

Dambulla Municipality Council
Mathale District

1 Financial Statements

1.1 Presentation of Financial Statements

Financial Statements for the year 2017, had been presented to audit on 05 April 2018 and the Auditor General's Report on the financial statement had been sent to the Chairman on 26 June 2018.

1.2 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.3 of this report, the financial statements gave a true and fair view of the financial position of Dambulla Municipality Council as at 31 December 2017 and its financial performance for the year then ended in accordance with generally accepted accounting principles.

1.3 Comments on Financial Statements

1.3.1 Accounting Principles

Although it had been disclosed that the current assets had been taken in to accounts at the cost of assets, motor vehicles and cart had been taken in to accounts on the estimated value.

1.3.2 Accounting Deficiencies

The following matters were observed .

- a) According to the registers even though the revenue of court fines for the year 2017 was Rs.3,255,178 , it had been taken in to accounts as Rs.3,475,861 thus the revenue for the year under review had been overstated by Rs.220,683.
- b) Creditors relating to the project for creating a computer programme had been understated by Rs. 88,075.
- c) Creditors relating to construction of clinical center and a body building center in Thiththawalgolla had been overstated by Rs. 17,649.
- d) A contract of which only the estimates had been prepared to fulfil at Rs. 1,873,890 ,under the general funds had been taken in to accounts as creditors whilst agreements not being signed.
- e) Interests payable to the Local Loan Development Fund relating to the year 2017 had been understated by Rs. 6,941,277. Hence the amount of payable interests and interest's expenditure had been understated by the same amount.

- f) A sum of Rs. 118,632 incurred for purchasing 3 hand carts for garbage during the year under review had been taken in to accounts under the recurrent expenditure instead of being debited to the cart account.
- g) Assets valued at Rs. 725,595 purchased during the year under review had not been capitalized thus assets had been understated by the same amount.
- h) Revenue of stamp fees receivable for the year 2017 had been understated by Rs. 3,891,500 thus the revenue and receivable revenue had been understated by the same amount.
- i) A sum of Rs. 3,898,569 credited to the stall rent account for correcting the opening balance of the receivable stall rent account had been taken in to accounts as revenue thus the revenue had been overstated by the same amount.
- j) Although the revenue of rates for the year was Rs. 4,054,361, it had been shown as Rs. 5,132,766 thus revenue had been overstated by Rs. 1,078,405.
- k) Even though the interests relating to the fixed deposit No. 136-60-01-00005434-6 of the Peoples Bank amounting to Rs. 1,875,000 had been received, it had been taken in to accounts as receivable interests. Hence interest income for the year and receivable interest income had been overstated by the same amount.
- l) Due to the interest of Rs. 506,000 relating to the fixed deposit No. 897291 of the National Savings Bank being taken twice in to accounts, the revenue for the year and the receivable revenue had been overstated by the same amount.
- m) The interest of Rs. 552,000 and Rs. 228,854 received for fixed deposits accounts No. 420031100209 and 420034200009 of the Regional Development Bank respectively had been reinvested in those accounts. However it had been taken in to accounts as receivables thus the receivable interest had been overstated by Rs. 780,854 and fixed deposits had been understated by the same amount.
- n) Value of a vehicle had been taken twice in to accounts thus the value of vehicle account had been overstated by Rs. 1,500,000.
- o) Actions had not been taken to assess and taken in to accounts the value of 5 Tractor Taylors belonged to the Municipal Council.
- p) Value of 04 land plots belonged to the Municipal Council amounting to Rs. 460,000 had not been taken in to accounts under the land and buildings.
- q) Sundry creditors had been overstated in the accounts by Rs. 14,850.

1.3.3 Unreconciled Accounts

 Difference of Rs. 3,385,847 were observed between the balances of 07 accounts items aggregating Rs. 51,689,570 shown in the financial statements and relevant subsidiary registers and records.

1.3.4 Receivable and payable accounts

a) Accounts Receivable

- (i) The outstanding stall rent as at the end of the year under review was Rs. 31,596,597 and out of that a sum of Rs.28, 545,116 had been remained receivable more than a period of 5 years.
- (ii) The outstanding amount of rates was Rs. 6,431,416 and out of that a sum of Rs. 4,057,874 should be received for previous years.

b) Accounts Payable

The total of 6 balances of payable accounts as at the end of the year under review was Rs. 115,522,731 and according to the age analysis presented balances of Rs.107,242,206 remained unsettled over a period more than 5 years had included in it.

