

## **Galle Municipal Council**

### **Galle District**

#### **1 Financial Statements**

##### **1.1 Presentation of Financial Statements**

Financial statements for the year under review and the preceding year had been presented to audit on 31 March 2016 and 30 March 2015 respectively. The report of the Auditor General for the year under review had been sent to the Municipal Commissioner on 25 October 2016.

##### **1.2 Qualified Opinion**

In my opinion, except for the effects of the matters described in paragraphs 1.3 of this report, the financial statements give a true and fair view of the financial position of the Galle Municipal Council as at 31 December 2015 and its financial performance 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 in accounting had not been disclosed in the financial statements.

###### **1.3.2 Accounting Deficiencies**

The following accounting deficiencies were observed.

- (a) The value of Ayurvedic drugs amounting to Rs.422,218 and the interest on Refundable Employees Security Deposit amounting to Rs.384,540 as at 31 December of the year under review had been omitted from the financial statements.
- (b) Provision for the contributions payable to the Local Government Pensions Fund as at 31 December of the year under review totaling Rs.99,959,831 had not been made in the accounts.
- (c) The sum of Rs.950,562 recoverable from 33 officers and employees for their no-pay leave of 498 days as at 31 December 2015 had not been brought to accounts.

###### **1.3.3 Unreconciled Control Account**

There were differences totaling Rs.63,115,643 between the balances of 15 items of accounts totaling Rs.256,492,835 shown in the financial statements and the balances appearing in the related subsidiary books and records.

#### 1.3.4 **Suspense Account**

Action had not been taken to settle the debit balance of Rs.111,553 in the suspense account brought forward since 2003 without changing and making required adjustments after being identified even in the year under review.

#### 1.3.5 **Accounts Receivable**

Action had not been taken to identify and settle balances totaling Rs.43,331,342 in 7 items of accounts brought forward in the financial statements for a long time.

#### 1.3.6 **Accounts Payable Balances**

Action had not been taken to settle the balance of Rs.111,899 in the Employees Provident Fund Account brought forward in the financial statements since 2011 without being settled even in the year under review.

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

Due to non- rendition of evidence such as the register of fixed asset in respect of fixed assets totaling Rs.216,588,565, registers, age analysis and confirmation of balances in respect of creditors balances totaling Rs.269,735,790 and debtors balances totaling Rs.232,143,510, Board of Survey reports and schedules in respect of stock in hand totaling Rs.74,522,480, age analysis for staff loans totaling Rs.37,173,221, deposit registers, schedules and age analysis reports in respect of refundable deposits totaling Rs.96,846,605, schedules in respect of other income of Rs.14,145,799 and advances of Rs.626,740 etc. they could not be satisfactorily verified in audit.

#### 1.3.8 **Non-compliance with Laws, Rules, Regulations and Management Decisions**

The following instances of non-compliance with Laws, Rules, Regulations were observed.

##### **Reference to Laws, rules etc.**

##### **Non-compliance**

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##### **(a) Financial Regulations of the Republic of Sri Lanka.**

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|------|-------------------------------------|---|
| (i)  | Financial Regulation 570, 571(1)(2) | Action had not been taken in respect of refundable deposits totaling Rs.48,809,693 elapsed for more than 2 years.   |
| (ii) | Financial Regulations 1645 and 1646 | Daily running charts and monthly performance summaries in the year under review in respect of 85 motor vehicles belonging to the Council were not made available for audit and log books had not been maintained as well. |

- (b) Circular No.IAI/2002/02 dated 28 November 2002 of the Secretary to the Treasury. A register of fixed assets had not been maintained in respect of computers, accessories and software valued at Rs.1,027,415 purchased during the year under review.

## 2. **Financial Review**

### 2.1 **Financial Results**

According to the financial statements presented to audit, revenue over recurrent expenditure of the Council for the year ended 31 December 2015 amounted to Rs.43,969,186 as against the revenue less than the recurrent expenditure for the preceding year amounted to Rs.40,584,412. Accordingly, an improvement of Rs.84,551,598 had indicated in the financial results for the year under review.

### 2.2 **Analytical Financial Review**

- (a) As employees had not been properly recruited, a sum of Rs.34,392,145 had to be spent from the revenue of the Council in the year under review for the payment of their salaries and allowances.
- (b) As recurrent expenditure represented 92 per cent of the recurrent revenue in the year under review, the financial position and the financial control had been at a weak level.
- (c) A summary of revenue grants, self-operating revenue and recurrent expenditure of the Council during the year under review and the preceding 2 years are given below.

Year	Total recurrent revenue	Revenue grants	Self-operating revenue	Total recurrent expenditure	Recurrent expenditure over self-operating revenue
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	Rs.	Rs.	Rs.	Rs.	Rs.
2015	525,301,980	266,347,644	258,954,336	481,334,795	222,380,459
2014	326,641,101	165,582,100	161,059,001	367,225,514	206,166,513
2013	341,095,262	171,897,907	169,197,355	294,466,736	125,269,381

The following observations are made.

