

Northern Provincial Council - 2012

1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Northern Provincial Council as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Comments on Financial Statements

1.2.1 Accounting Deficiencies

The following observations are made.

(a) Overstatements in the Accounts

A sum of Rs. 12,756,497 being credit balances in Livestock Farm, Agriculture Farm and Mechanical Workshop Advance Account Activities had been transferred to the Provincial Fund Account as credit balances through journal entries. As a result the Provincial Fund Account had been overstated by Rs. 12,756,497.

(b) Omission in the Accounts

Out of five advance accounts activities functioned in the Provincial Council, balances on four advance accounts activities had not been brought to the financial statements.

1.2.2 Common Lapses in the Appropriation Accounts

Repeated common lapses such as non-utilization of provisions fully or partly, incurring expenditure without provision in the Annual Estimates, omission of outstanding liabilities in the accounts, recurrent expenditure being charged to capital expenditure and vice-versa, non-remittance of details of capital expenditure, lack of adequate explanations for the savings and non-reconciliation of departmental books with Provincial Treasury books were observed in the Appropriation Accounts rendered in respect of certain Provincial Ministries and Departments for the year under review too.

In this connection the Chief Secretary had stated that necessary instructions were given in line with the financial circulars and instructions received from the Ministry of Finance and Planning and Finance Commission from time to time to the Provincial Ministries and Departments to rectify the lapses pointed by the audit.

In addition to these lapses, the following deficiencies were also observed during the course of audit on the appropriation accounts of the Provincial Ministries and Departments for the year under review.

- (a) Provisions made under several object codes had not been fully or partly utilized by various Provincial Ministries and Departments due to the expenditure estimates had been prepared on an ad-hoc basis.
- (b) Non-compliance with Provincial Treasury instructions given for the preparation and presentation of the Appropriation Accounts.
- (c) Explanations for the savings were not satisfactory or adequate.
- (d) Independent confirmations had not been obtained for liabilities amounting to Rs 38,058,183 relating to supplies, Fuel, Electricity, etc.
- (e) Expenditure aggregating Rs. 165,451,679 had been incurred exceeding the estimated provisions by 05 Ministries and 07 Departments. Further, it was observed that approvals in terms of Provincial Financial Rule (PFR) 46 had been obtained after incurring excess expenditure.
- (f) Action had not been taken on losses aggregating Rs. 9,645,015 shown in respect of 10 items of the Provincial Department of Health over ten years.
- (g) Action had not been taken on losses aggregating Rs. 27,199,678 in terms of Provincial Financial Rules 61 to 74 and it had not been disclosed in the Appropriation accounts for the year 2012 by the Provincial Department of Health and Department of Animal Production and Health.
- (h) Due to non availability of the provision to meet the expenditure a sum of Rs. 113,105 had been shown as liabilities in the accounts.
- (i) Expenditure amounting to Rs. 302,906,167 had been incurred under 19 Heads of expenditure without creating new object codes.
In this connection the Chief Secretary had stated that even though monitoring mechanism was followed there were some shortfalls occurred which will be rectified in future.
- (j) The capital expenditure amounting to Rs. 6,911,823 incurred under 110 items with regard to capital improvement of various Provincial Departments had been erroneously classified under recurrent expenditure.
- (l) As per Boards of Survey reports, large number of assets were reported as missing during the year under review. But most of the departments were not included these losses in their Appropriation Accounts and preliminary reports and final reports on losses in terms of Provincial Financial Rules No. 69 had not been furnished by those Departments.

1.2.3 Non-maintenance of Books and Records

It was observed during audit test checks that the Provincial Council had not maintained the following registers while certain other registers had not been maintained in proper and updated manner.

Type of Register	Relevant Regulation
-----	-----
Register of Fixed Assets	Treasury Circular No 842 of 19 December 1978
Register of Fixed Assets on Computers, Accessories and Software	Treasury of Circular No.1A1/2002/02 of 28 November 2002.
Liability Register	Financial Regulations 214
Register of Losses and Damages	Financial Regulations 110, Provincial Financial Rules No. 259-01

In this connection the Chief Secretary had stated that the necessary instructions will be given to maintain the registers in future and clarification process is going on.

1.2.4 Deficiencies in the Advances to Public Officers Accounts

The following observations are made.

- (a) Proper action had not been taken to recover the loan balances aggregating Rs. 30,087,987 due from the officers who were transferred out of the Provincial Ministries and Departments to other Provincial Ministries and Departments, retired, deceased, released to Projects, vacated post, and interdicted.
- (b) The Ministry of Health and the Department of Education had prepared the reconciliation statements with unidentified balances amounting to Rs. 4,170,290 and Rs. 91,498 respectively.
- (c) It was not possible to ascertain in audit as to whether the debit balance of Rs. 610,063,838 shown in the financial statements had been due from 05 Ministries and 27 Departments in respect of unsettled loans, reflects the actual realizable amount as confirmations for the debit balances were not made available for audit.

1.2.5 Settlement of Outstanding Imprest Balances

- i) Imprest balances aggregating Rs. 5,786,000 had remained unsettled by the Department of Local Government up to 28 March 2013. In this regard action had not been taken to recover the outstanding imprest from the respective institution.

- ii) Unsettled imprest amounting to Rs. 626,681 had been kept in the deposit account by the Department of Provincial Director of Health without being settled to the Provincial Treasury at the end of the year 2012.

1.2.6 Deficiencies in the Commercial Advance Account Activities

The following observations are made.

(a) **Maintenance of Livestock Farms – Item No. 43202**

- (i) The value of the fixed assets in the livestock farms at Poonthottam, Chekkadipulavu and Atchchuvveli had not been ascertained and brought to accounts.
- (ii) Cadre for the Commercial Advance Accounts Activities of the Northern Provincial Council had not been determined and fixed/approved by the Provincial Cadre Commission.
- (iii) Provision for expected losses in the working of the advance Accounts activity had not been made in terms of Provincial Financial Rule 18.3.
- (iv) Statement of losses had not been furnished to audit in terms of Section of Provincial Financial Rule 18.3.
- (v) Cash flow statement in terms of LKAS – 6 had not been submitted along with the financial statements.

(b) **Textile Industries - Item No. 47302**

- (i) Accounting policies adopted in the preparation of financial statements had not been disclosed in terms of LKAS – 3.
- (ii) Cash flow statement in terms of LKAS – 6 had not been submitted along with the financial statements.
- (iii) The closing stocks to the value of Rs. 1,649,559 as at the end of the year under review had been disclosed at sales value instead of showing at cost or net realizable value whichever is lower. Further, the stock verification reports had not been made available for audit.
- (iv) Separate profit and loss account had not been prepared for each centre to ascertain the performance of each centre.
- (v) Proper records had not been maintained in respect of purchase of dyeing items and distribution them among the Weaving Centres.
- (vi) Excess quantities of yarn had been purchased continuously by the Departments of Textiles Industries without considering the quantity of stock available for the production at the time of purchase. As a result huge amount of money had been utilized for the purchase of yarn which were not utilized for the production and allowed to be idle at the stores. In this

connection the Chief Secretary had stated that there was no funds given by the Provincial Treasury and we are managing and running the activities within the sales income.

1.2.7 Revenue Accounts

The following observations are made.

- (a) Although estimated revenue for six Revenue Codes aggregating Rs. 172 million had been given in the budgeted annual financial statements, revenue accounts of the Provincial Council for the year under review had not been prepared and furnished to audit. In this connection the Chief Secretary had stated that action had been taken to prepare a revenue statement from 2013 onwards.
- (b) In terms of the provisions of the 13th Amendment to the Constitution of the Democratic Socialist Republic of Sri Lanka, revenue such as rent on Government Quarters, interest on advance accounts, vehicle license fees and stamp duties etc. amounting to Rs. 1,648,695,529 had been taken into the Funds of the Provincial Council in the absence of Statutes passed by the Provincial Council.

1.2.8 Bank Reconciliation Statements

The following observations are made.

- (a) Follow up action had not been taken the Provincial Department of Education on unrealized deposits amounting to Rs. 45,600 for a period of over 6 months by making inquiries from the banks.
- (b) Action had not been taken on the 74 Nos of cheques valued at Rs. 2,107,492 issued but not presented for payments for over six months in terms of P.F.R 237.
- (c) Unidentified debits of Rs. 105 and unidentified credits aggregating to Rs 1,002,704 were observed in the Chief Secretary's Secretariat, Management Development Training Institute, Department of Animal Production and Health, Department of Education, Department of Health, Department of Industries and Department of Rural Development. Action had not taken to identify these debits and credits and adjust the relevant accounts.

1.2.9 General Deposit Accounts

The following observations are made.

- (a) List of the lapsed deposits had not been prepared at the end of each half year in terms of FR 571.

- (b) Action had not been taken on deposit balances amounting to Rs. 86,175,791 which were remaining in the accounts of Provincial Ministries and Departments for over 03 years.
- (c) The value of general deposit amounting to Rs. 20,965,636 over the period of 2 years as at 31 December 2012 on which action could have been taken in terms of Financial Regulation 571 but action had not been taken
- (d) A sum of Rs. 1,874,498 received during the year under review as stamp duty, contribution to pension fund, loan recoveries, contribution to Public Service Provident Fund and Withholding Tax had been kept in the deposit accounts without remitting to the relevant Institutions.
- (e) A capital provision of Rs. 88,471,799 and recurrent provision Rs. 31,098,274 under the Ministry of Health, Department of Local Government, Department of Sports and Department of Agriculture had been transferred to the deposit accounts as unspent provision during the year, contrary to provincial Financial Rules 215(3) and this money had not been utilized for the intended purpose up to 31 October 2013 and as a result expenditure had been overstated.
- (f) Funds relating to 3 projects aggregating Rs. 2,233,912 had been kept in the deposit account without being utilized for the intended purposes.
- (g) Funds aggregating Rs. 110,156,734 received for the various purposes by nine departments including Governor’s Secretariat had been kept in the deposit account over 2 years without being taken action to utilize the money for the intended purposes. Details are given below.

<u>Name of the Departments</u>	<u>Type of Deposits</u>	<u>Period Years</u>	<u>Amount Rs.</u>
i. Governor’s Secretariat	Purchase of vehicle and land and retention money	Over 3 – 4	86,160,341
ii. Department of Local Government	R/ACLG Kilinochchi unrealized cheques	Over 2 – 3	6,299,058
iii. Department of Agriculture	Deposit from line Ministry, Food and Agriculture Organization Project Fund and other deposit	Over 2 – 3	6,292,949
iv. Department of Industries	Retention money	Over 2-3	82,067
v. Department of Probation and Child Care Service	Motorbike loan recovery	Over 2 – 3	995,925
vii. Management Development Training Institute	Certificate course fees	Over 2 – 3	6,250

viii. Department of Education	(i) Post graduate Diploma retention money	Over 3	15,450
	(ii) Cancelled cheques President fund scholarship	Over 2-5	5,127,403
ix. Department of Health Services	Retention Money	Over 2-3	2,120,538
x. Department of Buildings	Retention Money	Over 2-3	3,056,753
			<u>110,156,734</u> =====

- (h) Motor bicycles donated by the several NGOs including Food and Agriculture Organization to distribute among for the farmers at free of charges had been given to the officers at concession price by the Ministry of Agriculture. In this regard recoveries of Rs. 71.4 million made from the beneficiaries of Motor bicycle were kept in the deposit account without being credited to the Provincial Revenue.

