

Galle Municipal Council

Galle District

1 Financial Statements

1.1 Presentation of Financial Statements

The financial statements for the year 2016 had been presented to audit on 31 March 2017 and the financial statements for the preceding year had been presented on 31 March 2016. The report of the Auditor General for the year 2016 had been forwarded to the Secretary of the Council on 10 November 2017.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters shown in paragraph 1.3 of this report, the financial statements of the Galle Municipal Council give a true and fair view of the financial position as at 31 December 2016 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 Deficiencies

The following accounting deficiencies were observed in audit.

- (a) A sum of Rs. 50,945,716 had been spent in 2002 to construct a drain for the rain water to flow down. Meanwhile, the galie bowser valued at Rs.2,198,083 given for the usage of the Council had not been brought to account. As a result, the value of assets had been understated.
- (b) The total interest of Rs.46,741,204 payable to the Local Loans and Development Fund as at 31 December of the year under review had not been brought to account resulting in an understatement of expenditure.
- (c) The court fines of November and December of the year under review amounting to Rs.3,222,277 had not been brought to account resulting in an understatement of revenue of the year by a similar amount.

- (d) Provision for creditors aggregating Rs. 6,036,123 had been made for 11 jobs which had been abandoned. As a result, the current liabilities had been overstated.
- (e) The contributions payable to the pensions fund as at 31 December of the year under review aggregating Rs. 99,734,709 had not been shown in the financial statements and as such the current liabilities had been understated.

1.3.2 **Transactions Without Adequate Authority**

Adjustments had been made in the Surplus and Deficit Account without obtaining approval for the transactions aggregating Rs.9,510,482.

1.3.3 **Unreconciled Control Accounts**

Variances aggregating Rs. 38,080,702 were observed between the balances of 07 accounts aggregating Rs. 168,978,725 as per financial statements and the balances appearing in the related subsidiary registers / schedules.

1.3.4 **Suspense Account**

Action had not been taken during year under review to identify, adjust and settle the debit balance in the suspense account aggregating Rs.111,553 which continued to be brought forward since 2003 without any change.

1.3.5 **Accounts Receivable and Payable**

The following matters were observed.

- (a) The balances of revenue debtors amounting to Rs.232,143,510 relating to the previous year had increased to Rs.377,974,063 as at end of the year under review.
- (b) The balances of creditors amounting to Rs. 269,735,791 relating to the previous year had increased to Rs. 317,819,678 during the year under review and those balances had been shown in the financial statements without being analysed.

1.3.6 Lack of Evidence for Audit

The following matters were observed.

- (a) An updated register of fixed assets with classification of assets prepared in respect of fixed assets aggregating Rs.212,706,605 as appearing in the financial statements, properly maintained registers of creditors and debtors and age analysis for debtors of Rs.377,974,063 and creditors of Rs.317,819,678 had not been furnished and as such these could not be satisfactorily examined in audit.
- (b) Balances of 06 items of accounts aggregating Rs.85,845,997 continued to be brought forward in the financial statements for over 03 years without being settled. None of the related information had been furnished to audit.
- (c) A difference in stock amounting to Rs. 69,291,675 was observed between the closing stock as per financial statements of the year under review and the stocks produced as per register of stock. However, none of the related information had been furnished to audit.

1.3.7 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non – compliance with laws, rules and regulations were observed in audit.

Reference to Laws, Rules, Regulations etc.,	Non-compliance
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(a) Municipal Councils Ordinance No. 16 of 1947	

(i) Section 252	Action had not been taken against defaulters of payments of rates and taxes.
(ii) Section 103 (i)	Construction in the authoritative area of the Sabha had been performed without obtaining the prior written permission of the Sabha.
(b) Financial Regulations of the Republic of Sri Lanka	

Financial Regulation 570	Action had not been taken with regard to general deposits aggregating Rs.4,832,310 exceeding 2 years.