- (i) Improvements of receipt of revenue grants every year and the self-operating revenue of the year under review as compared with the preceding year had indicated.

- (ii) Recurrent expenditure had continuously increased at considerable values. However, action had not been taken to pay attention thereof and to control expenditure.
- (iii) It was indicated that recurrent expenditure had increased continuously at a considerable values over self-operating revenue every year.
- (iv) It was indicated that without getting revenue grants, the recurrent expenditure could not be covered from the revenue of the Council in any way.

## 2.3 **Revenue Administration**

### 2.3.1 **Performance of revenue collection**

Arrears of rates and taxes, ground rent and yield tax, license fees, business tax and other rent totaling Rs.115,298,821 remained as at the beginning of the year under review and the billed amount of Rs.140,512,711 of the year were due and only a sum of Rs.101,936,708 or 39.8 per cent thereof had been recovered during the year. It indicated that the recoverability was not at a satisfactorily level.

### 2.3.2 **Rates**

The following matters were observed.

- (a) An outstanding balance of rates by the end of the year under review amounted to Rs.115,102,938 and an increase of 50 per cent had indicated as compared with the preceding year. Action had not been taken to recover the arrears in terms of Section 252(1)(b) of the Municipal Councils ordinance.
- (b) Commissions totaling Rs.1,307,678 had been paid to the 7 tax collection officers during the year under review but only a low percentage of 13 of the arrears of taxes had been collected.
- (c) An outstanding balance of Rs.20,362,914 had existed as at the end of the year under review from 130 consumers, who had arrears for more than Rs.50,000 within 12 assessment divisions out of 15 divisions, available in the area of authority of the Council.

### 2.3.3 **Lease Rent**

The following matters were observed.

- (a) Lease rentals totaling Rs.3,131,457, comprising a sum of Rs.341,004 from 3 lessees for the canteen of the Council, a sum of Rs.1,034,869 from the Road Passenger Transport Authority for the bus stand building and a sum of Rs.1,755,574 from Ruhunu Bus Company was receivable as at the end of the year under review.
- (b) Outstanding trade stall lease rentals totaling Rs.22,836,054 recoverable from 191 lessees which had elapsed for more than 3 years and the outstanding lease rental of Rs.845,819 from 156 vegetable market lessees were due as at the end of the year under review.

- (c) Although arrears of Rs.3,822,051 was due from a lessees who had been rented out 3 trade stalls belonged to the Council, action had not taken to recover the arrears.
- (d) Action had not been taken to recover the outstanding rent totaling Rs.1,673,486 and the related schedule had also not been furnished to audit.

#### 2.3.4 **License Fees**

Arrears of Licenses Fees amounting to Rs.4,894,595 were observed as at the end of the year under review and it had been an increase of 73 per cent as compared with the preceding year.

#### 2.3.5 **Other Revenue**

The outstanding other income balance as at the end of the year under review amounted to Rs.27,572,424 and the arrears of parking fees of Rs.176,176 receivable from 3 lessees had remained for more than 3 years.

#### 2.3.6 **Entertainment Tax**

Any action whatsoever had not been taken to recover the outstanding entertainment tax brought toward since 2007 amounting to Rs.12,478,059.

#### 2.3.7 **Leasing of Lands**

##### (i) **Leasing of Bataduwa Bogahawatta Urban Land**

The Bogahawatta land at Bataduwa belonged to the Council had been leased out to a Private Company for a period of first 30 years at a monthly rental of Rs.150. It was also agreed from the first agreement to extend the first agreement for a further period of 30 years under the conditions of the previous agreement. However, the conditions to revise the lease rent had not been included in the agreement.

##### (ii) **Leasing of land at Federal Street, Fort**

The land, 42.5 purchase in extent, at No.64 and 64(a), possessed by the Council had been leased out to a private party for the period of 30 years since 01 October 2015 on “Build Operate Takeover” method. Nevertheless, the approval of the Minister in charge of subject or the President had not been obtained therefore in terms of Section 40(1)(f)(1) of the Municipal Councils ordinance. Moreover, the Department of Land Settlement had confirmed that the possessable ownership of land did not belong to the Council.

**(iii) Leasing of Ranjan Godella land and buildings therein**

The person who had presented the highest Lump sum had been selected as the investor, irrespective of fact that the market price of the land and the building therein and the recommendations of the evaluation committee. Even though a Lump sum of Rs.7,770,000 had been recovered from the lessee, action in compliance with Section 40(1)(f)(1) of the Municipal Councils ordinance had not been taken. The written request made by the Divisional Secretary, Galle- Kadawath Sathara not to demolish the building, had also been disregarded.

**3. Operating Review**

**3.1 Management Inefficiencies**

The following matters were observed.