1.3.10 Lack of Evidence for Audit

- (a) Seven hundred and thirty two items in the accounts relating to 18 Provincial Institutions aggregating Rs. 108,976,253 could not be satisfactorily vouched in audit due to non-availability of required evidence such as bills, receipts, requisitions, confirmations, goods received notes, goods issued notes, works completion certificates etc.

(b) Submission of information to audit

- (i) Although several vehicles belonging to the Provincial Council had met with accidents during the year under review and previous years, the particulars of such accidents of the vehicles and other details were not furnished to audit even though called for.
- (ii) Although several appointments had been made to the Local Authorities by the Provincial Council without considering cadre requirements, scheme of recruitment, age limits and educational qualifications, and the details of those appointments made had not been furnished for audit.
- (iii) Details of Value Added Tax paid to the suppliers and contractors by the Ministries and Departments had not been furnished for audit even through called for.
- (iv) Appointments, absorptions, confirmations, transfers and several numbers of contract appointments were made by the Provincial Public Service Commission during the year under review. However the minutes of

committee meeting of the Provincial Public Service Commission had not been made available for the audit examination even though called for.

- (v) Details of vehicles attached to the Governor’s Secretariat and expenditure incurred on fuel and vehicle maintenance were not furnished for audit examination although called for
- (vi) Details with regard to appointment of legal consultant such as basis of appointment, list of duties, monthly payments details, details of consultancy made, attendance and date of recruitment were not furnished for audit although called for. In this connection the Chief Secretary had stated that the Provincial Public Service Commission given the contract appointment by following appropriate recruitment procedure. Since there were no applications for legal officer position, the special payment was fixed by the Provincial Public Service Commission. There was no official vehicle / fuel provided.
- (vii) Information called from the Provincial Department of Education on 13 February 2013 with regard to several workshops and seminars conducted at a cost of Rs. 12.1 Million had not been furnished for audit.

(c) Unanswered Audit Queries

Replies to nine audit queries issued to the following departments during the year under review had not been furnished up to 31 December 2013 and the value of quantifiable transactions relating to those audit queries amounted to Rs. 64.95 million.

Ministry/ Department	No of audit queries	Amount
		Rs. Million
Department of Education	03	48.30
Department of Sports	02	2.97
Ministry of Education	02	2.98
Ministry of Agriculture	02	10.70
	09	64.95

1.3 Non-compliance with Laws, Rules, Regulations etc

Non compliances with the provisions in the following Laws, Rules and Regulations observed during the course of audit are given below.

a) **Provincial Financial Rules**

Nos. 51, 69, 70, 70(5), 76, 105,106,107, 166, 172, 220(1), 237, 260 (iii), 261, 301, 368, 407, 420 (1) (v) (xiii), 433, 434 (2), 434(5) and 434 (6)

b) **Implementation of Establishment Matters contrary to the Policies of the Central Government**

The following observations are made.

According to Circular No. PD/BP/9 dated 01 June 1999 issued by the Ministry of Provincial Councils and Local Government, the implementation of establishment matters of the officers of the Provincial Public Service should as far as possible be in accordance with the procedures relating to the officers in the corresponding posts of the Public Service.

Instances of non-compliance with that provision are given below.

- (i) Rent had not been recovered from 03 Secretaries who were in occupation in the houses taken on rent which were fully furnished with household items to the value of Rs 150,000 (approximately) per Secretary and payments of electricity and water bills for those houses taken on rent and occupied by them also had been made from the Provincial Funds. Action had not been taken in terms of Section 5:3 of Chapter XIX of the Establishments Code to recover rent from all officers including Secretaries for occupation of rented house and the electricity and water bills have to be settled by them.

In this connection the Chief Secretary had stated that due to non availability of staff quarters and with the special approval houses were rented for Secretaries and Deputy Chief Secretaries for their accommodation by reduction of Rs. 500 from their salary.

- (ii) 12 nos of buildings had been taken on rent basis by the Provincial Council for official purpose since January 2011 without following proper procurement procedure. Further a sum of Rs. 15 million had been paid as rent during the years 2011 to 2012. In this regard, valuation had not been obtained from the Chief Valuer of the Valuation Department for the payment of rental.

In this connection the Chief Secretary had stated that due to non availability of the office building, and with the special approval houses were rented for office purpose by following appropriate procurement method. At that time valuation report could not be taken immediately. Presently it was rectified.

- (iii) A sum of Rs. 10,655 million had been paid as salaries to the staff attached to the Provincial Ministries and Departments during the year under review without obtaining approval from the Salaries and Cadre Commission.

- (iv) Although cadres for Regional Commissioners were not approved, a re-employed non Sri Lanka Administration Service Officer was appointed as Regional Commissioner on contract basis to Kilinochchi, Jaffna and Vavuniya. A sum of Rs. 5,434,345 had been paid as salaries and allowances to him in addition to the vehicle maintenance, fuel and other office maintenance expenditure contrary to Public Administration Circular No. 9/2007 dated 11 May 2011. In this connection the Secretary to the Governor had stated that Regional Commissioners were duly appointed by the Hon. Governor and the staff comprising of Management Assistants, Drivers and Office employees were appointed by the Provincial Public Administration.

2. Financial and Operating Review

2.1 Financial Results

According to the financial statements presented the operations of the Provincial Council Fund for the year under review had resulted in a deficit of Rs. 910,610,794 as against the surplus of Rs. 721,712,394 for the preceding year, thus indicating a deterioration in the financial results by Rs. 1,632.3 million due to decrease in Government Grants by Rs. 1136.6 million, increase in total expenditure by Rs.830.6 million and increase in taxable revenue by Rs. 335.9 million.

2.2 Financial Performance

According to the financial statements presented, a summary of the revenue and expenditure for the year under review and the preceding year are given below.

Revenue	2012			2011		
	Budgeted	Actual	Variance	Budgeted	Actual	Variance
	Rs. million	Rs. million	Rs. million	Rs. million	Rs. million	Rs. million
Taxable and Non - Taxable Revenue	172	1,648.70	1,476.70	42.00	1,312.80	(1,270.80)
Government Grants	12,383	9,733.20	(2,649.80)	11,717.20	10,870.70	846.50
	12,555	11,381.90	(1,173.10)	11,759.20	12,183.50	424.30
Expenditure	2012			2011		
	Budget	Actual	Variance	Budget	Actual	Variance
	Rs. million	Rs. million	Rs. million	Rs. million	Rs. million	Rs. million
Recurrent expenditure						
Personal Emoluments	8,055	8,244	(189)	7,606	7,583	23
Others	2,274	2,411	(137)	2,162	2,124	38
Sub Total	10,329	10,655	(326)	9,768	9,707	61
Capital Expenditure	2,054	1,637	417	1,949	1,754	195
Grant Total	12,383	12,292	91	11,717	11,461	256

2.3 Operating Review

The following observations are made.

- a) Total expenditure for the year under review was Rs. 12,292 million and of this, 87 per cent represented recurrent expenditure while 13 per cent represented capital expenditure. Further, out of the total expenditure, a sum of Rs. 8,244 million or 67 per cent had been incurred for personal emoluments.
- b) Arrears of revenue under the motor vehicle revenue license had not been ascertained and brought to the financial statements

In this connection the Chief Secretary had stated that in the absence of Provincial Council, revenue could not be ascertained without appropriate financial statute. It is notified in future.

2.4 Unutilized Provision

- (a) The entire provision aggregating Rs. 205,522,846 under 18 Heads of expenditure made in the Budgeted financial statements for the year under review had not been utilized for the intended purposes.
- (b) Supplementary provision amounting to Rs. 302,742,166 obtained under 18 Heads during the year under review had not been utilized for the intended purposes.

2.5 Unauthorized Expenditure

Capital expenditure aggregating Rs. 88,987,137 had been incurred by 27 Departments without provision and expenditure had been regularized at the end of the year through surcharge account.

2.6 Budgetary Control

Funds had been transferred through 200 Nos. of supplementary provision for Rs.1,625,921,528 under 31 heads of the various Ministries and Departments. Hence budget had not been used for as an instrument of proper financial control.

In this connection the Chief Secretary had stated that 2012 budget was prepared in line with financial needs identified by the Ministries and Departments and Circular which was issued by the Finance Commission in 2011. However, in 2012, unexpectedly 896 numbers of officers for education, health and other departments were recruited. As such an additional allocation allocated to meet the payments, and supplementary provisions were made. In addition, continuous process on resettlement and rehabilitation to IDPs

had been taken place in Northern Province in the year 2012 too. As a result supplementary provisions were given to Ministries and Departments to meet the expenses related to IDPs works under capital vote as well.

2.7 Utilization of Provincial Funds

- (a) Particulars of funds received from various sources for the development work proposals of the Provincial Council and the actual expenditure incurred thereon are given below.

Description of Items	Funds Received	Actual Expenditure	Savings	Percentage of Utilization
	----- Rs.	----- Rs.	----- Rs.	----- %
(i) Provincial Specific Development Grants (PSDG)	1,294,391,000	974,420,715	259,970,275	75
(ii) Education Sector Development Project (ESDP) / TSEP	144,000,000	125,000,000	19,000,000	87
(iii) Northern Road Connectivity Project (NRCP)	870,000,000	748,536,992	121,463,008	86
(iv) United Nations Children's Fund (UNICEF)	286,609,000	286,608,554	446	100
(v) Provincial Road Project (PRP)	503,000,000	446,830,711	56,169,289	89
(vi) Criteria Based Grant (CBG)	294,000,000	208,920,530	85,079,470	71
(vii) Pro-poor Rural Development Project/ United Nations Population Fund (UNFPA)	40,000,000	3,706,560	36,293,440	9
(viii) Nawodaya Northern Provincial Council 1000 Schools	50,000,000	38,501,045	11,498,955	77
(ix) Jaffna, Kilinochi Water Supply Project	85,000,000	10,099,050	74,900,950	12
(x) Health Sector Development Project (HSDP)	5,000,000	-	5,000,000	Nil
(xi) Local Level Nutrition Interventions for Northern Province Project	15,000,000	132,493,283	-27,506,717	82

(xii) Iranaimadu Irrigation Project	200,000,000	2,964,442	197,035,338	2
	-----	-----	-----	
	3,787,000,000	2,978,081,882	893,917,888	
	=====	=====	=====	

Funds amounting to Rs. 894 million received during the year under review from above sources for capital works were not utilized for the intended purposes and kept in the Bank account maintained by the Provincial Council.