(c) Circular of the Chief Secretary (finance) No. CSS/7/1/1/ of 24 February 2014

Action had not been taken to obtain security deposits from any of the officers dealing with cash and stores.

2. **Financial Review**

2.1 **Financial Results**

According to the financial statements presented to audit, the excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2016 amounted to Rs. 128,351,803 as compared with the excess of revenue over recurrent expenditure of the preceeding year amounting to Rs.43,967,186 showing an improvement in financial results of the year under review amounting to Rs. 84,384,617 as compared with the preceeding year.

2.2 **Revenue Administration**

2.2.1 **Rates and Taxes**

- (a) The Council had failed to furnish an analysis of the opening balance of the year for audit as it had established a new computer software by spending Rs.741,930 during the year under review and had not updated the register of rates and taxes.
- (b) Action had not been taken in terms of Section 252(1)(a) of the Municipal Councils Ordinance to recover the arrears of rates and taxes of 2015 and 2016. A sum of Rs.363,454 had been paid as commission to 08 officers to collect arrears of rates and taxes. But, a sum of Rs.1,871,399 only had been recovered out of the arrears of rates and taxes of Rs.66,114,672.
- (c) Sixty three files had been received for obtaining new numbers for rates and taxes during the year under review. Of these, 60 files had been handed over to revenue inspectors. However, action had been taken to send 33 files only to the Department of Valuation.
- (d) The arrears of rates and taxes observed regarding 177 units of rates and taxes exceeding Rs.50,000 as at end of the year under review amounted to Rs. 35,449,728. Action had not been taken to recover it.

2.2.2 Lease Rent

- (a) Out of the lease rent of Rs.87,019,453 recoverable for the year under review and the previous year, a sum of Rs.53,965,613 only had been recovered during the year which was 62 per cent of the total amount recoverable.
- (b) Action had not been taken even during the year under review to recover the sum of Rs.1,034,869 recoverable on behalf of the lease of building within the Galle old bus stand and the sum of Rs.1,755,589 recoverable from the Road Passenger Transport Authority and the Ruhuna Bus Company from prior to the year 2010.

2.2.3 Licence Fees

- (a) Trade licences should be obtained for trade activities within the authoritative area of the Council. But, an arrears of licence fees amounting to Rs.6,047,154 as at end of the year was observed as per financial statements. Accordingly, unlawful trade activities had been carried out within the authoritative area of the Council and no action, whatsoever, had been taken in this connection.
- (b) The legal charges incurred during the year amounting to Rs.590,400 had been deducted while billing licence fees and the net amount only had been identified as revenue from licence fees.

2.2.4 Warrant Charges and Other Revenue

The warrant charges and other revenue of Rs. 64,078,620 as at commencement of the year under review had increased upto Rs.200,396,371 as at end of the year and it was a higher percentage of 313 per cent more than the balance at the commencement of the year. Meanwhile, a sum of Rs. 9,510,482 of the opening balances at arrears of the year had been written off without approval.

3. Operating Review

3.1 Performance

The following matters were observed.

(a) Ayurveda Section

- (i) The estimated provision and the provision granted for the Ayurveda section had been decreased during the past 2 years. However, it was observed that the number of

patients seeking treatment at the Ayurveda section had increased during the past few years.

- (ii) No provision, whatsoever, had been made to purchase pharmaceuticals for the Ayurveda section during the year under review.
- (iii) The number of employees of the Ayurveda section was 06 as per budget of 2016. But, the actual cadre was 03 and as such there were difficulties in carrying out the daily functions.
- (iv) The lady Ayurveda medical officer had not marked attendance since 26 February 2015 due to an internal service problem.

(b) Issue of summaries of Deeds

According to the citizens enactments prepared by the Council, it had been informed that summaries of deeds would be issued within 3 days in connection with the revision of rates and taxes and introduction of new numbers for rates and taxes. But, the work relating to 724 applications had not been completed upto 07 July 2017.

