

Hambantota Municipal Council - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Hambantota Municipal Council including the financial statements for the year ended 31 December 2022 comprising the Statement of financial position as at 31 December 2022, Statement of Financial Performance, Statement of Changes in net assets, Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, 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, because of the significance 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 Hambantota Municipal Council as at 31 December 2022 and its financial performance and cash flow for the year then ended in accordance with Generally accepted Accounting Practices.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 Audit Scope (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

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Municipal Council as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation -----	Comment of the Council -----	Recommendation -----
(a) The computers and accessories and internet equipment aggregating to Rs. 2,733,162 received as a donation to the Hambantota Public Library had not been accounted.	It will be corrected by the final statements of the year 2023.	Capital asset should be correctly identified and accounted.
(b) The key money from shop room rent was Rs.1,912,900 from the year 2016 to the year under review this key money was not accounted as income however were accounted as security deposits.	The money that is more than 05 years will be taken into income.	Revenues should be recognized and account correctly.
(c) The key money receivable from 02 shops located in Ruhunu Plaza Complex was Rs. 785,000 as at 31 December of the year under review had not been accounted.	It will be corrected by the final statements of the year 2023.	Revenues should be recognized and account correctly.
(d) The value of intangible assets at the end of the year under review amounting to Rs. 256,250 had been overstated in the accounts.	It will be corrected by the final statements of the year 2023.	Intangible Assets should be recognized and account correctly.
(e) The stock of compost valued at Rs. 97,500 had not been accounted as stock in hand at the end of the year under review.	It will be corrected by the final statements of the year 2023.	Stock should be accounted as an asset.
(f) The stamp duty income receivable as at 31 December of the year under review amounting to Rs.94,000 had been understated in account.	Only the estimated amount for the year 2022 was accounted.	Revenues should be recognized and account correctly.

1.7 Non-compliances

1.7.1 Non-compliance with Laws, Rules, Regulation and Management Decisions

Instances of Non-compliance with Laws, Rules, Regulation and Management Decisions are shown below.

Reference to Laws, Rules, Regulation and Management Decisions	Non – Compliance	Comment of the Council	Recommendation
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(a) Municipal Council Ordinance -----			
i. Section 247c (1) (1)a	Although a fees can be charged from those who carry out a certain profession within the jurisdiction of the council, the arrangements have not been made to collect fees from professionals such as doctors, notaries and registrars operating profession within the jurisdiction.	The action will be done after obtaining the approval of the Governor for the collection of professional tax.	The action should be taken according to the Act.
ii. Section 272	By-laws should have been enacted to fulfill 32 main matters, however by 31 December 2022, by-laws had been enacted only for 30 matters.	In the future, on the basis of necessity, the relevant by-laws will be enacted.	The action should be taken according to the Act.
(b) The Financial Regulations 571 of the Democratic Socialist Republic of Sri Lanka	The refundable deposit balances exceeding 02 years aggregating to Rs. 1,864,424 had not been disposal	The arrangements will be made to disposal of lapsed deposits that are over 02 years old.	The action should be taken according to the Financial Regulation.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent the expenditure of the Council for the year ended 31 December amounted to Rs. 15,404,146 as compared with excess of revenue over recurrent expenditure amounted to Rs.11,972,623 in the preceding year.

2.2 Revenue Administration

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

According to the information presented by the mayor, estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year are given below.

Source of Revenue	2022				2021			
	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)
Rates and Taxes	12,736,600	13,408,278	12,395,219	6,681,072	11,410,540	12,095,626	9,584,967	5,668,013
Rent	35,723,700	36,718,866	37,387,859	2,890,140	32,744,835	35,201,652	28,875,896	3,559,133
License Fees	3,470,000	4,999,700	3,682,523	2,756,023	3,880,500	2,827,323	2,084,947	1,438,846
Other Income	6,132,400	7,846,829	6,919,199	2,289,527	3,932,350	6,397,996	6,338,424	1,361,897
Total	58,062,700	62,973,673	60,384,800	14,616,762	51,968,225	56,522,597	46,884,234	12,027,889

2.2.2 Performance in Revenue Collection

Following observations were made regarding the Performance of Collection of revenue of the council.

