

**Hambantota Municipal Council**  
**Hambanthota District**

**1. Financial Statements**

**1.1 Presentation of Financial Statements**

Financial Statements for the year under review had been submitted to Audit on 27 March 2015 while Financial Statements relating to the preceding year had been submitted on 25 March 2014. The Auditor General's Report relating to the year under review was sent to the Mayor of the Council on 21 July 2015.

**1.2 Qualified opinion**

In my opinion, except for the effect of the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Hambantota Municipal Council as at 31 December 2014 and its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

**1.3 Comments on Financial Statements**

**1.3.1 Accounting Deficiencies**

Following deficiencies are observed.

- (a.) Assets amounting to Rs. 68,002,818 and liabilities amounting to Rs. 4,262,501 assigned from the Hambantota Pradeshiya Sabha after converting it to a Municipal Council of Hambantota01 April 2011 had not been taken to financial statements.
  
- (b.) A sum of Rs. 5,951,563 payable to the Local Government Pension Contributions Fund as at 31 December 2014 and expenditure relevant to the year amounting to Rs. 178,429 had been omitted in the financial statements.
  
- (c.) Although the Capital Income received to the Council for Maga Neguma and Provincial Specified Works for the year under review was Rs.36,182,909,

the amount taken from the Revenue Head 30381 had been Rs. 36,896,957 resulting an overstatement in a sum of Rs.714,048.

- (d.) Out of the Capital Grants Reimbursable according to the Main Ledger amounting to Rs. 28,065,713 a sum of Rs. 8,065,713 had been received during the year under review. The balance sum of Rs. 189,169 receivable further in respect of the preceding year's works had not been included Capital Grants Debtors of the year under review.
- (e.) Although the value to be debited to the Revenue and Expenditure Account from the Capital Expenditure Account (3 -9) in the Main Ledger was Rs. 38,060,776, only sum of Rs. 37,588,674 had been taken to the Revenue and Expenditure Account resulting an understatement of Rs. 472,102.
- (f.) Expenditure totalling Rs.266,383 incurred relevant to the ensuing year by the Council had been accounted as expenditure for the year under review.

### **1.3.2 Accounts Payable**

Action had not been taken to pay 09 half yearly loan installments amounting to Rs.201,406 and interest amounting to Rs.169,336 in respect of the loan of Rs.895,136 given to the Council through the Urban Development Authority for the Plant and Machinery supplied under Asian Development Bank Loan No. 1204 Sri (SF) even as at 18 May 2015.

## **2. Financial and Operating Review**

### **2.1 Financial Results**

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2014 amounted to Rs.7,071,810 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 8,491,342.

## 2.2 Revenue Administration

### 2.2.1 Performance in Revenue Collection

Information furnished by the Mayor relating to Estimated Revenue, Actual Revenue and Arrears of Revenue are shown below.

Source of Revenue	Estimated	Actual	Cumulative Arrears as at 31 December
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	Rs.'000	Rs.'000	Rs.'000
(i.) Rates and Taxes	5,564	6,388	2,928
(ii.) Lease Rent	13,245	13,078	2,878
(iii.) Licence Fees	1,578	1,883	50
(iv.) Other Revenue	50,822	50,763	31,973

### 2.2.2 Rates

While arrears of Rates Revenue as at the end of the year under review amounted to Rs.2,903,886, out of that a sum Rs.225,922 was arrear of revenue relevant to the preceding year. Action in terms of Section 252(1) of the Municipal Councils Ordinance had not been taken to recover these Arrears of Rates.

### 2.2.3 Lease Rent

Following observations are made.

- (a.) While the total of Stalls Rent in arrears as at 31 December 2014 amounted to Rs. 2,877,739, action had not been taken to recover these arrears amounts in terms of Section 253(1) of the Municipal Councils Ordinance.
- (b.) Although it has been stated according to the Clause 06 of the Circular No.SLG/CLG/2010/01 dated 01 January 2011 that, the assessed Lease Rent should berevised once in 05 years through a new assessment, contrary to that, Lease Rent of stalls in Hambanthota Public Market and the Bus Stand Trade

Complex recovered since February 2007 continued to be recovered even as at 18 March 2015, without being revised.

