

**Galle Municipal Council**  
**Galle District**

**1. Financial Statements**

**1.1 Presentation of Financial Statements**

Financial Statements for the year under review had been submitted to Audit on 30 March 2015 while Financial Statements relating to the preceding year had been submitted on 28 March 2014. The Auditor General's Report relating to the year under review was issued to the Municipal Commissioner of the Municipal Council on 11 August 2015.

**1.2 Opinion**

In my opinion except for the effect on the matters described in paragraph 1.3 of this report, financial statements give a true and fair view of the financial position of the Galle Municipal Council as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with generally accepted accounting principles.

**1.3 Comments on Financial Statements**

**1.3.1 Accounting Policies**

Accounting Policies followed by the Council had not been disclosed with the accounts.

**1.3.2 Accounting Deficiencies**

Following observations are made.

- (a) Action had not been taken during the year under review too, to compute the damages / losses caused to properties of the Council by the tsunami disaster on 26 December 2004 and make adjustments in the accounts.
- (b) Five Fixed Deposits of Rs.4,811,101 had been omitted in the financial statements.
- (c) The sum of Rs.412,394 paid for the construction of the roof of the compost fertilizer shed in Heenpadala Garbage Land during the preceding year had been shown as Recurrent Expenditure instead of showing as Capital Expenditure in the financial statements. In rectifying this error, that value had been debited to the Furniture and Fittings Account, having credited the Contribution from Revenue to

Capital Outlay Account. Due to that, Furniture and Fittings Account and Contribution from Revenue to Capital Outlay Account of the year under review had been overstated at the rate of 412,394.

- (d) Fixed assets valued at Rs.1,289,620 and Library Books valued at Rs.23,644 purchased during the year under review had not been capitalized.
- (e) Although the balance of the Savings Account in the Urban development Authority was Rs.5,175,928 it had been Rs.6,494,449 the financial statements, overstating in a sum of Rs.1,318,521.
- (f) Although the court Fines Receivable for the year under review was Rs.4,374,429, it had been shown as Rs. 3,702,861 in the financial statements. Due to that, revenue for the year under review and Debtors had been understated by Rs.671,568.
- (g) Stamp Fees Revenue Receivable for the year under review had not been identified provision had not been made in the financial statements.
- (h) Computers and Accessories valued at Rs.788,500 purchased during the year under review had been recorded as recurrent expenditure. Due to that, the Machinery and Equipment Account and the Contribution from Revenue to Capital Outlay Account had been understated at the rate of Rs.788,500.

### **1.3.3 Non-reconciled Control Accounts**

- (a.) A difference of Rs.5,866,610 was observed between the balances shown according to the Control accounts and subsidiary registers relevant to 04 items of accounts.
- (b.) Although total of control accounts balances relevant to 05 items of accounts was Rs.262,683,396, relevant subsidiary registers had not been balanced. Accordingly, balances of the control accounts could not be reconciled with the subsidiary registers.

#### **1.3.4 Suspense Account**

Action had not been taken during the year under review too, to settle the debit balance of Rs.111,553 in the Suspense Account that was being brought forward since the year 1999.

#### **1.3.5 Accounts Receivable**

Action had not been taken during the year under review too, to recover 04 Accounts Receivable Balances of Rs. 900,178 old more than 06 years, which were being brought forward.

#### **1.3.6 Lack of Evidence for Audit**

Evidence such as Fixed Assets Register, Schedules, Board of Survey Reports, properly maintained Debtors/Creditors Registers, Age Analysis and Certificates of Confirmation of Balances, relevant to transactions totalling Rs.539,255,296 shown in the financial statements were not furnished to audit.