Audit Observation	Comment of the Council	Recommendation
(a) The assessment tax receivable from 5,940 assessment units amounting to Rs. 5,589,076 had not been recovered as at 31 December of the year under review.	The action will be taken to recover the arrears in future.	The arrears of income should be collected as soon as possible.
(b) The action had not been taken to recover according to the Section 252 of the Municipal Council Ordinance, the deficit of Rs. 10,000 more than 45 property owners the total assessment tax amounting to Rs. 1,480,103.	The necessary measures are being taken to prohibited the property.	The arrears of income should be collected as soon as possible.
(c) The garbage tax to be collected from 69 entities amounting to Rs. 570,796 had not been recovered as at 31 December of the year under review.	The action will be taken to recover the arrears in future.	The arrears of income should be collected as soon as possible.
(d) The receivables business and industrial tax from 231 business and industrial units amounting to Rs. 508,200 as at 31 December of the year under review had not been recovered as per section 247 (b) 4 of the Municipal Council Ordinance .	The action will be taken to collect the arrears in future.	The arrears of income should be collected as soon as possible.

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| (e) | 03 shop rooms owned by the council were leased in 2017, 2019 and 2022 in violation of the agreement signed by the council with the lessees and the council had not prepared a formal work order to prevent such interim leases. | That the shops which have been given interim leases will be sealed in the future. | The action should be taken according to the Agreement. |
| (f) | The rent receivable from 47 units for the lease of shops rooms and buildings owned by the council amounting to Rs. 2,383,785 had not been recovered in terms of Section 253 (1) of the Municipal Council Ordinance as at 31 December of the year under review. | The action will be taken to collect the arrears in future. | The arrears of income should be collected as soon as possible. |
| (g) | The rent receivable on rent of vehicles and machinery owned by the council amounting to Rs. 506,355 had not been recovered as at 31 December of the year under review. | That reminders were sent for recover the arrears. | The arrears of income should be collected as soon as possible. |
| (h) | According to the Southern Local Government Commissioner's Circular No. SLG/CLG/2010/01 dated 27 December 2010, every contract should be updated every three years, however 20 shops owned by the council were not done so and the time period in which the contracts were not updated was between 03 and 35 years. | The arrangements are being made to seal one shop room, and to update the contracts of the rest of the shops room. | The action should be taken according to the Circular. |
| (i) | The receivables from 183 business units amounting to Rs. 464,500 had not been recovered trade license fee under Section 247 (b) 4 of the Municipal Council Ordinance to recover as at 31 December of the year under review. | The legal action had been taken to recover the outstanding balance of more than one year. | The arrears of income should be collected as soon as possible. |
| (j) | Advertising board fees receivable as at 31 December of the year under review amounting to Rs. 2,225,033 had not been recovered. | Legal action had been taken for Rs. 2,119,033. | The arrears of income should be collected as soon as possible. |
| (k) | The Warrant Charges, Penal interest and Service charges receivable amounting to Rs. 820,614, Rs. 743,320 and Rs. 333,835 respectively had not been recovered as at 31 December of the year under review. | The action will be taken to collect the arrears in future. | The arrears of income should be collected as soon as possible. |

- (1) The Court fines and stamp duty receivable from the Chief Secretary of the Provincial Council as at 31 December of the year under review were Rs. 611,807 and Rs.2,069,148 respectively. Action will be taken to collect the arrears. The arrears should be collected.

3. Operational Review

3.1 Performance of functions assigned by the Act

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.

Audit Observation	Comment of the Council	Recommendation
<p>-----</p> <p>Although 30 to 50 tons of garbage is needed per day for the production of organic fertilizer by the Kawashima plant, which was started on 25 June 2020. As the amount of decompose garbage collected daily in the council area was one ton, the council had failed to collect the garbage requirement and had not prepared a formal system to collect it.</p>	<p>-----</p> <p>The garbage from nearby local councils was not given and the failure of negotiations to contract with private companies for the production and sale of compost.</p>	<p>-----</p> <p>A formal system should be developed to collect the garbage.</p>

