

1. Financial Statements

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1.1 Adverse opinion

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The audit of the financial statements of the Dambulla Municipal Council including the financial statements for the year ended 31<sup>st</sup> December 2021 comprising the balance sheet as at 31<sup>st</sup> December 2021, Income and Expenditure Account 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 Councils Ordinance (Chapter 252) and 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, 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 Dambulla Municipal Council as at 31<sup>st</sup> December 2021 and its financial performance for the year then ended in accordance Generally Accepted Accounting Practices.

1.1 Basis for Adverse Opinion

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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

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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)

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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 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

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National Audit Act, No.19 of 2018 includes specific provisions for 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 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

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### 1.6.1 Accounting Deficiencies

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Audit Observation	Comments of the Council	Recommendation
(a) The value of 03 land plots worth Rs.1,000,000 had been accounted for twice.	Action will be taken to correct.	Double counting should be corrected.
(b) Depreciation expenses of Rs.33,466,805 were overstated due to re-allocation of depreciation to the value of assets written off from the income and expenditure account.	The depreciation adjustment will be corrected from next year.	No re-allocation of depreciation is required as the asset value is written off from the income expenditure account.
(c) The reimbursement amount due from the Local Government Department for capital expenditure had been understated by 10,429,918 in the accounts.	Action will be taken to correct it in the coming year.	Expenses related to the year should be identified and accounted for.
(d) The error of writing off 03 accounts receivable balances of Rs.2,532,400 and accounts payable balances of Rs.1,044,620 from the financial statements without formal approval As on December 31 <sup>st</sup> of the previous year, had not been corrected in the year under review.	Accepted. the relevant documents will be re-checked and necessary steps will be taken to rectify in the coming year.	Accounts should be adjusted after approval.
(e) The values of 09 asset subjects of Rs.46,969,866, a liability subject of Rs.219,678,864, an income subject of Rs.767,009 and 14 expenditure subjects of Rs.491,532 as on December 31 <sup>st</sup> of the reviewed year had not been shown in the financial statements.	Accepted. It will be corrected net year.	Transactions of all subjects related to the year should be identified and accounted for.

### 1.6.2 Unreconciled Accounts Balance

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Audit Observation	Comments of the Council	Recommendation
A difference of Rs.63,990,523 was observed between the value as per financial statements and the value as per corresponding reports of 27 account subjects.	Action will be taken to correct next year.	The differences should be identified and the accounting records should be corrected.

## 1.7 Non- Compliances

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Non-compliance with Laws, Rules, Regulations etc...  
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Followings are the non-compliance with Laws, Rules, and Regulations.

Reference to Laws, Rules Regulations etc -----	Non- Compliances -----	Comments of the Council -----	Recommendation -----
Section 40(1)(g) of the municipal council ordinance	68 shops were given to outside parties without entering into an agreement.	Action will be taken to enter into agreement.	It should act as per Section 40(1)g.

## 1.8 Transactions not confirmed by sufficient authority

Audit Observation -----	Comments of the Council -----	Recommendation -----
08 people were hired as personal staff of the mayor and deputy mayor without the approval of the governor and an allowance of Rs.2,761,000 were paid.	It is accepted that there is no Governor's approval.	Action should be taken to get the Governor's approval.

## 2. Financial Review

### 2.1 Financial Result

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According to the Financial Statements presented, excess of recurrent expenditure over revenue for the year ended 31<sup>st</sup> December 2021 amounted to Rs.13,485,175 as compared excess of recurrent expenditure over revenue amounted to Rs.19,286,030 in the preceding year

### 2.2 Financial Control

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The Dambulla Municipal Council had obtained bank overdraft facility due to insufficient cash balance in the current account maintained by a government bank and had to pay overdraft interest on a monthly basis. Accordingly, overdraft interest of Rs.762,308 and Rs.970,829 was paid in the years 2019 and 2020, respectively, and Rs.1,704,091 in the year under review.

