

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Galle Municipal Council including the financial statements for the year ended 31 December 2023 comprising the Statement of financial position as at 31 December 2023, Statement of Financial Operations, Statement of Changes in 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 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, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Galle Municipal Council as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Practices.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 qualified 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 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
(a) Issued warehouse stock amounting to Rs.3,947,236, remaining diesel stock amounting to Rs.3,473,201 and pension contribution amounting to Rs.110,300,273 had not been accounted.	A committee has been appointed to identify the rectification in the future and the manner in which the pension contribution has been adjusted.	Should be accounted correctly.
(b) Revenue receivables of Rs.6,270,246, industry receivables of Rs.11,663,725 and unpaid leave receivables of Rs.642,747 had not been accounted.	In receiving income as court fines, it cannot be identified because it is not classified and the others will be corrected in the future.	- do -
(c) The value of the software was Rs.455,000 and the value of the Kavishima compost machine that was given to the council at a cost of	The value of the software will be properly accounted for in the future and that there is no	- do -

	Rs.220,000,000 had not been identified and accounted.	evidence in the company that the cost of the Kawashima machine has been documented.	
(d)	Rs.1,971,918 to be paid for garbage collection, Rs.356,401 of garbage tax revenue to be received and Rs.34,826 of fine fees to be received had been understated.	Will be corrected in the future.	- do -
(e)	Rs.3,027,305 payable for 14 construction industries and Rs.182,057 interest income for fixed deposits were overstated.	- do -	- do -
(f)	Taxes and fines in the reviewed year amount to Rs.10,103,230 overstated, stamp duties and court fines for the year 2021 and 2022 were Rs.214,662 and for the reviewed year stamp duties and court fines were Rs.24,748,816 and interest is Rs.108,819 had been understated.	The observation is accepted and that it will be corrected in the future.	Should be accounted correctly.
(g)	At the beginning of the reviewed year, due to debiting the stock of drugs worth Rs.169,078 owned by the council to the accumulated fund, the expense and the accumulated fund were less accounted for by that amount.	Acceptance of the audit observation	- do -
(h)	The value of goods in the form of inventory was Rs.319,899 was accounted under fixed assets, and the auctioned equipment value at Rs.863,358 had not been identified and removed from fixed assets.	Inventory stocks and equipment are removed and asset records are prepared.	- do -
(i)	Rs.3,666,392 less payables for recurrent expenditure had been made provision for creditors.	Will be rectified in future	- do -
(j)	Arrears of assessment levied for the previous year amounting to Rs.505,604 had been accounted as income for the year under review.	Information cannot be accounted for in previous years.	- do -

(k) Accounting of arrears income in 2021 as income in 2022 had not been rectified in the year under review, therefore, as Rs.1,826,256 were debited to the license fee control account and credited to the accumulated fund, those accounts were shown to be more than the same value.	Will be rectified in future	- do -
(l) As the industrial tax receivable of Rs.374,250 shown in the last year's financial statements was not corrected without approval, the industrial tax receivable had been accounted for less than that amount.	Billing occurs at the time of fine receipt.	- do -
(m) The amount of Rs.3,638,999 due from the loan obtained from the Local Credit and Development Fund had not been accounted.	The Council had not been approved the payment of the loan.	- do -
(n) Last year, 18 vehicles with a total cost of Rs.4,584,070 belonging to the council were removed, but they were not removed from the fixed assets accounts.	These vehicles will be removed and documents prepared.	Should be accounted correctly.
(o) There was a difference of Rs.2,753,908 between the balance of the house rent cash account and the house rent deposit account which were supposed to be the same in the financial statements.	Action will be taken to adjusted by the final account in 2024	Should be accounted correctly.

1.6.2 Non-reconciled Account or Records

Audit Observation

Comment of the Council

Recommendation

There was a difference of Rs.49,798,380 between the balances related to 24 accounting items shown in the financial statements and the balances shown in the related schedules.

Action will be taken to correct in the future

Should be reconciled and correct the accounts.

