

## **Galle Municipal Council - 2022**

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### **1. Financial Statements**

#### **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 2022 comprising the Statement of financial position as at 31 December 2022, Statement of Financial Operations, Statement of Changes in assets, 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 Council 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 2022 and its financial performance and cash flow for the year then ended in accordance with Generally accepted Accounting Principles.

#### **1.2 Basis for Adverse Opinion**

I expressed 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 Generally 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

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) Stock of stores materials value at Rs.4,425,592 purchased in the year under review was not accounted in the stock control account and the stores creditor account.	Will be corrected in future	Should be accounted properly.
(b) Materials value Rs. 327,031 which had been issued from the general store of the council for various purposes, were not accounted.	- do -	- do -
(c) The arrears of income Rs.36,010,184 received for the previous year had been accounted as income of the current year in the year under review.	- do -	- do -
(d) Industrial tax receivable for the year under review was under-stated by Rs.374,250.	Will be corrected in future.	Should be accounted properly
(e) The provisions for construction work creditor amounting to Rs.17,624,788 had been done for 15 constructions work without specific identification of the works completed at the end of the year under review.	The provision had been made for the year 2022.	- do -

(f)	02 machines with a total value of Rs.10,461,330 received as donations in the year under review had not been accounted.	Will be corrected in future.	- do -
(g)	Creditors provision was not made for recurrent expenditure of Rs.9,991,255 payable at the end of the year under review.	- do -	- do -
(h)	The non-refundable cover approval fines of Rs.11,001,976 charged had been accounted as deposits payable, without adjustment to income.	- do -	- do -
(i)	The fixed assets value Rs.4,563,030 which were purchased during the year under review had not been capitalized.	- do -	- do -
(j)	The amount of Rs.2,470,914, which was the loan amount payable to the Local Loans Development Fund at the end of the year under review, had been understated.	The arrears of interest payable to the Local Development Fund.	- do -
(k)	The court fines of Rs.2,091,800 and stamp fees billed of Rs.3,271,000 related to the year under review had not been accounted.	Will be corrected in future.	- do -
(l)	The pension contribution of Rs.109,486,708 payable up to 31 December 2022 was not accounted in the year under review.	- do -	- do -
(m)	18 vehicles belonging to the council with a total cost of Rs.4,584,070 were auctioned and sold, however their value was not write off from the fixed assets account.	Will be corrected in future.	Should be accounted properly.
(n)	A difference of Rs.2,753,908 was observed between the balance of House Rent Cash Account and House Rent Deposit Account at the end of the year under review.	The confirmation will be done to reconcile the difference between the balances.	- do -

### 1.6.2 Non-reconciled Account or Records

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
There was a difference of Rs.277,697,350 between the balances related to 16 accounting items shown in the financial statements as at 31 December of the year under review and the balances shown in the related schedules.	The action will be taken to correct.	Should be reconciled and correct the accounts.

### 1.6.3 Suspense Accounts

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
The balance of the suspense account which was Rs.111,553 since the year 2003, had not been settled by the council even at the end of the year under review.	The further work will be carried out.	The action should be taken to correct the balances.

### 1.6.4 Lack of Documentary evidence for Audit

<b>Subject</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
Due to non-submission of the necessary detailed schedules for confirmation of 13 accounting items aggregating to Rs.930,426,450 could not be examine satisfactorily in audit.	The evidences could not be submitted.	Evidence for the confirmation of the account balances should be submitted.

## 1.7 Non-compliances

### Non-compliance with Laws, Rules, Regulation and Management Decisions

Instances of Non-compliance with Laws, Rules, Regulation and Management Decisions are shown below.

	<b>Reference to Laws, Rules, Regulation and Management Decision</b>	<b>Non – Compliance</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a)	The Provincial Council Financial Rules 476 and 477	An annual survey was not done on all the vehicles owned by the council.	The action will be taken by the annual board of survey.	The action should be taken in accordance with the Rule

(b)	The financial Regulations 571 of the Democratic Socialist Republic of Sri Lanka	The lapsed deposits valued at Rs.3,309,144 had not been disposal at the end of the year under review.	The action will be taken to get to the income.	The action should be taken in accordance with the financial Regulations
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## 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 2022 amounted to Rs. 66,596,685 as compared with excess of revenue over recurrent expenditure amounted to Rs. 253,560,459 in the preceding year.

### 2.2 Financial Control

Audit Observation	Comment of the Council	Recommendation
(a) The action had not been taken for 15 dishonored chques valued at Rs.253,942 between 3 and 24 years as at the last day of the year under review.	The action will be taken to get settled.	The action should be made for immediate settlement.
(b) According to the Planning Circular No. 15 dated 13 November 1993 of the Urban Development Authority, the council had not submitted a formal work plan to utilize the balance of Rs.16,832,559 in the savings account.	A development project is going to be implemented centered on Hiare Reservoir.	The action should be taken in accordance with the Circular

### 2.3 Revenue Administration

#### 2.3.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

Information relating to Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue relevant to the year under review and the preceding year are shown below.

