

## **Hambanthota Pradeshiya Sabha - 2023**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Hambanthota Pradeshiya Sabha including the financial statements for the year ended 31 December 2023 comprising the Statement of financial position as at 31 December 2023, Income and Statement of Financial Operations Statement of changes in net assets cash flow statement 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 provisions of the National Audit Act No. 19 of 2018, Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987. 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 financial statements give a true and fair view of the financial position of the Hambanthota Pradeshiya Sabha as at 31 December 2023, 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**

I expressed qualified opinion 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 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 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**

National Audit Act, No. 19 of 2018 include specific provisions for following requirements.

- (a) The financial statements of the Pradeshiya Sabha presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- (b) The financial statements presented includes all 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 on the preparation of Financial Statements

### 1.6.1 Accounting Deficiencies

Audit Observation	Comments of the Council	Recommendation
(a) In relation to the years 2020, 2021, and 2022 legal action had been taken for the non-payment of the one percent trade license fee of Rs.25,720,955 that was due from a private entity to the council, and adjustments had not been made in the financial statements in this regard.	That it will be presented as a note in the financial statements in 2024.	Should be disclosed as a note to the financial statements.
(b) Rs.9,144,138, which was the cost of constructing the new building with stalls at the Mayurapura market, was not capitalized under land and buildings.	That it will be presented as a note in the financial statements in 2024.	Action should be taken to accurately account for capital expenditure.
(c) The total value of 04 management information systems of Rs.720,000 had not been account under intangible assets and accounted under machinery and equipment.	That it will be presented as a note in the financial statements in 2024.	Action should be taken to accurately account for intangible assets.
(d) Recurring expenditure of Rs.642,301, which could not be capitalized under non-current assets, had been accounted for under land and buildings.	That it will be presented as a note in the financial statements in 2024.	Action should be taken to accurately account for expenditure.
(e) Capital expenditure totalling Rs.547,000 had been accounted as deferred revenue	That it will be presented as a note in the financial statements in 2024.	Action should be taken to accurately account for expenditure.
(f) In the previous years, due to non-contract agreement with the Electricity Board, non-reimbursed street light maintenance fees amounting to Rs.403,416 were accounted as receivables.	That it will be presented as a note in the financial statements in 2024.	Uncontracted income should not be accounted for as a receivable balance.
(g) Although the construction works of 03 industries which were implemented on direct labor cost basis during the year under review, those were not completed by the end of the year, an estimated amount of Rs.354,534 had been capitalized under land and buildings.	That it will be presented as a note in the financial statements in 2024.	Construction should be capitalized as an asset upon completion.

- (h) Under reimbursed permanent staff salary expenses amounting to Rs.66,948 had not been accounted for as receivable balance. That will be corrected. Accounts receivable balances must be accurately accounted for

### 1.6.2 Unreconciled Control Accounts

Audit Observation	Comments of the Council	Recommendation
There was a difference of Rs.43,851,826 between the balance related to the subject of land holding accounts shown in the financial statements submitted at the end of the year under review and the balance shown in the related documents/schedules.	That steps have been taken to update the Fixed Asset Register.	The account should be corrected by comparing the differences in the respective balances.

### 1.6.3 Lack of Documentary Evidence for Audit

Audit Observation	Comments of the Council	Recommendation
Due to non-submission of necessary information, eight accounting subjects totalling Rs. 21,131,887 could not be satisfactorily checked during the audit.	Documents, files, and balance confirmation cannot be presented, and certain balances are unrecognizable balances that have existed for a long time.	Evidence must be submitted to confirm the account balances shown in the financial statements.

## 1.7 Non- Compliances

### 1.7.1 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Council	Recommendation
(a) Section 20 of the Taxation and Assessment Ordinance No. 30 of 1946	Although the assessable property has to be assessed once in 05 years and assessed tax is charged, without doing so due to the charging based on the assessment of the years 2010 and 2011, the assessment was not implemented on time for 08 years and 07 years respectively.	That a contract has been made with the Department of valuation to carry out assessment work.	It should be done according to the provisions of the Act.

- (b) Finance Regulations of the Democratic Socialist Republic of Sri Lanka
- (i) 371 Finance Regulations
- Although the advance should be settled immediately after the completion of the related work, the advance balance of Rs.179,299 was not dealt with as that, and this balance included an unrecognizable balance of Rs. 116,049 related to the years 2010, 2011, and 2012.
- An unrecognizable balance
- Reference action should be processed as per finance regulations.
- (ii) 571(3) Finance Regulations
- Account balances of Rs.1,304,791 that have been pending for more than 2 years in the deposit balance and in the creditor balance have not been investigated, paid to the relevant departments, or received as income.
- That it is not possible to take the expenditure creditor balance and the general supply creditor balance as income, and further action will be taken regarding the other deposits.
- Reference action should be processed as per finance regulations.
- (c) Paragraph 3 of Public Finance Circular No. 05/2019 of the Deputy Secretary to the Treasury dated 27 June 2019
- Action had not been done for recovery of distress loans amount of Rs.230,955 due from three deceased and retired employees.
- That an amount of Rs. 19,000 has been charged, and the remaining amount of Rs. 211,955 will be recovered.
- Action should proceed as per the provisions of the State Finance 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 2023 amounted to Rs.5,375,211 as compared with the excess of revenue over recurrent expenditure amounted to Rs.584,183 in the preceding year.

