

Galle Municipal Council - 2024

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 2024 comprising the Statement of financial position as at 31 December 2024, Statement of Financial Operations, Statement of Changes in net assets, Cash Flow Statement for the year then ended and notes to the financial statements including material accounting policy information was carried out 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 with subsection 10(1) 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 2024 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 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 Practices 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

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

- (a) The Financial Statements of the Municipal Council presented is consistent with the preceding year as per the requirement of section 6(1) (d) (iii) of the National Audit Act, No.19 of 2018.
- (b) The financial statements presented includes all the recommendations made by me in the previous year except the audit matters of 1.6.1 (e) described in paragraph 1.6 of this report as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No.19 of 2018.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Council	Recommendation
(a) As at 31 December of the year under review, the balance of rent received and rent arrears was understated by Rs.718,761.	Will be corrected in the financial statements for the year 2025.	Assets and liabilities should not be offset against each other, and future rents should be accounted for under previously received income.
(b) Pension contributions of Rs.110.64 million had not been accounted as at 31 December of the year under review.	That has not been accounted for to date due to insufficient documentary evidence.	Pension contributions should be accounted correctly after verifying the evidence.
(c) Creditor provisions had not been made for water bills of Rs.2.89 million payable as at the end of the year under review.	The amount will be credited only after confirming the accuracy of the amount.	The value of water bills payable must be accurately disclosed in the financial statements.
(d) As Rs.67.64 million had been made as creditors' provisions for 29 industries without submitting bills as at 31 December of the year under review, the expenditure and	Creditor provisions had been made in relation to projects that had not been completed and bills submitted by 31 December	The allocation of creditors should be made based on the certified value of the work.

	creditors of the previous year had been overstated by that amount.	2024 and were in progress.	
(e)	18 vehicles belonging to the council with a total cost of Rs.4.58 million and 19 vehicles whose cost could not be identified, which had been pointed out in the audit of the financial statements of the previous year, had been auctioned and removed, but since their value had not been removed from the fixed asset accounts, the fixed asset value had been overstated.	Will be corrected in the future.	The values related to auctioned vehicles should be removed from fixed asset accounts.
(f)	As at 31 December of the year under review, the value of fixed deposits held by the Council was understated by Rs.702,934 as per bank confirmation letters.	Will be corrected in the future.	The correct investment value at the end of the year should be shown in the financial statements.
(g)	The interest income receivable as at the end of the year under review and the interest income for the year had been overstated by Rs.10.08 million.	Will be corrected in the financial statements for the year 2025.	The interest income and interest income receivable account balances should be adjusted.
(h)	Due to the overstatement of the value of laptop computers purchased during the year under review by Rs.168,000, the value of fixed assets was overstated by that amount.	Will be corrected in the future.	The value of fixed assets should be corrected.
(i)	As at 31 December of the year under review, the revenue receivable balance was understated by Rs.247,561 and the advance payments balance was overstated by Rs.247,561.	Will be corrected in the future.	Revenue receivables and advance payment balances should be corrected.

1.6.2 Unreconciled control accounts

Audit Observation	Comment of the Council	Recommendation
There was a difference of Rs.151.73 million between the balances related to 11 accounting items shown in the financial statements and the balances shown in the related utility schedules and conformations.	In accordance with the 2024 Board of Survey recommendation, the Council's decisions state that the records will be maintained based on the physical stock value identified in the stock verification carried out as at 31 December 2024, and that other discrepancies will be corrected in the future.	The reasons for the differences in balances should be identified and corrected.

1.6.3 Suspense Accounts

Audit Observation	Comment of the Council	Recommendation
The balance of the suspense account of Rs.111,553, which had been in existence since 2004, had not been cleared by the end of the year under review.	Since the council does not have information regarding this balance, it has been referred to the Department of Local Government (S.P.) for the approval of the Hon. Governor to write it off from the accounts.	The reasons for the imbalance should be identified and corrected promptly.

