

Dambulla Municipal Council – 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Dambulla Municipal Council for the year ended 31st December 2020 comprising the balance sheet as at 31st December 2020, Income and Expenditure account, Cash Flow Statement and notes to the financial statement including a summary of significant accounting policies, 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 Councils Ordinance (Authority 252) and Provisions of the National Audit Act No.19 of 2018 and. 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 Dambulla Municipal Council as at 31st 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

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 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 financial reporting process.

As per Section 16(1) of the National Audit Act No.19 of 2018, the Pradeshiya Sabha 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 the 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 Pradeshiya Sabha, 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 Pradeshiya Sabha
- Whether the Municipal Council has performed according to its powers, functions and duties; and
- Whether the resources of the Pradeshiya Sabha 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) The financial statements of Pradeshiya sabha are consistent with the previous year as per the requirement mentioned in Section 6(1)(d)(iii) of the National Audit Act No. 19 of 2018.

- (b) The recommendations made by me during the previous year are included in the financial statements presented as per the requirement of Section 6(1)(d)(iv) of the National Audit Act No.19 of 2018 .

1.6 Audit Observations on the preparation of Financial Statements

1.6.1 Accounting policies

Audit observation	Comments of the Council	Recommendation
It was the policy of the Municipal Council to write off expenses in the year of purchase of fixed assets. However, the cost of assets, which was once fully written off, had been adjusted to the income and expense account again as depreciation, Rs.18,781,086 in the year under review and Rs.66,359,634 in the previous year.	As per the Accounting Policy 10/4 for the Preparation of Financial Statements of the Municipal Council, Non depreciation policy is followed for the Fixed assets purchased during the year. Based on that policy, It is informed that the depreciation of property, plan and equipments in the annual financial statements for the year 2020 had been made under straight line method.	Depreciation should be made in accordance with paragraph 10.2 of the Accounting Policy.

1.6.2 Accounting deficiency

Audit observation	Comments of the Council	Recommendation
(a) Reimbursement of losses amounting to Rs.91,093 received by the Council and Rs.730,250 income to be adjusted for the previous year had been retained in the deposit account.	Accepted and it was noted to take action for making the adjustment through journal entries.	Necessary adjustments should be made to the accounts correctly.
(b) The income of Rs.3,603,778 for the previous year was accounted for as the income for the year under review and on two occasions the total receivables of Rs.4,248,482 for the year under review had been overstated.	I took action to record the unaccounted income for the year 2019 by mistake, in the year under review.	Necessary adjustments should be made to the accounts correctly.

- (c) Due to the amount of Rs.279,533,898 spent in the year under review and previous year for the construction at Digampathaha Waste Management Land and purchase of machinery has been reimbursed by the Ministry of Provincial Councils and Local Government, Relevant asset should be accounted in Contribution to capital through grants account, but it had been accounted to the Contribution to Capital through income Accounts; hence contribution to the capital through income account had been overstated by that amount. Action will be taken to show in the financial statements of year 2021. Necessary adjustments should be made to the accounts correctly.
- (d) The total capital income to be presented under the Capital assistance income in the statement of income and expenditure was Rs.49,472,393 but it was accounted as Rs.4,500,000 that is less than Rs.44,972,393. These assistances received for the Digampathaha Garbage Recycling Project were the assistance received on the basis of reimbursement of these expenses. Necessary adjustments should be made to the accounts correctly.
- (e) Capital Assistance Expenditure had been understated by Rs.17,801,253 due to payments made from the General Deposit Account and the Advance Account. These expenses are adjusted by the general deposit and advance account as they are received on the basis of reimbursement. Financial statements should be prepared correctly as advances and accounts are not included in the annual expenses.
- (f) Furniture and machinery purchased for Rs.1,041,595, industrial credit balance of Rs.682,920, warehouse stock value of Rs.16,625,533 and overdraft interest of Rs.70,371 had been omitted from books of accounts. Corrections will be made in 2021 financial statements. Necessary adjustments should be made to the accounts correctly.

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| (g) | Various income receivables of Rs.2,889,667, toilet fees of Rs.1,531,979 and 01 percent business tax revenue of Rs.512,121 had been omitted from financial statements. | The documents will be checked and action will be taken to correct them as soon as possible. | Necessary adjustments should be made to the accounts correctly |
| (h) | At the end of the year under review, the outstanding loan balance of Rs.124,363,726 obtained from the Local loans & Development Fund for three purposes had been omitted from the financial statements. | As pointed out by the audit, the balance has not been credited to the accounts, as the Pradeshiya Sabha and the Municipal Council have not yet reached an agreement regarding the loans obtained from the loans Development Fund. | Necessary adjustments should be made to the accounts correctly |
| (i) | There was a difference of Rs.317,522,806 between the balance of fixed asset accounts and the balance of income contributions to the capital application. | Action will be taken to correct next year. | Difference should be identified and corrected. |
| (j) | Instead of the adjusted cash balance of Rs.19,418,646, the unadjusted balance of Rs.15,630,919 was shown in the financial statements. | Action will be taken to adjust in next year | Difference should be identified and adjusted correctly. |

1.6.3 Unreconciled Control Accounts or Records

Audit observation

Comments of the Recommendation Council

There was a difference of Rs.1,610,871 between the balance according to the financial statements and the corresponding reports for 07 account subjects.

