

## **Hambanthota Municipal Council - 2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Hambanthota Municipal Council including the financial statements for the year ended 31 December 2023 comprising the Statement of financial position as at 31 December 2023, Statement of Financial Operations Statement of changes in net assets, Cash Flow Statement for the year 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 Section 219 of the Municipal Council Ordinance (chapter 252) 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 financial statements give a true and fair view of the financial position of the Hambanthota Municipal Council as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Practices.

#### **1.2. Basis for Qualified Opinion**

I expressed qualified opinion 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 Municipal Council's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Municipal Council 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 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 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 Municipal council, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Municipal Council has complied with applicable written law, or other general or special directions issued by the governing body of the Municipal Council ;
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources of the Municipal Council 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 Municipal Council 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 financial statements presented includes all the recommendations made by me in the previous year except the audit matter of 1.6.1 ( e) described in this report 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 Accounting Deficiencies**

<b>Audit Observation</b>	<b>Comments of the Council</b>	<b>Recommendation</b>
(a) In the previous year and in the year under review, the charged from 15 shops leased was Rs.4,640,100 and the sum of key money Rs.682,000 due from 04 shops was not credited to the accumulated fund and the income account respectively and it had been accounted as a deposit.	Since there is no key money for more than 05 years, it was not taken into income.	Such leased amounts should be accounted for as income.
(b) Due to non-updating of the annual agreement for the information and management system which was purchased in 2016 amounting Rs.663,000 and due to the amount was removed from the financial statements, the value of intangible assets to be accounted for at the end of the year under review had been understated by that amount.	As per the recommendation of the Finance Committee, the value of intangible assets has been removed from the accounts.	Asset disposals must be done correctly.
(c) 11 inventory items totalling Rs.648,344 were accounted for under machinery and equipment and timber and fixtures.	That the items worth Rs.82,400 were rectified and other items were accounted under fixed assets as they can be used for more than one year and have more value.	Inventory items should not be accounted for as fixed assets.
(e) The industrial debtor value was over-accounted by Rs.555,948 and the payable industrial creditors and administrative expenses were under-accounted by Rs.231,235.	By the journal entries will be corrected in the future	Debtors and creditors must be properly accounted for.
(f) The value of Rs.280,674 computer equipment and internet equipment which was received as a donation to the Hambantota Public Library last year was not accounted for in the last year. And also no rectification had been done during the year under review.	That will be corrected.	The correct value of donated devices should be accounted for.

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| (g) | The 10 percent retention amounting to Rs.146,254 payable to the industry for the development of the Seenukkugala Nelum Mawatha Ring Road had not been accounted for as a refundable deposit at the end of the year under review.   | That will be corrected in the preparation of financial statements for the year 2024. | Refundable deposits must be properly accounted for.                                |
| (h) | The expenditure of Rs. 95,638 that had been paid for the coming year was not accounted as advance payment, but was accounted as an expenditure of the year under review.   | That will be corrected   | Advance payment must be properly accounted for.                                    |
| (i) | The value of capital receipts of Rs. 374,426 and the cost of a capital program of Rs. 272,305 had been under accounted.  | That will be corrected   | Capital receipts and cost of a capital program must be properly accounted for.     |
| (j) | The capital income of Rs.5,898,978 related to the construction of the culvert and development of Nelum Mawatha was accounted for under the Welfare Services Programme, but it should have been accounted for under the Physical Planning, Roads and Land Building Programme. | That necessary measures will be taken to prevent such defects from occurring.        | The program related to revenues should be accurately identified and accounted for. |

## 1.7 Non- Compliances

### 1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Section 6.1 of Chapter XII of the Establishment Code of the Democratic Socialist Republic of Sri Lanka	Employees who take sick leave for more than two days should obtain a medical certificate and submit it to the head of the institution to approve the leave, but in the years 2022 and 2023, 15 health workers took 942.5 days of leave without submitting such medical certificates.	One health worker has died, that letters were sent to other health workers to provide medical reports promptly, and that the four road workers have given medical certificates	Action should be taken as per the Establishment Code
(b) Financial Regulation 571 of	107 refundable deposit balances of Rs.569,337, which have exceeded 02	That it will be settled immediately.	Action should be taken as per the Financial

the years related to the Democratic Socialist Republic Of Sri Lanka. previous years, had not been settled.

