

Hambantota Pradeshiya Sabha - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Hambantota Pradeshiya Sabha 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 Operations, 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 Sub-Section **172 (1)** of the Pradeshiya Sabha Act No. **15** of **1987** 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 accompanying financial statements give a true and fair view of the financial position of the Hambantota Pradeshiya Sabha as at **31 December 2022**, 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

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 Pradeshiya Sabha's financial reporting process.

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 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 skepticism 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 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 it 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) Financial Statements of the Pradeshiya Sabha 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 Sabha	Recommendation
(a) The capital expenditure incurred in previous year amounting to Rs. 5,709,200 and recurrent expenditure incurred for installation of electrical equipment amounting to Rs. 38,278 in the year under review had been capitalized.	It will be corrected by the final account of the year 2023.	Expenses should be properly classified and accounted.
(b) The creditors' provision as at the end of the year under review had been overstated by Rs. 3,648,318.	The Sabha was informed not to implement the contract in these construction work until the end of the election in December 2022.	Creditors should be properly accounted.
(c) The receivable for the rental of the galley bower amounting to Rs.385,280 had not been accounted as at 31 December of the year under review.	It will be corrected by the final account of the year 2023.	Debtors should be properly accounted.
(d) The Court fines and stamp duty receivables as at 31 December of the year under review had been understated by Rs.342,643 in the accounts.	It will be corrected by the final account of the year 2023.	The Accounts receivable should be accurately accounted.
(e) Due to non-contract with the Electricity Board, unreimbursed street light maintenance charges during the previous year and year under review, amounting to Rs. 403,416 had been accounted as income receivable.	It was accounted as income due to requests had been made from the Electricity Board.	Revenue receivables should be correctly identified and accounted.

- (f) The fair tax premium amounting to Rs.49,953 had not been accounted as payable value during the year under review. It will be corrected by the Creditors should be properly accounted. 2023.
- (g) The receivable for the lighting of Godavaya fishing harbor amounting to Rs. 124,325 in previous had been accounted as capital income for the year under review. It will be corrected by the The receivable income should be properly accounted 2023.

1.6.2 Lack of documentary evidence for audit

Audit Observation	Comment of the Sabha	Recommendation
Due to non-submission of required information 04 accounting items totaling to Rs. 21,287,171 could not be satisfactorily vouched during the audit.	There is no information to provide a schedule for these balances that have existed from long ago.	Evidence should be submitted confirming the account balances shown in the Financial Statements.

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 Non – Compliance Laws, Rules, Regulation and Management Decisions	Comment of the Council	Recommendation
(a) The Section 218 of the Pradeshiya Sabha (Finance and Administration) Rules	Although a survey should be conducted once a year to identify the lands and buildings of the Sabha, the same had not been done by the end of the year under review.	A fixed assets survey was conducted in the year 2022 and it will be provided in future. The action should be taken as per the rules and arrange to submit the reports for audit.
(b) The Financial Regulations of the Democratic Socialist Republic of Sri Lanka F.R.371	During the years 2010 - 2012, the advance of quality inspection fee was Rs. 209,457, which had not been dealt with as per regulations and the unrecognized balance in the outstanding balance was Rs. was 146,207.	There is no information for the unidentified balance of Rs.146,206. The action should be done in accordance with the Financial Regulation

- (c) The Paragraph “B” of Public Finance Circular No. 05/2019 dated 21 June 2019
- The action had not been taken as per the circular regarding receivable of Rs. 223,530 from 03 deceased and retired officers.
- The actions are being taken to recover regarding the outstanding employee loans.
- The action should be done in accordance with the Circular

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 amounted to Rs. 584,183 as against with excess of recurrent expenditure over revenue amounted to Rs. 44,442,002 in the preceding year.

2.2.1 Revenue Administration

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

According to the information presented by the chairman, 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	4,179,120	4,280,694	4,954,562	1,276,160	785,670	754,164	610,230	1,950,028
Rent	16,185,136	18,624,506	18,758,015	12,498	19,797,540	16,947,780	14,063,194	146,007
License Fees	10,957,042	2,028,652	2,633,482	242,200	9,907,862	1,728,121	1,594,971	847,030
Other Income	5,353,800	5,087,457	4,329,770	798,287	66,765,140	5,137,205	5,032,205	40,600
Total	36,675,098	30,021,309	30,675,829	2,329,145	97,256,212	24,567,270	21,300,600	2,983,665

2.2.2 Performance in Revenue Collection

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

Audit Observation	Comment of the Sabha	Recommendation
(a) The action had not been taken to recover the assessment tax receivable for the year under review amounting to Rs. 868,076.	The arrears of assessment will be recovered.	Arrears of income should be collected as soon as possible.