1.3.5 Lack of Written Evidence for Audit

Three items of accounts aggregating Rs. 21,278,292 could not be satisfactorily verified due to non-availability of necessary information.

1.3.6. Non Compliances

Non- compliances with Laws Rules Regulations and Management Decisions

Instances of non-compliance with laws rules regulations and management decisions are given below

Reference to Laws, Rules, Regulations and management decisions	Amount Rs.	Non - Compliance
Financial Regulations of the Democratic Socialist Republic of Sri Lanka		
(i) F.R 110	-	A register for losses and damages had not been maintained
(ii) F.R 138 and 139	1,392,930	Although the payments should be made by the officer who is empowered for payments on the vouchers certified at all

			times, according to the sample test , a sum of Rs. 1,392,930 had been paid in 10 instances on vouchers no certified.
(iii)	F.R 187	42,706	Although the income received should be deposited in the bank daily, the value of cheques/money orders which had received for a period over than 1 ½ months was Rs. 42,706.
(iv)	F.R 342 (1)	-	Actions had not been taken to keep counterfoil registers in a safe and to register and maintain properly.
(b)	Establishment Code of the Democratic Socialist Republic of Sri Lanka		
(i)	Section 10.1 of the Chapter VIII	35,655	A sum of Rs.35, 655 had been paid to an officer of the Municipal Council for working on holydays without obtaining prior approval.
(ii)	Section 5.3.1 of the Chapter XIX	19,016	A sum of Rs. 19,016 should be recovered from an officer who was entitled to official residents for the period from September to December 2017.
(c)	Public Administration Circular No.09/2009 dated 16 April 2009	39,000	Printed copies had not been obtained from the finger print machine for arrival and departure of officers / employees and tested.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the revenue of the Municipality Council for the year ended 31 December 2017 in excess of the recurrent expenditure was Rs.38,518,978 whilst the corresponding revenue in excess of recurrent expenditure of the previous year was Rs.124,471,849.

2.2 Financial Control

The following observations are made

- In a ground of receiving 12 per cent annual interest rate for 5 fixed deposits of the people's bank, interest rate of 11 per cent had been received for the fixed deposit valued at Rs 15,000,000 thus interest income of Rs. 150,000 had lost.
- Eight per cent withholding tax had been deducted from the interest of Rs.550, 000 received for the fixed deposit No.2-0103-01-99630 of the National Savings Bank. Actions had not been taken to reveal the reasons for this deduction.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Bill amount of Revenue, collected revenue and Outstanding Revenue

Details relating to the estimated revenue bill amount of revenue, collected revenue and outstanding revenue presented for the year under review and the previous year are given below.

Source of Income	Estimated Revenue	Bill amount of Revenue	Collected Revenue	Total outstanding as at 31 December	Estimated Revenue	bill amount of Revenue	Collected Revenue	Total outstanding as at 31 December
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Rate and Taxes	14,220,000	12,288,549	9,91,007	2,373,542	12,650,000	11,276,178	6,541,381	1,734,797
Rent	14,830,000	10,919,569	8,996,560	1,923,009	14,330,500	12,788,125	11,549,442	1,238,683
Licenses Fees	14,681,000	7,261,906	6,455,992	1,165,914	7,991,000	7,221,167	6,029,067	1,192,100
Other Revenue	36,480,500	50,736,413	36,918,635	13,817,778	27,697,000	38,846,274	22,501,991	16,344,283
	80,211,500	81,566,437	62,286,194	19,280,243	62,668,500	70,131,744	46,621,881	20,509,863

2.3.2 Performance of Collection of Revenue

The outstanding receivable revenue as at the end of the year under review was Rs. 19,280,243 and it was 23 per cent of the bill amount of revenue.

2.3.3 Rates and Taxes

The following observations are made

- a) The bill amount of rates for the year under review was Rs. 4,054,361 and out of that only a sum of Rs. 1,680,819 had been recovered during the year under review. The receivable income of rates as at the end of the year under review was Rs. 6,431,416.
- b) The receivable income of rates as at the end of the previous year was Rs. 5,550,673 and comparing with the previous year the outstanding income as at the end of the year under review had been increased by Rs.880,743.

2.3.4 Rent

The following observations are made

- a) The receivable rent from the stalls of the bus stand as at the end of the year under review was Rs. 15,836,822 and 20 stalls had been closed.
- b) A sum of Rs.492, 067 should be recovered from stalls of the wholesale market as at the end of the year under review and 46 stalls of the said market had been closed without using for any purpose.
- c) A loss of Rs. 57,500 had been occurred due to renting out the playground for a price less than the price decided by the Council.

