

Galle Municipal Council - 2021

1. Financial Statement

1.1 Adverse Opinion

The audit of the financial statements of the Galle Municipal Council including the financial statements for the year ended 31 December 2021 comprising the Statement of financial position as at 31 December 2021, Statement of Financial Operations, Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, 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 the Municipal Councils Ordinance (Chapter 252) and the Provisions of the National Audit Act No.19 of 2018. My comments and observations which I consider should be report to parliament appear in this report.

In my opinion, because of the significance of the matters described in paragraph 1.6 of this report, the financial statements do not give a true and fair view of the financial position of the Galle Municipal Council as at 31 December 2021 and its financial performance and cash flow for the year then ended in accordance with Generally Accepted Accounting Practices.

1.2 Basis for Adverse Opinion

I expressed an adverse opinion 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 adverse 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 General Accepted Accounting Principles, 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 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.

1.4 **Audit Scope (Responsibility of the Auditor for the audit of 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 exercised professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my 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.
- Obtain an understanding of internal control relevant to the audit 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 its 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 Municipal Council
- Whether it 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

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Municipal Council as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Council	Recommendation
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(i) The asset valued at Rs. 1,855,456 received as donations to the Municipal Council under the strategic city development project had been understated.	The Action will be taken to correct.	Should be accounted correctly.
(ii) The value of the 3 air conditioners amounting to Rs. 457,470 purchased by the council had been written off as expenses in the year 2021		
(iii) From the year 2016 to the year 2019, the court fine under-allocation of Rs.42,656,469 and the over-allocation of Rs.16,583,912 in the year 2020 had not match the accounts, so the accumulated fund was understated by Rs.26,072,557		
(iv) Accumulated fund was overstated due to unaccounted stamp duty over allocation of Rs.232,252,745 from the year 2015 to 2019.		
(v) 18 vehicles valued at Rs.4,584,070 and 19 unrecognizable vehicles were auctioned and removed, however they were not removed from the fixed assets accounts therefore the profit or loss was not accounted.		

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| <p>(vi) In extracting the balances of the Municipal Engineering (Mechanical) Department as at 31 December 2021, overstate the creditors expenditure amounting to Rs.25,051,747 and understate the surplus of the year under review by same amount and year-end creditor balance was overstated by same value.</p> <p>(vii) The total value of 08 projects that had been cancelled was Rs.4,323,235 as at the end of the year under review, and it had been accounted as expenses and creditors of the year under review. Therefore, expenses and creditors were overstated by that value.</p> <p>(viii) Creditors and expenses had not been accounted in respect of 5 projects amounting to Rs.4,162,152 as at the end of the year under review.</p> | <p>Actions will be taken to correct.</p> | <p>Should be accounted correctly.</p> |
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1.6.2 Non-reconciled Account or Records

<p>There was a difference sum of Rs. 29,115,991 in between the balance value of 12 accounting items in the financial statements and balance value in relevant utility registers and sub registers as at 31 December of the year under review.</p>	<p>Action will be taken to correct in future.</p>	<p>The action should be taken to correct by reconciling the differences.</p>
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1.6.3 Suspense Accounts

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| <p>(a) The balance of the suspense account amounting to Rs. 111,553 had not been settled since 2003</p> <p>(b) Since the year 2006, the debit balance of 03 accounts amounting to Rs. 42,103,545 and the credit balance of an account amounting to Rs.43,062,414, which has been come continuously in the financial statements and it had not been specifically identified and settled.</p> | <p>The actions will be taken to the write off the balance of the suspense account.</p> | <p>The balance should be investigated and settled.</p> |
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1.6.4 Lack of Documentary evidence for Audit

Audit Observation	Comment of the Council	Recommendation
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Due to non-submission of required information, 09 accounting items totalling Rs.1,283,571,137 could not be checked satisfactorily.	Action will be taken to correct in future.	Evidence must be submitted to confirm the account balances shown in the financial statements.

1.7 Non compliances

1.7.1 Non compliances with laws rules and regulations

Reference to laws rules regulations	Non compliances	Comment of the Council	Recommendation
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Acts of Parliament			
Section 225 of the Municipal Council Ordinance No. 16 of 1947	Although the amounts certified by the Minister of Finance as reasonable for the services of the auditors were to be paid to the Deputy Secretary of the Treasury from the Municipal Council Fund, this had not been done since the year 2016.	The approval of the Finance Committee and the General Assembly has not been given.	Action should be done in accordance to the Act.