3.2 Idle / Under Utilized Assets

The air conditioner purchased for Rs.59,900 on 30 August 2015 for use of the Municipal Council remained idle at the stores upto 17 July 2017.

3.3 Management Inefficiencies

The following matters were observed.

- (a) The Council had not taken action to recover the employees' loans aggregating Rs.755,326 due from 19 officers who had retired as at 31 December of the year under review.
- (b) The Council had not taken action to regularize the excess cadre of 78 employees recruited and to fill the vacancies of 114 employees.
- (c) Eleven out of 196 projects proposed to be executed by the Council from its funds in 2016 had been cancelled. 33 projects under implementation had not been completed even by 07 July 2017.
- (d) The following observations were made in connection with the control over vehicles.

- (i) The Council had not been taken action to acquire 06 vehicles granted by state institutions for usage of the Council.
 - (ii) Monthly running charts of 130 vehicles had not been furnished to the Auditor General.
 - (iii) Security bonds had not been obtained while recruiting drivers. Action had not been taken to recover the loss of Rs.388,616 caused to the motor vehicle No. LL – 6447 on 04 December 2016 from the persons responsible.
- (e) The following matters were observed regarding lease of trade premises belonging to the Council and the collection of revenue.
- (i) The lease rent had not been periodically revised while giving on lease the trade premises belonging to the Council and the lease agreements had not been renewed. Instead, the lease had been granted to identical persons continuously.
 - (ii) Fourteen out of 25 stall owners of the telbert town first lane had continuously defaulted payment of stall rent since 2006. Although a sum of Rs.1,989,642 was due as arrears as at 31 December 2016, action had not been taken in terms of the Municipal Councils Ordinance.
 - (iii) According to the related register of revenue there were 234 vegetable stalls within the authoritative area of the Council. Billing for 58 of these stalls had not been done for the year 2016.
 - (iv) Action had not been taken by 31 December 2016 to recover the arrears of tax of Rs.405,129 due from 93 Oropuwaththa Tsunami stalls. Meanwhile, action had not been taken to enter into agreements with the respective persons.

3.4 Transactions of Contentious Nature

The following matters were observed.

- (a) The building at No.80, Main street, Galle had been given on lease to some other persons on 10 November. The fees charged was Rs. 8,880,000 and of this Rs.7,771,000 had been paid to the Municipal Council by the new lessee and the balance of Rs.1,109,000 was to be spent on repairs to the building, as per agreement entered into, so that it could be favourable to the lessee.
- (b) The Municipal Council had charged Rs.428,512 as other charges in addition to the service charges obtained for various services. Out of this money obtained in contrary to the Municipal Councils Ordinance, a sum of Rs.398,373 had been paid to the officers who had performed those services.

3.5 Solid Waste Material Management

The daily collection of about 45 – 50 tons of garbage within the authoritative area of the Council is separated while being collected and about 60 per cent of degradable garbage gets disposed of, at Monroviayawaththa, as per agreement. The glasses included in the non degradable garbage is sold and the rest of the non degradable materials gets disposed of at the Heenpendala Council premises. As such, a heap of garbage had got collected at present. The Council had no long term plan to manage non degradable garbage. Meanwhile, the streamway close to the Council premises where the non degradable garbage had been heaped had got blocked causing risks to lives in the area.

3.6 Environmental Problems

The common drain constructed by the Municipal Council to allow the water to flow down had been broken to make room for water from private houses to flow down, without the authority of the Council. The waste water of certain houses had been directly directed towards the common drain. Meanwhile, certain constructions had been made on the common drain and the Municipal Council had not taken any action regarding this.

3.7 Assets Management

(a) Assets given to External Parties

- (i) Seventeen laptops valued at Rs.1,460,300 had been purchased and distributed among members of the Council. 12 members had not taken action to return those laptops at the time of dissolution of the Council. One member had complaint to the police that his computer had been stolen and action had not been taken regarding the loss. The Municipal Council authorities had not taken any action regarding non returned computer and the computer stolen.
- (ii) The members had been granted 18 tabs valued at Rs.791,982, twenty power banks and seventeen tab covers valued at Rs.90,000 for their usage by utilizing the funds of the Council. Eleven members had not returned them after dissolution of the Council.

