

**Matara Municipal Council**

**Matara District**

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**1. Financial statements**

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**1.1 Presentation of Financial Statements**

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The financial statements for the year under review had been presented for audit on 12 August 2011 and the financial statements for the preceding year had been presented on 01 September 2010.

**1.2 Opinion**

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In view of the comments and observations appearing in this report. I am unable to express an opinion on the financial statements of the Matara Municipal Council for the year ended 31 December 2010 presented for audit.

**1.3 Comments on Financial Statements**

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**1.3.1 Accounting Deficiencies**

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The following accounting deficiencies were observed.

- (a) Six items of accounts without correct opening balances had been shown without clarification in the financial statements as refundable deposits amounting to Rs.15,228,857.
- (b) According to Journal Entry No.55, the adjustments had not been made in the relevant Fixed Assets Account and the Revenue Contribution to Capital Outlay Account in connection with the value of the fixed assets purchased in the year under review from the Stores Advances and Stores Creditors Account amounting to Rs.69,871.

- (c) The loan installments on the Gulley bowser for the year under review amounting to Rs.23,622 had been debited to the Loan Installments in Transit Account through Journal Entry No. 48 instead of debiting in relevant Loan Account.
- (d) The payment of loan installments on the Local Loans and Development Fund for the preceding year had already been brought to account as expenditure, a sum of Rs.84,261 had been debited again by Journal Entry No.48 to the Surplus and Deficit Account. Thus the expenditure had been duplicated.
- (e) The loan installments and the interests payable as at the end of the year under review for the Matara Bus Stand and the Trading Complex constructed under the Asian Development Bank Loan No.1204SRI(SF) Urban Development Sector Project amounting to Rs.67,736,561 had been shown as Rs.49,774,022 in the financial statements . The difference amounted to Rs.17,962,539.
- (f) Even though the interest in the Ruhuna Development Bank Account No.14600 maintained for the repayment of the loan for the contribution of the Bus Stand and the Trading Complex is not revenue of the Council, the interest for the year under review amounting to Rs.94,499 had been brought to account as inherent revenue through the Journal Entry No.23.
- (g) According to Clause 04 of the Loan Agreement for the construction of the Bus Stand and the Trading Complex, revenue received for the settlement of that loan is not the revenue of the Council. Nevertheless, a sum of Rs.4,626,325 had been brought to account as revenue of the year under review through Journal Entry No.65.
- (h) According to Clause No.9.03 of the Loan Agreement for the contribution of the Bus Stand and the Trading Complex and the letter No.7/3/12/Matara dated 20 August 2001 of the Director General of the Urban Development Authority, the fixed deposit for the settlement of that loan and the interest received on

that cannot be utilized for other activities. Nevertheless, a sum of Rs.3,726,500 had been Credited to the Fixed Deposit Account and debited to another Bank Account No.15182 through Journal Entry No.66. A sum of Rs.3,777,516 had been withdrawn from that account through Journal Entry No.67 for the payment of interest on other Loan Accounts of the Council.

- (i) The contributions payable as at the end of the year under review to the Local Government Services Pension Fund amounting to Rs.36,441,390 had not been shown in the financial statements.

### **1.3.2 Unsettled Accounts**

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The balances of 04 unsettled accounts amounting to Rs.9,028,102 had been brought forward over a long period.

### **1.3.3 Unreconciled Control Accounts**

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According to the financial statements presented at the end of the year under review, the value of 06 items of account amounted to Rs.97,107,392 whereas according to the schedules presented, the value amounted to Rs.85,685,778 and as such the difference amounted to Rs.11,421,614.

### **1.3.4 Accounts Payable**

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The value of the accounts payable older than 01 year as at 31 December 2010 amounted to Rs.183,059,443.

### **1.3.5 Lack of evidence for audit**

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The balances of 07 items of account amounting to Rs.191,075,851 could not be satisfactorily vouched in audit due to the unavailability of Boards of Survey Reports, documents in support of ownership and existent, schedules, certificates of balances, explanations, etc.

