

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 31 March 2017 and the financial statements for the preceding year had been presented on 21 March 2016. The report of the Auditor General for the year under review had been forwarded to the Commissioner of the Council on 28 August 2017.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters shown in paragraph 1.3 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 2016 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 provision for creditors amounting to Rs.1,380,280 had not been made for the year under review and the provision for Information management system had been understated by Rs.144,250.
- (b) The provision had not been prepared for the receivable balance amounting Rs.938,000 for the installation of information technology.
- (c) Rent income from Ruhunu plaza building and rent from restaurant for the year under review had been overstated by Rs.322,000 in Financial Statements.
- (d) Since the expenditure incurred on behalf of southern provincial council amounting to Rs.139,118 had been recorded in advance account, the expenditure for the year under review and debtor balance had been understated by the same amount.
- (e) Tender fees, rent, **land tax**, and investment income had been overstated by Rs.42,903 , Rs.74,848 , Rs35,204 and Rs.26,543 respectively.

1.3.2 Unreconciled Control Accounts

Differences amounting to Rs.9,501,045 were observed between the balances of 5 items of accounts included in the financial statements and the related balances appearing in the books and schedules.

1.3.3 Accounts Payable

The following matters are observed.

- (a) The total of unsettled Liabilities of the council is Rs.7,981,184 as at 31 December 2016.
- (b) Loans amounting to Rs.425,190 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 semi annual installments remained dormant even by end of the year under review.

1.3.4 Lack of Evidence for Audit

Schedules pertaining to the accrued electricity expenses amounting to Rs.957,424 , updated register and schedule for the Employee loan amounting to Rs.616,227 , Confirmation for the loan balance of Rs.425,190 from Asian Development Bank , Age analysis and schedules , Board of survey reports and schedules pertaining to sports equipment's amounting to Rs.101,660 had not been furnished and as such there could not be satisfactorily examined by audit.

1.3.5 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.,

- (a) Municipal Council ordinance Section 218

- (b) (i) Financial Regulation of the Democratic Socialist republic of Sri Lanka 103 and 104

Non-compliance

Even, it is required to furnish a report about the administration of Municipal Council to the Minister at the end of each financial period, Council had not complied the same.

Action had not been taken for the bus and **baco** machine which were damaged by an accident.

(ii) Financial Regulation of the Democratic Socialist Republic of Sri Lanka 571 (3)

Action had not been taken to settle 15 balances of lapsed deposits amounting to Rs.158,657

1.3.6 Unauthorised Transactions.

- (a) Excess expenditure of Rs.11,865,262 had been incurred due to not exchanging the funds as per the section 216 of the Municipal Council Act.
- (b) Even though approved of the Minister in charge of provincial council had been granted to write off the rent receivable from restaurant amounting to Rs.2,230,000 for the year under review, the written off had been exceeded by Rs.70,000 from approved amount.

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 2016 amounted to Rs.5,253,528 as compared with the excess of revenue over recurrent expenditure of the preceding year amounting to Rs.5,118,444. Accordingly, an improvement of Rs.135,084 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 is 95 percent from entire recurrent revenue for thr year under review so it showed a significant increase.
- (b) Since every year self-generated income has been exceeded, finance management of sabha had not been shown favorable image.

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 2016.

- (a) The total recurrent revenue billed for the year under review amounted to Rs.32 million, of which, Rs.25.9 million had been collected. Accordingly, the performance in collection of revenue was about 81 per cent.
- (b) The balances of revenue as at commencement of the year under review totaled Rs.10.16 million, of which, Rs.7.75 million had been recovered showing a performance in collection of revenue of about 76 per cent.

2.3.2 Rates and Taxes

The following matters are observed

- (a) 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.2,317,739 as at end of the year under review and 54 unpaid tax units of Rs.5,000 had been included in it.
- (b) Action had not been taken in terms of section 230(1) of the Municipal Council ordinance to recover the outstanding rates and taxes in relation to Grama Niladari division such as Koholankala, Siribopura, Kaliyapura, Samodagama and Mirijawila.