(b) Irregular usage of Assets which had not been Acquired

- (i) Action had not been taken in terms of Section 6.15 of Chapter XIX of the Esstablishments Code with regard to 05 government quarters belonging to the Council.
- (ii) The Council owns 24 government quarters. But, 21 quarters only had been entered in the register of government quarters. 12 quarters were not in usable condition at present. Action had not been taken to repair them and make them suitable for occupation.

4. Good Governance and Accountability

4.1 Budgetary Control

Savings in 08 items of expenditure aggregating Rs.158,258,904, an adverse variance of Rs.6,506,945 in one item of expenditure and the non archived targets in 05 items of revenue amounting to Rs.94,270,676 were observed in the budget for the year under review. Thus, it was observed that the budget had not been utilized as an effective instrument of management control.

4.2 Internal Audit

The following matters were observed.

- (a) The internal audit programme had not been prepared in agreement with the Financial Regulation 134 (2) of the Republic of Sri Lanka and a copy of the internal audit report had not been furnished to the Auditor General in terms of Financial Regulation 134 (3).
- (b) Four officers of the Management Assistant Service and a K.K.S. had been assigned with the duties of internal audit unit established by the Council and 09 audit observations only had been issued during the year under review.

4.3 Implementation of Audit and Management Committees

The Council had not taken action to establish Audit and Management Committees even by end of the year under review in terms of the Management Audit Circular No. DMA/2009 (i) of 09 June 2009.

5. Systems and Controls

Deficiencies observed during the course of audit were brought to the notice of the Council by audit queries from time to time. Special attention is needed in respect of the following areas of systems and controls.

System	Main Deficiency in the System
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(a) Fixed Assets	(i) A register of fixed assets had not been maintained with details of classification of assets.

- (ii) Certain machines and machinery were lying idle at the stores without being issued.
 - (iii) Action had not been taken to identify the cost of assets sold on auction so as to delete them from assets.
- (b) Control over Vehicles
 - (i) Action had not been taken to test the fuel consumption of vehicles of the Council.
 - (ii) None of the daily running charts of the Council had been furnished for audit.
 - (iii) Action had not been taken to acquire ownership of vehicles used by the Council.
- (c) Accounting and Maintenance of Registers
 - (i) Action had not been taken to settle the balances of the suspense account which continued for many years.
 - (ii) Action had not been taken to inquire into the balances of accounts brought forward for many years and to make necessary adjustments and settle them.
 - (iii) Necessary information could not be obtained from the rates and taxes software or from the registers.
 - (iv) Action had not been taken to settle the differences in balances between the balances in the financial statements and the registers.
- (d) Collection of Revenue
 - (i) Proper procedures had not been formulated and adopted to collect arrears of revenue.
 - (ii) Provision for revenue from stamp fees had been made on an estimated basis without considering the previous years' revenue.

- (iii) Action had not been taken to collect revenue such as stamp fees and court fees in an updated manner.
 - (iv) The work completed relating to fixing new numbers for rates and taxes was low.
 - (v) Bills for certain public trade stalls of the Council had not been issued for the year.
- (e) Staff Management
 - (i) Action had not been taken to fill the vacancies in the approved cadre and to regularize the excess cadre.
 - (ii) Action had not been taken to recover the balances of employees' loans due.
- (f) Budgetary Control
 - Follow up action had not been taken to revise the budget
- (g) Debtors' and Creditors' Control
 - (i) The value of work creditors which had subsequently been cancelled had not been deleted from the accounts.
 - (ii) Proper registers of debtors and creditors and age analysis had not been prepared.
 - (iii) Action had not been taken to settle long outstanding balances of debtors and creditors.