1.6.3 Suspense Accounts

Audit Observation	Comment of the Council	Recommendation
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 approval for cut-off has been referred.	Arrangements should be made to correct the suspense account balance.

1.6.4 Lack of Documentary evidence for Audit

Subject	Comment of the Council	Recommendation
Due to non-submission of the necessary detailed schedules for confirmation of 11 accounting items aggregating to Rs.542,948,960 could not be examine satisfactorily in audit.	Action will be taken to correct in the future	Evidence for the confirmation of the account balances should be submitted.

1.7 Non-compliances

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

Reference to Laws, Rules, Regulation	Non – Compliance	Comment of the Council	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.			
(i) 104 Financial Regulations	Action had not taken against those responsible for 06 vehicle accidents.	Arrangements have been made to perform preliminary inquiries.	Action should be taken according with regulations.
(ii) 316 Financial Regulations	13243 counterfoil owned by the council were stored in the stores without security.	Arrangements have been made	-do-

			to maintain it properly.	
(b)	Southern Province Chief Secretary's Circular No. SS/03/12/05 dated 22 May 2018	In the year under review, arrangements were not made to dispose of 05 vehicles and machinery whose value was not mentioned.	Dispose activities are to be carried out in the future.	The disposal should be done as per the circular.
(c)	Vehicle Management Circular No. 0312018 dated 10 October 2018.	Action had not taken to cancel the registration of 08 misused vehicles belonging to the council.	The necessary documents have been handed over to the Motor Transport Department.	Action should be taken according with circular.

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 2023 amounted to Rs.111,864,059 as compared with excess of revenue over recurrent expenditure amounted to Rs.66,596,685 in the preceding year.

2.2 Financial Control

Audit Observation	Comment of the Council	Recommendation
(a) 13 cheques value Rs.192,088 were dishonored, but the council had not taken any action regarding the recovery of those cheques, even though a period of 7 to 26 years had passed.	Further action will be done on a committee decision.	Arrangements should be made for immediate settlement.
(b) Although there was a balance of Rs.18,000,000 in the fixed deposit account opened in accordance with Planning Circular No. 15 of the Chairman of the Urban Development Authority dated 13 November 1993, the council had not presented a formal program to utilize that money.	The plan is expected to be forwarded for approval.	Action should be done according to the Planning circulars.

2.3 Revenue Administration

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

Source of Revenue	2023				2022			
	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 Taxes	172,500,000	108,277,586	118,312,162	220,670,073	112,500,000	113,645,131	88,558,593	230,704,649
Rent	136,001,000	117,417,075	88,117,584	71,263,943	117,882,000	58,438,908	61,184,509	41,964,452
License Fees	28,529,000	29,916,328	28,090,072	9,496,847	33,958,000	26,842,014	24,761,694	7,670,591
Other revenue	87,275,000	121,817,764	125,705,498	1,440,468	56,596,000	131,758,201	129,375,318	5,328,202
	<u>424,305,000</u>	<u>377,428,753</u>	<u>360,225,316</u>	<u>302,871,331</u>	<u>320,936,000</u>	<u>330,684,254</u>	<u>303,885,114</u>	<u>285,667,894</u>

2.3.2 Performance in Revenue Collection

Audit Observation	Comment of the Council	Recommendation
(a) At the beginning of the year, the total outstanding income was Rs.285,667,894, and at the end of the year, there was an outstanding balance of Rs.302,871,331.	Proceedings to recover arrears of income.	Arrears should be collected promptly.
(b) Arrears of Rs.196,088,134 were to be collected from 26,653 assessment units, out of which red notices were issued for only 7,273 units with an amount of Rs.154,041,757. In the outstanding assessment tax balance, a balance of Rs.133,745,845 from 13552 units for more than 05 years and a balance of Rs.44,253,279 from 6812 units remained outstanding for a period of 02 to 05 years. Action had not taken in terms of section 252(1) of the Municipal Ordinance to collect the arrears.	Red notices have been issued for arrears of assessment tax balances above Rs.5,000 and that the property freeze program is also being organized to deal with property arrears above Rs.25,000.	-do-
(c) Although the assessment has to be updated once in 05 years, the Galle International Cricket Stadium had	An assessment report be obtained promptly after determining the area.	Arrangements should be made to collect the due income.

collected revenue in the year under review based on the assessment of 2013.