1.6.4 Documentary Evidences not made available for Audit

Audit Observation	Comment of the Council	Recommendation
It was not possible to satisfactorily examine 07 account balances with a total value of Rs.384.3 million stated in the financial statements as the relevant schedules, balance confirmation letters and physical stock verification reports were not submitted for audit.	Will be corrected in the future.	Relevant written evidence should be submitted to the audit to verify account balances.

1.7 Non-compliances

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

Non-compliance with laws, rules, regulations and management decisions are shown below.

	Reference to Laws, Rules, Regulation	Non – Compliance	Comment of the Council	Recommendation
(a)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka 104	Reports had not been submitted in accordance with Financial Regulation 104 regarding accidents that occurred to 06 vehicles owned by the Council between the years 2020 and 2024.	Since the committee reports have not been submitted, reminder letters have been sent to the committees and instructions have been given to the officers to take further action.	Financial regulations should be followed.
(b)	Paragraph 05 of the Circular No. දළපා/පපා කො /2010/01 dated 27 December 2010 of the Commission er of Local Governmen t, Southern Province	Although every agreement relating to the lease of shop premises should be updated every 3 years, the agreements relating to 29 shop premises owned by the council had not been updated.	The agreements are being updated.	Action should be taken in accordance with the circular.

2. Financial 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 2024 amounted to Rs.20.23 million as compared with the excess of revenue over recurrent expenditure amounting to Rs.111.86 million in the preceding year.

2.2 Financial Control

Audit Observation

Although there was a balance of Rs.18 million in the Fixed Deposit Account maintained by the Municipal Council as at 31 December of the year under review in order to act in accordance with the Planning Circular No. 15 of the Chairman of the Urban Development Authority dated 13 November 1993, the Council had not submitted a formal plan for the use of that money in accordance with the circular instructions.

Comment of the Council

Action are being taken to obtain the relevant approvals to make financial provisions.

Recommendation

The council should take action to present a formal plan for the use of funds.

2.3 Revenue Administration

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

According to the information submitted to the audit by the Municipal Commissioner of the Municipal Council, the estimated income, billed income, collected income and arrears of income for the year under review and the previous year are shown below.

Source of Revenue	2024				2023			
	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December	Estimated Revenue	Revenue billed	Revenue Collected	Arrears as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rates and Tax	127,500,000	113,603,805	124,153,951	210,119,927	172,500,000	108,277,586	118,312,162	220,670,073
Rent	114,204,000	136,410,070	107,894,265	99,779,748	136,001,000	117,417,075	88,117,584	71,263,943
License Fees	28,029,000	42,271,891	44,098,147	7,670,591	28,529,000	29,916,328	28,090,072	9,496,847
Other Income	74,514,000	145,365,210	146,062,396	743,282	87,275,000	121,817,764	125,705,498	1,440,468
	<u>344,247,000</u>	<u>437,650,976</u>	<u>422,208,759</u>	<u>318,313,548</u>	<u>424,305,000</u>	<u>377,428,753</u>	<u>360,225,316</u>	<u>302,871,331</u>

2.3.2 Performance in Revenue Collection

Observations related to performance in revenue collection of the Council are given below.

