

## **Galle Municipal Council – 2020**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Galle Municipal Council including the financial statements for the year ended 31 December 2020 comprising the Statement of financial position as at 31 December 2020, 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 Council Ordinance (chapter 252) and the provision of the National Audit Act No 19 of 2018 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 2020, and of its financial performance for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Basis for Qualified Opinion**

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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**

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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)**

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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 skepticism 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

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

- 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.
- 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

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### 1.6.1 Accounting Deficiencies

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Audit Observation -----	Comment of the Council -----	Recommendation -----
(i) There was a difference of Rs.132,637,838 in the Cumulative Fund Surplus and deficit Account as at 31 December of the year under review.	Inform you that credit entry had been omitted while entering the Cumulative Fund Account in the General Ledger.	Should be correctly accounted
(ii) Although the opening balance of the Expenditure Credit Account was Rs.111,205,034, according to the ledger, the balance was Rs. 214,461,045 and there was a difference of Rs.103,256,011.	The entry had been recorded in the General ledger by mistake.	
(iii) Although the business tax balance due at the end of the year under review is Rs. 5,507,721, It had been accounted as Rs. 3,990,786 in the financial statement, while the current assets were understated by Rs. 1,516,935.	Action will be taken to correct in future.	

(iv) Three journal entries valued at Rs.5,797,368 had not been recorded in the entertainment tax control account.	The omission had been done by entering to the General journal.	} Should be correctly accounted
(v) Rs. 597,688 had been overstated in the credit balance at the end of the year under review.	It had been happen by mistake.	
(vi) The contract value was stated as the creditors instead of the completed value. As a result, the value of the loan had increased by Rs. 818,757.	Inform that the contract value is being used to make the credit provisions.	
(vii) Credit provision had not been made for the payable amounting to Rs.1,861,565 as at 31 December 2020 for handing over the garbage to the Monrovia Estate Solid Waste Management Centre.	Accepted.	

### 1.6.2 Non-reconciled Account or Records

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#### Audit Observation

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There was a difference sum of Rs.4,349,097 in between the balance value of 10 accounting items in the financial statements and balance value in relevant utility registers and sub registers.

#### Comment of the Council

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Action will be taken to correct in future.

#### Recommendation

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Action should be taken to correct the accounts by comparing the changes in the relevant balances.

### 1.6.3 Suspense Accounts

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#### Audit Observation

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The balance of the suspense account amounting to Rs.111,553 had not been settled since 2003.

#### Comment of the Council

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The requests have been made to the Governor to write off the balance of the suspense account.

#### Recommendation

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The balance of the suspense account should be reconciled.

#### 1.6.4 Lack of Documentary evidence for Audit

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
The information required for the audit had not been submitted in respect of 09 accounting items amounting to Rs.992,054,236.	Inform you that proper documents and schedules will be maintained in the future.	Registers and sub registers should be prepared in an updated and regular manner.

## 2. Financial Review

### 2.1 Financial Result

According to the Financial Statements presented, revenue over recurrent expenditure of the Council for the year ended 31 December 2020 amounted to Rs. 154,028,966 as compared with against the revenue over recurrent expenditure amounted to Rs. 141,182,555 in the preceding year.

### 2.2 Revenue Administration

#### 2.2.1 Performance of revenue Collection

<b>Audit Observation</b>	<b>Comment of the Council</b>	<b>Recommendation</b>
<b>(a) Rates and Tax</b>		
The action had not been taken to recover the arrears of Rs. 157,331,275 as at the end of the year under review.	Inform you that the arrears have increased due to the slowdown in the payment of assessment taxes due to the economic hardships faced by the urban population in the face of the Corona situation in the country.	Action should be taken to recover the arrears of Income.
<b>(b) Rent</b>		
The action had not been taken to recover the rent arrears of Rs. 34,382,950 by the end of the year.	Action will be taken to recover the rent arrears in the future.	
<b>(c) License Fees</b>		
The action had not been taken to recover the outstanding license fee of Rs. 10,538,831 at the end of the year under review..	The action will be taken to correct in future.	Action should be taken to recover the arrears of Inco

### 3. Operational Performance

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#### Performance

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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 Operational in Efficiencies

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##### Audit Observation

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##### Comment of the Council

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##### Recommendation

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(a) The total approved charged for approval of building plans was Rs.11,647,334 and It was deposited in a savings account without being used for any development activity.

The action will be taken to finance the work on the Hiyare land belonging to the Galle Municipal Council.

Funds should be used efficiently.

(b) During the year under review, a sum of Rs. 5,622,000 had to be paid to the Local Government Department for the handing over of garbage to the Monrovia Estate Solid Waste Management Center. however the council has not been able to implement a long-term waste management plan.

Inform you that the Kawshima Compost Project is in its final stages and a long term solution will be found once it is launched.

A long-term waste management plan should be implemented.