### 1.3.6 Unanswered Audit Queries

Replies to 19 audit queries had not been furnished by 31 December 2010 and the value of quantifiable transactions relating to those audit queries amounted to Rs.21,403,834. The age analysis of the unanswered audit queries is given below.

| Period<br>-----      | Number of Audit<br>Queries<br>----- |
|----------------------|-------------------------------------|
| Less than 03 months  | 02                                  |
| 03 Months to 01 Year | 06                                  |
| 01 Year to 02 Years  | 07                                  |
| 02 Years to 03 Years | <u>04</u>                           |
|                      | <u>19</u>                           |

### 1.3.7 Non-compliance with Laws, Rules and Regulations, etc

Instances of non-compliance with laws, rules, regulations, etc. observed during the course of audit are given below.

| Reference to Laws, Rules, and<br>Regulations, etc.<br>-----   | Non-compliance<br>-----   |
|---|---|
| (a) <u>Financial Regulations of the Democratic Socialist Republic of Sri Lanka</u>  |   |
| (i) Financial Regulations 371 and Financial Regulations 371(2)(d)   | Even though the advances obtained should be settled immediately after the completion of the purpose advances of amounting to Rs.1,531,481 paid in 28 instances form the year 1999 to the year 2010 had not been settled even by 31 December 2010. |
| (ii) Financial Regulations 571  | Action in terms of the Financial Regulation had not been taken on unclaimed lapsed deposits amounting to Rs.14,380,192  |
| (b) Circular No.IAI/2002/02 dated 28 November 2002 of the Secretary to the Treasury   | A Register of Fixed Assets had not been maintained for the 41 computers and the software belonging to the Council   |
| (c) Circular No.1/2003 dated 02 December 2003 of the Director General of Pensions and the Chairman of the Board of Management of the Public Services Provident Fund | Even though 8 per cent of the daily pay or the monthly salary of non-personable Officers in Government Service should be paid as the contribution to the Public Services Provident Fund, contrary to such provisions, contributions had been made |

to Employees’ Provident Fund maintained by the Central Bank of Sri Lanka. Contributions paid up to the year 2010 amounted to Rs.2,737,294.

**2. Financial and Operating Review**  
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**2.1 Financial Results**  
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According to the financial statements presented, the excess of revenue over the recurrent expenditure of the Council for the year ended 31 December 2010 amounted to Rs.4,818,001 as compared with the excess of the revenue over recurrent expenditure amounting to Rs.4,198,762 for the year preceding year.

**2.2 Revenue Administration**  
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**2.2.1 Estimated Revenue, Actual Revenue and Arrears of Revenue**  
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Even though a request was made to the Municipal Commissioner by my letter dated 28 February 2011 to furnish the information on the estimated revenue, the actual revenue and the arrears of revenue, for the year under review and the preceding year in specified format the information was not furnished. Nevertheless, the position as at 31 December 2010 according to the Statement of Arrears of Revenue presented with the financial statements as compared with a preceding year is given below.

| Particulars<br>----- | Arrears of Revenue as at 31<br>December |                | Increase as a<br>Percentage<br>----- | Decrease as a<br>Percentage<br>----- |
|----------------------|---|----------------|--------------------------------------|--------------------------------------|
|                      | 2010<br>Rs.000                          | 2009<br>Rs.000 |                                      |                                      |
| Rates                | 29,336                                  | 27,075         | 8.35                                 | -                                    |
| Trade License        | 2,702                                   | 2,496          | 8.25                                 | -                                    |
| Lease Rents          | 40,918                                  | 38,242         | 6.99                                 | -                                    |
| Other Revenue        | 3,256                                   | 3,415          | -                                    | 4.65                                 |

**2.2.2 Recovery of Arrears of Revenue**  
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In terms of Section 171 of the Municipal Councils Ordinance (Cap,252) all powers for the recovery of all the revenue receivable by the Council are vested with the Municipal

Commissioner. Nevertheless, action in terms of the provision had been taken up to 31 December of the year under review for the recovery of arrears of revenue amounting to Rs.76,212,434.

### **2.2.3 Entertainment Tax**

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The Entertainment Tax amounting to Rs.4,599,518 receivable from the Commissioner of Local Government shown under the sundry debtors balance brought forward from the years prior to the year 2006 had been brought forward in the year under review without taking action to obtain a reimbursement.