2.3.5 License Fees

The following observations are made

- a) License fees receivable from business units identified as at the end of the year 2017 was Rs. 295,400.
- b) When recovering business tax less than 1 per cent from the hotels approved by the Tourists Board, certified accounts had not been checked to recover the tax.

2.3.6 Other Revenue

The following observations are made

- a) The fire brigade unit of the Municipal Council had engaged with 26 fire quenching during the year 2017 and out of that a sum of Rs. 151,053 had been remained as receivables relating to 22 instances.
- b) License fees had not been recovered from 349 three wheels out of 350 which had been registered in three wheel stands of the jurisdiction of the Council and the said value was Rs. 322,180.

2.3.7 Court Fines

Revenue of court fines receivable as at the end of the year under review was Rs. 3,496,553

3. Operating review

3.1 Performance

The following observations are made in respect of duties which should be fulfilled by the Council as per the Section 4 of the Municipal Council Act relating to formulate and administrate public health, common utility services and common roads, people's cordiality, convenience and welfare.

a) By Laws

Actions had not been taken to prepare and implement by laws relating to formulate and control the parking facilities for vehicles and to recover charges from the parking places as per the Subsection 272 (32) of the Municipal Council Act by using powers vested to the Municipal Council as per the Section 267 of the Municipal Council Act (Chapter 252).

b) Solid Waste Management

Provision for long term programme had been received under the Kwashima Project for solid waste management in the year 2017 and a plot of land belonged to the Department of Wild Life Conservation which was located in Digampathaha area had been received to the project accordingly. The project had not been completed up to now and it was seen that garbage had been disposed in an irregular manner.

c) Environmental Issues

Polythene had mixed with vegetables and fruits removed from the Dambulla Economic Center which had been disposed to Digampathaha Area and wild elephants and other animals had eaten those thus there were severe risk for the lives of those animals.

d) Sustainable Development Goals

The Municipal Council had aware of sustainable development goals and targets and out of the provision of Rs. 12,502, 000 made for the year 2017 a sum of Rs. 7,323,421 had been incurred for the projects implemented. In this regard, construction of Helabojunhala in Dambuliugama and projects for rural and agricultural road developments had been implemented.

Necessary landmarks had been identified for corporate solid waste management to bring forth a garbage free city in order to secure the environment and to implement sanitary programmes in order to bring forth a healthy generation.

3.2 Management Inefficiencies

The following observations are made

- a) Although a one year had lapsed to recover a sum of Rs. 52,640 which should be received for renovation of drain system of the Dambulla Special Economic Center, actions had not been taken to recover.
- b) Fees had been charged for applications for hiring playgrounds and water bussers without a proper recommendation or an approval.
- c) Five vehicles had not been registered.

3.3 Human Resources Management

Vacancies of the Staff

Actions had not been taken to fill the vacancies of the staff remained in 69 posts as at the end of the year under review

3.4 Operational Inefficiencies

The following observations are made

- a) Under the 50 per cent contribution of the Department of Local Government 200 garbage bins valued at Rs. 617,227 had been received to the Municipal Council in the year 2016 and out of that 86 bins had been sold. Entries relating to the rest of the bins and bins remained before that had not been entered in to stock books.
- b) Stalls of the wholesale market had been leased out by the Dambulla Pradeshiya Sabha and agreements and files of those stalls had not been handed over to the Dambulla Municipal Council after the Municipal Council had been established. Hence there were 689 files in which the agreements were not included.

3.5 Transactions in Contentious Nature

A sum of Rs. 12,000,000 for construction of old wholesale market and a sum of Rs. 106,859,260 for construction of Dambulla bus stand and market complex had been obtained by the Dambulla Pradeshiya Sabha from the Local Loan Development Fund on 06 May 1995 and 30 September 2005 respectively. In the establishment of the Dambulla Municipal Council on 01 April 2011, the said loan had been transferred to the Dambulla Municipal Council. In the transference of loan payment to the Dambulla Municipal Council, relevant agreements and documents had not been handed over to the Dambulla Municipal Council. Hence payment of loans had been deviated by the Dambulla Municipal Council and as a result interest had exceeded the loan amount as at 08 February 2018. Accordingly a sum of Rs. 38,569,308 for the Dambulla wholesale market and a sum of Rs. 223,308,146 for the Dambulla bus stand and market complex had been remained as payables of the loan

3.6 Assets Management

3.6.1 Assets not Transferred

The following observations are made

- a) Four vehicles received to the Municipal Council had not got transferred even up to the end of the year under review.
- b) Although it had lapsed almost 4 ½ years for receiving a jeep to the Municipal Council, actions had not been taken to transfer and according to the letter No. CPC/ DMC/1/6/33 dated 19 May 2017 the Secretary to the Chief Ministry had informed to hand over this vehicle to the Chief Secretary. However as per the letter of the Municipal Commissioner, actions had been taken to repair the vehicle at an estimate of Rs. 460,390.