- (b) Even though the bank balances were increased continuously ranging from Rs.974.3 million to Rs. 1,775.1 million since January 2011 to December 2012, no action had been taken to utilize this money for the benefit of the general public up to 31 December 2012 even though this matter was pointed out in my previous years audit report too.
- (c) Bank balances to the value of Rs.5 million had been kept in the Bank of Ceylon Taprobane branch since 2008 without being utilized for any purposes and left to be idle for over 5 years.
- (d) Sums of Rs. 36.1 million and Rs. 171,154 had been kept in the fixed deposit account and current account of the Governor’s Trust fund without being utilized for the intended purposes. In this connection, the Chief Secretary had stated that income from fixed deposit and balance in bank account for GTF was utilized to the intended purpose as mentioned in Governor’s memorandum.

2.8 Provincial Development Plan

299 work proposals totalling Rs. 1,117.21 million had been approved under new works and continuation works. According to progress reports of the Provincial Council, progress of the works are shown in the table given below.

	<u>New works</u>	<u>Continuation works</u>	<u>Total No. of work proposals</u>
Fully completed	237	22	259
Completed less than 50%	7	-	7
Completed more than 50%	22	-	22
Not commenced	11	-	11
Total	<u>277</u>	<u>22</u>	<u>299</u>
	===	===	===

2.9 Human Resources Management

2.9.1 Approved and Actual Cadre

The information pertaining to the proposed and actual cadre of the Northern Provincial Council as at 31 December 2012 is shown below.

(a) Ministries, Departments and Institutions of the Provincial Council other than Schools

<u>Category</u>	Proposed Cadre	Actual Cadre	Vacancies
	----- Nos.	----- Nos.	----- Nos.
Executive Grades	1,173	630	543
Supporting Staff and Minor Grades	26,047	23,851	2,196
Others (Casual / Temporary)	1,109	696	413
	----- 28,329	----- 25,177	----- 3,152
	-----	-----	-----

Although the Department of Management Services of the General Treasury had not approved the cadre for the recruitment of Technical officers and Regional Commissioners, appointment had been made by the Council and a sum of Rs. 861,540 had been paid as salaries during the year under review.

(b) School Staff

Category	Approved	Actual	Vacant/ (Excess)
Principal Grades	1,129	604	525
Teachers Grades	13,984	13,003	981
Minor Employee Grades	1,222	598	624
Others – Non academic	905	659	246
	----- 17,240	----- 14,864	----- 2,376
	-----	-----	-----

- i) The Department of Management Services of the General Treasury had not approved the cadre for Gardeners, Labourers, and officers for Maths Resource Centre, In-service Advisers, Teacher Centre Manager and Technical officers. However, 36 Employees of those categories had been engaged without approved cadre.
- ii) 468 teachers had been working as principals. In this regard, no action had been taken to fill the vacancies.

2.9.2 Irregular Appointments and Remunerations

Most of the recruitments to the Provincial Council had been made on an ad-hoc basis without following any proper recruitment procedure and certain appointments were not made within the scope of approved scheme of recruitment applicable to All Island Services or Provincial Public Services. Following observations are made in this regard.

- (a) Salaries had been paid to the re-employed retired public officers contrary to the Public Administration Circular No. 9/2007 of 11 May 2007. In this connection a sum of Rs.3.3 million had been over paid. Further, although this matter was pointed out in my report for the year 2011, action had not been taken to recover the overpayments of Rs. 3,360,959 made in the year 2011.
- (b) Four non Sri Lanka Administrative Service officers had been appointed for the vacant posts of the Sri Lanka Administrative Service.
- (c) Letter of appointment had been issued to nine contract basis employees including legal consultant without obtaining the approval from the Cabinet of Ministers.
- (d) Thirty retired officers had been reappointed without following public advertisement in terms of Section 2.1 of Chapter II of the Establishments Code.
- (e) Although senior accountants with more experience were available in the Province, most of the Ministries and Departments had appointed accountants with less experience as Chief Accountants. As a result, better financial control and discipline could not be exercised in those Ministries and Departments.
- (f) Most of the Ministries and Departments had appointed officers belonging to Management Service Class - III as Chief Management Clerk instead of the officers of Management Service Class – I.
- (g) Most of the Management Assistants had been assigned to carry out the duties of the Programme Assistants.
- (h) Although Sri Lanka Accountants' Service was an All Island Service, several officers had been appointed to perform duties of Accountants during the year under review without considering the judgment given by the Supreme Court in respect of Case No. SCFR 320/2003 dated 11 February 2007.

2.10 Performance of the Provincial Ministries and Departments

The following observations are made in respect of the performance of some of the Provincial Ministries and Departments during the year under review.

2.10.1 Governor's Secretariat

a) *Payment of Rental to the Offices at Jaffna and Colombo*

Although the office building for Governor's Secretariat had been newly constructed and completed at a cost of Rs. 61.8 million during the year 2011, a sum of Rs. 1,378,500 had been paid as rental for offices functioning at Jaffna and Colombo during the year under review without obtaining valuation report from the Chief Valuer of the Department of Valuation in terms of Provincial Financial Rules 420.1.

b) *Delays in Settlement of Advances*

- i) Considerable period of delays ranging from 01 to 05 months had been observed in 24 instances in respect of settlement of ad hoc advances aggregating Rs. 7,851,188 obtained for various purposes.
- ii) Ad hoc advances aggregating Rs. 245,000 paid to the 08 officers were subsequently settled fully without being utilized for the intended purposes. As a result, the ad hoc advances paid to the officers could have misappropriated the funds.
- iii) Ad hoc advance of Rs. 90,000 had been paid to an officer over the maximum limit of Rs. 50,000 stipulated in the Provincial Financial Rules 219.2.

c) *Fuel Allowances Paid to the Governor*

The monthly fuel allowance ranging from Rs. 438,260 to Rs. 487,700 had been paid to the Governor contrary to the Circular No. CA/1/17/1 Dated 14 May 2010 of the Presidential Secretariat. Further, it was observed that payments for different types of fuel such as super petrol and normal petrol had been made though there was no provision in the circular to supply super petrol to the Government vehicles. PAYE Tax on fuel allowance made in excess of Rs. 50,000 per month to the Governor also had not been recovered in terms of PAYE scheme set out in the Inland Revenue Act No. 10 of 2006.

d) *Payment of Travelling Allowance*

- i) Although the main office of the Governor was stationed at Jaffna and Sub offices have been stationed at Kilinochchi, Vavuniya and Colombo, the

travelling claims amounting to Rs. 76,750 had been paid to the Governor for the days spent at Jaffna.

In this connection the Secretary to the Governor had stated that as the Colombo Sub Office was treated as the place of duty on account of security considerations, travelling allowance had to be paid in respect of travelling undertaken from Colombo to the relevant outstations.

- ii) A sum of Rs. 960,000 had been paid as travelling allowance to three officers at the rate of Rs. 30,000 per month contrary to Section 12 of Chapter XIV of the Establishments Code. Further it was observed that these officers have been provided official vehicles.
- iii) Travelling allowances amounting to Rs. 60,000 had been paid to the Management Assistant contrary to Section 12 of Chapter XIV of the Establishments Code.

e) ***Settlement of Accommodation Charges at Various Hotels in the Island to the Governor's Visits***

A sum Rs. 141,138 had been paid as hotel charges from the Provincial Fund contrary to Section 1.3 of Chapter XIV of the Establishments Code. In this connection, no evidence was made available to verify whether those were official or private visits. It was further observed that the expenditure included a sum of Rs.79,288 paid for the one day stay of the Governor on 05 November 2012 in two rooms at a private hotel. Further, payments were made without bills or invoices.

In this connection the Secretary to the Governor had stated that the Hon. Governor had to stay at these hotels and not elsewhere on account of security considerations which were of utmost importance.

f) ***Expenditure Incurred to Entertain Foreign Visitors***

In terms of Section 03 of Chapter XI of the Establishments Code, it was stipulated that expenses on entertainment should be limited to tea, lunch or dinner and be confined to the officer acting as host, his spouse, the visitors and their spouses and not more than five other persons. Further, Head of the Department should obtain the prior approval of the Secretary to the Ministry and the approving authority will determine the nature and the extent of the entertainment to be provided. Contrary to the above provision the entertainment expenditure of Rs. 561,005 had been made during the year under review. .

g) Expenditure Extraneous to the Objectives of the Department

Expenditure aggregating Rs. 2,451,466 had been incurred during the year under review for the transactions which were extraneous to the objectives of the Secretariat. Details are given below.

- i) National War Heroes day expenditure amounted to Rs. 1,428,798 in connection with the commemoration took place at the Palaly cantonment area.
- ii) Personalized stamp sheets and covers were printed by incurring of Rs.790,000 to mark the annual festival of the historical Nallur Kandaswamy Temple.

h) Unauthorized Payment

Expenditure aggregating Rs. 153,044 relating to previous year had been incurred without obtaining authority under Provincial Financial Rule 166.

i) Payments made without Bills and Invoices

- i) Payments aggregating Rs. 697,921 had been made in 23 instances without obtaining invoices contrary to Provincial Financial Rule 107.
- ii) Payments aggregating Rs. 54,527 had been made contrary to Provincial Financial Rule 107 as reimbursement without obtaining telephone bills.

j) Expenditure Incurred for Providing Welfare Items

Although there was no provision in rules and regulations for providing welfare items to the Officers of the Government Departments from the public fund, expenditure amounting to Rs. 271,010 had been incurred for welfare items purchased for office use during the year under review.

k) Non - rendition of Vouchers for Audit

Twenty paid vouchers to the value of Rs. 918,103 had not been rendered to audit by the Governor's Secretariat in terms of Provincial Financial Rule 122.

l) Expenditure Incurred on Fifteenth Governor's Conference

A sum of Rs. 21,547,806 had been spent from the Provincial Fund to conduct Governors' Conference in the Northern Province. In this regard, the following observations are made.

- i) Provisions were not made available in the Annual Financial Statements to conduct Governors' Conference at a cost of Rs.21.5million.
- ii) Most of the expenditure incurred relating to the conference were charged to the expenditure head of other Ministries and Departments although these expenditure were not related to those Ministries and Departments.
- iii) Expenditure had been incurred without following Procurement Procedure in terms of Section 2.14.1 of the Procurement Guidelines.
- iv) A sum of Rs. 1,024,320 had been paid to three private hotels as accommodation charges and hotel charges contrary to Section (iii) of the Circular No. CSA/P1/40 dated 28 February 2007 on Public Expenditure Management issued by the Secretary to the President.
- v) Huge amount of advances had been paid to several private parties without estimating the expenditure and agreement entered into with the parties concerned.

vi) ***Payment of Advance***

A sum of Rs. 7,526,188 had been paid as advance to two private hotels in Jaffna. In this regard, the following observations are made.