Source of Revenue	2022				2021			
	Estimated Revenue (R.s)	Revenue billed (R.s)	Revenue Collected (R.s)	Arrears as at 31 December (R.s)	Estimated Revenue (R.s)	Revenue billed (R.s)	Revenue Collected (R.s)	Arrears as at 31 December (R.s)
Rates and Taxes	112,500,000	113,645,131	88,558,593	230,704,649	101,200,000	104,905,650	69,204,375	205,618,111
Rent	117,882,000	58,438,908	61,189,509	41,964,452	118,631,000	38,685,461	41,238,426	44,715,053
License Fees	33,958,000	26,842,014	24,761,694	7,670,591	40,104,000	18,797,608	20,469,568	5,590,271
Other revenue	56,596,000	131,758,201	129,375,318	5,328,202	49,988,000	287,661,249	285,984,120	2,945,319
	320,936,000	330,684,254	303,885,114	285,667,894	309,923,000	450,049,968	416,896,489	258,868,754

### 2.3.2 Performance in Revenue Collection

Following are the observations regarding the revenue collection performance of the council

Audit Observation	Comment of the Council	Recommendation
(a) The arrears of assessment Rs.178,343,608 at the beginning of the year had increased by Rs.17,152,197 to Rs.195,495,805 by the end of the year. Out of this, 188 properties whose outstanding income exceeded by Rs.100,000 amounted to Rs.53,223,202, and from 31 properties whose income exceeded Rs.500,000, an outstanding balance receivable amounting to Rs.26,128,860.	The notices have been made to property owners to recover.	The arrears of income should be recovered as soon as possible.
(b) There was no revision of property values to levy assessment on new annual values after the year 2013.	The action will be taken in future.	The action should be taken in accordance with the Rules.
(c) The total outstanding rental deficit income amounting to Rs.44,715,053 as at 01 January of the year under review and there was an outstanding deficit balance of Rs.41,964,452 as at the end of the year under review.	It is expected to proceed in terms of Section 266 of the Municipal Ordinance.	The action should be taken in accordance with the Act
(d) The council owned 637 shops in relation to 15 commercial premises, the arrear rent of shops as at 31 December 2022 was Rs.20,094,237. The action had not been taken to recover the arrears	The action will be taken to get legal action.	The arrears of income should be recovered as soon as possible.

of rent in terms of Section 253(1) of the Municipal Ordinance.

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| (e) | The agreement had not been entered and recovered any rent for renting of 20 out of 54 stalls in Galle Urban Fish Market since the year 2009. 34 of above shops rooms had been modernized at a cost of Rs.4,057,080 in the year 2021   | The tender will be held in the future.                 | The action should be taken to rent shop rooms.                                   |
| (f) | In relation to the 20 shop rooms at Galle Central Bus Station, shop rent receivable amounting to Rs.7,082,990 as per the assessment, had been written off contrary to Section 266 a of the Municipal Council Ordinance (252 Chapter). | The action will be taken to get the approval in future | The action should be taken in accordance with the Act                            |
| (g) | The outstanding license fee income was Rs.5,590,271 as at 01 January of the year under review, and it was Rs.7,670,591 at the end of the year under review.   | The action will be taken to recover                    | The arrears of income should be recovered as soon as possible.                   |
| (h) | The outstanding other income was Rs.2,945,319 as at 01 January of the year under review, and it was Rs.5,328,202 at the end of the year under review.   | The action will be taken to get legal action           | - do -   |
| (i) | The court fines and stamp fees amounting to Rs.184,448,164 should have been received from the Chief Secretary of the Provincial Council as at 31 December of the year under review.   | Had not been commented                                 | The action should be taken to recover the arrears of income as soon as possible. |

### 3. Operational Review

#### 3.1 Solid Waste Management

##### Audit Observation

Although the Kawashima Compost Project valued at Rs. 220 million, which can produce compost fertilizer, was received, it was not possible to maintain the operational activities due to the lack of infrastructure development.

##### Comment of the Council

The relevant estimates have been submitted to the Assistant Commissioner of Local Government.

##### Recommendation

The project should be implemented by providing necessary infrastructure.



### 3.2 Identified Losses

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
Rs. 3,600,000 were paid from the council fund due to non-completion of the repair of the council building within the stipulated time, the expense Section of the Municipal Finance Department was relocated to another location on a monthly rental basis of Rs.60,000.	Repairs are being carried out.	The action should be done according to a specific time frame.

### 3.3 Management Inefficiencies

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) 11 laptops valued at Rs.994,900 and 09 tabs valued at Rs.395,991 had been given to the members in the year 2012, however they were not returned.	The reminders have been sent.	Assets owned by the council should be taken over.
(b) An amount of Rs. 12,342,335 was paid to the private sector for the repair and servicing of vehicles due to the non-completion of the construction works of the Municipal factory.	Expected to be renovation in the future.	The project should be completed rapidly.