### **2.2.4 Rates**

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There were 21,923 rate payers in the area of authority of the Council including household, commercial, consumer and Government Institutions and the amounts billed, collected and in arrears over the last 05 years had increased annually and the arrears as at the end of the year under review amounted to Rs.25,386,174.

The matters observed in this connection are as follows.

- (i) The Council did not have a computer package capable of computing the amounts billed, collected and in arrears in respect of each year to facilitate the evaluation of the progress of collection of rates each year.
- (ii) A sum of Rs.21,371,657 had been assigned to 09 Rates Collectors in the year under review for the recovery of arrears of rates in terms of Section 252(1)(b) of the Municipal Councils Ordinance and the collection made during 03 quarters amounted to Rs.3,545,339. The progress of recovery in as low value as 16 per cent.
- (iii) In terms of Section 252(1)(b) of the Municipal Councils Ordinance, in the case of non-payment of any rates, the recovery of the rates and the charges of such recovery should be made by distaining and sale of any movable or immovable property of the owner of the property for which rates are recoverable, available in such premises and all movable properties belonging any person whosoever available in or on such premises. Nevertheless, it had not been so done in connection with the arrears of rates amounting to Rs.25,386,174 relating to the years from 2006 up to 31 December 2010.

## **2.2.5 Lease of Trade Stalls**

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The following matters were observed.

### **(a) Trade Stalls at Matara Bus Stand**

- (i) According to the agreement entered into with the Urban Development Authority on 03 January 1995 and 28 August 1997 for the construction of the Matara Bus Stand Trading Complex under the Urban Development Sector Project of the Asian Development Bank Loan No.1204SRI(SF), 121 trade stalls comprising 11 trade stalls in the ground floor and 110 trade stalls in the upper floor had been constructed and leased out. The arrears of lease rent from those as at 31 December of the year under review amounted to Rs.3,882,250.
- (ii) Even though tenders had been called for on 08 March 2000 for leasing of the trade stalls, a file on the tenders received, tender evaluation reports, Tender Board decisions and the Council decisions thereon had not been maintained.
- (iii) According to condition 2.12 of the Tender Form. 50 per cent of key money within 14 days and the balance within 30 days should be paid while the rent for 03 months should be paid in a lump sum. According to that condition, a sum of Rs.55,780,250 at a minimum should have been received. Nevertheless a sum of Rs.34,515,731 only had been received from 14 April 2000 to the end of the year under review.
- (iv) Lease rent received in terms of Section 185(2)(d) of the Municipal Councils Ordinance had been deposited contrary to Section 186 in a savings account in the Ruhuna Development Bank not approved by the Minister.
- (v) In terms of Financial Regulation 383 of the Republic of Sri Lanka blank copies of Paying-in-Vouchers should be supplied when money

is credited direct to the Bank and such Vouchers had not been filled by person paying in money. As the monthly Statements had not been furnished in terms of Financial Regulation 395 money actually received could not be confirmed.

(vi) According to the file maintained by the Council, the key money and trade stall rents amounting to Rs.34,515,731 had been shown as received from the 121 trade stalls. According to the reports of the Ruhuna Development Bank a sum of Rs.32,790,831 had been received. Thus the difference amounted to Rs.1,724,900.

(vii) The following matters were observed at an on the spot inspection of the trade stalls carried out on 29 April 2011.

- Thirty nine trade stalls of the upper floor had been closed down and the arrears due from those as at 31 December 2010 amounted to Rs.1,657,858.
- Contrary to clause 5.2.5 of the agreement 16 lessees had transferred the trading rights to other persons. High rents such as ten times or four times than rent paid by the lessees had been charged from those persons.
- Contrary to clause 5.2.5 of the agreements, five persons who had obtained leases of trade stalls had sold the lease rights for amounts larger than the key money paid to the Council. No legal action had been taken in that connection.

(viii) Out of the cost of construction of the Bus Stand Trading Complex amounting to Rs.108,204,397 a sum of Rs.87,645,561 represented the repayable loan. In the circumstances, the loan installment of Rs.6,324,000 and the annual maintenance expenditure of Rs.3,203,124 as compared with the annual lease rent receivable amounting to Rs.3,441,000 indicated that the Trading Complex had become a financial burden of the Council.