Regulation.

## 2. Financial Review

### 2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2023 amounted to Rs.25,007,545 as compared with the excess of revenue over recurrent expenditure amounted to Rs. 15,404,146 in the preceding year.

### 2.2 Revenue Administration

#### 2.2.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

Source of Revenue	2023				2022			
	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)
Assessments and taxes	13,937,000	13,939,528	14,205,275	6,415,325	12,736,600	13,408,278	12,395,219	6,681,072
rent	41,795,000	45,058,599	40,905,201	7,043,538	35,723,700	36,718,866	37,387,859	2,890,140
License fees	4,027,000	5,558,941	4,974,331	3,340,633	3,470,000	4,999,700	3,682,523	2,756,023
Other income	7,331,000	11,279,314	11,060,858	2,507,983	6,132,400	7,846,829	6,919,199	2,289,527
<b>Total</b>	<b>67,090,000</b>	<b>75,836,382</b>	<b>71,145,665</b>	<b>19,307,479</b>	<b>58,062,700</b>	<b>62,973,673</b>	<b>60,384,800</b>	<b>14,616,762</b>

#### 2.2.2 Performance in Revenue Collection

	Audit Observation	Comments of the council	Recommendation
(a)	According to the Sections 252 (1) and 253(1) respectively, of the Municipal Council Ordinance had not been acted upon to recover Rs.5,558,137 of assessment tax receivable from 6516 assessable units and also Rs.6,548,904 of rent receivable from 83 units for the lease of shops and buildings.	That Rs. 717,565 and Rs. 3,546,467 have been collected as assessment tax and rent, respectively and a case has been filed for the remaining arrears.	Arrears of income should be collected as soon as possible.

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| (b) | Garbage tax amounting to Rs. 439,988 from 28 institutions and vehicle rent amounting to Rs. 494,635 had not been charged.  | Garbage tax amounting to Rs.315,818 and vehicle rent amounting to Rs.484,900 have been recovered and the rest will be recovered.   | Arrears of income should be collected as soon as possible.                                     |
| (c) | According to section 247 (b) 4 of the Municipal Ordinance Act, Rs.417,200 tax due from 201 business and industrial units and Rs.380,000 trade license fee due from 152 business units had not been charged. In the arrears balance of trade license fees, the deficit was Rs. 284,500 above one year, and the time to take legal action to recover Rs.279,500 had also passed.   | Business and industry tax of Rs.9,000 has been charged and a lawsuit has been filed for Rs.123,000 and trade license fees of Rs.12,500 have been recovered and the rest will be recovered.   | Arrears of income should be collected as soon as possible.                                     |
| (d) | Although the lessee who leased the first floor and the second floor of the Ruhunu Plaza building, according to condition number 2.08 of the lease agreement entered into with the council, the monthly shop rent must be paid on or before the 10th day of the relevant month. But at the end of the reviewed year, due to non-payment of rent for 6 consecutive months, the agreement was void and although the council had the authority to remove the lessee from the building, but the council management had not been pay attention to those conditions. And In the receivable balance of Rs.1,116,000, the balance that exceeded 06 months was Rs.855,000. | Rs.255,000 was recovered and the Local Government Commissioner gave a grace period of 06 months to recover the arrears exceeding 06 months.  | Arrears of income should be collected as soon as possible.                                     |
| (e) | The bill board fees receivable amounting to Rs.2,910,983 had not been charged and the balance due related to the previous years was Rs.1,570,783.  | Rs.46,800 have been recovered and a case has been filed to recover Rs.2,864,183.   | Arrears of income should be collected as soon as possible.                                     |
| (f) | Environmental licences fees of Rs.84,150 , Income and receivable warrant fees, interest and service charges amounting to Rs.2,104,539 had not been recovered regarding for 17 industries.  | That they were informed in writing to take environmental licence and that warrant fees of Rs. 114,936, service fees of Rs. 158,880 and penalty interest of Rs. 325,287 were collected and also That the remaining arrears were sued. | To obtain Environmental permits should be encouraged, and revenue arrears should be recovered. |

- (g) Court fines and stamp duty due from the Chief Secretary of the Provincial Council as on December 31 of the year under review were Rs.801,166 and Rs.6,980,064 respectively. That outstanding court fines of Rs.544,675 and outstanding stamp duty of Rs.2,461,325 have been recovered. Arrangements should be made to recover the arrears.