## 2.2 Revenue Administration

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

Source of Revenue	2023				2022			
	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)
Assessments and taxes	683,606	764,606	819,264	877,784	4,179,120	4,280,694	4,954,562	932,442
rent	24,016,200	24,072,754	23,975,892	109,360	16,185,136	18,624,506	18,758,015	12,498
License fees	12,143,291	2,053,703	2,230,903	65,000	10,957,042	2,028,652	2,633,482	242,200
Other income	10,527,970	10,323,856	10,995,178	834,444	5,353,800	5,087,457	4,329,770	1,505,766
<b>Total</b>	<b>47,371,067</b>	<b>37,214,919</b>	<b>38,021,237</b>	<b>1,886,588</b>	<b>36,675,098</b>	<b>30,021,309</b>	<b>30,675,829</b>	<b>2,692,906</b>

### 2.2.2 Performance in Revenue Collection

	Audit Observation	Comments of the Council	Recommendation
(a)	To recover the assessment tax due Rs.840,984 and to revise the assessment levy limit of 05 Grama Niladhari domains declared as developed areas in the year 2023, and had not been dealt with sections 158(1) and 134(1) of Pradeshiya Sabha Act, respectively.	That the assessment of Rs.68,068 has been recovered, Rs. 105,768 is being referred to the governor for approval, and that no new assessment revisions have been initiated by the assessment department.	Efforts should be made to recover the arrears of revenue immediately and to revise the assessment limit.
(b)	In the year 2022 billboard fees were under billed by Rs.84,800, and due board fees of Rs.54,000 were not charged in the year under review. Also, fees of Rs. 220,200 due from 29 billboards that were not included in the survey report were not billed.	That under-billing and billboard fees not included in the survey report will be recovered in the year 2024, and that legal action has been taken for the unpaid fees.	Arrears should be recovered promptly

## 3. Operational Review

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 Section 3 of the Pradeshiya Sabha Act are shown below.

### 3.1 Management Inefficiencies

Audit Observation	Comments of the Council	Recommendation
Even by the end of the year under review, the council management had not undertaken a survey to identify the number of street lights installed and maintained by the council in the council area, numbering and documenting them. Also in the year under review, the expenditure incurred for the maintenance of street lights was Rs.3,034,816.	That the census activities of 06 domains have been completed and the census activities of the remaining 17 domains are being completed.	Census activities should be carried out promptly, and expenditures should be incurred accordingly.

### 3.2 Assets Management

Audit Observation	Comments of the Council	Recommendation
(a) As at 31 st December of the year under review, action had not been taken to take over the legal ownership of 07 lands, 10 playgrounds, 29 cemeteries, and 10 community halls occupied by the local council.	That the relevant expropriation activities will be carried out expeditiously	Action should be taken to arrogated Legal ownership of assets.
(b) The cost of Rs.8,483,140, which was completed in 2021 the parking yard near the dry zone botanical garden remained idle and the cost incurred had become an ineffective cost.	That the provision of infrastructure costs much money and that there have been requests for provision for the same	Assets should be used effectively.

### 3.3 Procurement Management

Audit Observation	Comments of the Council	Recommendation
(a) According to paragraph 3.4.2(a) of the Government Procurement Guidelines 2006, although the quantity expected to be purchased should be mentioned in the quotation letter, in relation to the purchase of 750 15W LED (green) bulbs with a total value of Rs.1,312,500, and also the quantity of units expected to be purchased and the warranty period were not mentioned in the quotation letters addressed to 3 institutions, and the purchase was done without paying attention to the price discounts that the council could have obtained for bulk purchases.	In the year 2024, the necessary information will be included in the submission of quotation letters	Action should be taken according to the provisions of the Procurement Guidelines.

- (b) As per Section 5.6.1(a) of the Procurement Guidelines, the specifications for the tires to be procured shall be prepared before calling for quotations. And in three cases, tires and tubes of a total value of Rs.509,400 were purchased, and the specifications of the important specification items, such as warranty period, mileage, number of wires, etc., were not mentioned in the price quotation letters.
- That the price will be called up to the specifications in the future.
- Action should be taken according to the provisions of the Procurement Guidelines.

### 3.4 Defects in Contract Administration

Audit Observation	Comments of the Council	Recommendation
(a) Although an estimate of Rs.1,000,000 has been prepared under the Council funds in the year 2022, the construction work of the Bandagiriya Sasathiligama Mawatha using gravel should be completed before June 27, 2023. However, It was still not completed by the audit date of 14th December 2023, and the late fee to be charged on that date was Rs. 85,000.	That the works worth Rs.298,265 have been completed so far	The construction works should be completed as per the contract, and late fees should be charged in payment.
(b) The construction of the Mayurapura Satipola parking lot was awarded to a contractor for Rs.7,902,800. While the contractor had abandoned the works of Rs.3,919,998 included in the contracted works, Rs.2,785,998 had been paid for the completed works. Also due to the end of the year under review, as the land had grown wild, The amount of Rs.2,785,998 spent had become an ideal expense.	Late fees of Rs.790,280 have been recovered and estimates have been prepared and submitted to the Ministry for the completion of the remaining works.	Action should be made to complete and utilize the construction work of the industry so that the cost incurred will benefit.

### 3.5 Human Resources Management

Audit Observation	Comments of the Council	Audit Observation
(a) The approved and actual working staff of the council are 53 and 71, respectively. And in the year under review, 22 excess related to 07 posts were not formalized.	To approve excess staff in secondary level posts, That the primary-level excess posts are recruited on the basis of service requirements with the approval of the Local Government Commissioner.	Action should be made to formalized excess staff.
(b) Four field workers and one substitute health worker were assigned other duties outside of approved duties. For that, in the year under review, Rs.3,047,005 had been paid as salaries and allowances.	Other duties other than approved duties are assigned on the basis of service requirement	Employees should be engaged in approved duties.