Targets**

<u>Audit Observation</u>	<u>Recommendation</u>	<u>Comments of the Accounting Officer</u>
The Council had not prepared a long term plan to uplift the living standard and health of the public of the authoritative area of the Sabha through the global index pertaining to the objectives and targets of the sustainable development referred to in the 2030 agenda for sustainable development.	An index should be identified for measuring the objectives and targets of sustainable development and annual progress should be measured accordingly.	Plans had been prepared on the basis of sustainable development targets as per Sustainable Development Act No.19 of 2017 by virtue of duties vested with the Council in terms of Section 04 of the Municipal Council Ordinance.

(c) **Lack of Provision**

<u>Audit Observation</u>	<u>Recommendation</u>	<u>Comments of the Accounting Officer</u>
Provision had not been made in the budget of the year under review for work and development activities executed from the funds of the Council.	Annual Provision should be made for development proposals.	The recurrent revenue of 2019 was enough for meeting the recurring expenditure only. As such, provision could not be made for work and development activities.

3.2 **Management Inefficiencies**

<u>Audit Observation</u>	<u>Recommendation</u>	<u>Comments of the Accounting Officer</u>
Seven official quarters had not been handed over by entering into written agreements.	Official quarters should be handed over by written agreements and updated.	Files had not been updated. Further, action will be taken in this regard.

3.3 **Human Resources Management**

	<u>Audit Observation</u>	<u>Recommendation</u>	<u>Comments of the Accounting Officer</u>
(a)	Action had not been taken to fill 29 vacancies and regularize 52 excesses in the cadre.	Action should be taken to regularize the excesses and to fill the vacancies in the cadre	Office of the Chief Secretary, Southern Province fills the vacancies. Requests had been made in this regard.
(b)	Five officers had been engaged in duties other than the duties relevant to them.	Relevant duties should be assigned.	Engaged in duties other than the normal duties due to vacancies in the Council.
(c)	Action had not been taken to recover no-pay leave of Rs.24,181 as at end of the year under review.	Recovery of no-pay leave should be intensified.	Action will be taken to recover in future.
(d)	An annual performance agreement and the human resources plan for the year under review for the overall staff had not been prepared in terms of the Public Administration Circular No.02/2018 of 24 January 2018.	Action should be taken to prepare the said agreement and plan as per provisions in the circular.	The annual performance agreement and the human resources plan had been prepared as per circular.

3.4 **Assets Management**

3.4.1 **Assets not acquired**

	<u>Audit Observation</u>	<u>Recommendation</u>	<u>Comments of the Accounting Officer</u>
	Action had not been taken to acquire ownership of 42 lands and 07 vehicles.	The Council should take action to acquire legal ownership of assets.	The Chief Secretary's office had been requested for acquirement of vehicles and the relevant institutions had had been informed regarding ownership.

3.4.2 **Idle Assets**

	<u>Audit Observation</u>	<u>Recommendation</u>	<u>Comments of the Accounting Officer</u>
	Two official quarters and a cinema hall of the Council remained idle.	Action should be taken to utilize assets of the Council.	Official quarters had been noted for renovation in 2021. Suitable project will be started by examining the premises of the building.

3.5 **Procurement Plan**

Audit Observation

The Council had not prepared a proper Procurement plan as per 4.2.1. and 4.2.3 of the guidelines. Such plan had not been revised periodically and a regular time frame had not been allotted for it.

Recommendation

Regular time frame and plan should be prepared.

Comments of the Accounting Officer

Action will be taken to prepare procurement plan for 2021 in terms of 2006 Procurement Guidelines.