(b) **Lease of Trade Stalls of First Floor of Mahajana Pola Trading Complex**

The matters observed in connection with the recovery of key money and the trade stalls rents of 194 trade stalls allocated to the permanent vendors from the Trading Complex at the old Mahajana Pola premises are as follows.

- (i) Even though several decisions had been taken since the year 1996 in connection with the recovery of key money and trade stall rents for the leasing out of the trade stalls, those had not been implemented. According to Standing Committee decision No.7/1 of 31 August 2006, it had been decided to obtain key money of Rs.3.5 million from the trade stalls, monthly rent of Rs.2,000 per stall and a non-refundable deposit of Rs.35,000 from each lessee. Nevertheless, it was observed that such rents had not been recovered.
- (ii) According to the Revenue Registers key money amounting to Rs.1,330,000 had not been recovered from 68 trade stalls by the end of the year under review. Action in terms of the agreements had not been taken for the recovery of arrears.
- (iii) At the time of on the spot inspection carried out on 29 April 2011, eighty three trade stalls had been closed down ceasing business activities. The arrears due from those by the end of the year under review amounted to Rs.2,672,921. In addition the arrears of trade stall lease rents due from 33 trade stalls functioning amounted to Rs.1,587,589.
- (iv) Six trade stalls of the upper floor for which the key money had been paid, had not been handed over to those person even up to the end of

the year under review. As such it had not been possible to recover the lease rent on those stalls.

- (v) Out of the 36 trade stalls on the ground floor of the Mahajana Pola Trading Complex 12 trade stalls had been closed down without any trading activities. The arrears due from those as at the end of the year under review amounted to Rs.806,190.
- (vi) According to the information made available to audit key money amounting to Rs.6,692,795 remained recoverable from the 36 trade stalls of the ground floor. As a Revenue Register had not been maintained it was not possible ascertain whether this amount was recovered or whether arrears existed.

(c) **Kotuwegoda 26 Trade Stalls**

- (i) A sum of Rs.1,436,815 remained recoverable as at the end of the year under review from the 26 trade stalls for which agreements had been signed in the year 1995. The assessed rent had not been revised once in each five years in accordance with the agreements. Legal action for the recovery of arrears of rent had been taken only against 08 trade stalls.
- (ii) Contrary to the trade stall lease agreement 05 trade stalls had been closed down without being used for any activity and 08 trade stalls had been used as stores. Sums of Rs.135,607 and Rs.174,314 respectively had been in arrears from those trade stalls as at the end of the year under review.
- (iii) Proper Revenue Registers had not been maintained to establish whether the key money of Rs.50,000 and three times the monthly rent as a deposit had been received and that the monthly rent had been received as specified.

**(d) Gangaboda Shopping Complex – 09 Trade Stalls**

- (i) A sum of Rs.1,586,010 had been spent for the construction of those trade stalls. Rent amounting to Rs.295,009 and key money of Rs.100,000 from trade stall No.5 had been in arrears. Legal action in terms of Clause II of the agreement had not been taken to recover the arrears.
- (ii) Out of these trade stalls 05 trade stalls with arrears amounting to Rs.144,259 had been closed down without being used for any purpose. It was observed that the money spent by the Council had not been of any benefit to the public.

**(e) Other Lease Rents**

As at the end of the year under review, the arrears from 45 trade stalls of the Kotuwegoda Children's Park relating to 04 years amounted to Rs.5,529,705, from 14 trade stalls of Walgama Pola amounted to Rs.101,080 and from 06 fish stalls and 21 other stalls amounted to Rs.14,834 and Rs.137,471 respectively.

The Council did not have the particulars relating to the number of trade stalls at Bathatha Pola, the arrears recoverable and the Revenue Register on the collection of lease rents.

**2.2.6 Courts Fines**  
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Action had not been taken for the recovery of Court Fines amounting to Rs.288,641 collected by a Magistrate's Court under various Ordinances up to 31 December 2010 and remitted to the Provincial Commissioner of Revenue.

### 2.2.7 Stamp Fees

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Stamp fees amounting to Rs.22,745,203 remained receivable as at 31 December 2010 from the Registrar General.