2.3.3 Lease Rent

The following matters are observed.

- (a) An outstanding balance of Rs.317,818 remained as at the end of the year under review and on not recovering the outstanding stall rent and land lease in terms of Section 253(1) of the Municipal Councils Ordinance.
- (b) The First floor of the Ruhunu Plaza building of Municipal Council had been rented out from the date of 05 July 2010 for 30 years period and new agreement had been signed on 31 August 2015. following matters are observed with regard to this
 - (i) The estimate (for the renovation and development of above property) of Rs.11,660,000 and the project report, presented by lessor had been approved by the sabha without doing feasibility study or making observation of government engineer or technical officer.
 - (ii) As per the section 02.01 of lease agreement, the renovation should be completed within 6 month from the agreement date of 5th July 2010, After completing 7 years it has not been completed the renovation works yet.
 - (iii) Monthly rent income had not been collected according to the section 02.02 of lease agreement, loss of Rs.1,320,000 had been incurred as at the end of the year under review.

2.3.4 Court Fines and Stamp Fees

The amount recoverable from the Chief Secretary of the Provincial Council and other authorities as stamp fees and court fine as at 31 December 2016 amounted to Rs.2,636,900 and Rs.94,831 respectively.

Operating Review

3.1 Management Inefficiencies

- (a) The following matters are observed with regard to the leasing of the fish market In Hambanthota
- (i) Outstanding amount of Rs.161,097 as at 31 December 2015 incurred due to not paying the water bills continuously by lasses of fish market in Hambanthota.
 - (ii) Amount of Rs.80,000 from that outstanding amount and re-connection fee of Rs.6,660 had been paid by sabha on 22 January 2016.
 - (iii) As lasses has not paid 6 month lease rental, Sabha has sued a case in order to charge outstanding lease amount of Rs.220,500 and outstanding water bill amount of Rs.161,097 as at 31 December 2015.
 - (iv) Sabha has incurred a loss without considering the re-connection fee of water supply and fine sabha has sued a case due to that.
- (b) Deposit money amounting to f Rs.560,201 received from the election office before an year had been retained in the **General deposit account** without taking action to settle by making payments to the relevant parties or to take under the state Revenue on not updating registers.

3.2 Solid Waste Management

The following matters are observed

- (a) Sabha had not prepared the annual action plan for solid waste management and disposal service of waste had not been maintained to cover the entire domain.
- (b) The environmental license for the garbage disposal land had not been obtained as at 13 June 2017 in terms of the “A” category in the extra ordinary gazette notification no 1553/16 dated 25 January 2008. .

3.3 Staff Management

It was observed that there were 60 excesses in four posts and 38 vacancies in 17 posts of the approved cadre of the sabha action had not been taken, even by end of the year under review, to fill the vacancies or to regularize the excesses.

4. Good Governance and Accountability

4.1 Budgetary Control

The entire provision of Rs.1,270,896 made for 24 items of expenditure and the total sum of Rs.14,806,041 of 03 other items of expenditure had been saved whilst the expenditure of 2 other items of expenditure had exceeded its limit by Rs.1,646,944. Targets amounting to Rs.259,179 had not been achieved with regard to 2 items of revenue. As such, the budget had not been utilized as an efficient instrument of management control.

4.2 Procurement Plan

Procurement plan had not been prepared by the sabha for the year under review.

4.3 Internal Audit

Adequate internal audit had not been carried out in terms of the Circular No.୧୧୩୩/ଓ ଗ/01/ଅ.ପ.୧୧୧ dated 24 February 2014 issued by the southern Commissioner of Local Government. Even they have allocated 2 officers for internal audit. Financial regulation no 134(2) is not followed when preparing internal audit programmers.

5. Systems and Controls

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

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