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| (d) | The land with the building leased to DSI was assessed at an annual rent of Rs.6,100,000 in the year 2022, but a monthly rent of Rs.150 was charged in the year 2023. | After receiving the Governor's approval, taxes will be levied from the year 2022 according to the new assessment. | Renewal of agreement should be expedited. |
| (e) | There was an outstanding balance of Rs.800,610 in relation to 10 houses in Siyambalagahawatta, and no tax had been paid to the council by the concerned party for a period between 07 and 17 years. | Letters have been forwarded to the Revenue Inspector for recovery of arrears. | Arrangements should be made to recover the arrears of income as soon as possible. |
| (f) | Restaurant A in Dharmapala Park had been decided to be leased for two years at a monthly rent of Rs.200,000 in the year 2022, but the council had lost an income of Rs.4,800,000 as it was not tendered until the assessment value was cancelled. | The quotation has been delayed due to non-receipt of valuation report. | Action should be taken to recover income from assets owned by the council. |
| (g) | Although 30 shops in the new urban fish market were assessed and reported to the council, the council had lost an income of Rs.7,004,400 as the leasing arrangements had not been carried out. | The tender will be held in the future. | Action should be taken to generate income quickly from the assets owned by the council. |
| (h) | As at end of the year under review, the arrear rent balance was Rs.26,437,920, out of which a balance of Rs.18,423,763 from 242 shops remained uncollected for more than 05 years. The Council had not proceeded to recover these arrears in terms of Section 253(1) of the Municipal Council Ordinance. | That the 9th Schedule has been issued in respect of non-payment of dues. | Arrangements should be made to recover the arrears of income as soon as possible. |
| (i) | A fee of Rs.13,904,589 was not charged for 401 permanent hoardings displayed in the council area. | Proceedings are underway for unpaid hoardings . | Actions should be taken to recover the arrears of hoardings revenue. |
| (j) | Rs.163,855,041 should have been received from the Chief Secretary of the Provincial Council and other authorities for stamp duty. | An amount of Rs.139,128,124 is principal, and an amount of Rs.24,726,920 is due to excess allocations. | Arrangements should be made to recover the arrears of income promptly. |

3. Operational Review

3.1 Solid Waste Management

Audit Observation	Comment of the Council	Recommendation
The council had not taken action to solve 07 problems in the compost fertilizer production project which was started in the year 2023 and the cost was Rs.220 million, however the amount of fertilizer produced from 6000 Metric Tons of garbage was as low as 05 Metric Tons. The environmental license from the Central Environment Authority was not taken for that project.	There is a situation where it is impossible to get the environmental permit due to the existing deficiencies in the project.	Actions should be taken to get the desired benefits.

3.2 Management Inefficiencies

Audit Observation	Comment of the Council	Recommendation
(a) In relation to 09 unauthorized constructions built within the jurisdiction of the Municipal Council, charges of Rs. 4,562,500 had not been taken to give cover approval.	The illegal constructions were notified to be legalized.	Action should be taken according to the gazette.
(b) 11 laptops value Rs.994,900 and 09 tabs value Rs.395,991 were given to the members in 2012, but they were not returned.	A letter has been submitted to the Commissioner of Local Government.	Assets owned by the council should be managed.
(c) Since the year 2012, a tax income of Rs.759,190 due to the council from the Urban Development Authority has remained uncollected for 11 years.	The Sabha has been informed that payment will be made promptly.	Arrangements should be made to recover the income of the council.
(d) The council had not collected Rs.1,786,500 as license fees and Rs.1,191,000 as inspection fees from the organizations that should obtain environmental protection licenses.	A field test will be done in the future.	Environmental permits should be issued as per circulars.