#### **1.3.7 Non-compliance with Laws, Rules and Regulations**

The budget of the Council for the year 2015 had been adopted at the office of the Municipal Council on 19 December 2014, and a sum of Rs.191,432 had been paid from the Council Fund to a hotel in Hikkaduwa on 28 January 2015 in respect of a night party held on 20 December 2014 contrary to provisions in Section 188 (1) (ee) of the Municipal Council Ordinance. Further, the information of the persons participated in the party had not been made available to audit and the expenditure amounting to Rs.191,432 had been incurred under the code of expenditure 11476-Payment of Subscription and Membership Fee to Internationals and other Foreign Organizations.

## **2. Financial and Operating Review**

### **2.1 Financial Results**

According to the Financial Statements presented, deficit of revenue less than the recurrent expenditure of the Council for the year ended 31 December 2014 amounted to Rs.40,584,412 as against the excess of revenue over recurrent expenditure for the preceding year amounted to Rs.46,628,525.

### **2.2 Revenue Administration**

#### **2.2.1 Rates**

Action had not been taken in terms of provisions in Section 252 (1) (a) and (b) of the Municipal Councils Ordinance to recover Rates amounting to Rs.76,529,936 that should have been recovered to the Council during the year under review and the previous years.

#### **2.2.2 Trade License Fees and Lease Rent**

Action had not been taken in terms of provisions in Section 254 (a) (1) and (2) of the Municipal Councils Ordinance to recover Trade License Fees amounting to Rs.2,825,649 and Lease Rent amounting to Rs.21,712,074 that should have been recovered to the Council during the year under review and the previous years.

#### **2.2.3 Court Fines and Stamp fees**

Court Fines amounting to Rs.3,702,861 and Stamp Fees amounting to Rs.24,023,511 were outstanding to be recovered from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2014.

## **3. Operational Review**

### **3.1 Management inefficiencies**

Although Declaration of Assets and Liabilities as required in the Declaration of Assets and Liabilities Act No.01 of 1975 as amended by the (Amendments) Act No. 74 of 1988 should be provided by All Municipal Council Members including the Mayor, Declaration of Assets and Liabilities had not been provided by the Mayor and 17 Council Members for the year 2014. Similarly, Declaration of Assets and Liabilities had not been provided by the Mayor and 15 Council Members for the year 2013.

### **3.2 Operating inefficiencies**

Following observations are made.

(a) **Land Auctions**

While the Land in extent of 01 Acre, 01 Rude and 7.5 Perches situated at No.20, Kitulampitiya Road in the area of authority of the Council had been auctioned by a certain company, according to Section 247 e (1) of the Municipal Councils Ordinance the 1 per cent tax payable had been Rs. 444,983. However, the amount recovered by the Sabha had been only Rs.386,076. Accordingly, tax revenue of Rs.58,907 had not been recovered by the Council.

(b) **Dishonored Cheques**

Although 20 cheques valued at Rs.680,615 received in the course of collection of revenue had been dishonored, action in terms of Financial Regulations 189 and 486 had not been taken in that connection. Similarly, action had not been taken to investigate and settle un-identified dishonored cheques amounting to Rs. 55,473.

### **3.3 Identified Losses**

The Ministry of Local Government and Provincial Councils had provided 512 Galvanized Pipes -1“ to the Council during November 2014.

(i.) Receipt of 512 Galvanized Pipes had not been recorded in the Inventory Register.

(ii.) It was confirmed at the physical inspection carried out on 06 April 2015 that that there were only 417 pipes. The value of shortage of pipes amounted to Rs. 105,165.

## **4. Accountability and Good Governance**

### **4.1 Budgetary Control**

It was observed that there were variations of revenue between the budget estimates and the actual revenue and there were savings in certain items of expenditure. Accordingly, it was observed that the budget had not been made use of as an effective tool of management.

**4.2 Audit Queries not replied**

Replies had not been submitted to 05 audit queries as at 31 December of the year under review.

**5. Systems and Controls**

Special attention of the Council is needed in the following areas of controls.

- (a.) Accounting
- (b.) Budgetary Control
- (c.) Revenue Administration
- (d.) Assets management