

**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 28 March 2014 while Financial Statements relating to the preceding year had been submitted on 28 March 2013. The Auditor General's Report relating to the year under review was issued to the Mayor on 22 December 2014.

**1.2 Qualified 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 2013 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 Non-compliance with Advanced Accounting Practices**

Although all Local Authorities should prepare financial statements according to Public Sector Accounting Standards in terms of circular No. PED/54 dated 19 January 2010 of the Director General of Public Enterprises with effect from 01 January 2011 those accounting standards had not been followed.

**1.3.2 Accounting Policies**

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

**1.3.3 Accounting Deficiencies**

Following observations are made.

- (a.) The balance of Fixed Assets Account as at 31 December of the year under review was Rs. 173,069,072 while the balance of the Contribution from Revenue to Capital Outlay Account had been Rs. 179,681,359. Although the balances of these two accounts should be equal, a difference of Rs. 6,612,287 was observed.
- (b.) 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 during December 2004 and make adjustments in the accounts.
- (c.) It had been decided to remove Liabilities totalling Rs.6,612,287 which were being brought forward over a period of more than 05 years from accounts at the General Council Meeting held on 03 October 2013. Accordingly, liabilities amounting to Rs. 6,612,287 had been credited to the Contribution from Revenue to Capital Outlay Account instead of crediting that amount to Accumulated Fund.
- (d.) Instead of showing the Members Allowance amounting to Rs.1,728,000 received from the Department of Local Government as Recurrent Revenue and showing he payment of the Members Allowance amounting to Rs.1,535,710 as Recurrent

Expenditure, in the financial statements only the difference of Rs.192,290 between receipts and payments had been shown as a credit balance in the financial statements. While Recurrent Expenditure in a sum of Rs.1,537,710 and Recurrent Revenue in a sum of Rs. 1,728,000 for the year under review had been understated due to this, the balance of the Deposits Account had been overstated in a sum of Rs.192,290.

- (e.) The sum of Rs. 412,394 paid for the construction of the roof of the compost fertilizer shed in Heenpandala Garbage Land during the year under review had been shown as Recurrent Expenditure instead of showing as Capital Expenditure in the financial statements.
- (f.) The stock of Ayurvedic Drugs valued at Rs. 169,953 01 January of the year under review, the stocks received valued at Rs. 1,108,687 during the year and the closing stock valued at Rs, 54,435 had been omitted in the financial statements. Due to that, revenue and expenditure for the year under review had been understated by Rs. 1,108,657 and Rs. 1,224,175 respectively.
- (g.) Although the court Fines Receivable for the year under review was Rs.10,564,616, it had been shown as Rs. 9,863,786 in the financial statements. Due to that, revenue for the year under review and Debtors had been understated by Rs. 700,830 in the financial statements.
- (h.) Stamp Fees Revenue Receivable for the year under review had not been identified and provisions had not been made for that in the financial statements.
- (i.) Five Fixed Deposits of Rs. 4,335,732 had been omitted in the financial statements.

#### **1.3.4 Non-reconciled Control Accounts**

- (a) A difference of Rs. 7,881,842 was observed between the balances shown according to the Control accounts and relevant subsidiary registers relating to 04 items of accounts.
- (b) Although total of control accounts balances relevant to 05 items of accounts had been Rs.197,039,828, it was not possible to reconcile with the subsidiary accounts as the subsidiary registers had not been balanced.

#### **1.3.5 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.

#### **1.3.6 Accounts Receivable**

Action had not been taken during the year under review too, to recover 04 Accounts Receivable Balances of Rs. 901,968 outstanding for more than 05 years.

### **1.3.7 Lack of Evidence for Audit**

Evidence such as Fixed Assets Registers, Schedules, Board of Survey Reports, properly maintained Debtors/Creditors Registers, Age Analysis and Certificates of Confirmation of Balances, relevant to transactions totalling Rs.425,448,474 were not furnished to audit.

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

### **2.1 Financial Results**

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2013 amounted to Rs.46,628,525 as compared with the corresponding excess of revenue over recurrent expenditure for the preceding year amounted to Rs. 51,835,720.

### **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. 70,754,869 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.4,017,500 and Lease Rent amounting to Rs. 21,471,137 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.10,564,616 and Stamp Fees amounting to Rs.16,498,390 were outstanding to be recovered from the Chief Secretary of the Provincial Council and other authorities as at 31 December 2013.

#### **2.2.4 Leasing out Stalls in the Galle Central Bus Stand**

Following matters are observed.

- (a) Three Stalls No. 1, 2 and 3 in upper floor of the Galle Central Bus Stand in extent of 257.6 square meters had been leased out to a Government Establishment with effect from 11 July 2011. While action had not been taken to recover stall rent in arrears amounting to Rs. 766,080 in terms of Section 254 (a)(1)and (b) of the Municipal Councils Ordinance, lease agreement amended during the year 2013 had not been signed.
- (b) While the lease rent in arrears for the stall No. 8 the Galle Central Bus Stand as at 31 December 2013 was Rs. 540,728,it had increased up to Rs. 775,856as at 31 July 2014. At the physical inspection of the place carried out on 20 August 2014, it was observed that the stall had not been opened for the consumers.
- (c) According to the condition No.6 (19) of the lease agreement signed, trading activities of the stall should commence within 14 days from the date of entering into the agreement and if it is kept closed for 30 days paying rent, it has been stated that the

stall will be vested in the Council. However, action had not been taken to vest a stall which had not commenced business for more than two years and ten months as at 20 August 2014.