3.3 Operating Inefficiencies

Audit Observation	Comment of the Council	Recommendation
(a) Garbage fees amounting to Rs.11,636,250 were collected from only 236 institutions that pay taxes and license fees in the area, but the attention of the council was not focused on the other 2931 institutions.	Plans are made to carry out the necessary activities.	Action should be done to collect income.
(b) As space was not reserved for 47 parking spaces in 04 buildings at the time of construction, Rs.23,500,000 should have been charged under Paragraph A 4.1 of the Ministry of Urban Development and Housing Gazette, but it was not done.	No follow-up or regular monitoring.	Should be proceed according to the gazette.

3.4 Disputed transactions

Audit Observation	Comment of the Council	Recommendation
In contravention of the provisions of Section 188(1) of the Municipal Council Ordinance (242 Authority), In order to collect Rs.38,448,462 stamp duty due to the Council from the land registration offices for the years 2021 and 2022, Rs.1,153,452 had been paid as incentives in the year 2023.	This incentive payment has been made under the legal provisions, so it cannot be treated as a loss to the council fund.	That the payment of allowances for stamp duty and loss to the fund in terms of the Municipal Ordinance Act.

3.5 Assets Management

Audit Observation	Comment of the Council	Recommendation
(a) As 19 vehicles have not been repaired for a period between 06 months and 10 years, the vehicles owned by the council remained idle.	Action will be taken to repaired.	The assets owned by the council should be properly maintained.
(b) The value of 108 vehicles owned by the council could not be determined, and 08 trailers had been destroyed	Action will be taken to Valuation of vehicles.	Value should be identified and exploited in according to the circular .

beyond recognition, but they had not been disposed.

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| (c) | 23 plots of land were being used by private parties without the approval of the council. | The necessary action have been taken to recover those land plots. | The property owned by the council should be protected. |
| (d) | In relation to 84 lands owned by the council, no arrangements were made to prepare plans and obtain title deeds in relation to 99 lands. | Will be done in the future. | All property belonging to the council should be retained by the council. |

3.6 Deficiencies in contract administration

Audit Observation	Comment of the Council	Recommendation
(a) In the construction industry of the proposed modern toilet system at the Galle Samanala Stadium, the Municipality Council fund had lost Rs.1,235,760 which could have been reimbursed by the Ministry due to the failure to properly prepare the total cost estimate.	Answers will not have been provided.	Total cost estimates should be prepared accordingly.
(b) In the industry of developing the Heen Canal Kekunagewatta Road using tar, Rs.97,862 was overpaid due to not calculating the quantities constructed properly.	Answers will not have been provided..	Additional payments should be charged.
(c) In the renovation industry of chamber No. 03 of Dadalla crematorium, an advance of Rs.1,200,000 was paid to the contractor when the construction work was not completed as scheduled.	Will not clearly stated in the work description.	Estimates should be made accurately.

3.7 Human Resources Management

Audit Observation	Comment of the Council	Recommendation
(a) By the end of the year under review, the balance of employee debt owed by the council was Rs.81,332,218, out of which the amount due from 39 employees who transferred,	Further action is being done in connection with the recovery of the loan balance.	Arrangements should be made to recover outstanding loan balances.

retired, suspended, died, went abroad and other employees, was Rs.3,296,775. The loan balance remained uncharged and outstanding.

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| <p>(b) According to section 183(1) of the Municipal Council Ordinance, the amount collected on behalf of the municipal employees who contributed before the year 1999 for the employees' provident fund established for the employees of the council, as at 31 December 2023, the amount was Rs.16,773,004, was deposited in fixed deposits without payment to the employees had invested.</p> | <p>The facts will be investigated and corrected in the future.</p> | <p>Arrangements should be made to settle.</p> |
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4. Accountability and Good Governance

4.1 Sustainable Development Goals

Audit Observation

As a member country of the United Nations, Sri Lanka has signed up to the 2030 Agenda for Sustainable Development. It contains 17 objectives, 169 targets and 244 indicators. In reaching those goals, the Galle Municipal Council had not identified sustainable development goals in its scope in accordance with the 2030 Agenda.

Comment of the Council

Action will be taken to correct

Recommendation

Sustainable development goals should be identified and achieved.