There is no change in the balance of 02 accounts. The value of 05 balances amounting to Rs.1,448,494 is yet to be corrected.

The difference should be identified and necessary adjustments should be made to the accounts correctly.

1.7 Non-compliance

1.7.1 Non-compliance with Laws, Rules and Regulations

The following are the instances of non-compliance with the provisions of laws, rules and regulations.

Reference to laws, rules and regulations	Non-compliance	Comments of the Council	Recommendation
Palierment Act			
I. Municipal council ordinance			
206(a)	Although it can be approved a temporary loan or overdraft based on the estimate made by the Council for a certain period of time, without submitting an estimate, Overdraft facilities had been obtained to pay the salaries of Rs.15,630,919 for casual workers.	Action will be taken to correct next year.	Ordinance should be followed.
II. Section 23 (a) of the National Environmental Act No.47 of 1980	No action had been taken to issue new licenses for 17 industries whose environmental licenses had expired.	Recommendations of the Environment Committee have been received for 12 industries.	Act should be followed.

2. Financial Review

2.1 Financial results

According to the financial statement presented, excess of recurrent expenditure over recurrent revenue of the Council for the year ended 31st December 2020 amounted to Rs.19,286,030 while as compared with the corresponding amount in excess of recurrent expenditure over recurrent revenue for the preceding year amounted to Rs.11,433,711.

2.2 Financial Control

Audit observation

Although obligations may be made to cover expenses incurred on the income received in day-to-day operations of the council, 55 casual employees were recruited on the basis of payment of salaries and allowances from the Council fund with the approval of the General Assembly and Rs.46,844,174 was paid as salaries and allowances during the year under review. This had a direct effect on the financial problems of the Council.

Comments of the Council

That, these employees are recruited on a casual basis until approved staff approve.

Recommendation

Municipal council ordinance should be followed.

2.3 Revenue administration

2.3.1 Performance in Revenue collection

Audit observation

- (a) The total revenue in arrears at the end of 2020 was Rs.34,180,764. It was observed that tourist hotel fees are under the licenses and it was agreed to deal with the non-rechargable fees by law and to pay the shop rent in arrears in 12 installments.
- (b) At the end of the year under review, the rent in arrears of the bus stand and wholesale shop was Rs. 10,107,755.
- (c) Due to non-lease of stalls belonging to the Municipal Council in the year under review, the revenue of Rs. 507,000 which could have been obtained was lost.

Comments of the Council

- Since the prevailing situation in the country had affected the economy it caused to increase the arrears income.
- Rs.221,085 from the previous year's arrears and Rs.291,291 for this year had been recovered.
- For 21 stalls where applicants did not submit, are to be submitted again to the Council for a decision.

Recommendation

- Municipal council ordinance should be complied with.
- Municipal council ordinance should be complied with.
- Action should be taken to obtain the available revenue.

3. Operational Review

Following matters were revealed with regard to duties to be fulfilled by Council as per the Section 04 of the Municipal Council Ordinance, in relating to regulation and control of all the matters relating to Public health, Public utility services and public highways, comfort, convenience and welfare of the people

3.1 Uneconomic transaction

Audit observation

The Municipal Council had leased a 3780 square feet. Plot of land adjacent to the Dambulla bus stand belonging to the Urban Development Authority and had entered into an agreement to construct 21 stalls at the expense of the outside party and so that the the Municipal Council gets a shop rent. Although the Governor had directed that the agreement relating to the project should include an order that the rent of the stalls should be charged at the assessment of the Government Assessor, By stating that the monthly rent assessed by the Municipal Council should be charged, Instead of that clause; The council would have lost the revenue it was supposed to receive and the council will also lose 19 store income due to the construction of 40 stalls instead of 21 stalls.

Comments of the Council

No comments.

Recommendation

It Should act in accordance with the agreement.

3.2 Identified losses

Audit observation

Four accounts receivable balances amounting to Rs.6,048,300 in financial statements (Assesments in arrears Rs.1,342,460, Billboard charges reeivables Rs.1,128,816, VAT payables Rs.1,044,624, Stamps duties Rs.2,532,400) had been written off through journal entries without the Governor's approval.

Comments of the Council

Action will be taken to correct next year.

Recommendation

Action should be taken to write off the account balances included in the financial statements after formal approval.