### 3.4 Operating Inefficiencies

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) A Pedlar Street public service home was leased to a private company for 30 years from 01 October 2015 and the action had not been taken to recover the rent receivable by the Council .	It has been forwarded to the Valuation Department.	Arrears of rent should be recovered as soon as possible.
(b) 30 years ago, the land of Galle Siri Garden was auctioned and given to the council for public purposes, the land of 12.35 perches of 01 acres had not been used for public purposes, and a person had settled illegally in a portion of 10.5 perches of the land.	An on-site investigation has been conducted and the report forwarded for further action.	The action should be taken in accordance with the Act.

### 3.5 Assets Management.

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) According to the Municipal Council Ordinance, Rs. 21,621,000 had been allocated for maternal and child protection in the year 2022, however the council had not fulfilled that task. Furthermore, the activities of 11 clinic centers including a clinic center within the Municipal Council premises were not functioning, and these clinic center buildings remained inactive.	The clinic is closed.	Arrangements should be made to utilize the assets of the council.
(b) The 132 lands owned by the Galle Municipal Council, only 24 lands were included in the land register. It was not possible to identify the physical location of the lands and it was revealed that 11 lands had been occupied illegally.	The physical location will be identified and the action will be taken for encroachment and the land will be surveyed and settled and fences will be installed.	Assets owned by the council should be identified and protected .
(c) 03 public service homes belonging to the Galle Municipal Council were not repaired and put into use.	Will be repaired in the future.	Arrangements should be made to utilize the assets owned by the council and generate income.

### 3.6 Delays in execution of project tasks and capital works

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
(a) The Galle Milidduwa Aththiligoda playground repair Construction Work, which agreements had been entered in the year 2021 at an estimated cost of Rs. 5,000,000, had been stopped midway without completing it. Although the relevant Construction work was to be completed on 06 March 2022, the neighboring beneficiaries had also lost the opportunity to get the relevant benefits due to not completing the Construction work on time.	The payments have not been made due to a problematic situation in the Construction work.	Projects should be implemented as per the agreement.

(b) The estimate of Rs.420,000 prepared in the year 2020 for the repair of the Dadella sewing center was revised to an estimate of Rs.1,732,000 due to the fact that the responsible party did not implement it and abandoned it. By not implementing it, the residents of Dadella did not receive the service, and the sewing center was destroying.	The repairs are being carried out.	Assets owned by the council should be managed.
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### 3.7 Deficiencies in contract administration

#### Audit Observation

According to the agreements made with the contractor, in relation to 05 construction work, the September 2022 price rates introduced by the Provincial Road Development Authority should be used, however because of not using those price rates, the over payment of Rs.1,152,153 had been made.

#### Comment of the Council

The comment was not been made.

#### Recommendation

The over payment should be recovered.

### 3.8 Human Resources Management

#### Audit Observation

(a) The loan balance amounting to Rs.3,139,430 receivable from 43 employees remained deficit and non-recoverable . The loan balance of 40 employees totaling Rs. 2,670,355 from that remained outstanding for more than one year.

(b) According to Section 183(1) of the Municipal Council Ordinance, Rs.14,500,306 collected for the Municipal Council employees who contributed before the year 1999 to the Employee Provident Fund established for the employees of the Council had

#### Comment of the Council

The action has been taken to recover the balances and that follow-up is being done.

The action will be taken to investigate and correct the matter in the future.

#### Recommendation

Arrangements should be made to recover outstanding loan balances.

The action should be taken to settle.

been invested in fixed deposits on 31 December 2022, and the action had not been taken to settle the above money.

### 3.9 Vehicle system management

Audit Observation	Comment of the Council	Recommendation
(a) The vehicle repair work unit was in disrepair and 26 vehicles remained without repair for a long time.	Due to non-availability of mechanical engineer and basic work inspector and installation of the work unit at another place.	The action should be made to utilize and protect the assets of the council.
(b) The action had not been taken in accordance with the Financial Regulation regarding 06 vehicles involved in accidents in the year 2020.	The insurance compensation has not been obtained in respect of 04 vehicles.	The action should be taken in accordance with the Financial Regulation.

## 4. Accountability and Good Governance

### Budgetary Control

Audit Observation	Comment of the Council	Recommendation
The council had estimated Rs. 199,872,000 for capital expenditure for the year under review for development projects, however the value used for development projects was Rs.16,690,974. Despite the financial provision of Rs.284,884,803 in fixed deposits owned by the council, the percentage of achieving the budgeted development goals was as low as 08 percent.	Due to the special focus on the renovation of the Town Hall, capital expenditures for other development projects were very little.	The action should be taken to achieve the budget targets.