- (a) Loan balances of Rs.2,576,181 of 45 employees who had gone on transfer by the end of the year under review. Loan balances of Rs.1,032,321 of 17 employees who had retired and loan balances of Rs.218,744 of 2 deceased officers while in service were due.
- (b) A surcharge of Rs.371,100 had to be paid in the year under review due to delay in remitting contributions to the Employees Provident Fund. However, action had not been taken to identify the responsible parties and to recover the loss by assigning the responsibility on them in terms of Financial Regulation 156(1).
- (c) Without obtaining the formal approval, the value of 3 dishonoured cheques totaling Rs.480,162 had been written off from books in the year under review.
- (d) Any written documents whatsoever were not made available for audit to ensure how to calculate the commission, the total revenue collected and the payment of commission in respect of the payment of commission amounting to Rs.4,223,612 made to the Property Restraining Officers.

**3.2 Personnel Administration**

The following matters were observed in this connection.

- (i) Thirty nine employees had been recruited on substitute and contract basis and a sum of Rs.9,934,212 had been paid as salaries and allowances during the year under review.
- (ii) Action had not been taken to fill 81 vacancies in 4 posts in the approved cadre of the Council and the regularize excess staff of 50 in 3 posts.

**3.3 Motor Vehicles Control**

A test check carried out in respect of 85 vehicle fleet of the Council observed the following.

- (i) Insurance coverages of 70 motor vehicles had been obtained from Private Insurance Companies without being complied with the Public Administration Circular No.08/2014 dated 26 December 2014.
- (ii) Fuel consumption of vehicles belonged to the Council had not been tested in terms of Public Administration Circular No.41/90 of 10 October 1990.
- (iii) Action had not been taken to conduct preliminary inquiry or to take legal action in respect of 4 motor vehicles misplaced while in the custody of Council and the accident caused to the cab bearing No.50-6418.

#### 3.4 **Houses of the Council**

In the examination of government quarters belonged to the Council observed the following matters.

- (i) Seven out of 21 government quarters had become unusable position.
- (ii) Without being complied with Section 6.1.5 of Chapter xix of the Establishments Code, 3 officers were allowed to occupy the quarters. Action had not been taken to recover penalties from one of these officers and the arrears of rent amounting to Rs.61,410 remained outstanding since 2000 from another officer.

#### 3.5 **Construction of the Crematorium**

A sum of Rs.16,718,187 had been spent in the year 2014 to construct a crematorium with dual combustion chambers in the cemetery at Dadalla. The following observations are made in this connection.

- (i) The approval of the council had been granted for this construction, disregarding the recommendation of the Technical Evaluation Committee. The chamber No.1 and Chamber No.2 had been inoperative for 284 days and 391 days respectively during the period 08 August 2014 to 27 April 2016.
- (ii) Being breaching the conditions of agreement by the contractual company, certain parts had been sub-let. The council had not taken action to recover demurrage charges for the elapse of agreement period or to take legal action.
- (iii) The National Engineering Research Organization had stated that the combustion chambers could not be operated due to construction defects.

#### 3.6 **Identified Losses**

The following matters were observed.

- (a) The electricity bill of Rs.2,561 in the Moda Ela pump house had not been settled and as a result the electricity had been disconnected and as such an additional charge of Rs.39,164 had to be paid to get back the electricity connection.

- (b) In the payment of arrears of contributions to the Employees Provident Fund relating to 13 Property Restraining Officers for the period January 1985 to December 2008, employees contributions of Rs.357,676 and the surcharge totaling Rs.1,286,095 had been paid by the Council.

### 3.6 **Solid Waste Management**

Activities of the compost fertilizer manufacturing of the waste re-cycle project commenced by incurring a sum of Rs.4,000,000 in the year 2009 had been inoperative and it was indicated that the machines costing Rs.126,500 were being dilapidated in the council premises without being used.

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

### 4.1 **Budgetary Control**

Due to the reasons such as the existence of savings totaling Rs.30,557,397 in 6 expenditure objects included in the budget, incurring expenditure of Rs.29,368,191 in 3 expenditure objects in excess of limits, targeted revenue totaling Rs.116,196,264 in 5 revenue items which had not been reached, the budget had not been made use of as an effective instrument of management control.

### 4.2 **Internal Audit**

Although 5 officers had been attached to the internal audit unit and an expenditure of Rs.2,232,251 had been incurred on their salaries and allowances in the year under review internal audit functions had not been carried out in terms of Financial Regulations of the Republic of Sri Lanka and the Circular No.දපසා/යන/01/න.ව.ලේ dated 04 February 2014 of the Commissioner of Local Government. (Southern Province).

### 4.3 **Assets Management**

The following matters were observed.

#### (a) **Idle and underutilized assets**

As the paper recycling project was not in operation, the relevant equipment, goods and buildings had been idle.

#### (b) **Idle Vehicle Assets**

According to the Letter No. යා/මනස/මුච්/2013/3/76 dated 10 August 2015 of the Municipal Commissioner, it was stated that the preliminary steps had been taken to dispose of the Tekench Excavator belonged to the Municipal Council under a minimum bid of Rs.140,000. Nevertheless, that excavator was being dilapidated in the land where garbage was disposed.



5. **Systems and Controls**

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

- (a) Accounting
- (b) Budgetary Control
- (c) Revenue Administration
- (d) Assets Management
- (e) Contract Administration
- (f) Debtors and Creditors Control
- (g) Motor Vehicles Control
- (h) Personnel Administration