Hambanthota Pradeshiya Sabha – 2024

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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 2024 comprising the statement of financial position as at 31 December 2024 and the 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 of Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 and the provisions with subsection 10(1) of the National Audit Act No 19 of 2018 read in conjunction with in Article 154 (1) of the constitution of the Democratic Socialist Republic of Sri Lanka. 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 2024, 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 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 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 Sabha	Recommendation
(a)	Stamp duty revenue totalling Rs.3.81 million, confirmed as receivable from four Land Registry Offices for the period from July to December of the year under review, had been omitted from the revenue accounts.	Actions are being taken to correct through the 2025 financial statements.	The stamp duty revenue confirmed by the Land Registrar's Office must be accounted for.
(b)	During the reviewed year, from October to December, the revenue from the Court fines that should have been recorded was not accounted for, and the revenue from the Court fines that should be received only for the month of October in the year 2024 amounted to Rs.1.01 million.	Actions are being taken to correct through the 2025 financial statements.	The relevant Court fines revenue from the fiscal year must be accurately identified and accounted.

(c)	The total cost of four management information systems that should be accounted for under intangible assets, amounting to Rs.720,000 was not reflected in the financial statements as of December 31 of the reviewed year.	Actions are being taken to correct through the 2025 financial statements.	Intangible assets must be accounted for accurately.
(d)	The total expenses to be paid for the reviewed year amount to Rs.171,683 and there were no provisions made for creditors.	No responses have been provided.	The creditors must be identified and accounted for by December 31 for the expenses.
(e)	In the reviewed year, the Sabha had capitalized by less Rs.110,210 for construction at the Mayurpura weekly market.	Actions are being taken to correct through the 2025 financial statements.	Non-current assets capitalized at a lower value must be accurately accounted.

1.6.2 Unreconciled Control Accounts

Audit Observation	Comments of the Sabha	Recommendation
In the financial statements for the reviewed year, a difference of Rs.8.63 million was observed between the balances related to two account items and the balances shown in the relevant supporting documents/sub-documents, Survey reports and balance confirmation LetteRs.	Through the Survey the value of fixed assets has been accurately adjusted and correct copies will be sent with attached.	The account should be corrected by comparing the changes in the relevant balances.

1.6.3 Lack of Documentary Evidence for Audit

Audit Observation	Comments of the Sabha	Recommendation
Due to the absence of schedules, supporting documentation, survey reports, and balance confirmations, three accounting items totalling Rs.21.24 million could not be satisfactorily examined during the audit.	Through a survey, it has been assessed that corrections will be made when preparing the financial statements for 2025, And that the method of calculation has been presented.	Evidence must be presented 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.

All observations related to non-compliances with Laws, Rules, Regulations and Management decisions etc. be shown under this heading.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Sabha	Recommendation
(a)	Section 20 of the Taxation and Assessment Ordinance No. 30 of 1946	Although assessable property should be assessed and collected and assessed tax once every 05 years, by not following this procedure and collecting property taxes in the reviewed year based on assessments done in 2010 and 2011, the assessment period was not timely implemented for a period of 13 years.	That a contract has been made with the Department of valuation to carry out assessment work.	In accordance with the provisions of the Property assessed Tax Act, actions must be taken to assess in a timely manner.
(b)	371 Finance Regulations of the Democratic Socialist Republic of Sri Lanka	Although the advances should be settled immediately after the completion of the related work, the same was not done regarding the advances given in the value of Rs.63,250 in relation to the years 2010, 2011 and 2012.	That Rs.55,000 and Rs.8,250 are included in the financial statements for the years 2012 and 2013 respectively.	Arrangements should be made to set off the advances received as per the referred Finance Regulations.
(c)	Treasury Secretary's Asset Management Circular No. 01/2018 dated 19 March 2018	During the year under review, a non-functioning water bowser and a tractor with a value of Rs.3.67 million owned by the sabha were not repaired and used or disposal.	That action will be taken on the recommendations of the special survey panel appointed in connection with the disposal.	In the case of vehicles which are not in working condition, the provisions of the referred circular should be dealt with.