- a). Advances had been paid to the private hotels without preparing estimate for expenditure and entered into an agreement with the parties concerned.
- b). Even though the Governors' conference was held in November 2012, the advances to the value of Rs. 2,040,000 had been paid in July 2012 prior to 4 month period of Governors' conference.

vii) ***Organizing Governors' Conference at Private Hotel***

In terms of the Section (iii) of the Circular No. CSA/P1/40 dated 28 February 2007 on Public Expenditure Management issued by the Secretary to the President, Ministries, Departments and Public Institutions should not select hotels for holding their meetings, seminars, workshops etc. However, fifteenth Governors' conference had been held at a private hotel in Jaffna and expenditure aggregating Rs. 2,965,943 had been incurred for two days conference including the charges for 30 Nos of super luxury rooms and provision of refreshment and meals and cultural shows. Further, it was observed that although nine Provincial Governors were participated at the conference 30 super luxury rooms had been reserved. Expenditure included an exorbitant rate for breakfast at the rate of Rs. 1,450, tea at the rate of Rs. 600, lunch at the rate of Rs. 2,600, dinner at the rate of Rs. 2,695, Rehearsal charge at Rs. 300,000, Bus hiring charges at Rs. 60,000 and Tailoring charges at Rs. 54,235 In this

connection Secretary to the Hon. Governor had stated that Tilko City Hotel was selected owing to security considerations in the absence of similar institutions, which selection was approved by the Hon. Governor. The rooms (Suites) had to be allocated to the Hon. Governors, special guests of the line Ministries and the Governor of the Central Bank as they were exclusively invited for the occasion and were entertained to meals and refreshments. We arranged for special VVIP menu was selected in prior consultation with Governor's Secretariat and reservations were made accordingly. The meals for others were restricted by limiting the number as well as the local invitees.

viii) ***Expenditure Incurred for Travel by Helicopter***

Although the public transport were made available within the Island a sum of Rs. 1,462,220 had been paid to a private travels operator other than SLAF as to travel by Helicopter within the Island contrary to Section 05 of Chapter XIV of the Establishments Code.

ix) ***Advertisement Expenses for Governors' Conference***

A sum of Rs. 502,872 had been paid as advertisement expenses for the fifteenth Governors' conference. Further it was observed that the expenditure of Rs. 479,772 had been charged under Head No. 422 - Planning Secretariat.

x) ***Entertainment Expenditure Incurred for the Cultural Programme***

Expenditure aggregating Rs. 2,103,165 had been incurred from the Provincial Fund for the cultural programme held on 15 November 2012 to entertain the participants for the Governors' conference. The following observations are made in this regard.

- (i) Budgetary allocation had not been made in the Annual Financial Statements for the year under review.
- (ii) Documentary evidence such as estimates, quotations, acknowledgement of receipts, list of beneficiaries, stock of readymade garments used for the welcome girls and boys were not made available for audit.
- (iii) Traditional Oil Lamp made from Palmyra leaves costing Rs. 80,000 was used for only one day at the Governors' conference.

xi) ***Expenditure incurred for Printing of Books for Fifteenth Governors' Conference***

Expenditure aggregating Rs. 3,626,400 had been incurred from the Provincial Fund for the printing of books for distributing among the participants of the Governors' conference. The following observations are made in this regard.

- (i) Budgetary allocation had not been made in the Annual Financial Statements for the year under review.
- (ii) Publication such as Governors Conference Souvenir, Culture of the People of the Northern Province, Graphical Aspects of the Northern Province, and Agriculture in the Northern Province and Vadakkin Vasantham Souvenir for over 1000 copies was printed.
- (iii) Proper Procurement Procedure in terms of Section 2.14.1 of the Procurement Guide Lines had not been followed to obtain for printing service for Rs. 3.6 million from private printers.

2.10.2 Chief Secretary's Secretariat

The followings observations are made.

a) **Arbitration Charges and Interest made to the Contractor relating to the Construction Works of the NECORD Project**

Arbitration and interest charges amounting to Rs. 31,947,415 had been paid relating to the NECORD Project for the construction of four storied Out Patient Division (OPD) and clinic complex building at the General Hospital, Vavuniya due to the dispute arised between the Contractor and the Provincial Council

As per annual financial statements (Budget), activities of the NECORD Project had not come under the purview of the Northern Provincial Council. However, payment had been made from the funds of non refundable deposited in the Provincial Treasury based on the decision made in the arbitration between the Contractor and the Northern Provincial Council. The details of payments made from non refundable deposits of the Provincial Treasury were as follows.

Nature of Payments	Amount
-----	-----
	Rs.
Contractors claim	14,674,882
Balance Payment of Arbitration Award	2,723,816
Arbitration charge of the Chief Secretary	2,482,181
Arbitration charge of the Contractor	3,000,000

Interest Payment claimed by the Contractor	7,305,550
Value Added Tax	1,760,986
	31,947,415
	=====

It was further observed that although the contractor had claimed a sum of Rs. 14,674,882 prior to the Arbitration, payment amounting to Rs. 31,947,415 had been made to the contractor based on arbitration decision against the Chief Secretary. As a result a sum of Rs. 17,272,533 had been over paid due to the administrative lapses on the part of officers of the Provincial Council.

In this connection the Chief Secretary had stated that the contract regarding this work was signed by the Chief Secretary as employer. However execution and contract management was done by the officers who were worked in NECORD Project. Also we have taken important steps to avoid such kind of administrative lapses in the contract management of work in Northern Province in future.

2.10.3 Provincial Treasury

- a) The Provincial Treasury had not made separate provisions in the Annual Estimates for Value Added Tax in terms of Section 01 of the Public Finance Circular No 364(3) of 30 September 2002. Therefore, the Provincial Treasury could not compute the Value Added Tax paid by the various institutions of the Provincial Council to outside parties. As a result, considerable amount had been paid by the Provincial Council from the capital allocation as VAT without provision in the Annual Estimates.

In this connection the Chief Secretary had stated that VAT payments are allocated under PSDG provision under the object code 2501. The allocation has been made to relevant Ministries and Departments through supplementary process.

b) **Auction of 16 Unserviceable Vehicles**

Sixteen vehicles belonging to the Northern Provincial Council which were sold had not been indicated in the Board of survey reports as unserviceable and action was taken to dispose of those 16 vehicles for Rs. 5,412,232 through public auction based on valuation and fixing of upset prices at Rs. 5,095,000. However the ownership of the vehicles were not transferred to the buyers of the vehicles even after lapsed of 15 months due to administrative lapses. Subsequently two buyers were filed a case against the Chief Secretary in the Human Rights Commission of Sri Lanka for non rendition of books and documents relating to transfer of ownership.

c) Payment for the Construction of 75 Houses and a Pre-school at Thirumurukandy.

A sum of Rs. 9,500,000 had been paid to the Security Forces Commander, Kilinochchi on 18 October 2012 by the Provincial Treasury for construction of 75 houses and a pre-school at Thirumurukandy. The following observations are made in this regard.

- (i) The expenditure had been charged to Head No. 471 Department of Provincial Local Government with supplementary provision for Rs.10 million.
- (ii) In terms of Provincial Financial Rules 787, all construction works of the Departments should have been entrusted to the Department of Buildings. However, construction works had been entrusted to the Security Forces without following Procurement procedure.
- (iii) No evidence were made available to audit to verify the selections of the beneficiaries made through either Grama Niladhari or Divisional Secretary.
- (iv) Payments of the construction work had been made without estimates and bills of quantity (BOQ).
- (v) No evidences were made available to indicate that the construction of 75 houses had been commenced and completed. An independent verification had not been carried out by the Provincial Departments and completion report furnished by the engineer for the completed houses had not been checked prior to make payments.

d) Payments for Supply of Fuel for Development Works to the Officer Commanding 104 Plant Squadron SLE

A sum of Rs. 3,160,814 had been made as fuel expenditure during the year under review for the supply of fuel to the Commanding Officer. In this regard, the following observations are made.

- (i) Fuel had been supplied to the Officer Commanding, 104 Plant Squadron SLE for the development works in the Northern Region. However, no documentary evidence were made available to audit to verify the nature of the development works carried out by utilizing the fuel valued Rs. 3,160,814 from the Provincial Fund.
- (ii) In terms of Provincial Financial Rules 430, petrol, oil, lubricants etc should be supplied on orders. But, fuel to the value of Rs. 3,160,814 had been supplied without fuel orders.
- (iii) Number of Kilometers performed by the vehicles used by Commanding Officer and fuel consumption of vehicles and basis of fuel cost paid were not furnished for audit.

In this connection the Chief Secretary had stated that by considering the urgent and emergency situation at that time and in order to expedite the renovation of ponds in Island areas to provide drinking water facility to the people. Valanthalai tank and Jaffna fort were renovated. This process rectified by involving respective Ministries and Departments.

e) Payment of Telephone Charges

A sum of Rs. 157,447 had been paid for the use of 43 mobile phones during the period from 15 March 2012 to 14 April 2012. In this regard, the following observations are made.

- (i) A sum of Rs. 94,417 including IDD calls bill for Rs. 75,670 had been paid per month for the use of one mobile phone assigned to the Governor's Cluster without considering limits indicated in Circular No. CA/1/17/1 Dated 14 May 2010 issued by the Presidential Secretariat. Further, no action had been taken to recover the excess amount from the officer's concerned.
- (ii) Telephone expenditure relating to the various Ministries and Departments had been paid by Provincial Treasury and charged to the various Ministries and Departments votes without considering the limit of telephone expenditure. However, no evidence were made available for audit that recoveries were made by the respective Ministries and Departments for the payment made over the limits.

f) Uncertified Payment of Rs. 42 million

Payment of Rs. 42 million were made to procure 8 Ambulances by the Provincial Treasury without certified the payment voucher in terms of Provincial Financial Rules 107.

g) Purchase of 25 Plastic Arm Chairs and Issued to the Police Station, Jaffna

A sum of Rs. 105,187 had been paid by the Provincial Treasury to purchase of 25 plastic chairs based on the order given by the Governor and had been issued to the Police Station, Jaffna. In this connection the Deputy Chief Secretary - Finance had stated in his reply that the particular procurement made based on the Hon. Governor's instruction due to facilitate to general public to accommodate in Police Station. It was extraneous to the objectives of the Provincial Treasury. However, from 2013 these kinds of activities are handled by the related Ministries.

2.10.4 Provincial Public Administration

The following observations are made.

a) Provision of Transport Facilities to the Officers of the Northern Provincial Council

- (i) Three busses were procured by the Provincial Council during the year 2010 to provide transport facilities to the officers travel from Jaffna to Kilinochchi and Trincomalee. In this connection a sum of Rs. 4,721,336 had been incurred as expenditure over the revenue collections from the officers on three buses
- (ii) Further it was observed that the Provincial Council had already purchased ten numbers of buses at a cost of Rs. 32.2 million from the fund obtained from the Ministry of Economic Development and distributed to the Northern Transport Board without obtaining approval from the General Treasury during the year 2011. However the ownership of those buses still at the Northern Provincial Council even after lapse of two years. Hence arrangements had not been made with Northern Transport Board to utilize these buses to provide transport service to staff of the Provincial Council, without any cost incurred by the Provincial Council. Hence the expenditure of Rs. 7.4 million incurred for 3 busses was treated as avoidable expenditure.
- (iii) Expenditure of Rs. 4,721,336 relating to the transport of employees had been charged to the Expenditure Head of the Ministry of Education, Ministry of Local Government and Ministry of Provincial Public Administration without budgetary allocation for staff transport services.
- (iv) The relevant approval from the Finance Commission or any other authority had not been obtained for engaging 5 busses to provide transport facilities to the officers of the Provincial Council at a loss of Rs.4.72 million.

