

Hambanthota Municipal Council - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Municipal Council, Hambanthota for the year ended 31 December 2021 comprising the balance sheet as at 31 December 2021 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 2021, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Practices.

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 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 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
(a)	The amount wrote off of Rs.3,270,809 by the billed revenue of Stall Rent and Trade Licence during the year under review because of Covid 19 Pandemic Situation had been debited to the accumulated fund except of writing it off by the years revenue.	Actions would be taken to make this correct by the final accounts of the year 2022.	Writing off from the revenue should be done accurately.
(b)	The amount payable of Rs.3,724,176 because of the salary over reimbursements by the Department of Provincial Councils for the salary and allowances paid for the permanent staff of the Sabha as at 31 December of the year under review but it had been stated as Rs.3,060,297 therefore the understated amount had been Rs.663,879.	Actions would be taken to make this correct by the final accounts of the year 2022.	The amounts payable should be accurately stated.
(c)	An amount spent to purchase equipment of Rs.699,720 for a construction of Children's Park at	Actions would be taken to make this correct by the final accounts of the year	Expenditure should be reported under the nature of the

Siribopura had been stated as recurrent expenditure therefore the capital expenditure had been understated by that amount. 2022. expenditure.

- (d) An amount of Rs.69,000 Stamp Duty regarding the year 2016 lapsed over 02 years had been stated as a receivable even though it had been stated not receivable to the Sabha under the Stamp Duty Reversal Ordinance of the Southern Province No.04 of 1994 .
- Actions would be taken to write off by the accounts in the future.
- The income receivable should be stated accurately.

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.11,972,623 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.11,081,325.

2.2 Revenue Administration

2.2.1 Performance in Collecting Revenue

	Audit Observation -----	Comment of the Council -----	Recommendation -----
(a)	Rates and Taxes -----		
	Action had not been taken to recover receivable rates and taxes regarding 6042 units of Rs.4,984,068 and from that arrears Rs.118,155 had been from Government Institutions.	Actions could not been taken legally to recover the arrears rates because the obstacles arisen of Covid 19 Pandemic in the year 2020.	The arrears revenue should be recovered as soon as possible.
(b)	Rent -----		
	i. Actions had not been taken to recover the rent receivable of Rs.888,693 from 24 Stalls during the year under review.	Actions would be taken to recover the rest of the amount.	The arrears 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 machinery and	Actions would be taken to send the memorandums to recover the rest of the arrears and	The arrears revenue should be recovered as soon as possible.

equipment owned by the Sabha of Rs.586,860 and Rs.64,050 respectively. commence legal actions.

(c) Licence Fees

Actins had not been taken to recover the licence fees of Rs.1,402,347 from 168 rates units.

Actions would be taken to recover the rest of the rates.

The arrears revenue should be recovered as soon as possible.

3. Operating Review

The following matters were observed with respect to the execution of duties charged with the Council through Section 04 of the Municipal 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 Operating Inefficiencies

Audit Observation

Comment of the Council

Recommendation

Sabha had not been taken actions against 05 unauthorized constructions according to the Section 05 of regulation No.30 of the new rules and regulations established by the Extraordinary Gazette No.2238/4 dated 28 July 2021 on business or residential construction within the parameter of 35 to 9393 square meters.

The Urban Development Authority had been requested to obtain instructions to make further action on unauthorized constructions, and inform that actions would be taken to minimize the problems in the future.

Actions should be taken according to the Gazette.