(a) Rates and Taxes

Audit Observation	Comment of the Council	Recommendation
(i) The total rates and tax arrears as at 01 January of the year under review were Rs.220.67 million, and the total revenue to be collected during the year, including Rs.113.6 million of billings for the year, was Rs.334.27 million, the revenue collected was Rs.124.15 million, indicating a low revenue collection rate of 37 percent, and a balance of Rs.210.12 million remained to be collected at the end of the year. Since tax had not been collected from 22,352 assessment units during the year under review, the relevant arrears were Rs.151.54 million.	The revenue collection rate is 38.52 percent.	A program with a specific time frame for collecting arrears of revenue should be prepared and arrears of revenue should be collected promptly accordingly.
(ii) Of the outstanding assessment tax balance of Rs.180.63 million as at 31 December 2024, Rs.126.03 million had been outstanding for more than 5 years and Rs.21.79 million for a period of between 3 and 5 years, but action had not been taken to recover those outstanding balances in accordance with Section 252(1) of the Municipal Councils Ordinance.	Preliminary action has been taken to obtain lists of properties with zero billings and have them inspected by revenue inspectors.	A program with a specific time frame for collecting arrears of revenue should be prepared and arrears of revenue should be collected promptly accordingly.
(iii) Although the assessment of assessable property is required to be carried out every 5 years in accordance with Section 20 of the Taxation and Valuation Ordinance No. 30 of 1946, the assessment tax was levied based on the assessment carried out in the year 2015.	Further action will be carried out according to the valuation report provided by the Valuation Department.	An assessment should be obtained and action should be taken to collect the assessment in accordance with the Act.
(b) Rent		
(i) Although the lease agreements of 21 plots of land in the Oropuwatta Central Market, which had been granted to 15 lessees for a	It is stated that since objections to the new	Action should be taken to renew lease agreements

	period of thirty years, had expired by a period of between 05 months and 3 years, the Council had not taken action to renew those lease agreements. According to the new valuation amount, only Rs.1.14 million had been collected as deposits out of the Rs.19.91 million due from these lessees up to 31 December 2024.	assessment have been forwarded to the Honorable Governor, agreement has not been reached so far and letters have been sent to levy taxes according to the assessment reports.	and collect taxes according to the new assessment as per the circular instructions.
(ii)	According to the 2013 valuation report for the Galle International Cricket Stadium, the annual rental of Rs.1.6 million is valid for only 5 years, but without taking action to renew the valuation, taxes continued to be levied on that valuation value until the year under review.	It is expected that after discussing with the relevant institutions and resolving the relevant issues, an assessment report will be obtained promptly and further action will be taken.	A new assessment should be made and action should be taken to recover the revenue accordingly.
(iii)	The arrears of rent income, which stood at Rs.71.26 million as at 01 January of the year under review, had increased to Rs.99.78 million by the end of the year under review.	Action will be taken in the future to recover the outstanding balance.	The arrears of revenue should be recovered in accordance with the provisions of the Municipal Council Ordinance.
(iv)	The outstanding shop rent balance at the end of the year under review was Rs.23.24 million, of which Rs.20 million relating to 266 shop rooms had not been collected for more than 05 years, but in accordance with Section 253(1) of the Municipal Council Ordinance, the outstanding balance had not been collected.	Action will be taken in the future to recover the outstanding balance.	The arrears of revenue should be recovered in accordance with the provisions of the Municipal Council Ordinance.
(v)	Although the 06 paragraph of the Circular No. 2010/01 dated 27 December 2010 of the Southern Province, Local Government Commissioner, stipulates that the shop rent should be reassessed every 05 years, instead	A letter has been submitted to the Local Government Commissioner on the advice of the	Action should be taken to prepare agreements as per the circular instructions and