In this connection the Chief Secretary had stated that due to non provision of regular transport service run by the CTB in the Northern Province, Northern Provincial Council provide transport service for the officers travel from Jaffna to Kilinochchi and Trincomalee to get maximum services from the staff even though revenue was not collected adequately.

2.5 Provincial Public Service Commission

A sum of Rs. 105,000 had been paid as allowance to the Chairman of the Provincial Public Service Commission without attending at the committee meetings during the period of 03 months from July 2012 to September 2012 as the Chairman was on out of the Island. Although this matter was pointed out in my audit query issued on 17 December 2012, no action had been taken to recover the irregular payment made to the Chairman.

2.6 Ministry of Education

The following expenditure of Rs. 4.47 million had been incurred by the Ministry which were considered as extraneous to the objective of the Ministry.

<u>Details of Expenditure</u>	<u>Amount</u>
	Rs.
Governors' Conference Expenditure	2,064,758
War Hero's day	341,780
Fuel expenditure of Provincial Council staff transport	2,068,300
	<u>4,474,838</u>
	=====

2.7 Provincial Department of Education

The followings observations are made.

(a) Utilization of Specific Grants

A sum of Rs 195 million received from Provincial Treasury in December 2012 had been kept in the deposit account without being utilized for the intended purposes. Details are as follows.

<u>Type of Funds</u>	<u>Amount</u>
	Rs
Provincial Specific Development Grants	63,410,994
Navotaya	675,000
Unicef	35,856,698
Transforming School Education Sub Project (TSEP)	<u>95,165,075</u>
Total	<u>195,107,767</u>
	=====

(b) Inappropriate Assignment of Duties

Although 126 vacancies were existed for the post of Assistant Directors of Education, no action had been taken to fill the vacancies. Further it was observed that Principal Grade Officers and Teachers were allowed to attend the duties for Assistant Directors of Education for last several years.

(c) Payment of Salary to the Teachers and OES appointed in the Puttalam District

A sum of Rs. 57.9 million had been paid as salaries from the Provincial Fund to the 169 teachers and 16 office employees during the year under review although these staff members were not working in the Northern Provincial Council. But working at the six schools functioned at the Puttalam district in several years even though the Putalam district comes under the purview of the North Western Provincial Council.

(d) Imprest Account

- (i) Ad hoc sub – imprests totaling Rs 186,740 had been paid in 12 instances to 07 non – staff grade officers contrary to the provisions in Provincial Financial Rules 219.
- (ii) Contrary to the provisions of Provincial Financial Rules 219, sub – imprests had been settled after 09 months of the completion of the purpose.
- (iii) In terms of Provisional Financial Rules 219(2) sub - imprests could be provided to staff officer at an instance maximum amounting of Rs. 50,000. However, contrary to the rules, sub – Imprest amounting to Rs 200,000 had been paid to an officer at an instance exceeding the limit.

(e) Deployment of Teachers

Teachers were not properly deployed according to vacancies available in the Schools for the particular subjects. As a result, shortage of Teachers were observed in certain Schools for the relevant subjects and excess of Teachers were observed in certain Schools for those subjects. Due to the improper deployment of Teachers, performance of G.C.E O/L and A/L examinations had not been achieved. If the deployment of teachers had been made properly according to vacancies for the subjects, better performance could have been achieved.

(f) Over payment of Rs. 210,240

Action had not been taken to deduct the overpayment of Rs. 210,240 made to the contractor due to excess quantities of building materials purchased over the required quantities to construct class rooms at the St. Therasha Girls College, Killinochchi.

(g) A sum of Rs. 99,747 had been paid to the Technical Officer attached to the Zonal Education Office, Killinochchi as supervising charges of the class room building constructed at St. Therasa Girls College, Killinochchi. However, no evidence, were made available for audit to prove the work done relating to the supervising work carried out.

(h) A sum of Rs. 1,075,850 had been collected as admission fees from the students by the St. Thireasa Girls College, Killinochchi contrary to circular No. 23 dated 22 May 2013 of the Ministry of Education.

(i) Misappropriation of Collection of Rs. 2.4 million of Admission fees from 240 School Students

As per evidence made available to the audit, a sum of Rs. 2.4 million had been collected from 240 students of the J/Hindu Primary School during the year under review contrary to the circular issued by the Ministry of Education. Further it was observed that the collected money of Rs. 2.4 million had not been brought to either in the bank account maintained by the School or the School Development Society. As a result, collected money of Rs. 2.4 million had been misappropriated as no evidence were made available for audit for any expenditure incurred out of the collected amount.

2.8 Provincial Department of Sports

The followings observations are made.

(a) Test checks revealed that the following payments had been made uneconomically without accruing any benefit to the institution.

<u>Details of Expenditure</u>	<u>Amount</u>
	<u>Rs.</u>
Colour Night - lighting	36,250
Ladies Sarees	18,000
Sport items purchased for Governor's staff	7,350

New year greeting	4,200
Refreshment for Year-end meeting	9,500
	-- 75,300 --
	=====

- (b) An expenditure of Rs. 229,000 had been charged to the Department for the distribution of 225 push bicycles although that expenditure was not related to the activities of the Department.

2.9 Provincial Department of Buildings

- (a) A sum of Rs. 1,669,855 had been spent for the capital works of the circuit bungalows of the Northern Province at Ratmalana. Even though the expenditure item was not under the preview of the Department of Buildings it had been erroneously charged to the recurrent vote of the Department of Buildings. (461-15-4-1303)
- (b) The expenditure of Rs. 1,751,582 relating to the Governor's Secretariat for the purchase of furniture and equipment had been charged to the General Deposit account during the year under review. Further it was observed that the same nature of expenditure amounting to Rs. 7 million for the purchase of furniture to the Governor's Secretariat had been charged by the Provincial Department of Building in the previous year too.
- (c) The expenditure of Rs. 98,662 relating to the Governors' conference was charged to the Objects Codes of the Department of Buildings without obtaining approval from the relevant authority.

2.10 Department of Local Government

Construction of Temporary shops at Kilinochchi Market Complex

Temporary shops were constructed at a cost of Rs. 3,616,490 and charged to the Department of Local Government (Object Code – 471-60-4-1303). Further it was observed that although these expenditures were capital nature and related to the Local Authorities, the expenditure had been incurred by the Department of Buildings and erroneously charged to recurrent Object Code No. 471-60-4-1303 instead of Object Code No. 471-60-4-2202.

2.11 . Department of Indigenous Medicine

- (i) Eighty four free Ayurvedic Dispensaries operated under the Local Authorities for rendering service to the general public had been functioning without proper supervision and supply of adequate drugs.

- (ii) The Department of Indigenous Medicine had been established under the Ministry of Health to develop Ayurvedic Medicine and establishment and maintenance of a Herbarium. However, approximately a sum of Rs. 1,597,943 had been spent on purchase of medicines from private traders and Ayurvedic Corporation.

2.12 Department of Health

Most of the Buildings and Medical Equipment were laying idle in certain Hospitals due to non-availability of doctors and subordinate staff. Therefore the expenditure incurred on these buildings and equipment could be considered as fruitless and the benefits out of this expenditure had not reached to the general public. Details are given below.

Medical Officer of Health Office	Number of Institutions	Number of Medical officers available	Approved Cadre
-----	-----	-----	-----
Jaffna	42	30	99
Mullaithivu	09	18	55
Kilinochchi	13	22	62
Mannar	16	44	89
Vavuniya	11	108	94
	----- 91 =====	----- 222 =====	----- 399 =====

No action had been taken to increase the number of cadre for dental hospitals as number of hospitals were available in the Northern Province were 61 whereas approved cadre for dental units were 27 numbers only. Details are given below.

Medical Officer of Dental Units	Number of Hospitals	Number of Dental Surgeons Available	Approved Cadre
-----	-----	-----	-----
Jaffna	26	18	09
Mullaithevu	06	05	03
Kilinochchi	09	05	04
Mannar	10	08	04
Vavuniya	10	10	07
	----- 61 =====	----- 46 =====	----- 27 =====

- (i) There should be Medical Consultants in each hospital in Mannar, Kilinochchi, Mullaithivu, and Jaffna RDHS divisions. However only 11 Medical Consultants were available as at 31 December 2011 out of 51 Medical Consultants needed in the Northern Provincial Hospitals.

- (ii) Although 1011 Schools are functioning in the Northern Province only 15 School Dental units were functioned in the Northern Province.
- (iii) Building owned by the Regional Hospital, Poonakari with the extent of 5 acres land had been used by the Security Forces. In this regard no action had been taken by the relevant authorities to utilize the building for the health purposes.
- (iv) Considerable quantity of expired drugs was found at various hospitals functioned under RDHS. In this regard no action had been taken by the relevant authorities to rectify the lapses.

(v) **Transaction not supported by Adequate authority – Rs. 1,215,400**

Financial allocation for the following expenditure had not been made in the annual financial statements (Budget). Further it was observed that those transactions were not supported with adequate authority obtained from relevant authority.

<u>Nature of payment</u>	<u>Amount</u> <u>Rs.</u>
Payment for T.Shirts and caps for Health week	357,500
Payment for reinstallation of Air conditioner to Hospitals from Veerasingam Hall	546,100
Payment for Printing of 30 Books.	73,800
Payment for printing of 200 brochure	46,000
Payment for printing of 600 monthly calendars	192,000
	----- 1,215,400 -----

2.13 Regional Director of Health Services, Jaffna

The following observations are made.

- a). Rates of diet for the following hospitals had been decided by the contractors for full and half diet. In this connection Technical Evaluation Committee had not analyzed the rates. As a result a considerable amount had been over paid. Details are given below.

Description	Alaveddy	Manipay
-----	-----	-----
	Full & Half Diet rate	Full & Half Diet rate
	-----	-----
	Rs.	Rs
Fresh Fish	180	140
Beef	180	140
Dry Fish	180	140
Vegetable	180	140
Egg	180	140

2.14 Assets Management

a). Idle and Underutilized Physical Resources

Physical resources of the Provincial Council were idle or underutilized during the year under review as analyzed below.

<u>Nature of Assets</u>	<u>Details</u>	<u>Value</u>
		Rs
(i) Buildings	85 Quarters	Value not made available
(ii) Vehicles	04 Pick up	-do-
	10 Motor bicycles	-do-
(iii) Machinery	02 Generators	-do-
	53 Computers	-do-
	226 Computer accessories	-do-
(iv) Office Equipment	107 Plastic Chairs	-do-
	126 Furniture items	-do-
(v) Patient beds	70 at Vaddakachchi Hospital	-do-
(vi) Beds, Chairs, Mattress etc.	198 at Regional Director of Health Services, Kilinochchi	1,555,500

b). Physical Verification of Assets

- (I) The assets valued at Rs. 53,228,247 had been computed on book value as at 31 December 2012 and had not been supported by the physical verifications/ Board of Survey reports as shown below.