1.7.2 Accounts receivable

Audit Observation	Comment of the Council	Recommendation
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(i) The two-storied shopping complex in front of the Galle Post Office had been given to a tenderer for over 20 years, however as per the agreement, the lease amount had not been revised every 5 years. By the year 2021, the sum of outstanding taxes and fines was Rs.10,076,018, and the lessee was allowed to run the mall.	Since the legal action had been taken proceed according to the judgment.	The action should be taken to recover the balance due.
(ii) The compensation related to the Hilltop resort had not been collected, and the taxes amounting to Rs.759,190 had also not been collected or settled.	Action will be taken to collect the arrears.	The action should be taken to recover the balance due.

2. Financial Review

2.1 Financial Result

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Council for the year ended 31 December 2021 amounted to Rs. 253,560,459 as compared with excess of revenue over recurrent expenditure amounted to Rs. 154,028,966 in the preceding year.

2.2 Financial Control

Audit Observation

Comment of the Council

Recommendation

(a) The value of dishonoured cheque was Rs.309,416, out of which 15 cheque value at Rs.253,942 have been dishonoured for 3-24 years as at 31 December of the year under review. There was no information regarding the dishonoured cheque valued at Rs.55,474 and the action had not been taken in this regard.

The action will be taken to write off

Actions should be taken to recover.

(b) As at 31 December 2021, there was Rs.13,744,366 in the Employees' Provident Fund Account established under Section 183(1) of the Municipal Council Ordinance, and it was observed during the audit that the attention had not been paid to take this amount to the council's income or repayment as there was no specific information about their ownership.

Inform that there is no document for this.

Actions should be taken to confirm the right of this money.

2.3 Revenue Administration

2.3.1 Performance of revenue Collection

Audit Observation

Comment of the Council

Recommendation

License Fees

There cannot be an arrears of license fee for licenses to be obtained annually, however, at the end of the year under review Rs. 5,590,271 in outstanding license fee, which had not been act in terms of the Section 247A(1) of the Municipal Ordinance.

Action will be taken to recover the arrears.

Action should be taken to recover the arrears of income.

3. Operational Performance

Matters revealed with regard to fulfilling regulation and control and administration of public health, public utility services and public roads, generally with the protection and promotion of the comfort, convenience and welfare of the people and amenities by the Council under Section 4 of the Municipal Council Ordinance are shown below.

3.1 Management Inefficiencies

Audit Observation	Comment of the Council	Recommendation
(a) Providing Mobile phones for The Municipal Councillors	Members have been informed to return.	Delivery and re-delivery should be done properly.
<p>(i) Although mobile phones were provided to the Mayor and Deputy Mayor on 22.07.2014, in the year 2020, 02 mobile phones valued at Rs.99,000 were provided again.</p> <p>(ii) Although by spending Rs.1,460,300 from the council fund, 17 laptops were distributed in March 2012 and by spending Rs.791,982 ,18 tabs in October 2014 were distributed to the members action had not been taken by 11 members to return the laptops and 09 members to returned the tabs.</p>	Members have been informed to return.	Delivery and re-delivery should be done properly.
(b) From the year 2018 to the year 2021, 2107 cases were filed in the court regarding the non-payment of trade license fees and industrial taxes due to the council, by the end of the year under review, Rs. 9,073,813 would have been charged to the council. Accordingly, by the year 2021 compared to the year 2018, the tax evasion had increased by 167 percent, however the attention of the council was not focused on the continuous increase in the fees payable to the council in accordance with the Municipal Council Ordinance.	The action will be proceeded to file a case to recover the arrears.	Actions should be taken to recover.

3.2 Assets Management

Audit Observation	Comment of the Council	Recommendation
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According to the inventory survey reports of 2021, there was a shortage of 21,658 goods value Rs.16,196,161 belonging to 587 types of goods in the general stores, and a shortage of 553 library books value at Rs.151,425 had been observed in 3 public libraries.	The action will be taken on this in the future.	The actions should be taken regarding the deficiencies in formally.

3.3 Informal transactions

Audit Observation	Comment of the Council	Recommendation
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It was observed during the audit that although the council used 48 journal entries to record transactions value Rs. 2,003,599,223 in the preparation of the final accounts of the year 2021, they should be approved after checking and certifying them, however such internal audit inspection had not been conducted.	Action will be taken to correct.	Proper approval should be obtained

3.4 Identified Losses

Audit Observation	Comment of the Council	Recommendation
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Kongaha Beef Store in tendering for the year 2021 submitted the highest price selected as decided by the Tender Board and the Finance Committee and had not given the tender to the bidder however the council's decision to give the same to the old contractor, the council had incurred a loss of Rs.2,058,258. It was observed that the attention of the council was not drawn in this regard.	decided to run on the monthly rent.	Leasing should be done on the tender procedure .