

Hambanthota Municipal Council - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Municipal Council, Hambanthota for the year ended 31 December 2020 comprising the balance sheet as at 31 December 2020 and the income and expenditure account, and notes to the financial statements, including a summary of significant accounting policies, 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 Section 219 of Municipal Council Ordinance (Cap.252) and provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be presented in Parliament appear in this report.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Municipal Council, Hambanthota as at 31 December 2020, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

My opinion is qualified based 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 Principles, 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 Sub-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 to be prepared.

1.4 Scope of Audit (Auditor's Responsibility in Auditing 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 exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed identify and assess the risks of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained 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 the 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 Council
- Whether the Municipal Council 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

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

- The financial statements of the Municipal Council are in consistence with that of the previous year as per the requirement of Section 6 (1) (d) (iii) of the National Audit Act No. 19 of 2018.
- The recommendations made by me during the previous year are included in the financial statements presented 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	Comment of the Council	Recommendation
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(a)	The amount reimbursed over of Rs.4,771,823 for the salary and incentives for the year under review from the Department of Local Government had been stated as a revenue in the Financial Statements except for stating it as a payable balance.	Agreed with the observation.	The reimbursement of expenditure should be accurately accounted.
(b)	The Stamp Duty income receivable as at the end of the year under review had been understated by rs.917,500.	Actions would be taken to make it correct in the future.	The revenue should be accurately stated.
(c)	An aggregated amount of Garbage Tax, Vehicle Rent, Water Charges receivable for the year under review had been understated by Rs.182,352 in the accounts, therefore the debtors balance and the revenue had been understated by that amount.	Actions would be taken to make it correct in the future.	The revenue should be accurately stated.

1.6.2 Lack of Documentary Evidence for Audit

Audit Observation

Comment of the Council

Recommendation

The necessary information had not been furnished regarding 05 items of accounts accumulated to Rs.1,494,603 for the audit.

Actions would be taken to prepare the supplementary documents in the future.

The Evidence should be furnished to prove the balances declared in the Financial Statements.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue exceeding the recurrent expenditure of the Sabha amounted to Rs.11,081,325 for the year ended on 31 December of the year under review as compared with the corresponding revenue exceeding the recurrent expenditure for the preceding year amounting to Rs.2,017,429.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

Audit Observation

Comment of the Council

Recommendation

(a) Rates and Taxes

- i. Actions had not been taken to recover the Receivable rates of Rs.2,880,574. And the Rates had been charged on the assessment made in the year 2013 regarding 02 divisions even though an assessment should be carried out every 05 years therefore the assessments had not been timely implemented for 02 years.

The arrears would be recovered in the future and the assessment report had been received on 28 April 2021 therefore actions would be taken to recover after finished printing those data.

Actions would be taken to recover the arrears as soon as possible and the assessment would be timely implemented.

- ii. Actions had not been taken to recover receivable Business and Industrial Tax of Rs.181,000 and Garbage Tax of Rs.113,545 from 89 Business units.

The tax could not be recovered because the businesses had been closed of the Covid-19 Pandemic.

The arrears revenue should be recovered as soon as possible.

- iii. 160 Rates property had been taken over paying compensation by the Pradeshiya Sabha for the Hambanthota Harbour affairs and proper actions had not been taken to recover the rates receivable

The Secretary of the Pradeshiya Sabha had been informed in writing to investigate the property owners about paying rates when paying the

The receivable balances should be recovered before finishing out paying compensation.

from those properties as at 31 December 2017 of Rs.205,143, and then because it had been failed to recover the balance it had been decided to write-off on the approval made by the Sabha decision No.8.5 on 07 February 2019, therefore a revenue had been lost for the Sabha.

compensation in the year 2017 and the distribution of compensations had been finished on 02 October 2018.

(b) Rent

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| i. | Actions had not been taken to recover the ret receivable of Rs.624,054 from lease out the Stalls and the Buildings owned by the Sabha. | Actions would be taken to recover the rest of the amount. | The receivable revenue should be recovered as soon as possible. |
| ii. | Actions had not been taken to recover the revenue from issuing trade license and renting the vehicles owned by the Sabha of Rs.640,965 and Rs.198,500 respectively. | Actions had been taken to recover the arrears. | The receivable revenue should be recovered as soon as possible. |
| iii. | 301 square feet part of the new library building owned by the Sabha had been given on rent for the National Insurance Trust Fund from May 2017 to June 2024 and it had been recovered rent for only 286 square feet part for Rs.85 per each square feet from the date rent to the December of the year under review, therefore the Sabha had been lost an income of Rs.54,825. Further the amount of rent charged for a square feet had not been properly assessed. | The rent would be charged on the new assessment from the January 2021 and the revenue loss of Rs.54,825 had been informed to recover in writing. | Actions should be taken to recover the revenue that had been lost and to charge the rent on the new assessment. |

(c) Licence Fees

<p>Actins had not been taken to recover the receivable Trade License Fees and the Hoarding Board Charges of Rs.259,120 and Rs.1,400,400.</p>	<p>Legal actions had been taken against recovering the arrears trade license fees and hoarding board charges of Rs.10,000 and Rs.120,000 respectively and actions would be taken to take legal actions against the rest of the amount.</p>	<p>The receivable revenue should be recovered as soon as possible.</p>
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(d) Court fines and Stamp Duty

<p>The Stamp Duty had been receivable from the Chief Secretary of the Sabha and the other officers of Rs.1,000,000.</p>	<p>Actions would be taken to recover the arrears stamp duty.</p>	<p>The receivable revenue should be recovered as soon as possible.</p>
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2.3 Surcharges

Audit Observation	Comment of the Council	Recommendation
Actions had not been taken by the Municipal Commissioner to recover the surcharges of Rs.218,400 imposed on 23 January 2018 against 13 parties responsible under the Municipal Council Ordinance.	The minister in charge of the subject had been informed by the Mayor through an appeal therefore nothing charged till an answer had not been received.	Actions should be taken according to the Act.

3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Council through Section 04 of the Urban Council Ordinance, being the regulation, control and administration of all matters relating to public health, public utility services and public thoroughfares and generally with the protection and promotion of the comfort, convenience and

3.1 Identified Losses

Audit Observation	Comment of the Council	Recommendation
Even though the stall rent had been assessed and approved by the Sabha under the section 02 and 03 of the Circular No.දළපා/පපාක/ 2010/01 dated 27 December 2010, it had been charged the old rent from January of the year 2016 from 50 Stalls and 10 Lands owned by the Sabha therefore the Sabha had been lost an income of Rs.11,268,359	All the lessees had been informed by letters but they did not agreed to make the new agreements.	Actions should be taken according to the Circular.

3.2 Management Inefficiencies

Audit Observation	Comment of the Council	Recommendation
The Kawashima Project implemented by spending Rs. Million 300 in the Centre of Solid Waste of the Sabha in 25 June 2020, for the production of Organic Fertilizer had been failed to collect the daily need of 30 to 50 tons of Garbage, it had been collected only 01 to 1.5 tons of garbage and a procedure had not been made to collect daily need of garbage.	This project had been suggested to implement with the other development projects centred Hambanthota City and those development projects had been given up therefore the expected amount of garbage could not be collected and 04 Pradeshiya Sabhas nearby the Sabha had informed in writing that they could not be able to supply Garbage.	Projects should be implemented after a feasibility study and a procedure should be made to implement the Project.