3.6.2 Idle/ Underutilized Assets

The following observations are made

- a) E Nanapiyasa computer training center commenced on 26 March 2015 under the Provincial Specific Development Grant 2014 had remained idle over a period of 2 ½ years from August 2015 up to now and assets valued at Rs. 455,575 received in this regard had remained idle. A sum of Rs. 27,406 had been paid as telephone charges for the telephone connection obtained in this regard up to the end of the year 2017 the period idle.
- b) Although work relating to the construction of clinical center and body building center at Thiththawalgolla had been completed incurring a sum of Rs. 980,000, the said building which had been constructed in a private land had not been transferred to the Municipal Council. Hence the building had remained idle over a period of 3 years.

3.6.3 Annual Survey of Goods/Stocks

Board of survey reports as at 31 December 2017 had not been presented to audit and a schedule for the assets of the Municipal Commissioners Resident had not been prepared.

3.6.4 Vehicle Utilization

Even though 6 months had lapsed up to 1 January 2018 for the accident of the JCB machine taken place on 29 June 2017, actions had not been taken to cover the damage of Rs. 111,970 and to repair the vehicle.

3.7 Procurement

3.7.1 Contract Administration

The following observations are made

- a) Amount of work completed over than the estimated amount of work items had been observed due to preparing Bill of Quantities without observing physical amount of units when preparing contract estimates. Underestimate of Rs. 83,871 had been made for 3 contracts for the year under review.
- b) Pohoranwawa Kapuwatta road had not been developed and handed over on due date as per the agreement. However recoverable liquidated damages amounting to Rs.9, 897 had not been recovered.
- c) An estimate of Rs. 3,300,570 had been prepared for construction of Digampathaha garbage boundary. A sum of Rs.2, 68,853 for pushing 24280 cubic meters of garbage as Rs.110 per cubic meter , A sum of Rs. 450,000 for 100 machine hours to file and compress garbage as Rs. 4,500 per hour , a sum of Rs. 100,000 for fixing Hume pipes with 915MM diameter and administration expenses of Rs. 64,717 had included in it. The following observations are made in this regard.
 - (i) Actions had been taken to pay a sum of Rs. 2,669,040 for 606 machine hours for pushing and removing garbage based on machine hours. However bill of quantities had not been submitted by Technical officers.
 - (ii) Quotations had not been called mentioning all specifications relevant to the expected service as per the 5.6.1 (a) of the Procurement Guideline.
 - (iii) Although it had been informed in the document for calling quotations to submit quotations through register post or by hand, quotations received through the normal post had been considered in the evaluation of bids. Further day stamp had not been kept on envelopes in which the quotations received. Hence it could not be confirmed that quotations had been received on due date.
 - (iv) Bidders or their represents were not allowed to participate the bid opening event as per the 6.3.6 (a) of the Procurement Guideline.
 - (v) Although the bidder who had submitted the lowest price of Rs. 3,800 per machine hour had been selected by the procurement committee, payments had been made under the condition presented by the said bidder that machines could be supplied for Rs. 4,400 with fuel and lubricant oil.
 - (vi) According to the 5.4.8 of the Procurement Guideline, performance bonds had not been obtained and as per the Section 8.9.1 i had not been entered in to an agreement.