### 2.2.8 Trade Licenses and Advertising Hoarding Charges

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Even though cases had been filed for the recovery of the arrears of trade license fees and the advertising hoarding charges Rs.887,212 and Rs.1,763,472 respectively relating to the year under review and the preceding years, no action other than the issue of warrants on the cases had been taken.

### 2.3 Expenditure Structure

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The budgeted and the actual expenditure of the Council for the year under review and the preceding year together with the variance are given below.

| Item of Expenditure | 2010     |         |          | 2009     |         |          |
|---------------------|----------|---------|----------|----------|---------|----------|
|                     | Budgeted | Actual  | Variance | Budgeted | Actual  | Variance |
| -----               | -----    | -----   | -----    | -----    | -----   | -----    |
|                     | Rs.'000  | Rs.'000 | Rs.'000  | Rs.'000  | Rs.'000 | Rs.'000  |
| <u>Recurrent</u>    |          |         |          |          |         |          |
| <u>Expenditure</u>  |          |         |          |          |         |          |
| Personal Emoluments | 141,852  | 112,418 | 29,434   | 136,391  | 108,141 | 28,250   |
| Others              | 72,588   | 48,890  | 23,698   | 88,191   | 49,918  | 38,273   |
|                     | -----    | -----   | -----    | -----    | -----   | -----    |
| Sub-total           | 214,440  | 161,308 | 53,132   | 224,582  | 158,059 | 66,523   |
| Capital Expenditure | 15,183   | 30,792  | (15,609) | 85,057   | 46,800  | 38,257   |
|                     | -----    | -----   | -----    | -----    | -----   | -----    |
| Grand Total         | 229,623  | 192,100 | 37,523   | 309,639  | 204,859 | 104,780  |
|                     | =====    | =====   | =====    | =====    | =====   | =====    |

- (a) The items in the approved budget for the year under review had not been reconciled with the actual items of revenue and expenditure and an Annual Statement showing the reasons for the variance observed had not been prepared.
- (b) Without utilizing the money provided under the targeted expenditure specified in the annual budget for such purposes a sum of Rs.8,720,041 had been transferred among other Heads of Expenditure by 13 Supplementary Estimates. Nevertheless

it was observed that the budget had not been made use of as an effective instrument of Management Control.

**2.4 Human Resources Management**  
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**2.4.1 Approved and Actual Cadre**  
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Information on the approved and the actual cadre of the Council as at 31 December 2010 is given below.

| Category of Posts<br>-----                            | Approved<br>----- | Actual<br>----- |
|---|-------------------|-----------------|
| Staff Grade   | 04                | 04              |
| Secondary Grade                                       | 120               | 62              |
| Primary Grade   | 253               | 249             |
| Other (Casual/Substitute)<br>Estimated/Contract Basis | -                 | 197             |
|   | --                | --              |
| Total   | 377               | 512             |
|   | ==                | ==              |

- (a) According to the Revenue and Expenditure Account for the year under review the expenditure on the salaries of staff amounted to Rs.112,418,154 and the Commissioner of Local Government had reimbursed only a sum of Rs.75,084,000 and as such the difference amounting to Rs.37,334,154 had become an expenditure of the Council Fund.
- (b) Even though the recruitment of casual, substitute and contract employees by Local Authorities had been suspended by the Management Services Circular No.14 of 03 January 2003 and No.28 of 10 April 2006 of the Secretary to the Treasury, contrary to that provision, 197 employees had been recruited and a sum of Rs.34,572,657 had been paid out of the Council Fund as salaries. Action had not been taken to recover a sum of Rs.1,367,229 on account of no-pay leave of 90 casual labourers of the Council that remained recoverable as at the end of the year under review.

## **2.5 Assets Management**

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### **2.5.1 Idle and Underutilized Physical Resources**

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Five motor vehicles of the Fire and Rescue Unit of the Council valued at Rs.39,000,000 brought to account under the Motor Vehicles and Carts Account remained parked in the Fire and Rescue Unit without being used due to the non-establishment of a Fire and Rescue Unit. It was observed at the physical inspection carried out on 20 September 2011 that a stock of 1296 fire fighting goods and equipment in addition to the above, are stored in the Fire and Rescue Unit without being used.