	of complying with it, the annual rent of 24 shops at the Galle Central Bus Stand was increased by 10 percent every three years, and the council had lost its due income due to the fact that the annual rent was contracted on the basis of taxation, while leasing out 24 shops at the Galle Central Bus Stand in the year 2013.	Legal Officer regarding whether the agreement should be amended to charge a maximum of 10 percent rent for 3 out of 3 years.	appropriate action should be taken against officers who have not complied with them.
(vi)	The lessee of shop number 31 in the Main Street Shopping Complex had abandoned the shop without terminating the agreement, and since the council had not taken action to re-tender and lease this shop, which had an estimated value of Rs.20,000, the council had lost an income of Rs.0.72 million from the year 2022 to 31 December 2024.	The amount paid by the lessee has been included in the council's income as per the decision of the Finance Committee.	The abandoned shop should be put out to tender and leased.
(vii)	The council had not paid attention to renovating 06 stalls in the Oropuwatta Central Market, which had been closed since 2017 and were in need of repair, and generating income.	Action will be taken to repair and tender.	Action should be taken to repair, tender and recover the rent for the shop rooms.
(viii)	Although Rs.378,244 had been billed as annual tax in 2024 in respect of only 41 of the 236 stalls in the urban market belonging to the Galle Municipal Council, only Rs.93,309 had been collected. While tax had not been levied in respect of the remaining 195 stalls, the rent had been levied at an annual rate of 10 percent, without levying any tax on the assessed value of these stalls.	Approval has been received to renovate the building and re-tender.	The building should be renovated, tendered and tax should be levied on the assessed value of the shops.
(c) License Fees			
(i)	Although the total revenue due for the year, including outstanding license fee revenue, was Rs.51.77 million as at 01 January of the year under review, the revenue collected was Rs.44.1 million, leaving an outstanding balance of Rs.7.67 million to be collected at the end of the year under review.	The deficit balance at the end of the year will not be carried forward.	A program with a specific time frame should be prepared and the outstanding revenue should be recovered promptly accordingly.

(ii)	A billboard survey had not been conducted for the year under review and Rs. 14.55 million had been billed for the year in respect of 476 billboards. Out of this, Rs. 8.93 million in respect of 283 billboards was still to be collected.	Action will be taken to recover it in the future.	An annual survey should be conducted regarding billboards and revenue should be collected without delay.
(iii)	Out of the 3258 institutions that were required to collect business taxes, industrial taxes, trade licenses and 1 percent license fees for the year under review, only 2645 institutions had collected Rs.22.57 million, while action had not been taken to collect fees from the remaining 613 institutions.	Action will be taken to recover it in the future.	A program with a specific time frame should be prepared and the outstanding income should be recovered promptly.
(iv)	541 institutions related to 39 industries that were required to obtain environmental protection permits had lost Rs. 2.87 million in permit fees, Rs.5.74 million in inspection fees and Rs. 319,190 in application fees to the council due to not obtaining environmental protection permits, and the council had not paid attention to the damage caused to the environment by these industries.	Action will be taken in accordance with the gazette notification issued by the Central Environmental Authority.	Action should be taken in accordance with the gazette notification issued by the Central Environmental Authority.
(d) Other Revenue			
As at 31 December of the year under review, Rs.225.42 million in stamp duty and Rs.29.61 million in court fines were due from the Chief Secretary of the Provincial Council and other authorities.		Action will be taken to recover the outstanding balance.	A formal program should be developed and implemented to recover arrears of income.

3. Operational Review

3.1 Performing the functions assigned by the Act

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 Councils Ordinance are shown below.

(a) Solid Waste Management

	Audit Observation	Comment of the Council	Recommendation
(i)	Although the operational activities of the Kawashima Compost Project, which was constructed on a large scale at a cost of Rs.244.19 million, had commenced in 2023, waste management had not been carried out properly by the end of the year under review and compost production had not commenced.	There is no space or facilities required to carry out the relevant process.	The reasons for not implementing the project as expected should be identified and a plan should be prepared to implement the project effectively.
(ii)	By the end of the year under review, the environmental permit for the waste management project had not been obtained from the Central Environmental Authority and the process of transferring the ownership of the land that has been used for waste disposal since 2008 to the council had not been completed.	Action will be taken to obtain the environmental permit and that the necessary action are being taken to acquire the land.	Action should be taken to obtain the environmental permit and acquire ownership of the land as soon as possible.
(iii)	Although the council had incurred an expenditure of Rs.44,492 in relation to obtaining advice to establish a wastewater treatment system to prevent damage caused by the effluent generated by garbage flowing into the surrounding lands and the nearby reservoir, the said treatment system had not been established by the end of the year 2024.	Since there is a legal case under public pressure, the relevant further action will be taken after it is concluded.	Action should be taken to establish the wastewater treatment system within a specific time frame, as soon as possible.
(b)	Out of 25,149 houses in 43 Grama Seva Divisions within the jurisdiction of the Galle Municipal Council, there were 16,660 houses that were not subject to mosquito control inspections by the council during the year under review. Although 661 mosquito breeding sites had been identified and red notices had been issued to them, no follow-up had been carried out to verify whether the sites had been re-inspected and removed from the risk of dengue transmission.	A field inspection is being conducted.	A field inspection should be conducted and the officers responsible for this should be held specifically accountable.
(c)	The Waste Management Center (Kowam Center), which was built at a cost of Rs.4.83	Planned to put it into operational	The Waste Management Center