- d) Quotations had been called to carry out the contract of elephant fence around the land of which disposing garbage and it had decided in the management committee held on 22 January 2018 to award the contract at Rs. 1,280,000 to the institute of which the lowest bid submitted. The following observations are made in this regard.
- (i) The Director of Wildlife Development had granted the permission by the letter dated 20 December 2017 to construct the elephant fence in a length of 01 kilometer and specifications as well. However quotations had been called by the Municipal Council for the said contract on 29 November 2017 before giving said permission and specifications. Hence it was observed that quotations had been called deviating the requirement of 1.2.1 of the Procurement Guideline to ensure high quality.
 - (ii) According to the 3.12.2 of the Procurement Guideline, pre-qualifications of experience and past performance on similar contracts and capability to performe the particular contract satisfactorily should be evaluated. However the Municipal Council had not acted accordingly and actions had not been taken to enter in to a written agreement regarding the contract as per the 8.9.1. of he said Guideline and to obtain performance bonds as per the 5 .4.8 of the Guideline.
 - (iii) According to the spot examination of the construction of electric fence, even though the gap among the columns of the electric fence should be 1 meters, most of places were beyond the said limit. Further it had agreed that spring gates should be in a length of 4 meters. However the length of two gates were 4.25 meters and 8 meters. In additions actions had not been taken to obtain warrantee certificates to confirm the standard of electric accessories fixed.
 - (iv) A sum of Rs. 35,763 had been paid for 45.85 meters of the electric fence which had not full filled physically.
- e) According to the 5.6.1 (a) of the Procurement Guideline quotations had not been called describing the specifications as far as necessary for purchasing a bale machine valued at Rs. 905,975 for garbage recycling project. Further, in the selection of the supplier, only prices had been evaluated instead of evaluating specifications and as per the Procurement Guideline 3.12 pre - qualifications of bidders had not been evaluated.
- f) Although estimates had not been prepared for construction of a gully to dispose sewage of the jurisdiction of the Council, the contract had got full filled by an institute selected through calling quotations. Further a sum of Rs. 302,400 had been paid for 67.2 machine hours without obtaining bills or completion reports relating to the contract.
- g) In the sample test carried out regarding the contracts full filled by direct labor during the year under review, a difference was observed between the amount of cement estimated and the amount of cement used. Further amount of cement issued from the stores had exceeded the amount used for the contract. An amount of 13 ½ bags of cement valued at Rs. 32,485 had been issued from the stores for 2 contracts.

4. Accountability and Good Governess

4.1 Budgetary Control

The following observations are made

- a) No expenditure had been incurred out of the total provision of Rs.10, 233,000 made for 86 expenditure items and sub items.
- b) Variations in a range from 27 per cent to 99 per cent were observed between the budgeted and the actual expenditure relating to 94 expenditure items and sub items thus observing that the budget had not been made use of as an effective instrument of control.

4.2 Internal Audit

The following observations are made

- a) Only one officer was working in the internal audit unit and 4 audit quarries had been issued for the year 2017. As per the financial Regulation 134 (3) copies of those audit quarries had not been furnished to the Auditor General.
- b) According to the Circular of the Director General of the Department of Audit and Management No.DMA/2009 (1) dated 09 June 2009, an internal audit plan had not been prepared and presented to the discussion o the audit and management committee.

4.3 Audit and Management Committee.

According to the Audit and Management Circular of the Director General of the Department of Audit and Management No. DMA/2009 (1) dated 09 June 2009 and the letter of the Commissioner of Local Government No CPC/CLG/1/9/1/4 dated 08 August 2014 even though 4 audit and management commitees should be held per year. However only 3 committees had been held during the year under review.

4.4 Unresolved Audit Paragraphs and unreplied audit quarries

Replies had not been submitted for 14 audit quarries issued to the Council during the year under review. The value of the transactions subject to those audit quarries was Rs. 57,276,519.

5. Systems and Controls

Defficiencies observed in the course of audit were brought to the notice of the Council from time to time and Special attention is needed in respect of the following areas of control.

<u>System</u>	<u>Deficiency</u>
a) Stock Control	<ul style="list-style-type: none"> i. Issuing and receiving no being entered properly. i. Number of 110 flag poles and 200 compost bins not being entered in to stock books. ii. Stocks received to the Ayurveda Center no being entered in to stores registers, issuing not being updated in time and expired stocks not being removed from the sores.
b) Purchasing	<ul style="list-style-type: none"> i. Incomplete entries of procurement decisions, calling quotations without mentioning necessary specifications, purchasing goods in over prices from suppliers selected according to procurement decisions, obtaining more dateless quotations. ii. Date stamp to confirm the date not being applied for documents received from external parties.
c) Assets Control	<ul style="list-style-type: none"> i. Fixed assets registers not being maintained properly ii. No documents to confirme the ownership of lands belong to the Council. iii. No registration certificates for vehicles belonged to the Council. iv. Assets received to the Council not being transferred in favor of the Council
d) Accounting	<ul style="list-style-type: none"> i. A considerable amount of lands and vehicles not being entered to the account. ii. Revenue included in the account not being posted under the correct heads and schedules presented were not balanced. iii. Ledger accounts not being maintained properly and correct accounts not being identified when entering journal entries.