

Hakamana Pradeshiya Sabha – 2023

1. Financial statement

1.1 Qualified Opinion

The audit of the financial statements of the Hakmana Pradeshiya Sabha for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the comprehensive income statement, cash flow statement, statement of changes in equity 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 the sub-section 172(1) of the Pradeshiya Sabha Act No. 15 of 1987 and 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, 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 Hakmana Pradeshiya Sabha as at 31 December 2023 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

1.2 Basis for Qualified Opinion

My opinion is qualified based 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 the 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

Those charged with governance are responsible for overseeing the financial reporting process of the Pradeshiya Sabha. 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 its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

1.4 Scope of Audit (Auditor's Responsibility in Auditing Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, 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 a part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also,

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatements in financial statements whether due to fraud or error in providing a basis for the expressed audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from an error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- An understanding of internal control relevant to the audit was obtained in order to design audit procedure that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the 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:

The scope of audit has also been widened to examine the following as far as possible and whenever necessary.

- 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 the Pradeshiya Sabha 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) As per requirement mentioned in Section 6(1) (d) (iii) of the National Audit Act No. 19 of 2018, the financial statement of the Pradeshiya Sabha is corresponded with financial statements of the previous year
- (b) The financial statements presented includes the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

1.6 Audit Observations regarding in preparation of Financial Statements

1.6.1 Deficiencies in Accounting

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) A sum of Rs.2,678,692 worth of computers and accessories the Hakmana Library received in the last year, as well as expenditure of Rs.1,073,965 for the development of the council's land and buildings, had not been capitalized.	Actions will be taken to correct in the future.	Actions should be taken to account.
(b) the finished work value of the solar panel project of the local council, which had been contracted for an amount of Rs.7,950,000 had been identified and creditor provisions had not been allocated at the end of the year,.	It has been admitted	Actions should be taken to account.

1.6.2 Un-reconciled control accounts or records

Audit Observation -----	Comments of the Council -----	Recommendation -----
There was a difference of Rs. 1,017,029 between the balances of 02 accounting subjects shown in the financial statements and the balances shown in the subsidiary documents/schedules.	Actions are being taken to correct	Actions should be taken to compare the differences in the respective balances and correct the accounts.

1.6.3 Absence of written evidence for Audit

Audit Observation -----	Comments of the Council -----	Recommendation -----
Due to non-submission of necessary information, 08 accounting subjects amounting to Rs.10,240,256 could not be satisfactorily checked during the audit.	Actions are being taken to correct the documents.	Actions should be taken to compare the differences in the respective balances and correct the accounts.

2. Financial Review

2.1 Financial Results

According to the submitted financial statements, the income exceeding the recurrent expenditure of the council for the year ended 31 December in the reviewed year was Rs. 37,408,416 and the correspondence income exceeding the recurrent expenditure of the previous year was Rs.3,828,932.

2.2 Revenue Administration

2.2.1 Estimated income, Billed income, Collected income and Outstanding income

Source of income	2023				2022			
	Estimated income	Billed income	Collected income	Deficit as at 31 December	Estimated income	Billed income	Collected income	Deficit as at 31 December
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
(i) Assessment and taxes	1,883,841	2,177,838	1,638,999	3,580,203	1,738,714	4,448,370	4,381,620	3,041,364
(ii) Rents	13,008,240	11,513,149	12,584,269	501,650	14,130,040	4,866,449	3,486,129	1,572,770
(iii) License charges	1,121,000	805,164	777,164	28,000	1,090,650	622,366	743,766	-
(iv) Other income	12,813,000	17,029,070	17,426,697	17280	15,043,100	9,761,650	9,420,711	414,907
	28,826,081	31,525,221	32,427,129	4,127,133	32,002,504	19,698,835	18,032,226	5,029,041

2.2.2 Performance in Collection of Revenue

	Audit Observation	Comments of the Council	Recommendation
(a)	A revenue of Rs.1,314,695 related to 758 assessment units and Rs.501,650 related to 40 of the 178 leased shop rooms should have been collected.	As on 31 March 2024, an outstanding amount of Rs.178,250 has been collected from 129 assessment units and Rs.292,900 has been collected from 33 shops as of 4 April 2024.	Actions should be taken collect the outstanding revenue promptly.