3.2 Identified Losses

Audit Observation	Comment of the Council	Recommendation
<p>-----</p> <p>According to the assessment report dated 12 April 2016, the rent to be charged for 10 lands belonging to the Council on Tissa Road, which was leased in 1997, was approved to be charged as monthly rent of Rs. 165, from 27 April 2016 to 31 December 2022, the loss incurred to the council fund was Rs.5,508,000. Also, the buyers of the buildings built in these lands in violating the lease terms have earned between Rs.15,000 and Rs.150,000 monthly income informally.</p>	<p>-----</p> <p>Despite the efforts to recover the new assessment tax amount, it was not possible to recover it and that the action will be taken according to the agreements and by-laws in future.</p>	<p>-----</p> <p>Rent should be charged as per the assessment report and if rent is not paid then action should be taken as per the tax conditions.</p>

3.3 Management Inefficiencies

Audit Observation -----	Comment of the Council -----	Recommendation -----
According to the letter No. GE/01/01 dated 17 August 2020 of the Secretary of the Ministry of Power and Energy, the approval of the Electricity Board should be obtained for the installation of new street lights, however due to the failure to do so, Rs. 2,692,048 could not be reimbursed.	The Electricity Board did not approve the approval for the installed street lights and that the contract is not currently in place for reimbursement of expenses.	The action should be taken in accordance with the letter.

3.4 transaction of Extraneous Nature

Audit Observation -----	Comment of the Council -----	Recommendation -----
(a) According to the Southern Local Government Commissioner's Circular No. SLG/CLG/2010/01 dated 27 December 2010, the tax rent was assessed and adopted by the council, however the loss to the council fund as at 31 December of the year under review was Rs.12,907,115 due to the recovering of old rent related to 57 shops rooms and lands.	The action will be taken to seal the shop No. 28, and update the agreements in the future according to the new valuation regarding the land and 10 shop rooms.	The action should be taken in accordance with circular.
(b) A confirmation of the duties performed in the years 2021 and 2022 for seven members of the Mayor and Deputy Mayor's staff, without confirming the number of days of duty and the time of duty, an allowance of Rs. 1,274,000 had been paid.	Agreed with the audit observation.	Records should be maintained regarding duties performed and duty hours.

3.5 Assets Management.

Audit Observation -----	Comment of the Council -----	Recommendation -----
(a) The council management had not been taken steps to hand over the legal ownership of 81 lands and 08 buildings enjoyed by the council in accordance with section 45 of the Municipal Council Ordinance by the end of the year under review.	The files were forwarded to the relevant entities to take over the ownership of land and buildings.	The action should be taken take over the ownership of the asset.
(b) 02 vehicles which were taken out of running in the year under review and previous year were not repaired and used or disposed.	One vehicle will be repaired and the remaining vehicle will be disposed after receive the approval from the registered entity.	Assets should be repaired and use or dispose.

3.6 Deficiencies in contract administration

Audit Observation -----	Comment of the Council -----	Recommendation -----
Under the construction work of Siribopura Children's Park, for cutting and transporting the soil required for the construction of the Children's Park, the Divisional Secretary had given approval for only 600 cubes of soil however the council had cut and transported 1638 cubes of soil while the Hambantota. The amount of soil excavated without obtaining approval was 1038 cubic meters.	In order to meet the requirement of soil, the Divisional Secretary was informed from time to time and the Grama Niladhaaree and technical officer of the council were contacted and the required amount of soil was cut and transported.	The soil should not be cut in excess of the approved number of cubes.

3.7 Human Resource Management

Audit Observation -----	Comment of the Council -----	Recommendation -----
(a) The action had not been taken to formalized 08 excess related to 04 positions in approved and actual carder of the Sabha by the end of the year under review.	The requests have been made to approve the excess.	The excess should be formalized.
(b) 23 employees of the council were engaged in other duties outside of the approved duties as at 31 December of the year under review.	The primary level employees are being employed to fulfill the duties of the office based on the need of the service.	Employees should be engaged in approved duties.
(c) The amount receivable of festival advance, special advance and distress loans from a retired officer amounting to Rs. 212,450 had not been recovered by the end of the year under review.	Proceedings to be recovered from the guarantors.	Actions should be taken to recover outstanding staff loans