- (c.) The management of the Hambanthota Rest House had been assigned to the Urban Development Authority with effect from 15 September 1980. While there was no agreement entered into with Urban Development Authority, Lease Rent amounting to Rs. 2,230,000 was in arrears as at 31 December 2014. Although the approval of the Minister in charge of the Subject had been sought to write-off this value due to lack of an agreement and non-recovery of Lease Rent in arrears, approval had not been received even up to 18 May 2015, date of audit.

#### **2.2.4 Court Fines and Stamp Fees**

A totalled sum of Rs. 1,527,739 was receivable as Court Fines and Stamp Fees from the Chief Secretary to the Provincial Council and other authorities as at 31 December 2014.

### **3. Operating Review**

#### **3.1 Management Inefficiencies**

Provident Fund contributions in arrears amounting to Rs. 211,230 payable for the period from February 2006 to September 2012 relevant to two Matrons of the Alokapura Pre-school had been paid on 04 December 2014. While a sum of Rs. 57,600 had to be paid as surcharge due to non-payment of contributions properly, employee's contributions amounting to Rs. 57,600 too had been paid out of the Council Fund. Action had not been taken to recover the sum of Rs. 57,600 so paid from the two Matrons even up to 18 May 2015.

#### **3.2 Operating Inefficiencies**

Following observations are made.

- (a.) Although only the construction works could be assigned to approved voluntary organizations according to Clause 3.9.2 of the Government Procurement

Guidelines, repair works of a tractor and three trailers belong to the Council had been assigned to a Farmers Society and a sum of Rs. 113,300 had been paid on 18 December 2013. Goods and Equipment amounting to Rs. 182,110 had been purchased by the Council for these repairs and had been provided to the Farmers Society.

- (b.) A Bus belongs to the Council had been assigned to an entity for repairs for a sum of Rs. 430,500 without calling for quotations, contrary to the provisions in Clause 1.2.1 of the Government Procurement Guidelines. According to the bills amounting to Rs.841,200 submitted by the relevant entity at the end of repair works, a sum of Rs. 410,700 more than the amount agreed at the beginning had been paid.

### **3.3 Contracts Administration**

Following observations are made.

- (a.) Although it has been informed according to the paragraph 01 of the letter No.MPH/HYW/MNG/Cer/14-1 dated 02 July 2014 of the Secretary to the Ministry of High Ways, Ports and Navigation, that estimates should be prepared without including 10 per cent additional cost to be added in the transportation of raw material for the roads development works implemented under Maga Neguma Rural Roads Development Programme, action had not been taken accordingly, for 32 Works implemented having signed agreements after 02 July 2014. Due to that, a sum of Rs. 169,230 had been overpaid.
- (b.) Although a totalled sum of Rs. 71,316 had been paid indicating that ABC Mixture was used for the foundations of 03 Road Works implemented by the Council, at the physical inspection carried out on 15 May 2014 it was observed that ABC Mixture had not been applied to those roads. It was observed that a totalled sum of Rs. 33,001 too had been overpaid due to excessive purchase of stone powder to be spread for the foundation of those roads and on surface of the rubble.

### **3.4 Improper Transactions**

A sum of Rs. 218,400 had been paid to publish a paper advertisement of good wishes on 03 June 2014, on the occasion of opening the Southern High Way from Galle to Matara. There is no provision for expenditure of this nature under Section 188(1) of the Municipal Councils Ordinance.

### **4. Systems and Controls**

Special attention of the Sabha is needed in respect of the following areas of systems and controls.

- (a.) Accounting
- (b.) Revenue Administration
- (c.) Assets Management