3.3 Management inefficiencies

----- Audit observation -----	----- Comments of the Council -----	----- Recommendation -----
<p>(a) When the construction of the Elephant fence is being carried out under the supervision of the Municipal Engineer ,without giving the required advance to him; the Municipal Commissioner had obtained Rs.150,000 On August 6th 2020, without giving it to an officer. The approval, certification and signater of the receipient of these payments had been done by the Municipal Commissioner and by September 04th 2020, Rs. 90,000 had been withheld out of this advance. The advance of Rs.100,000 received by the Commissioner on August 03rd , 2019 for emergency purchases of the toilet system had been withheld till June 15th 2020 without any purchase.</p>	<p>The advance was in the custody of the Municipal Commissioner and was issued in cash as required and the advance of Rs.100,000 was settled on 12th June 2020.</p>	<p>Financial regulations should be followed.</p>
<p>(b) In contrary to the provisions of the Public Administration Circular No.13/2008 (IV) dated 09th February 2011 and its amended Public Administration Circular No.13/2018 (V) dated 31st May 2019, Exceeding the approved limits without any approval, Rs.81,598 had been paid during the period from January to June 2020 for 785 liters of fuel for additional duties of the official vehicle of the Municipal Commissioner of the Municipal Council.</p>	<p>That, the approval of the Finance Committee and the General Assembly has been obtained.</p>	<p>Circulars should be complied with.</p>
<p>(c) As per Schedule 5.3.1 of Chapter XIX of the Establishments Code, it has been informed that 10 percent of the salary of an officer who owns a scheduled government quarters should be recovered, no action has been taken to collect the rent of Rs.53,575 from the Municipal Commissioner for the period from September 2017 to November 2020.</p>	<p>That, further action will be taken after the surcharge process.</p>	<p>Establishment code should be followed.</p>

- (d) Municipal Commissioner who is a Grade II Officer in the Sri Lanka Administrative Service, without approval from the Central Provincial Public Service Commission to obtain acting allowances and In accordance with Section 12.5.4 of the Establishments Code, while acting as a permanent post, acting salary in another post may be paid, but without working in a post 25 percent of the starting salary of Class I of the Sri Lanka Administrative Service, or from 2017 September to 2020 July Rs.437,075 had been paid as acting salary. That, action will be taken to recover overpaid allowances. Establishment code should be followed.
- (e) Without recording the arrival and departure on the fingerprint machine or other relevant documents or attendance register that the field duties were performed during the holidays and without confirming that the officer has performed field duties, Rs.56,726 had been paid to the Municipal Commissioner from the council fund as Holiday allowance for 15 days relevant to 03 months. That, field duties were performed and it is confirmed by approved programs and running chart. Establishment code should be followed.

3.4 Operational inefficiencies

Audit observation

On May 06th 2020, 640 fence posts were purchased for public cemeteries within the Municipal Council area at a cost of Rs.492,800 and issued to the relevant societies related to the cemetery. During the physical examination, It was observed a shortage of 55 pillars valued at Rs.42,350 and 270 pillars worth Rs.207,900 given to 05 cemeteries had been piled up without any use for about 4 months. Letters had been sent stating that the relevant pillars had been returned to the society, 14 days before and 03 days before they were received at the Municipal Council warehouse.

Comments of the Council

The delay was due to the prevailing epidemic situation and doing it with the laobur contribution and 65 pillars are piled up in the municipal premises.

Recommendation

Those responsible should be identified by inspecting and determining deficiencies and non-utilization.

3.5 Procurement management

Audit observation	Comments of the Council	Recommendation
(a) As per the provisions of the Procurement Guidelines The supplier selected to purchase a waste contributor for Rs.19.4 lakhs, was rejected and the second supplier was selected without any prior performance and technical evaluation committee recommendation, Hence the council fund had incurred a loss of Rs.168,615 and violated 08 tender conditions and The burner was in a dilapidated condition after undergoing major repairs even before the contract period expired.	That, this purchase has been made on the decision of the Council No: 06.01.16.	It should act in accordance with the provisions of the Government Procurement Guidelines.

3.6 Defects in Contract Administration

Audit observation	Comments of the Council	Recommendation
03 estimates of Rs.748,736 have been prepared to provide goods assistance to low income earners, by selecting 03 persons, without the confirmation as to whether the persons eligible for the assistance However, 03 projects that have been stopped without being able to confirm whether they are eligible for assistance couldn't be implemented.	That the Divisional Secretary has not confirmed that they are low income earners.	Industry proposals should be confirmed and act accordingly.

3.7 Human Resources Management

Audit observation	Comments of the Council	Recommendation
(a) A recruitment is made for the post of Pre-School Superintendent even in the absence of a functioning Pre-School owned by the Municipal Council and without prior preparation for commencement and a salary of Rs.576,813 had been paid for that uselessly from September 16 th 2019.	As this post is available in the approved staff, it has been recruited to that post and used for library activities.	Establishment codes and financial regulations should be complied with.

- (b) In terms of Section 31: 1: 2 of Chapter XLVIII of Part II of the Establishments Code; A road labourer in the Municipal Council is acting in a manner that disrepute the Democratic Socialist Republic of Sri Lanka and in accordance with Section 31: 1: 10 of that paragraph, the service was temporarily suspended with effect from 01st June 2017 On acting in a manner that disrepute the public service. As per the 27:10:2 of the amendment No.06/2009 made to the above paragraph of the Establishments Code dated 15th December 2004; If more than a year is passed to receive the court decision the subject authorities has power to pay half of the salary, but Rs.602,905 had been overpaid due to the payment of the full salary in arrears on October 08th , 2020.
- As it is an offense committed outside the institution, there is no harm to the benefit of the public service, So, he was re-employed in the public service.
- It should act in accordance with the provision of establishment code.