million and handed over to the Municipal Council in 2007, was not operational and 02 tractors and a trailer worth Rs.2.02 million remained idle.

status and should be made implement operational activities.

3.2 Operational Inefficiencies

Audit Observation	Comment of the Council	Recommendation
(a) During the implementation of the school book and equipment distribution program for children from low-income families in the year 2023, due to purchases being made without properly forecasting the need for school equipment, 15,302 units of 10 school books and equipment items worth Rs.3.15 million were left over. Out of this, 08 units of school books and equipment items worth Rs.143,170 were damaged.	There is a number of books remaining due to variations in the expected numbers during the monitoring and distribution of qualifications.	Action should be taken to identify the officials responsible for not recognizing the need and making purchases and recover the losses.
(b) From the year 2023 to the audit date of 18 February 2025, there was a shortage of 985 units of 6 items worth Rs.167,328 based on the quantities issued from the stores for the distribution of school books and equipment.	Action are being taken to properly update stores records.	The causes of the shortage should be identified and appropriate action should be taken to recover from the responsible parties.

3.3 Assets Management

Audit Observation	Comment of the Council	Recommendation
(a) Action had not been taken to recover from the members 09 laptops worth Rs.773,100, nine tabs valued at Rs.395,991, twenty-eight phones worth Rs.1.2 million, 10 pen drives of unknown value and 11 Municipal Council Ordinances that had been purchased and distributed to the members using the council funds.	The Governor's approval has been received to depreciate mobile phones and Members have been informed by letter to re-charge the capacity value.	Recovery should be done promptly.
(b) The Bobcat machine worth Rs.3.25 million, the stone grinding machine worth Rs.3.05 million, the block stone and interlock stone production machine worth Rs.88,000 owned by the council had become inoperative	Arrangements have been made to repair the Bobcat machine and the stone crusher.	These machines should be repaired and put into use immediately.

between the year 2015 and August of the year under review, but action had not been taken to repair them.

3.4 Defects in Contract Administration

Audit Observation	Comment of the Council	Recommendation
Although the contract for the modernization of the Engineering Department of the Galle Municipal Council worth Rs.16.2 million was entered into with the contractor who was awarded the contract, the work had not been completed on the due date. The validity period of the insurance cover related to the contract had expired on 11 February 2025 and the validity period of the advance security had expired on 11 March 2025, but the period had been extended until 05 April 2025 and action had not been taken to charge late fees. Also, the first bill submitted by the contractor had included uncompleted work items of Rs.2.67 million.	Arrangements have been made to pay only for the amount of work completed.	Late fees should be charged and payments for work not completed should be deducted from the responsible officers or from future bills. Insurance coverage and performance guarantee periods should be extended.

4. Accountability and Good Governance

4.1 Sustainable Development Goals

Audit Observation	Comment of the Council	Recommendation
Although the Municipal Council should identify sustainable development goals and targets according to its scope in accordance with the 2030 Agenda for Sustainable Development, such goals and targets had not been identified by the Municipal Council.	Action will be taken to corrected it in the future.	Sustainable development goals should be identified.