- (d) The municipal Commissioner informed me on 10 December 2012 that action will be taken to issue Notice of Termination of the lease of one of these stalls. However, such action had not been taken although one year and eight months had elapsed.
- (e) The stall No. 20 in extent of 79 square meters in upper floor of the Galle Central Bus Stand had been given to the Sri Lanka Transport Board for monthly lease rent of Rs. 43,000 with effect from 11 July 2011. Although an office of the Sri Lanka Transport Board had been functioning for period of three years from 11 July 2011 to 22 August 2014, a lease agreement had not been entered into. While action had not been taken to recover arrear of rent amounting to Rs. 1,690,160 relevant to three years as at 31 July 2014, action too had not been taken to vest the stall by the Council.
- (f) Lessees who signed agreements relating to 08 stalls in the upper floor and 03 stalls in the lower floor had sub-leased the stalls without carrying on trading activities. Council had lost Lease Revenue amounting to Rs. 2,841,800 for the period from July 2013 to July 2014 due to irregular sub-leasing of stalls. Necessary action had not been taken with regard to sub-leasing in terms of condition 05(2) of the agreement in this connection.
- (g) While the stall No. 17 in the upper floor had been reserved for running a canteen, water had got stagnated as the line for out flow of unclean water there had been blocked. Necessary action had not been taken by the officer in charge of the bus stand in this connection. It was also observed that unclean water is getting stagnated in the premises making it impossible to carry on business activities during rainy days due to leakage of water from the two sides of the glass panels of this stall.

### **3. Operational Review**

#### **3.1 Management inefficiencies**

Statement of Assets and Liabilities as required in the Act No. 01 of 1975 as amended by the Declaration of Assets and Liabilities Act No. 74 of 1988 had not been provided by 16 Municipal Council Members including the Mayor.

#### **3.2 Operating inefficiencies**

Although 20 cheques valued at Rs.681,736 received in the course of collection of revenue had been dishonored, action in terms of Financial Regulations 189 and 486 had not been taken. Similarly, action had not been taken to investigate and settle un-identified dishonored cheques amounting to Rs. 55,473.

#### **3.3 Leasing out the Galle Stadium to the Sri Lanka Cricket Board**

An agreement had been entered to lease out the stadium belongs to the Municipal Council to the Sri Lanka Cricket Board to use it as an international cricket ground on 31 December 1998 for three periods of leasing at 10 years per period. Although the Lease Rent for the first

10 years period from 20 April 1998 to 19 April 2008 at the rate of Rs. 300,000 per annum was Rs. 3,000,000, two parties had agreed that, if value of annual assessed rent by the Government Valuer exceeds Rs. 300,000 after signing the agreement, leasing party should compute the balance amount for the entire 10 years and inform the lessee to pay that amount and lessee should pay such amount as a part of the lease within 30 days from the date of notification that amount to the leasing party. The Government Valuer had assessed the annual value for the period from April 1988 to April 2003 as Rs. 650,000, for the period from for the period from April 2003 to April 2008 as Rs.800,000 and for the period from April 2008 to April 2013 as Rs. 1,200,000.

Following observations are made in this connection.

- (a) A Register of Lease Rent had not been maintained for the period from April 1998 to 15 September 2014.
- (b) The Lessee should establish a committee consisting of 13 members within two months from the date of signing the agreement in order to take decisions relevant to development activities leased property any other work or functions in terms of condition 9 and 10 of the agreement. However, a committee had not been established up to 15 September 2014, date of audit.
- (c) Although a bank account should be opened in favour of the Committee in a bank situated within the Council limit in terms of conditions in the agreement, action had not been taken up to the date of audit.
- (d) Although it had been stated according to condition 17 of the agreement that prior approval of the leasing party for all constructions to be carried out in lease property by the lessee should be obtained, such approval had not been taken for any construction works carried out.
- (e) Although the lessee had agreed to insure all constructions to be made in the lease property and / or buildings and all other matters to cover all damages in terms of condition 19 of the agreement, it was not confirmed that any insurance cover had been obtained.
- (f) If the lease needs to be extended based on the necessity of the lessee, after expiry of the first lease period, it is required to sign an agreement in terms of condition 26, with the consent of both parties. However, an agreement had not been entered into for the second 10 years period.
- (g) It had been stated according to condition 25 of the agreement that, the lessee should pay Rs.5,000 per day if the lessee remained in the property without handing over the right to enjoy the property to the leasing party after the end of the first leasing period on 19 April 2008. Accordingly, a sum of Rs. 5,521,600 should have been recovered for the period remained in the property from April 2008 up to December 2010. According to the decision taken at the standing Order Committee held in June 2011, it had been decided to write-off this amount. While a loss of Rs. 5,521,600 had occurred to the Council, a sum of Rs.7,756,800 that should be recovered for the period from December 2010 to September 2014 remained in the property without signing an agreement too had not been recovered.