(b) As per Section 134 (1) of the Pradeshiya Sabha Act, the identified developed areas in the council area were not identified in time and assessment tax was levied only for the developed areas identified in the year 2010/2011 even in the year under review.	The requests were made to obtain approval to identify developed areas and carry out an assessment.	The action should be taken according to the Act.
(c) According to Section 20 of the Taxation and Assessment Ordinance No. 30 of 1946, Although the assessable property is assessed every 5 years and assessment tax is to be collected, assessment tax was collected on the assessment of the year 2011.	A request had been made to the Valuation Department to conduct a new assessment.	Action should be taken according to the ordinance.
(d) The business tax due from 39 business units and industrial tax due from 17 industrial units amounting to Rs.64,800 and Rs.14,250 respectively had not been collected for the year under review.	The refer for approval to write off had been made for Rs. 21,450 and the legal action will be taken to recover the remaining arrears.	The arrears of income should be collected as soon as possible.
(e) The collection of trade license fees amounting to Rs.25,000 receivable from 25 business units had not been done in accordance with Section 152 (1) of the Pradeshiya Sabha Act as at 31 December of the year under review.	The refer for approval to write off had been made for Rs. 3,000 and the legal action will be taken to recover the remaining arrears.	Realistic estimates should be prepared.
(f) The advertisement board fees of Rs.217,200 from 13 entities had not collected as at 31 December of the year under review.	The legal action will be taken to recover the arrears.	Arrears of income should be collected as soon as possible.
(g) The Court fines and stamp fees due from the Chief Secretary of the Provincial Council as at 31 December of the year under review were Rs.1,800,143 and Rs.2,730,670 respectively.	The action will be taken to bring the court fines and stamp duty.	The Arrangements should be made to bring the deficit income.

3. Operational Review

3.1 Identify Losses

Audit Observation

According to the assessment report dated 26 January, 2018 of the Valuation Department of Ballagaswewa shop room owned by the council, the monthly rent should be charged, however according to the decision of the council dated 18 May 2018,

Comment of the Sabha

The council decided shop rent had been charged and on 28 December 2022 these 12 shops rooms were handed over to the Hambantota

Recommendation

The loss incurred to the Sabha fund should be recovered as soon as possible.

due to charging less rent for the said shop rooms, Municipal Council. the income amounting to Rs.776,800 had been lost to the Sabha from July 2018 to 31 December of the year under review.

3.2 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
According to paragraph 06 of the letter Number PE/01/01 dated 10 August 2010 of the Secretary of the Ministry of Electricity and Energy, approval should be obtained from the Electricity Board for the installation of new street light, however the approval for 2192 street lamps has not been obtained as such, the expenditure of Rs.1,108,125 incurred for maintenance and purchase of street light could not be reimbursed.	Despite requests from the Electricity Board, it was not possible to reimburse the maintenance due to non-approval.	The action should be made to recover the maintenance costs of street lights.

3.3 Assets Management.

Audit Observation	Comment of the Sabha	Recommendation
(a) The action had not been taken to take over the legal ownership of 53 lands and buildings and the water bowser used by the Sabha as at 31 December of the year under review.	After surveying the lands, community halls, playgrounds and cemeteries, and taking over the water bowser in the future.	The Legal ownership of assets should be taken over.
(b) On the provisions of the State Ministry of Provincial Councils and Local Government Affairs, A parking lot was constructed near the dry zone botanical garden by Rs. 8,483,140 in the year 2021, Out of which the income earned during the year under review was only Rs.26,100, Therefore the intended purpose of the project was not fulfilled.	There is a parking lot inside the botanical garden and the vehicles are not coming as the infrastructure for this parking lot is not provided.	Necessary infrastructure should be provided and action taken to achieve the desired objectives.

3.4 Deficiencies in contract administration

Audit Observation	Comment of the Sabha	Recommendation
Rs. 7,902,800 had been incurred for Mayurapura weekly fair parking lot construction work on 09 September 2021, which should be completed by 07 December 2021, however the work was not completed as at 31 December of the year under review. According to the agreement Rs. 540,484 for work done without charging late fees and Rs. 2,785,999 had been paid. While the contractor had left the construction work, the Technical Service Officer had prepared and submitted a part payment bill of Rs.2,785,999.	It was decided to charge late fees, the agreement was canceled on 03 January 2023 by agreement of both parties and the bill of shares was prepared and submitted only for the amount of work done with the expectation that the project would be fully completed.	Contracts should be followed and late fees should be charged and the payments should not be made for unfinished construction work.

3.5 Human Resource Management

Audit Observation	Comment of the Council	Recommendatio
23 excesses related to 07 positions in the approved and actual cadre of the Sabha were not formalized in the year under review.	There has been a excess of secondary level posts in the sanctioned staff due to the recruitment of new Development Officers.	The action should be taken to regularize the excess of the staff.