### **2.5.2 Registering Fixed Assets**

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A Register of Fixed Assets had not been maintained for the lands and buildings belonging to the Council and the 29 lands and buildings valued at Rs.75,573,000 transferred to the Council by the Matara Pradeshiya Sabha on 06 October 2006 had not been recorded in the registers of the Council.

### **2.5.3 Accounts Receivable**

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The value of the balances of the accounts receivable as at 31 December 2010 amounted to Rs.8,315,937 and the balances older than 01 year totalled Rs/8,314,540.

### **2.5.4 Staff Loans Recoverable**

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The balances of Staff Loans older than 01 year as at 31 December 2010 totalled Rs.11,194,937. A sum of Rs.843,682 included in this balance relating to 110 officers who had been transferred out and retired or vacated posts had become irrecoverable.

## **2.6 Contract Administration**

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The following matters were observed.

### 2.6.1 Matara Bus Stand and the Trading Complex constructed under the Asian Development Bank Loan No.1204SRI(SF) Urban Development Sector Project

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Matara Municipal Council had entered into agreements with the Urban Development Authority on 03 January 1995 and additional agreement on 28 August 1997 for the construction of the Matara Bus Stand and the Trading Complex under the Asian Development Bank Loan No.1204SRI(SF) Urban Development Sector Project at a cost of Rs. 96.4 million, and the expenditure incurred by the Urban Development Authority amounted to Rs.108,204,397. The Director General of the Urban Development Authority had, by his letter dated 03 May 2001, informed that a sum of Rs.87,645,561 should be paid comprising Rs.49,774,022 as a loan and a sum of Rs.37,871,539 as the key money obtained by tendering. The trade stalls should be paid and that there was no problem relating to the balance sum of Rs.20,558,836.

The matters observed in this connection are as follows.

- (i) According to Clause 05 of the Loan Agreement, the repayable 61.7 per cent of the cost of construction amounted to Rs.66,762,112 and the reasons for the difference of Rs.20,883,449 arising from computation of the repayable loan as Rs.87,645,561 had not been revealed.
- (ii) Even though the value of the contract computed for the recovery of the loan amounted to Rs.108,204,397, the value of work done according to the bills amounted to Rs.107,662,426 and the difference amounted to Rs.541,970.

- (iii) According to the Clause 05 of the agreement, and the schedule appearing in the Loan Repayment Annex 02, a sum of Rs.126,480,000 should be repaid as interest and installments in 20 years (June 1999 to 2018). Nevertheless, according to the schedule on the repayment of the loan of Rs.49,774,022, the installments and interest payable in 21 years (2000-2021) amounted to Rs.123,535,850 and as such the difference amounted to Rs.2,944,150.
  
- (iv) According to Clause 04 of the agreement, the key money received from leasing out the trade stalls of the Trading Complex should be deposited in a Bank of national level. Nevertheless, the money had been deposited in the account No.14600 of the Ruhuna Development Bank which is a regional Bank. This action is contrary to Sections 185 and 186 of the Municipal Councils Ordinance. An officer of the Urban Development Authority had not been appointed in terms of the agreement for operating the account.
  
- (v) Contrary to the Council decision of 28 March 2001 and the letter dated 02 April 2001 of the Chairman of the Urban Development Authority the investment of the money in the account No.14600 without the approval of the Director General of the Urban Development Authority had been stated as a breach of Clause 9.03 of the agreement. Nevertheless, contrary to such decisions a sum of Rs.21,530,000 had been invested in 13 fixed deposits of the above Bank.
  
- (vi) According to Clause No.04 of the agreement signed on 28 August 1977 the Money obtained from leasing out the trade stalls of the Commercial Complex should be utilized only for the repayment of the loan. Contrary to those stipulations, loans amounting to



Rs.5,625,000 for the purchase of a Motor Vehicle for the Mayor, and Rs.9,500,000 for the construction of a Trading Complex had been obtained by placing 05 fixed deposit certificates as security and a sum of Rs.2,000,000 had been utilized to settle the overdraft in a Bank Account (No.1660083158) of the Council.