### 3. Operational Review

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Council under Section 4 of the Municipal Council Ordinance are shown below.

#### 3.1 Identified Losses

Audit Observation	Comments of the council	Recommendation
The information and management system purchased by the council at a cost of Rs.938,500 in the year 2016 was not functioning as expected and did not achieve results. Hence to the decision of the Finance and Policy Committee held in September of the year under review to dispose of the system, the cost of purchasing the system and the cost of maintenance that the total value of Rs. 1,942,870 which were incurred a loss to the council fund.	This decision was taken to prevent the financial loss to the council fund by paying annual maintenance expenses due to the fact that none of the work that should have been done and it was not possible to get accurate data and reports through it.	Assets should be utilized effectively.

#### 3.2 Management Inefficiencies

Audit Observation	Comments of the council	Recommendation
(a) Due to the absence of the national identity card numbers and membership numbers of the contributors to be mentioned in the relevant details while paying the contributions to be paid to the Employees Provident Fund from the monthly salary for the substitute/contract employees employed by the council in the years 2022 and 2023, and from December 2022 to the end of the year under review, the sum of Rs.842,732 public employee provident contributions was retained in the council's deposit account.	That the contributions have been deposited in the council until the National ID numbers and membership numbers of the employees related to the contributions are completed.	The contributions should be paid to the Employees' Provident Fund.
(b) As amended by the Special Gazette No. 2235/54 dated July 08, 2021 to the Urban Development Authority Act No. 41 of 1978 of the National Rajya Sabha and in relation to the 02 building plans that had been submitted and approved to the council for	That the relevant fees will be collected promptly in the future.	The provisions of the Act and the revised Gazette should be followed.

construction work, for the construction that has been carried out in excess of the approved amount, moreover As per the amendments no arrangements were made to collect the cover approval fees of Rs.327,720.

### 3.3 Assets Management

	<b>Audit Observation</b>	<b>Comments of the council</b>	<b>Recommendation</b>
(a)	According to section 45 of the Municipal Council Ordinance, the council management had not taken steps to transfer the legal right of 80 lands owned by the council to the council.	That the relevant agencies have been informed by letters to take over the ownership of land and buildings.	Action should be taken over obtain Legal ownership of assets.
(b)	In the year 2020, the council had not taken steps to repair and utilize or dispose of 02 vehicles that were taken out of service and to take over the legal ownership of 03 vehicles.	That one vehicle will be repaired and the remaining vehicle will be disposed of after obtaining the consent of the registered body and That 03 vehicles have been requested to be taken over by the council.	Assets should be taken to repaired and utilized or disposed of and obtain the legal ownership of assets

### 3.4 Delays in Project Activities or Capital work

	<b>Audit Observation</b>	<b>Comments of the council</b>	<b>Recommendation</b>
	The six development proposals with a total value of Rs.15,000,000, which had been allocated in the annual budget document to be implemented in the year 2023, were not implemented during the reviewed year due to lack of funds and non-availability of allocations.	The development proposals could not be carried out as council revenues were at a low level.	Development proposals for which provision has been made in the budget should be implemented.

### 3.6 Delays in Project Activities or Capital work

	<b>Audit Observation</b>	<b>Comments of the council</b>	<b>Recommendation</b>
	In Hambantota Mayurapura Rotary Housing Complex near Subhadra House to Ruwanpura Carpet Road, an expenditure of Rs.930,374 had been spent for the development of the culvert using Hume pipes, but the constructed culvert could not be utilized because the sides of the culvert had not been filled with soil and the roads had not been prepared.	Since the approval of the Divisional Secretariat has not been received for the transportation of soil, the road will be filled with soil after receiving the approval	Action should be made to get maximum benefit from the money spent.



### 3.7 Human Resources Management

Audit Observation	Comments of the council	Recommendation
(a) By the end of the year under review, 38 excess related to 05 positions had not been formalized, since the approved cadre and actual working staff of the council were 169 and 189 respectively.	Action will be taken to approve the excess posts.	Action should be taken to formalize Excesses.
(b) The sum due from 07 officers who left the service had not been taken to recover the sum of Rs.35,495 as festival and special advances.	The outstanding balances will be promptly recovered.	Actions should be taken to recover outstanding employee loans.