### 2.3 Revenue Administration

#### 2.3.1 Performance in Revenue Collection

Audit Observation -----	Comments of the Council -----	Recommendation -----
(a) At the end of the previous and reviewed years, the total revenue deficit was Rs.34,180,764 and Rs.53,884,471 respectively, so the progress of revenue collection remained weak.	No answer has been provided.	Action should be taken to recover the arrears of income.

In the year under review, Rs.7,019,092 or 21 percent of the arrears was recovered from the arrears of revenue.

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| (b) | Based on the assessment made in the year 2011, assessment fees were being collected from 2795 assessment units in the year under review. 1897 new assessment units were identified from the survey and all of them had not been reassessed and assessment revenue had not been collected..  | Valuation revision work was carried out from January 2022 and currently the work has been temporarily stopped. It has been informed that the activities will be restarted and the assessment revenue will be increased.   | All assessment units should be reassessed and Action should be taken to increase income.  |
| (c) | The total arrears of Rs.7,614,738 shop rent due from the lessees as on August 31 <sup>st</sup> of the year under review, from 194 shops including 103 shops at Dambulla Bus Station, 81 shops at wholesale market and 10 shops at Vihara Junction had not been collected.   | From the outstanding amount of Rs.7,614,737.51 as on 31.08.2021, Rs.3,115,981.37 has been recovered from 01.09.2021 to 12.01.2022, Shops have also been sealed due to non-payment of arrears.   | Arrangements should be made to collect rent in arrears.   |
| (d) | Dambulla Bus Station was developed as a single unit by combining 05 shops and the contract for the lease did not include the date on which the construction was to be completed and the construction work was not completed during the period from December 04 of the previous year, on which the agreement was signed, to December 31 <sup>st</sup> of the reviewed year Due to this, the council was not able to collect the rents to be charged. | Due to the movement restrictions imposed from 30.04.2021 to 30.06.2021 due to the bad epidemic situation in the country, this work could not be completed within the stipulated time; It has been informed that, necessary arrangements will be made for completion through the lessee in the future. | As the date for the completion of the construction was not agreed, the rent should be collected as per condition 2(I) of the agreement. |
| (e) | Although the Dambulla Pradeshiya Sabha had entered into an agreement with the Dambulla Pradeshiya Sabha for 73 shops handed over to the Municipal council, the Municipal council had not entered into agreements with external parties.   | Notifications were made by letters as well as verbally and all the lessees did not respond and at least the documents related to preparing the agreements were not submitted.   | New agreements should be entered into with the external party.  |
| (f) | As of December 31 <sup>st</sup> of the year under review, outstanding tender fees of Rs.2,896,495 related to 17 stalls at bus station had not been collected and this entire outstanding amount has been related to previous years.   | The program could not be implemented due to the Corona epidemic situation. Action will be taken later to seal the identified shops and collect the arrears.   | Action should be taken to collect rent in arrears.  |

### 2.3.2 Surcharges

#### Audit Observation

During the year under review, I had imposed 02 surcharges worth Rs.227,709 against those responsible under the provisions of sub-section 226(1) of the Municipal Council Ordinance. An amount of Rs.433,774 was to be recovered as on December 31<sup>st</sup> of the year under review along with the surcharges imposed in previous years.

#### Comments of the Council

It is informed that an appeal has been filed by one Party in relation to the amount of Rs.225,065 and by another Party in relation to the amount of Rs.227,709.

#### Recommendation

Actions should be taken to collect surcharges.

### 3. Operational Review

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 04 of the Municipal Councils Ordinance are shown below.

#### 3.1 Management Inefficiencies

##### Audit Observation

- (a) Even though vehicles and machinery worth Rs. 9,060,000 have been purchased beyond the estimated limit related to the agricultural fertilizer production project, As per the terms of the agreement, the project work had not started even as on 31<sup>st</sup> December of the year under review.