	<u>Amount</u> <u>Rs.</u>
➤ i Maintenance of Livestock Farms	47,442,801
➤ i Textiles industries	5,785,446
	<u>53,228,247</u>
	=====

- (II) As per board of survey reports for the year 2012, 236 items were reported as surplus whereas 118 items including 3 vehicles were reported as shortages in the 13 Departments. In this regard no action had been taken in terms of Provincial Financial Rules 68 on shortages and excess reported by the Board of Survey.

2.15 Identified Losses and Damages

The following observations are made.

- (a) An Ambulance belonging to the Deputy Provincial Director of Health Services, Mannar had met with an accident on 03 December 2003. The repair cost of the vehicle was Rs. 695,700. Inquiries had not been conducted with regard to the accident to fix the responsibility and the report in respect of this loss had not been furnished to the Auditor General in terms of Provincial Financial Rules No. 104.
- (b) A vehicle belonging to the Ministry of Education had met with an accident on 11 June 2011 and repairs cost of Rs. 1,368,564 had been paid to a private institution. In this connection cost of Rs. 1,036,344 only had been reimbursed by the Insurance Company. Balance of Rs. 332,220 had been paid from the Provincial Fund, In this regard, inquiries had not been conducted to fix the responsibility in terms of PFR 104.
- (c) Final reports in terms of PFR 70(5) had not been furnished by five Provincial Departments in respect of losses amounting to Rs 56,418,312 occurred during 1999 to 2011. Details are given below.

	<u>Amount</u> <u>Rs.</u>
Department of Animal Production and Health	17,554,713
Department of Irrigation	22,794,842
Ministry of Health	13,142
Department of Health	9,644,965
Department of Industry	6,410,650
	<u>56,418,312</u>
	=====

2.16 Utilization of Vehicles

The following observations are made

- (a) According to the information made available, the total number of vehicles available in the Provincial Council were 603, whereas the number of drivers employed were less than 400 only. Due to the heavy shortage of drivers, the drivers were outsourced from the Multi Purpose Cooperative Societies for the several Departments.
- (b) Out of 85 Ambulances available in the Northern Province, 07 Ambulances had been allowed to idle without making repairs for a period for more than four years. Action had not been taken to repair those vehicles.
- (c) Certain Departments had not rendered the daily running charts and monthly performance summaries in respect of their official vehicles to audit in due dates during the year under review in terms of Provincial Financial Rules - 433
- (d) Most of the vehicles were handed over to the garages for a period ranging from one to five years for repairs by the Deputy Provincial Directors of Health Services, Mannar, Vavuniya, Kilinochchi, and Mullithivu.
- (e) Departmental actions on loss of four ambulances in previous years had not been taken up to 31 December 2013.
- (f) Daily running charts had not been properly maintained and official purpose of visits had not been recorded in the Daily running charts by certain Ministries and Departments in terms of PFR 433.

(g) **Repairs of Vehicle Rs. 8,378,296**

As per Circular No CA/1/17/1 dated 14 May 2010 of the Presidential Secretariat, the vehicles should be attached to the Governor's Secretariat is 07. However over 20 vehicles were should be attached to the Governors Secretariat during the year under review. Further it was observed that 17 vehicles were repaired at a cost of Rs. 8,378,296 during the year under review. In this regard the following observations were made.

- i) Procurement Procedures in terms of Section 2.14.1 of Procurement Guidelines were not followed to repair the vehicles.
- ii) Approvals to incur expenditure over Rs. 200,000 in terms of Procurement Guidelines dated 06 September 2010 had not been obtained from the relevant authorities concerned.
- iii) Certification from the Mechanical Engineer in terms of Circular No. 41/90 dated 10 October 1990 of the Ministry of Public Administration had not been obtained prior to the payment for repairs.
- iv) Payments were made for repairs of vehicles without obtaining original invoices in 15 instances contrary to P.F.R. 107

- v) Major repairs had been made to the 14 new vehicles at a cost ranging from Rs.110,532 to Rs.1,306,840
- vi) Payment of Rs. 511,790 had been made for the repair of a vehicle without obtaining invoice in terms of P.F.R. 107

1.7 Deficiencies in Procurements

The following observations are made

- a) Master Procurement plans for the year under review had not been prepared by several Ministries and Departments in terms of Section 4.2 of the Procurement Guidelines 2006.
- b) Expenditure on procurement could not be examined in audit due to the non rendition of approved estimates and quotations furnished by the bidders by the several departments.
- c) According to Section 2:5 of the Procurement Guidelines, three members should be in the procurement committee, but payments had been made to more than 3 members. According to Section 2.9.1 of the Procurement manual, the meetings of the Procurement committee should be held outside the working hours. However it was observed that all meetings of the Procurement Committee had been held during office hours.
- d) Construction works had been awarded to the approved societies by the Department of Road Development without evaluating their financial and physical capabilities in terms of Section 164.1 of the Procurement Guidelines-2006.
- e) Several procurements were made from the suppliers who were not registered in the Provincial Council.
- f) **Procurement of Galvanized Iron Roofing Sheets for Rs. 11,880,000**

A sum of Rs. 11,880,000 had been paid by the Provincial Treasury for the purchase of 12,000 galvanized iron roofing sheets for the utilization of the resettled people during the year under review.

In this connection, the following observations are made.

- i. Provincial Treasury had made these payments through supplementary provision as no budgetary provision made in the annual estimate.
- ii. Procurements were made contrary to Section 2.14.1 of the Procurement Guidelines as procurement decision were made based on one quotation although five quotations should be obtained.
- iii. Details such as requisition from the relevant sources, list of affected people, list of beneficiaries, acknowledgement for number of sheets issued and utilized were not furnished for audit verification.

In this connection the Chief Secretary had stated that by considering the urgent and emergency situation at that time to provide assistance to the IDPs. this was directly purchased by the office of the Deputy Chief Secretary – Finance by calling quotations. Roofing sheets had been handed over to the Divisional Secretariat, Thellipalai and Sandilipay for the distribution. However, in 2013 this kind of activities handled by the relevant Ministries and Departments.

g) Procurement of 08 Ambulances

A sum of Rs. 42,000,000 had been paid by the Provincial Treasury for the purchase of 08 ambulances for the utilization of the Divisional Hospitals during the year under review.

In this connection the following observations are made.

- (i) The General Treasury approval had been obtained to procure the 08 ambulances at a cost of Rs.4.7 million each. However, the ambulances had been purchased at the rate of Rs. 5.43 million each. As a result, an additional expenditure of Rs. 5.85 million had been incurred on procurement of ambulances without obtaining approval from the General Treasury in terms of National Budget Circular No. 112 dated 24 July 2003.
- (ii) The expenditure had been charged under Head No. 451 - Department of Provincial Health without budgetary provision in the annual estimate for the year under review.
- (iii) Procurements had been made contrary to Section 2.14.1 of the Procurement Guidelines as procurement decisions were made based on one quotation only instead of five quotations.

h) Procurement of 10 Tractors and 05 Trailers

A sum of Rs. 13,115,000 had been paid by the Provincial Treasury during the year under review for the procurement of ten tractors and five trailers to implement resettlement activities through Pradeshiya Sabhas. In this connection, the following observations are made.

- (i) The expenditure had been charged under Provincial Ministry of Agriculture, Irrigation, Livestock, Fisheries and Land without budgetary provision in the annual estimate.
- (ii) Details of distribution of the items purchased and acknowledgements of items received were not made available for audit.

i) Procurement of 15 Water Bowser with Pump

A sum of Rs. 4,425,000 had been paid by the Provincial Treasury for the procurement of fifteen water bowsers with pump to implement resettlement activities through Pradeshiya Sabhas. In this connection, the following observations are made.

- i) The expenditure had been charged under Department of Provincial Local Government without budgetary provision in the annual estimate.
- ii) Details of distribution of the items purchased and acknowledgements of items received were not made available for audit.

j) Procurements of Computers and Photocopiers

11 computers and 03 photocopiers and other capital items to the value of Rs. 7,706,150 had been purchased based on three quotations contrary to the Section 2.14.1 of the Procurement Guidelines.

k) Procurement of 111 Advertisement Boards (Hoardings) at a size of 8'x6' for the Jaffna District for Rs. 10,010,900

A sum of Rs. 10,010,900 had been paid for making 111 advertisement boards, (hoardings) at the rate of 87,500 per board for Jaffna District during the year under review. In this connection the following observations are made.

- a). The expenditure had been charged under Head No.430 Provincial Ministry of Agriculture instead of Ministry of Economic Development.

- b). Procurements were made contrary to Section 2.14.1 of the Procurement Guidelines as procurement decision were made based on three quotations only instead of five quotations.
- c). Procurements were made without the recommendation of the Technical Evaluation Committee in terms of Section 2.8.3 of the Procurement Guidelines 2006. In this connection, the Secretary Ministry of Agriculture had stated that no TEC committee report obtained due to time constrain.
- d). As per Annual Financial Statements (Budget) the activities of the transaction were related to Divineguma which is not related to the Ministry of Agriculture. However, several activities of Divineguma Project by utilizing considerable amounts from the Provincial fund were carried out.
- e). Although the cost per board from the suppliers at Jaffna along with GI pipes was less than Rs. 40,000 in per board, but the procurements were made from the supplier of a private company in Hokandara at Rs. 87,500 per board. As a result, over payment of Rs. 4,162,500 had been made on the above transaction.

I) Unsettled Matters Reported on the previous year's Audit Report

- I. No meaningful action had been taken by the relevant authorities to rectify the several irregularities pointed out on the under mentioned procurements made during the previous year.
 - i) Purchase of 100 Laptops for Rs. 9,100,000.
 - ii) Installation of Air conditioner to the Private Institution (Veerasingam Hall) for Rs. 6,145,688.
 - iii) Procurement of 15 Tractor Tipper Trailers and 20 Bowsers for Rs. 8,575,000.
 - iv) Procurement of New Toyato Car – Rs.9,950,000
 - v) Purchase of 700 Bicycles for Rs. 8,859,500.
 - vi) Procurement of 10 buses for Rs. 32,200,000.
 - vii) Payments made for construction of Houses Rs. 59,400,000.
 - viii) Procurement of Galvanized Iron roofing sheet s – Rs. 18,400,800.
 - ix) Procurement of furniture and office equipment for the Governor's Office – Rs. 7,006,430.
 - x) Procurement of 70 numbers of water tanks (1000l) for resettled families Rs. 894,000.
 - xi) Procurement of 10 Advertisement Boards at a size 8'x6' for Jaffna District Rs. 865,000.
 - xii) Procurement of 200 water pumps with accessories – Rs. 6,580,000.

- xiii) Procurement for printing of Agriculture Hand book for resettled farmers – Rs. 1,152,000.
- xiv) Procurement of 05 Top land Heavy Duty Diesel pumps and accessories – Rs. 4,755,000.
- xv) Procurement of 10 combine harvesters (Model 4LZ-2-0), Rs. 15,300,000.
- xvi) Procurement of 100 KVA Generators – Rs.2,647,128
- xvii) Expenditure on old park development – Rs. 10,857,486.