As at the end of the year under review a sum of Rs.3,861,464 on account of Motor Vehicle loans and loan installments amounting to Rs.7,770,521 remained payable. In view of the non-payment of loan in terms of the agreement, the risk of the Bank taking over the fixed deposits placed as security existed.

#### **2.6.2 Constructions of Trade Stalls of First Floor of Mahajana Trading Complex**

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An agreement for a sum of Rs.7,350,093 had been entered into on 18 April 2007 with a private institution for the construction of trade stalls for street vendors on the first floor of the Old Mahajana Pola Trading Complex and a sum of Rs.6,412,472 had been paid. The matters observed in connection with the leasing out of the 104 trade stalls constructed are as follows.

(i.) According to the decisions of the Standing Committee dated 15 February 2007 and the Council dated 08 March 2007 a loan of Rs.7,500,000 had been approved by the Ruhuna Development Bank for the construction of the buildings, whereas according to the loan agreement, the loan amounted to Rs.9,500,000. Sums totalling Rs.6,500,000 had been received in two instances whereas according to the letter of the Manager of the Bank dated 03 March 2011, the loan amounted to Rs.9,500,000 and the balance recoverable as at 31 December 2010 amounted to Rs.7,770,521. As such the loan granted had been overstated by a sum of Rs.3,000,000.

(ii.) According to a Clause 01 of the loan agreement, the total amount payable by the Council in 60 installments amounted to Rs.12,751,462. An on the spot inspection carried out on 29 April 2011 revealed that 80 per cent of the 194

trade stalls constructed or 83 trade stalls remained closed down and no business had been run therein. As such it was observed that the Council funds had not been utilized for public benefit.

- (iii.) The supply of Lavatories and other sanitary facilities had not been planned for the Trading Complex constructed at a cost of Rs.6,412,472 and it was observed at the inspection that as a result the traders and the general public had been inconvenienced.

### **2.6.3 Cleaning of the Drains of Roads in the Area of the Municipal Council**

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The matters observed in connection with the payment of salaries amounting to Rs.7,081,307 in the years 2009 and 2010 for cleaning of the drains of roads in the area of authority of the Council are as follows.

- (i) The particulars of the drain in the area of authority of the Council maintained by the Council such as the road relating to the drain, the length and breath of the drains, the assessment numbers at the beginning and the end of the drain or other codes for the identification were not available with the Council.
- (ii) The estimate prepared for cleaning of each drain, the number of labourers deployed and the copies of daily allocation of work and the number of drains cleaned in the respective years were not available.
- (iii) The Finance Committee had approved the estimates prepared without identifying the number of labourers to be deployed for cleaning of each drain. Payments amounting to Rs.107,660 and Rs.53,079 exceeding the amounts so approved had been made in the years 2009 and 2010 respectively.

### **2.7 Asia URBS Project**

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The Council had teamed with the University of Moratuwa, the International Communities and several foreign Municipal Councils and the Catholic University Leuvaan of Belgium, of the European Union with the objective of the preparation

of the Geographical Information System of the area of authority of the Council and sums of Rs.3,380,286 and Rs.918,197 or EURO 27,483 had been determined as the contribution of the Council. The contribution to this project in the years 2006 and 2007 made by the Asia URBS institution and the Council amounted to Rs.2,520,337 and Rs.446,785 respectively totalling Rs.2,967,122. The following matters were observed in this connection.

- (a) According to Financial Regulation 610, all negotiations with regard to foreign aid should be handled by the Director General of the Department of External Resources of the Treasury and all enquiries as to whether foreign aid could be obtained for any project whatsoever should also be made from the Director General of the Department of External Resources. Those requirements had not been followed in connection with this project.
- (b) The Bank Account No.1989588 had been opened with the Bank of Ceylon on 29 July 2005 for the transactions of the Project and the receipts to and payments from the account from the year 2005 to 29 June 2007 amounted to Rs.3,472,101 (EURO 27,481.46) and Rs.2,967,122 respectively. The maintenance of the cash book and the preparation of payment vouchers had not been done in terms of Financial Regulation 185 while Bank Reconciliation Statements had not been prepared in terms of Financial Regulation 395.
- (c) The money received by the Council had not been credited to the Council Fund in terms of Sections 185 and 186 of the Municipal Councils Ordinance (Cap.252). While it had not been included in the financial statement as well.
- (d) An agreement had not been entered into with the institution which supplied funds for the Project. Quarterly Reports and Statements of Expenditure had not been sent and the balance sum of Rs.952,265 as at 30 June 2007 had not been remitted to the institution which supplied the funds.
- (e) Even though provision of Rs.415,260 (EURO3,300) had been made for a foreign tour of 04 officers of the Council working on the Project, a sum of