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| (b) | Based on the survey conducted in 1992 assessment tax had been levied from 2268 assessment units and the council had not taken steps to identify and levy tax on new assessment properties in accordance with Section 134(2) of the Local Council Act No. 15 of 1987. | After the new assessment properties had been identified, information collected and mapped ,it has been forwarded to the Matara Local Government Assistant Commissioner for approval on 26 February 2024. | Actions should be taken to act as per the Act. |
| (c) | Although the assessment property should be valued once in 05 years, the council had levied assessment tax in the year under review based on the assessment valuation of the year 2016. | The approval of the Governor has been received on 28 July 2023 for conducting a new assessment and the necessary documents for the assessment have been forwarded to the Valuation Department on 10 August 2023. | Actions should be taken to act as per the Act. |
| (d) | Although the lessee had failed to pay the shop rent since 2019 due to not having entered into an agreement with the lease owner of the shop room No. 08 in Bus-Stand, it had been impossible to take legal action to recover the deficit. | It is not possible to take legal action due to non-contract with the lessee and inability to finding the lessee. | Actions should be taken collect the outstanding revenue promptly. |
| (e) | According to paragraph 5 of the Southern Province, Local Government Commissioner's Circular No. SPG/LGD/2010/01 dated 27 December 2010, the agreements of 03 shops in the public Shopping Complex and the new Shopping Complex owned by the council had not been updated and contrary to paragraph 11 of that circular, the council owned 02 shop rooms in public market and bus-stand had been sub-leased to other parties. | Since the lessees of 02 shops in one shopping complex have gone abroad and the lessee of the other shop has passed away, it is to be handed over to his wife and a contract will be signed with her. Also, one shop room in the second shopping complex has been contracted with a new lessee and the other shop room is being run by someone else. Hence no sub lease has been granted. | Actions should be taken in accordance with the circular. |
| (f) | 07 shops in the bus stand had been closed for no use and out of which 05 shops had outstanding rent of Rs.159,500. | As of 4 April 2024, outstanding amount of Rs.33,000 had been collected from 05 shops and the shop with a deficit of Rs.120,500 has been acquired to the council. Due to the bad economic situation in the country, the lessee mention that the | Actions should be taken to collect the revenue. |

business activities of these shops have been temporarily stopped.

- (g) A sum of Rs.470,419 officials as court fines and Rs.7,377,158 as stamp duty from the Chief Secretary of the Provincial Council and other officials respectively should have been charged. Out of the court fine fees and stamp duty revenue due on 31 December, excluding the estimated court fine bills of Rs.300,000 and stamp duty bills of Rs.4,900,000, the remaining court fine amount of Rs.170,419 in full and Rs.2,476,133 of the remaining stamp duty amount of Rs.2,477,158 is has been collected so far. Actions should be taken to collect the outstanding revenue.

3. Operational Review

3.1 Performance of functions assigned by the Act

Under section 3 of the Pradeshiya Sabhas Act, the matters observed regarding the regularization and control of matters of public health, public utility services and public roads, and the fulfillment of the tasks that the council should have performed for the welfare, convenience and welfare of the people are given below.

Audit Observation -----	Comments of the Council -----	Recommendation -----
As per Section 126 of the Pradeshiya Sabhas Act, no by-laws had been enacted for the following matters (i) Lease of Hakmana Danny Abeywickrama Stadium. (ii) Approval of building plans within the non-municipal area under the jurisdiction of the local council. (iii) Renting of Town hall	Actions have taken to seek the approval of the Governor and the other for the approval of the Local Government Commissioner regarding the rent of the Hakmana Danny Abewickrama Sports Ground and City Hall.	Arrangements should be made to enact by-laws.

3.2 Management Inefficiencies

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) After gazetting 136 roads on 16 October 1995, the roads in the council area had not been published by the Gazette notification.	At present, all the roads owned by the council have been measured using GPS Essential	Actions should be taken to act as per the Act.

and Google Earth software and actions are taken to gazette.