(I) **Non recoveries of Payment of Compensation made to the Temporary Shop Owners – Rs. 600,000 from the Provincial Fund.**

A sum of Rs. 600,000 had been paid by the Ministry of Local Government, Northern Provincial Council to six temporary shop owners during the year 2011 contrary to Pradeshiya Sabhas Act No. 15 of 1987. Further it was observed that the above expenditure had been charged under Object Code 471-60-4-1901 without budgetary provision made in the annual estimate.

(II) **Over payment of Salaries to the Re-employed Officers – Rs. 3,360,959**

Salaries to the re-employed retired public officers on contract basis had been paid in contrary to the Public Administration circular No. 09/2007 dated 11 May 2007. As a result a sum of Rs. 3,360,959 had been overpaid during the year 2011.

(III) **Acquisition of Excess Quantity of Land for Construction of Office of the Divisional Hospital and Medical Officer (MOH) Health Rs.3.75 million.**

Although large extent of state lands were made available at Poonahari Kilinochchi a sum of Rs. 3.75 million had been paid on 31 December 2011 by the Provincial Ministry of Health for acquisition of 15 acres of land to construct MOH office building at Poonahari even though 5 acres of land was already owned by the department which was donated by the Public in 7 August 2010. At the time of acquisition, market price per acre was Rs. 200,000 only. As a result, Rs. 750,000 was over paid. Further valuation reports from the Chief Valuer of the Valuation Department was not obtained prior to make the payment. Further, it was observed that the building was constructed at the land to the extent of less than one acre only.

(IV) **Misappropriation of Funds Rs.2.887 million.**

Five hundred and seventy numbers of water pumps had been issued by a Food and Agriculture Organization to the Deputy Director of Agriculture at a value of 50 per cent concessions on cost of purchase. Out of 570 water pumps 264 Nos of water pumps only were distributed to the Farmers. In this connection collection of Rs.2.887 million from the Farmers during the period from 15 August to 12 September 2011 had been deposited in a private bank account without remitted to the Government account. As a result, funds deposited in the private bank account had been misappropriated by the Provincial Director of Agriculture.

2.9 Achievement of Objectives

Provincial Public Service Commission

The main objective of the Provincial Public Service Commission is to recruit suitable persons to the Provincial Public Service. 41 recruitment schemes had been prepared by an officer of the Commission during the year under review. But these schemes had not been implemented to recruit the suitable officers until end of the year under review.

2.10 Delays in implementation of the Foreign Funded Projects

(a) **Provincial Road Project.**

- (i) As per Project Agreement, seven packages of road construction with a total length of 100 km should be completed at a cost of Rs. 2,660 million. However, the Project office had commenced its road works for 4 packages only with a total length of 55 kms at a contract value of Rs.1,515.4 million and other 3 packages of contract works to the length of 45 kms had not been awarded to the contractor even though eight months lapsed after the Financing Agreement signed. The Project Director informed me that due to total contract value of awarded contracts was Rs.1697.2 million (Including VAT) and due to insufficient funds, we could not proceed with procurement for remaining 45 kms.
- (ii) Although a sum of Rs. 558,130,986 had been received as imprest during the year ended 31 December 2011 the expenditure incurred for this period was only Rs. 234,089,574 as per books of accounts. Therefore, the Special (Dollar) Account balance as at 31 December 2011 amounting to Rs. 346,653,804 had been lying idle without being utilized for the activities of the Project.

- i) Two contracts were terminated due to non performance of the following tasks.
- a) Deficiency in accomplishment of required target
 - b) Stock piling of un-authorized / un-approved materials at site.
 - c) Non establishment of site Laboratory.
 - d) Required key personnel not fully mobilized at site.
 - e) Non completion of design / drawing.
 - f) Non submission of legal documents for material sources.
 - g) Failure to provide documentary evidence for utilization of mobilization advance for Project related activities.

It was observed in audit that termination of road works had arisen due to inadequate supervision of the consultant and lack of adequate monitoring process.

- ii) A sum of Rs. 61,546,563 had been paid for Supervision Consultant up to 31 December 2012. In this regard the following observations were made.
- a) Contract had been poorly managed by the supervising consultant as a result of two packages for the length of 26.4 km road works were terminated during the year under review. Progress of the remaining two packages of 29.3 km were far below the target.
 - b) Capacity of the Consultants staff was inadequate. As a result, team leader was replaced due to ineffective contract administration, communication and designing.
 - c) Monitoring of contract works was inadequate.
 - d) Variations orders, extension of time, revised designs and approval of routine works were substantially delayed.
 - e) Lack of professional commitment on the part of Consultant and his staff members.

- iii) Excess major quantities were observed over the revised quantities due to improper estimates prepared. Details are given below.

Description	Contract No.IRP/NP/01				Contract No.IRP/NP/02			
	Cum BOQ Qty	Cum revise Qty	Add Qty	Percentage of increase Qty	Cum BOQ Qty	Cum revise Qty	Add Qty	Percentage of increase Qty
Clearing and Grubbing	22,862	51,196	28,334	124	55,719	62,822	7,103	13
Sub base	3,276	4,398	1,122	34	-	-	-	-
ABC	16,099	17,816	1,717	11	-	-	-	-

Embankment type	1,540	7,807	6,267	407	3,630	10,950	7,320	202
Shoulder	3,007	3,758	751	25	4,810	5,504	694	14

iv) Recommendation of granting extension of time for completion of contracts were given by 123 calendar days and 70 calendar days respectively based on assessment of Project management report. However the valid reasons or grounds for extension of time which were beyond the control of the contractors were not furnished for audit. Details of extension of time given are shown below.

Contract No.	Original Date of Completion of Contract	Revision 1	Revision 2	Revision 3
NP/ 01	27.01.2012	17.07.2012	05.05.2013	31.08.2013
NP/02	29.11.2011	15.05.2012	06.07.2012	20.05.2013

v) Revision of contract value and revision of BOQ items were made without obtaining approval from the Funding Agency/Ministry of Local Government and Provincial Councils.

Although contract values had been revised, no evidences were made available for audit about the reason for the revision.

Contract No.	Original value	Revised value	Difference
	Rs.	Rs.	Rs.
NP/01	458,115,063	470,693,157	12,578,094
NP/02	427,502,519	426,894,391	(608,128)

vi) Provincial Roads Projects were commenced its activities on 23 May 2010. A Private Company had been appointed as Project implementation Consultant for Provincial Road Project of Northern Province by the Ministry of Local Government and Provincial Councils. Original proposal was to rehabilitate 100 kilometers road in Jaffna District consisting seven packages and later it was reduced to 55 km consisting 4 packages due to financial constraints. Out of the 4 packages two package of contracts were terminated on 23 November 2012 due to poor progress against as planned as per details given below.

Terminated Contracts	No of km	Financial Progress		Physical Progress	
		Planned	Achieved	Planned	Achieved
PRP/NP/03	14.0	83%	21%	76%	5.23 %
PRP/NP/05	12.4	87%	16%	74%	0.75 %
	26.4				

It was observed in audit that even though the above contracts were terminated on 23 November 2012, no action had been taken to complete the remaining road work of 26.4 km through awarding of new contractors.

(b) **Local Level Nutrition Interventions for Northern Province Project.**

- (i) According to the financial statements and other information made available for audit, out of the funds amounting to Rs. 246,009,992 made available for the year, a sum of Rs. 147,493,283 only had been utilized for the activities of the Project during the year under review which represented 60 per cent on allocated funds.
- (ii) Although a sum of Rs. 2,523,000 had been allocated to the Consultancy Service for Health promotion for the year 2012, Rs. 654,600 only had been spent. In this regard the following observations were made.
 - Training had not been carried out in terms of Annex ‘A’ of the training Module.
 - Four meeting held for review of performance. However, consultant had not been participated and exhibition requested to be held in July had not been arranged.
 - Payments had been made to the Consultant without obtaining quarterly reports. One report only furnished by the Consultant out of four quarterly reports to be furnished for the year as per Terms of Reference.
 - Insurance coverage as stipulated in the contract agreement had not been furnished by the Consultant.
 - Field visits were not carried out by the Consultant to the Mullaithivu and Kilinochchi Districts. In this connection the Project Director had stated that no health promotion foundation staffs were appointed by the Consultant in the Mullaithivu and Kilinochchi District due to shortage of relevant professioned. Medical officer of Maternal and Child Health (MOMCH) and Medical Officer of Health (MOH) are being fulfilled the task related to the Project in all five Districts.

(iii) Although the World Bank recommended to the support to mothers clubs, non of the procurements to the mother clubs under component 3 had been made.

(c) **NELSIP Project**

As per project proposal a sum of Rs. 9,662 million had been budgeted for the five numbers of activities of the Project. However a sum of Rs. 1,408.52 million only had been utilized during the year under review. Therefore 85 per cent of the budgetary allocation for the year had remained unutilized.

(d) **Emergency Northern Recovery Project**

Although the allocation was provided in the Grant Agreement for goods and consultant services under Category 1, no expenditure was incurred by the Project during the Project period whereas the expenditure under Category 2 was exceeded the allocation.

(e) **Emergency Northern Recovery Project - Australian Fund**

Although the allocation was provided in the Grant Agreement for goods and consultant service under Category 1, no expenditure was incurred by the Project during the Project period whereas the expenditure under Category 2 was exceeded the allocation, by Rs. 284,075,171.

(f) **Conflict Affected Region Emergency Project (CARE) (Component A)**

(i) As per Project proposal a sum of Rs. 9,924.2 million had been budgeted for the six numbers of categories for the whole Project period under review. However, a sum of Rs. 3,405 million only had been utilized up to 31 December 2012 under review. Therefore, out of the budgetary allocation 66 per cent of the Project funds had remained unutilized.

(ii) A sum of Rs. 4,322,687 approximately had been paid as vehicle hiring charges up to 31 April 2012 to hire 3 vehicles contrary to the circular No. MPPI/MPRD/Veh dated 15 October 2002 of the Ministry of Policy Planning and Implementation. Further, hiring charges of Rs. 90 approximately per Kilometer had been paid to a private company in Colombo. However, the hire charges in Jaffna was Rs. 50 per kilometer only, as a result substantial amount of money had been paid as hire charges without considering economic of transaction.

2.11 **Supervision over the Affairs of the Local Authorities**

In pursuance of provision in Section 4.2 of the Eighth Schedule to the Thirteenth Amendment to the Constitution of Sri Lanka, the supervision of the Local Authorities of the Province had been devolved to the Provincial Council. The matters observed in audit

of the financial statements of the Local Authorities were brought to the notice of the Heads of the respective Local Authorities. In this connection, following observations are made.

- (a) Out of 34 Local Authorities in the Northern Province, only 25 Local Authorities had rendered financial statements for the year under review for audit before 31 March 2013. Further, 09 financial statements of the Local Authorities in the Northern Province in respect of the year under review had been rendered before 30 June 2013.
- (b) Instances of qualified audit opinions and disclaimer audit opinion expressed on the financial statements of the Local Authorities are given below.