### **3.4 Transactions of Contentious Nature**

While a sum of Rs. 7,498,654 had been spent for the construction of a crematorium with dual casing chambers as at 01 December 2011, out of the provision of Rs. 10 million under the Southern Province Provincial Councils Development Plan 2007, a total sum of Rs. 12,072,254 had been spent as at 25 August 2014 including a sum of Rs. 4,573,600 for supply and fitting two burning chambers.

Following matters were observed at the audit inspection carried out in this connection.

- (a.) While tenders had been called for by the Council having published newspaper advertisements on 21 November 2007 for the construction of the crematorium, tenders had been submitted by only two contractors. An agreement had been signed for a sum of Rs. 8,566,250 on 10 December 2007 to complete the works within six months having selected the contractor who submitted the minimum quotation without evaluation by a technical committee. Although a sum of Rs. 6,669,984 had been paid to the contractor for the work done, the construction works of the building had been abandoned by the contractor. Thereafter an agreement had been signed again on 03 October 2011 with a Rural Development Society, and only the building had been constructed and a sum of Rs. 828,670 had been paid to the Society by the Council.
- (b.) Estimates had been furnished by the Sri Lanka National Engineering Services and Development Centre for construction of dual burning chambers on 07 November 2008 and 09 June 2010 that Institute had requested for an advance of 50 percent before commencement of work. The Council had taken action to re-tender without paying that amount.
- (c.) Tenders received for the supply and fixing two burning chambers for the crematorium after publishing newspaper advertisements on 27 September 2010 and 15 June 2012 had been evaluated by the technical committee consist of 05 officers with professional qualifications and good experience. The recommendations made by that committee in both occasions had been rejected by the Council.
- (d.) While paper advertisements had been published for the fourth time on 01 November 2012, according to the Council decision dated 09 August 2012 two quotations had been received as Rs.9,288,647 from the first institution and as Rs. 8,999,515 from the second institution. While a Technical Evaluation Committee had been appointed again to evaluate the two quotations received, and accordingly Committee had recommended that it is suitable to award the contract to the first institution. However, it had mentioned that the material to be used, which is a compulsory specification sustainable for coastal area and the material quoted by both the renderers are not satisfactory and therefore it is suitable to get the work performed through the Sri Lanka National Engineering Services and Development Centre which is an institute with good experience in the construction of crematoriums. However, at the Special Council Meeting held on 24 December 2012 this tender had been awarded to the second institution for a sum of Rs.8,999,515 and agreement had been signed having rejected the recommendations of the Technical Evaluation Committee.
- (e.) A sum of Rs. 1,000,000 had been paid on 26 August 2013 for the first bill submitted by the contractor for a sum of Rs.2,613,913 on 10 July 2013 by the contractor having approved by the General Council without recommendation of the Municipal Engineer and approval of the Municipal Commissioner. A sum of Rs. 3,573,600 too had been

paid on 20 June 2014 for the final bill as well having approved by the General Council without recommendation of the Municipal Engineer and approval of the Municipal Commissioner.

- (f.) While a sum of Rs. 220,019 had been paid as newspaper advertisements charges, consultancy charges and evaluation committee allowances, for this work as at 25 August 2014, date of audit, approval to be obtained from the Central Environmental Authority too had not been obtained.
- (g.) While the crematorium had been commissioned on 24 June 2014 one burning chamber from 10 August 2014 and the other burning chamber from 10 August 2014 had been out of order.
- (h.) It was further observed that, crematorium had not been constructed to a satisfactory standard and there are large numbers of deficiencies and action had not been taken to carry out repair works up to 25 August 2014, the date of audit.

### **3.5 Idle Assets**

Although the Excavator Machine provided to the Sabha from a Canadian Organization during the year 2007 had not run after February 2010, a sum of Rs.541,956 had been spent to repair that. It was observed at the audit inspection carried out in August 2014, that this machine was getting decayed in a land used for disposal of garbage.

### **3.6 Contracts Administration**

It is required to obtain quality test reports with recommendation from the Engineer (Standards) having obtained samples of concrete mixtures used for the concrete blocks spread on the roads and having submitted those to the laboratory tests, according to the Circular No. SLC/E/01 dated 31 May 2011 of the Southern Province Commissioner of Local Government. However a sum of Rs.16,547,224 had been paid to the contractors for 47 works performed during the year under review without obtaining such recommendations and reports.

### **3.7 Budgetary Control**

It was observed that the budget had not been made use of as an effective tool of financial management as there were material variances between the budget and the actual revenue and expenditure.

## **4. Systems and Controls**

Special attention of the Sabha is needed in respect of the following areas of systems and controls.

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