2. Financial Review

2.1 Financial Result

According to the financial statements presented secretory of the sabha, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2024 amounted to Rs.9.50 million as corresponding with the excess of revenue over recurrent expenditure amounted to Rs.5.38 million 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 Secretary of the Sabha, Information relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

	2024				**2023**			
Source of Revenue	**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	715,085	787,472	952,239	713,017	683,606	764,606	819,264	877,784
rent	19,626,035	19,660,482	19,533,374	236,468	24,016,200	24,072,754	23,975,892	109,360
License fees	23,272,233	3,343,007	3,005,047	402,960	12,143,291	2,053,703	2,230,903	65,000
Other income	18,836,778	22,723,568	11,752,244	11,805,768	10,527,970	10,323,856	10,995,178	834,444
Total	**62,450,131**	**46,514,529**	**35,242,904**	**13,158,213**	**47,371,067**	**37,214,919**	**38,021,237**	**1,886,588**

2.2.2 Performance in Revenue Collection

Audit Observation	Comments of the Sabha	Recommendation
As at 01 January of the year under review, the total outstanding income was Rs.1.89 million and the billings for the year were Rs.46.51 million. Accordingly, although the total revenue to be collected during the year is Rs.48.40 million, the revenue collected was Rs.35.24 million, making the progress of revenue collection at a level of 73 percent.	That Rs.12.30 million has been recovered from the deficit as at 31 March 2025.	The progress of collection of deficit revenue should be developed.

2.2.3 Assessments and taxes

	Audit Observation	Comments of the Sabha	Recommendation
(a)	As at 31 December of the year under review, the total arrears of assessment revenue was Rs.701,017 out of which Rs.471,032 in 315 assessment units was outstanding for more than 03 years. It was 67 percent of the revenue to be collected and it included an outstanding balance of Rs.223,369 from 08 units above Rs.5000. These arrears of assessment were not recovered as per the provisions of Section 158(1) of the Pradeshiya Sabha Act No. 15 of 1987.	That a plan will be followed to recover the outstanding balances.	As per Section 158(1) of the Act, the arrears of revenue should be recovered promptly.
(b)	Four government institutions located within the Sabha area had not paid the assessment tax to the Sabha properly and the outstanding amount at 31 December 2024 was Rs.170,097.	That the respective institutions have been notified by letters through registered post.	Arrears should be recovered promptly.
(c)	Baragama Road South, assessment 46 units belonging to the Ambalantota Pradeshiya Sabha area was billed by Hambantota Pradeshiya Sabha. That was shown a deficit of Rs.105,768 since 2018, but the action had not been taken to settled balances promptly.	That the approval for write-off of arrears has been referred but no reply has been received.	The revenue arrears should be settled promptly.

(d)	The business tax revenue Sabha had not received Rs.60,000 from 03 transmission towers that were allowed to be built in 2019 at the rate of Rs.3,000 per year from 2020.	That business tax is levied upon issuance of compliance certificates.	The revenue arrears should be recovered promptly.

2.2.4 Advertising boards fees

	Audit Observation	Comments of the Sabha	Recommendation
(a)	According to the survey of the advertising boards installed in the sabha area, the advertising board's fees of Rs.402, 960 due to the sabha had not been collected. And action had not been taken as per the provisions mentioned in Section 126(xxx) of the Pradeshiya Sabha Act No. 15 of 1987.	That Rs.303,600 have been recovered from the deficit and legal action has been taken for Rs.99,360.	As per Section 126(xxx) of the Act, arrears of revenue should be recovered promptly.
(b)	During the sample field audit, ten advertising boards installed and displayed in the Sabha 's area were not included in the survey, for which the Sabha had to collect fees of Rs.203,960.	That the fees will be charged in 2025.	Arrears should be recovered promptly.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Sabha	Recommendation
(a)	The commercial building planning application No. HPS/BA/2023/06 dated 11 August 2023 had not been approved even though a period of 01 year 05 months had passed. However, during the field inspection at 05, February 2025, the building was constructed up to the slab level and business activities were being carried out. Accordingly, as per the Schedule 02 of Part II of Extraordinary Gazette No. 2235/54 dated 08, July 2021, the amount of Rs.42,900 should have been recovered for the construction done without proper development	The Road Development Authority has been informed that the non-compensatory agreement should be entered into, but since the agreement has not been approved due to non-delivery, the cover fee of Rs.42,900 will be collected after approval.	Amended plans should be approved after charging the prescribed fees to the sabha.

	permit without Sabha permission, However, this had not been done so. .		
(b)	The size of the building was 440.14 square meters in relation to the commercial building plan No. HPS/BA/2024/03/RN which was approved at 28 March 2024 and was 385.50 square meters. Accordingly, the sabha had not collected the fees for getting the cover approval of Rs.109,280 for the 54.64 square meters built in excess of the size.	That a revised plan for unauthorized construction has been notified to be submitted and approved.	Amended plans should be approved after charging the prescribed fees to the Sabha.
(c)	According to Extraordinary Gazette Notification 2264/18 dated 27 January 2022 published under the National Environment Act No. 47 of 1980 as amended by Acts No. 53 of 2000 and No. 56 of 1988, Although an environmental protection license should be obtained for the public sewage treatment system in the solid waste centre of implemented at 2015 the said license has not been obtained so far.	That an appropriate program for the management of sewage treatment system has been determined in principle and requested to be implemented.	Arrangements should be made to obtain environmental protection license as per the referred rules and regulations.