Rs.1,052,079 comprising Rs.485,499 for a field inspection tour of Mumbai, India and a sum of Rs.566,580 for a tour of Karachchi, Pakistan had been spent.

(f) The computer, the scanner and the printer purchased for the Project at a cost of Rs.265,700 had been idling without being used for Project work. The GIS Database purchased for Rs.703,782 had not been used even by 31 July 2011.

(g) The following matters expected by the Council for achievement from the Project could not be achieved even by 31 July 2011 and as such the sum of Rs.2,967,122 spent from financial aid and the Council Fund had become fruitless.

- Non-preparation of a Base Map depicting the area of authority of the Council.
- Non-purchase of a computer compatible for using the GIS Database.
- Failure to make the officers responsible aware of the technology on Geographical Information System.
- Failure to conduct and awareness of the Sensitive Maps.

## **2.8 Issue of Development Permits and Certificates of Conformity for Building Applications**

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In terms of provision in Section 8(a) of the Urban Development Authority Act, No.41 of 1976 as amended by the Amendment Act, No.44 of 1984 and Amendment Act, No.4 of 1982, eight hundred and thirty six (836). Building Applications had been received in the years 2009 and 2010. The matters observed at an examination of 37 applications for three storeyed buildings selected out of the above are as follows.

(a) The processing fees recoverable in terms paragraph 1:11 of Schedule V of the Notification published by the Minister of Urban Development are Sacred Areas Development in the Gazette No.1597/8 of 17 April 2009 had been under – recovered by a sum of Rs.20,308 from 07 applications.

- (b) Even though a sum of Rs.50 per day should be recovered for occupation/use of buildings without Certificates of Conformity in terms of Paragraph 6(vii) of the above Gazette Notification, a sum of Rs.58,800 had not been recovered in 04 instances.
- (c) In the grant of covering approval for buildings constructed without a development permit, the charges recoverable in terms of paragraph 6(ii) of the above Gazette Notification had been either under – recovered or not recovered at all. The sum recoverable in connection with 05 such instances amounted to Rs.5,614,670.
- (d) According to paragraph 5 of the above Gazette Notification, the motor vehicles parking areas should be shown in the plan in accordance with the Orders of the Urban Development Authority. The charge recoverable per motor vehicle in instances of failure to do so had been specified. Even though parking spaces had been shown in the building plans, a physical inspection carried out on 05 August 2011 revealed that parking spaces had not been provided. A sum of Rs.10,500,000 had not been recovered in 05 such instances.
- (e) A permit for a residential building had been issued for a plan No.BA/245/2009. The physical inspections carried out on 05 August 2011 revealed that the building had been used for running a hotel business. But the charge of Rs.631,100 for the change of utilization of the building recoverable in terms of paragraph 7(ii) of the above Gazette Notification had not been recovered. In addition, the Surveys on the changes in the utilization of buildings in the area of authority of the Council had not been conducted in terms of the Planning Circular No.04 dated 29 August 1986 of the Urban Development Authority.

**2.9 Motor Vehicles Control**  
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Even though 08 motor vehicles of the transport fleet of the Council had been condemned and taken off from running, sums of Rs.5,925 and Rs.38,778 had been spent on the revenue licenses and insurance of those motor vehicles respectively for the year under review.

**2.10 Internal Audit**  
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An adequate internal audit of the Council had not been carried out.

**3. Systems and Control**  
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Special attention is needed in respect of the following areas of System and Control.

- (a) Accounting
- (b) Internal Control
- (c) Revenue Administration
- (d) Asserts Management
- (e) Staff Loans Control
- (f) Motor Vehicles Control