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| (b) | During the year under review, the balance of Rs.1,103,914 payable as Local Government Service Pension Contribution had not been paid. | Actions will be taken obtain the relevant balance information and make payment in installments in the future. | Actions should be taken to settle the balances payable. |
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3.3 Operational inefficiencies

Audit Observation	Comments of the Council	Recommendation	
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(a)	Apart from the provisions of planning and development orders/regulations of the Urban Development Authority and without developing roads, drainage system, water and electricity facilities last year, the land named Hakmana, Digana, Pelawatta belonging to the municipal limits of the council area had been divided into 06 lots and sold and no formal system had been introduced to identify and regularize illegal land subdivisions at an early stage or to take action to stop them.	As the infrastructure has been developed, approval has been given under Planning Committee Decision No. 2024/11 on 08 February 2024 and action will be taken after the officers identify and report the land subdivisions made within the council area.	Actions should be taken to act as per the gazette notification
(b)	Contrary to the provisions of Section 23 of Part II of the Urban Development Authority Gazette Notification, the allotment of land allocated for public purposes from the divided land called Aluthwatta had been separated from a steep slope on the upper part of the divided land and the Jambugas Koratuwa land had been separated from a marshy low land.	Actions are taken to fence the two plots of land to ensure security and plots will be separated in the future from the auctioned land from places that can be used for public purposes.	Actions should be taken to allocate the Plots of land suitable for public use.

3.4 Procurement Management

Audit Observation	Comments of the Council	Recommendation
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(a) Actions had been taken to deviate from 178(7)(1) of the Local Council (Finance and Administration) Rules 1988 and 1:4:1 and 5:2:1 of the Procurement Guidelines of 2006 in relation to 09 purchases worth of Rs.1,782,650.	Although the sealed quotation letters were not placed in the tender box, the majority of them were sent by registered post and e-mail, and now it has been informed that the quotations should be forwarded through registered post and arrangements will be made to place the received quotations in the tender box.	Actions should be taken to act as per the Financial and administrative rules and procurement guidelines.
(b) As per 2.8.5 (a) of the procurement guidelines, 02 computers had been purchased at a cost of Rs.458, 000 without referring to a technical evaluation committee.	Now that a specific date and time for holding price committees in the year 2023 had not been decided, it was not possible to mention it in the procurement letters and actions are taken conduct the price committees by now having fixed the dates and times.	Actions should be taken act as per the procurement guidelines

3.5 Deficiencies in Contract Administration

Audit Observation	Comments of the Council	Recommendation
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(a) Under the programme of strengthening Pradeshiya Sabhas 2021, the Hakmana Crematorium had been renovated at a cost of Rs.12,989,775 but the deficiencies such as plans related to the construction had not been prepared, the completed work items had not been identified and estimated in order and the estimated work parts of Rs.235,622 had not been completed, overpayment of Rs.72,736 to the contractor for unfulfilled works, overpayment of Rs.5,104 because the installed kitchen sink was not of the correct size and the measurement related to the interior and wall painting of the building was	The retention money was not released due to the deficiencies in that industry, and actions will be taken to release the retention money after the correction of those deficiencies.	Actions should be taken to prepare the Estimates using correct rates to include all work and make payments only for work properly performed.

obtained separately by the Southern Provincial Engineering Office on the first of the year 2020 and due to non-use of the rate of Rs.401 introduced for Pt-21 per square meter, the contractor had been overpaid by Rs.41 per square meter, were observed.

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| (b) | A sum of Rs.468,470 had been spent from the council fund for the renovation of the furnace in Hakmana crematorium and defects such as not preparing the specifications, conducting the procurement informally and not referring to the evaluation committee as per 2:8:5 (a) of the procurement guidelines were observed. | As the retention money has not been released, the remaining amount will be paid after deducting the amount accrued on account of deficiency and rates used. | Actions should be taken act as per the procurement guidelines |
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3.6 Human Resouce Management

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) 10 primary Level employees employed by the council who were recruited as office assistants, work/field workers and health workers had been assigned duties not related to their regular positions.	Due to not being sufficient of 02 office assistants and they are being women, the duties related to the office assistant position have been assigned to the work field workers and a health worker and since one of the two guards has given a notice to leave the service, a work field worker has been deployed for that and a qualified health worker with the driving license has been deployed as a driver and 08 multi-purpose development assistants have been deployed for field duties so that public welfare, health and road maintenance activities will be maintained without disruption.	Arrangements should be made to assign the duties related to the positions.
(b) The distress loan balance of Rs.224,250 due from an employee who had given notice of termination of service had not been collected at the end of the year under review.	The debtor has paid an amount of Rs.5,000 on 16 January 2024 after sending letters to the debtor with copies to the guarantor to take legal steps to recover the debt.	Actions should be taken to recover the employees' loan.