3.2 Idle or underutilized property, plant and equipment

Audit Observation	Comments of the Sabha	Recommendation
Due to the preparation and implementation of project proposals without proper coordination among institutions and without adequate study, the Hambantota Pradeshiya Sabha constructed a vehicle park adjacent to the Dry Zone Botanic Garden at a cost of Rs.7.96 million, funded by the State Ministry of Provincial Council and Local Government Affairs. However, since the completion of the work on 7, December 2021, the vehicle park had remained underutilized for more than three years without generating any significant income.	It was stated that the loss of income had occurred because visitors to the Botanic Garden used the parking facilities located within the garden premises.	When implementing project proposals, coordination among relevant institutions should be ensured.

3.3 Asset Management

	Audit Observation	Comments of the Sabha	Recommendation
(a)	Although more than two years had passed since a water bowser valued at Rs.6 million, provided by the National Disaster Relief Services Centre, had been handed over to the Sabha, legal ownership of the vehicle had not yet been transferred to the Sabha.	It was stated that necessary action was being taken to transfer the ownership of the water bowser.	The Sabha should take prompt action to legally transfer ownership of the two water bowsers belonging to it.
(b)	As at 31 December 2024, action had not been taken to transfer ownership of 53 lands utilized by the Sabha. Furthermore, 6 lands and 5 buildings owned by the Sabha had remained underutilized without being used for any productive purpose as at that date.	It was stated that action was being taken to transfer ownership of all lands and that steps would be taken to utilize the underutilized assets for productive purposes in the future.	The legal ownership of the 53 lands belonging to the Sabha should be transferred, and the 6 underutilized lands and 5 buildings should be put to productive use.

3.4 Defects in Contract Administration

	Audit Observation	Comments of the Sabha	Recommendation
(a)	The construction of the Mayurapura Weekly Fair Vehicle Park had been awarded under contract at an estimated cost of Rs.7.90 million, to be completed within the period from 9 September 2021 to 7 December 2021. However, 8 work items had not been completed, and contrary to Financial Regulation 237 (a)(i) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka, payments amounting to Rs.1.72 million on 29 December 2023 and the 10% retention sum of Rs.278,600 on 7 May 2024 totalling Rs.2 million had been made to the contractor for the completed portions of work. No action had been taken regarding the abandonment of the contract midway.	It was stated that the project work had been halted midway due to the situation arising from the COVID-19 pandemic and the economic difficulties in the country.	Payments should be made in accordance with the relevant Financial Regulations.
(b)	The contract value of the uncompleted work items mentioned above amounted to Rs.4.75 million**.** During the year 2024, Rs.154,110 had been spent to publish newspaper advertisements, and the uncompleted portions of work had been awarded to another contractor at a contract value of Rs.7.60 million (including VAT)**.** A total of Rs.8.26 million had been paid for this work. As a result of the previous contractor abandoning the contract, the Sabha had to bear an additional cost of 74%**.**	It was stated that the payment had been recommended since the project was implemented under the full supervision of the Technical Services Officer and progress inspection reports had been obtained.	Funds should be utilized with proper financial discipline in a manner that does not cause any loss to the government

3.5 Human Resources Management

	Audit Observation	Comments of the Sabha	Audit Observation
(a)	Seventeen excess positions related to six posts of the Sabha had not been regularized during the year under review.	It was stated that the matter had been referred to the Department of Management Services for approval.	A review of the staff requirements of the Sabha should be carried out.
(b)	According to Public Administration Circular No. 18/2001 dated August 22, 2001, every officer who has served for more than five years in the same service station should be transferred. However, it was observed that four officers of the Sabha had continued to serve in the same service station for a period ranging from nine to thirteen years.	It was stated that this situation had arisen due to the cancellation of annual transfer applications.	Transfers should be made for officers who have served more than five years in the same service station, in accordance with the cited circular.

4. Accountability and Good Governance

4.1 Budgetary Control

	Audit Observation	Comments of the Sabha	Audit Observation
(a)	For the year under review, budgeted and actual travel expenses amounted to Rs.2.46 million and Rs.2.97 million respectively, resulting in an adverse variance of Rs.513,023 which represents 20% of the budgeted expenditure.	The increase was caused by higher travel expenses in public administration, health services, physical planning, and other public utility services.	Variances should be minimized, and planning should be carried out in a systematic manner to achieve this.
(b)	The total adverse variance of three income items amounted to Rs.33.45 million, with the variance ranging between 15% and 85%.	This was mainly due to a decrease in revenue from salary reimbursements, capital grants, and license fees.	Measures should be taken to minimize variances, ensure systematic planning, and improve the efficiency of revenue collection.