- (b) The total of 10 accounts receivable balances at the end of the year under review was Rs.95,238,842 and It included the balance of Rs.36,962,557 between 01 to 05 years and the balance of Rs.4,481,962 for more than 05 years.

- (c) The total of 05 accounts payable balances as on the last date of the year under review was Rs.252,550,949. It included the balance of Rs.12,697,272 between 01 to 05 years and the balance of Rs.220,520,597 for more than 05 years.

##### Comments of the Council

- Due to the rise in the value of the dollar had to pay more.

- No answers

- No answers.

##### Recommendation

- It should be act according to the project conditions.

- Accounts receivable balances should be collected.

- Action should be taken to pay accounts payables.

### 3.2 Human Resources Management

Audit Observation	Comments of the Council	Recommendation
<p>Employee vacancies and surplus</p> <p>Although the number of approved staff for health worker posts was 50, the number employed as on 31<sup>st</sup> December of the year under review was 75. Thus, 25 health worker posts were redundant in 03 years In 2019, 2020 and the years under review, 56 more health workers were also recruited and paid salaries on contract basis.</p>	<p>In the past years, they have been recruited for activities such as an expansion of the services provided by the Municipal council, the Digampathaha Waste Management Project and regularization of waste removal in the city area. The Municipal council approval has been received for that.</p>	<p>It should act within the limits of approved Cadre.</p>

### 3.3 Asset Management

Audit Observation	Comments of the Council	Recommendation
<p>Even though a period of time between 02 to 04 years had passed since the accident involving 04 vehicles of the Municipal Council, a loss of Rs.412,306, which was not compensated by the relevant insurance compensation, had not been collected from the responsible officials.</p>	<p>A committee has been appointed to investigate.</p>	<p>Action should be taken to recover the loss.</p>

### 3.4 Procurement

Audit Observation	Comments of the Council	Recommendation
<p>In the purchases made for the organic agricultural fertilizer production project, the lowest bid had been rejected stating that the related equipment could not be delivered by December 31<sup>st</sup>, 2021 and There was a loss of Rs.4,866,000 to the municipal fund due to the selection of bidders who had been informed that they could supply on that date at a higher price. As of December 31<sup>st</sup>, all the equipment had not been received and the relevant project had not been started by May 19<sup>th</sup>, 2022.</p>	<p>Since the organization that offered the lowest price could not supply on the scheduled date and the project had to be completed before 31.12.2021, the purchase was made from an organization that could do so.</p>	<p>Government procurement guidelines should be followed.</p>

#### 4. Accountability and Good Governance

##### 4.1 By-Laws

###### Audit Observation

Although by-laws could have been enacted in accordance with Section 272 of the Municipal Council Ordinance, by March 31<sup>st</sup>, 2022, the by-laws prepared for 10 matters had not been published in the Gazette.

###### Comments of the Council

Publication of the gazette is in progress.

###### Recommendation

Section 272 of the Municipal Council Ordinance should be followed.

##### 4.2 Environmental Observation

###### Audit Observation

The supplier selected from the procurement to buy a garbage incinerator for Rs.13,250,000 was rejected based on the decisions of the council. Due to the selection of the second supplier based on council decisions without prior performance submission and technical evaluation committee recommendation, it had been paid Rs.6,168,615 more than the price of the first supplier and the new garbage incinerator worth Rs.19.4 million had been purchased in violation of 08 tender conditions. Before the contract period had expired, the incinerator had undergone major repairs and remained in disrepair. The incinerator had been completely shut down since August 18<sup>th</sup> of the year under review but had not been repaired and put into use.

###### Comments of the Council

Action are being taken to Repair and put into use.

###### Recommendation

As the contract period has not passed, the supplier should repair it and put it into use.

##### 4.3 Sustainable Development Goals

###### Audit Observation

The Municipal council had not worked to select and implement target criteria and programs related to 17 sustainable development objectives.

###### Comments of the Council

Actions are being taken according to the objectives.

###### Recommendation

It should be act according to the Sustainable Development Act No.19 of 2017.