District	Number of instances where qualified audit opinion expressed on the financial statements	Number of instances where Disclaimer audit opinion expressed on the financial statements
Jaffna	16	01
Mullaithivu	04	-
Kilinochchi	03	-
Vavuniya	05	-
Mannar	01	-
	----- 29 =====	----- 01 =====

- (c) The Commissioner of Local Government or the Chief Secretary or the Secretary to the Ministry in charge for the subject of Local Government of the Northern Provincial Council had not taken steps to implement an effective and meaningful methodology for the internal audit of the Local Authorities.
- (d) Contracts for the roads, toilets and tube well works had been awarded to Rural Development Societies, Women Rural Development Societies and Community Centers without following tender procedure, Procurement Committee decision, etc. in terms of Procurement Guidelines - 2006. Further, in terms of Section 3.9.1 of the Procurement Guidelines and Manual, contracts may be awarded only to the Community Development Societies (Praja Sanwardhana Samithi) which contributed to the development activities in the Local Government Sector and not to the Community Centers.
- (e) According to the information furnished to audit, arrears of revenue as at 31 December 2012 relating to 34 Local Authorities stood at Rs. 563,665,805 as per details given below.

Districts	Number of local authorities	Arrears of Revenue
-----	-----	-----
		Rs.
Jaffna	17	474,147,505
Mullaithivu	04	16,334,611
Kilinochchi	03	2,575,735
Vavuniya	05	48,056,263
Mannar	05	22,551,691
	-----	-----
	34	563,665,805
	-----	-----

(f) **Recovery of Courts Fines and Stamp Duty**

Fines imposed by the courts situated within the area of Local Authorities according to the statutory provisions and the stamp duty relating to transfer of property retained by the Provincial Council or other Local Authorities had been kept by Courts without being remitted to the Local Authorities due to non - making timely request. Details of unrecovered court fines and stamp duties as at 31 December 2012 were as follows.

District	Stamp duty in Arrears	Courts fine in Arrears
-----	-----	-----
	Rs.	Rs.
Jaffna	191,158,926	45,043,221
Mulaithivu	10,018,147	101,200
Kilinochchi	5,184,430	5,611,233
Vavuniya	34,473,179	7,997,604
Mannar	11,628,265	81,725
	-----	-----
	252,462,947	58,834,983
	=====	=====

(g) Common deficiencies observed in audit relating to the financial statements of the Local Authorities are summarized below.

- (i) Assets and inventory items received as donations and gifts from various Non – Governmental Organizations (NGOs) specially after Tsunami were not properly inventoried.
- (ii) Human resources of the Local Authorities were utilized by various institutions / NGOs specially after Tsunami without proper authority.

- (iii) Provincial Commissioner of Local Government had not taken adequate action on reports of the Local Authorities furnished by the Investigation Officers of the Provincial Commissioner.
 - (iv) Undue delays in preparation of bank reconciliation statements were observed.
 - (v) Balances of control accounts had not been reconciled with the balances shown in the subsidiary registers or records.
 - (vi) Members of several Local Authorities who were not entitled to use official vehicles had utilized the official vehicles.
 - (vii) Local Authorities had executed construction works using own labour force. However, no proper job sheets had been prepared. Therefore, no inventory control or stock control were exercised. Due to this, it was not possible in audit to verify stock position and ascertain shortages / excesses of stocks.
 - (viii) Actual value of the land and buildings of the Local Authorities had been understated in the financial statements as valuation of land and buildings had not been made and brought to accounts
 - (ix) Value of motor vehicles donated by the various parties had not been brought to the financial statements. As a result, values of assets of the Local Authorities were understated in the financial statements.
 - (x) Assessment rates and taxes could not be increased due to failure to carry out assessment on properties for over 25 years.
 - (xi) Although several land owned by the Pradeshiya Sabhas had been utilised for bus halts by the Northern Region Transport Board, no recoveries had been made from the Northern Region Transport Board.
 - (xii) Appointments were made over the approved cadre by the Municipal Council, Jaffna. In this connection a sum of Rs. 80,653,741 had been paid from the Municipal Fund as salaries to those unauthorized staff.
 - (xiii) Pension contribution made by the Local Government Services had not been remitted to the Director General of Pensions.
- (h) Transactions valued at Rs. 1,495,473,817 could not be satisfactorily vouched in audit due to non availability of information required for audit, as per details given below.

<u>District</u>	<u>Amount</u> <u>Rs.</u>
Jaffna	1,174,406,448
Mullaitivu	86,399,603
Vavuniya	220514060
Kilinochchi	14,153,706
	1,495,473,817

- (i) Expenditure aggregating Rs. 753,536 incurred by the Local Authorities during the year under review had been considered as uneconomic transactions as per details given below.

<u>Details</u>	<u>Amount</u> <u>Rs.</u>
Purchase of Samsung Galaxy S III phone	99,990
Refreshment expenses on monthly meeting	438,042
Nallur festival expenses	74,575
Refreshment on foot ball team	110,929
Printing charges for new year cards.	30,000
	----- 753,536 =====

(j) Abandoned projects

Fifty three Projects works to the value of Rs. 222,079,000 had been completely abandoned due to lack of funds.

(k) Delay in Implementation of Projects

Considerable period of delays in implementation of Projects to the value of Rs. 132,439,354 had been observed during the year under review and the previous year.

3. Accountability and Good Governance

3.1 Corporate Plan

Even though a Corporate Plan should be prepared by the Provincial Council at the beginning of the year at least for 3 ensuing years from the year 2010 in terms of letter No.PF/R/2/2/3/5(4) dated 10 March 2010 of the Director General of the Department of Public Finance addressed to all Secretaries to the Ministries, Chief Secretaries of the Provincial Councils, Heads of the Departments, District Secretaries and Heads of the Local Authorities, the Plan had not been prepared up to 31 December 2012.

3.2 Annual Action Plan

Even though an Annual Action Plan should be prepared by the Provincial Council for the year 2010 and ensuing years in accordance with the Corporate Plan prepared in terms of letter of the Director General of the Department of Public Finance as mentioned in the above paragraph, the Action Plan for the year under review had not been prepared up to 31 December 2012.

3.3 Annual Procurement Plan

Annual Procurement Plan had not been prepared up to 31 December 2012 in terms of National Budget Circular No.128 dated 24 March 2006.

3.4 Functions of Internal Audit Department

The following observations are made.

- (a) Governor's Secretariat had not been subjected to audit by the Provincial Internal Audit Department in terms of Provincial Financial Rule 99.
- (b) The Auditor General had not been consulted in preparation of the internal audit programme by the Provincial Internal Audit Department in terms of PFR 101.
- (c) No meaningful action had been taken by the Provincial Ministries and Departments on the several matters reported by the Provincial Internal Audit Department.
- (d) Copies of Internal Audit Queries had not been rendered for audit.

3.5 Establishment of Audit and Management Committee

Audit and Management Committees had not been established at several Departments in terms of Treasury Circular No. IAI/2000/01 dated 12 June 2000

3.6 De-merger of the North East Provincial Council

The then North East Provincial Council was de-merged on 22 December 2006 based on the ruling given by the Supreme Court of the Democratic Socialist Republic of Sri Lanka. The Northern Provincial Council was in operation with effect from 01 January 2007. However, a Gazette Notification regarding the de-merger and the establishment of the Northern Provincial Council had not been published even up to 31 December 2013. The elected Northern Provincial Council was established on 25 October 2013 after completion of 6 years from the de-merger of the then North East Provincial Council.

Presentation of Financial Statements

a) Fund Accounts of the Provincial Council

Fund accounts of the Provincial Council for the year under review had been rendered to audit on 28 March 2013.

b) Governor’s Trust Fund

A Governor’s Trust Fund for Northern Provincial Council had been operated with effect from 01 January 2007. The Statute for the creation of Fund had not been passed in the Provincial Council. However, the Governor of the then North East Province had on his own initiative created the Governor’s Trust Fund. In terms of Paragraph 03 of the Governor’s Memorandum No. 01/2007 dated 01 January 2007, the Governor’s Trust Fund should be consisted of donations or contribution received from the members of the public, Organizations, Societies and income generated from projects undertaken. However, no any such contribution had been received from the above sources during the year under review and financial statements of the Governor’s Trust Fund for the year under review had been rendered to audit on 28 March 2013.

Operations of the Governor’s Trust Fund of the Northern Province had been established without either a memorandum passed by the Governor, Northern Province or statue passed by the Provincial Council for the creation of fund.

c) Other Financial Statements

The progress of presentation of other financial statements for the year under review as at 30 April 2013 is given below.

Category of Financial Statements -----	Total No. of Financial Statements to be presented -----	Total No. of Financial Statements presented up to 30 April 2013 -----	Total No. of Financial Statements not presented as at 30 April 2013 -----
(a) Appropriation Accounts	32	32	-
(b) Revenue Accounts	06	-	06
(c) Advance to Provincial Public Officers Accounts	32	32	-
(d) Commercial Advance Accounts Activities	04	02	02
	74 ====	66 ====	08 ====

3.8 Rendition of Annual Performance Reports by the Provincial Council and Local Authorities

- i) Annual performance reports of the Provincial Council in terms of paragraph 04 of the General Treasury Circular No. 1/2004 dated 24 February 2004 had not been prepared and rendered to audit.

- ii) Annual performance reports of the 34 Local Authorities functioning under Northern Provincial Council had not been prepared and submitted to the Provincial Council in terms of paragraph 4.3 of the General Treasury Circular No. 01/2004 dated 24 February 2004.

3.9 Tabling of the Annual Reports to the Assembly of the Provincial Council together with the Auditor General's Reports

Due to non functioning of the elected Provincial Council, the Auditor General's reports on the financial statements of the Northern Provincial Council for the years 2007 - 2011 had not been tabled in the Assembly of the Council up to 30 November 2013 in terms of Section 23 (2) of the Provincial Councils Act No. 42 of 1987. As a result there was no mechanism adopted by the Provincial Council to rectify the matters pointed out in the Auditor General's reports since 2007.

4 Systems and Controls.

In view of the deficiencies observed in recruitment and remuneration of staff, procurement of assets, accounting procedures, maintenance of accounting records, utilization of assets etc. it was revealed that the systems and controls in operation were not adequate to ensure economy and effectiveness in the administration and financial management of the Council. Special attention is needed in respect of the following areas of control

- (a) Recruitment of Personnel and Remuneration to Staff.
- (b) Payment of Overtime, Holiday Pay, Acting Salary and Entertainment Allowances.
- (c) Certification of Payment Vouchers.
- (d) Cash Collections and Disbursements.
- (e) Stores Procedure
- (f) Maintenance of Fixed Assets Registers
- (g) Utilization of Official Vehicles.
- (h) Allocation and Maintenance of Government Quarters
- (i) Maintenance of Accounting Records.
- (j) Internal Audit.
- (k) Control over Advance Account Activities.