

## **North Western Provincial Council - 2013**

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The audit of financial statements of the North Western Provincial Council for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance, cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 23(1) of the Provincial Council Act, No. 42 of 1987. This report is issued in terms of Section 23(2) of the Provincial Council Act. The detailed report including audit observations herein is issued for tabling in the Provincial Council in due course.

### **1.2 Management's Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1.3 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI-1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Provincial Council for the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Provincial Council. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.4 Basis for Qualified Opinion

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

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2.1 Qualified Opinion

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In my opinion, except for the effects of the matters described in paragraph 2:2 of this report, the financial statements give a true and fair view of the financial position of the North Western Provincial Council as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

2.2 Comments on Financial Statements

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2.2.1 Provincial Council Fund

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Financial Statements of the Provincial Council for the year ended 31 December 2013 had been presented to audit on 14 March 2014.

2.2.2 Other Accounts

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(a) Revenue Accounts

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According to the Provincial Financial Rules, the Accounting Officer to whom statutory powers relating to revenue had been given should prepare his Revenue Accounts and forward it to the Auditor General. However, accounts relating to revenue codes of the Provincial Council for the year under review had been presented to audit on 11 September 2014.

(b) Other Accounts including Appropriation Accounts

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The progress relating to presentation of accounts for the year under review as at 31 March 2014 appears below.

For the year 2013

Name of the Account	Total No. of Accounts	No. of Accounts Presented	No. of Accounts not Presented	No. of Accounts of Previous Year not Presented
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(i) Appropriation Accounts	26	26	--	--
(ii) Advances to Provincial Council Officers' Accounts	73	60	13	74
(iii) Loan Facilities to Provincial Council Members Advance Account	01	01	--	--

(iv) Commercial Advance Accounts	07	04	03	-
(v) Funds and Statute Accounts	14	13	01	14
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Total	<u>121</u>	<u>104</u>	<u>17</u>	<u>88</u>

### 2.2.3 Accounting Deficiencies

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Liabilities totalling Rs.10,462,434 of 07 Departments belonging to the North Western Provincial Council had not been disclosed completely in financial statements and liabilities valued at Rs.32,498,919 relating to 10 Departments had been understated.

### 2.2.4 Unreconciled Control Accounts

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Following observations are made.

- (a) A difference of Rs.17,741,506 between the Treasury Books and Departmental Books relating to General Deposit Accounts of the Department of Health Services, Department of Small Industries and Engineering Department and a difference of Rs.52,290,518 between the Treasury Books of Advances to Public Officers ‘B’ Accounts and Departmental Books of the institutes such as the Provincial Ministry on Health, Indigenous Medicine, Sports and Youth Affairs, Department of Health Services and Engineering Department too were revealed.
- (b) A difference totalling Rs.762,026 between the Summary of Individual Balances Classification in Advances ‘B’ Accounts prepared for the year under review of the Ministry of Social Welfare and Provincial Public Services Commission and the balance of Departmental Control Accounts was revealed.
- (c) A difference totaling Rs.5,609,529 between the CC 10 Registers and the list of Individual Loan Balances submitted along with the account of 05 Zonal Offices of the Department of Provincial Education was revealed.

- (d) A difference of Rs.1,763,014 between the balances according to the Departmental Books and the balance of Departmental Control Account of 04 Zonal Offices in Advances 'B' Accounts of the Department of Provincial Education was revealed.

#### 2.2.5 Unexplained Differences

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No action had been taken to prepare an age analysis of outstanding funds balances recoverable from cooperative societies in the area of authority of the Office of the Kuliypitiya Cooperative Assistant Commissioner. Similarly, an increase totalling Rs.4,490,619 in 47 instances between the Funds Balances Analysis and the Ledgers and a decrease totalling Rs.1,817,278 in 20 instances prepared by 67 cooperative societies were observed.

#### 2.2.6 Accounts Receivable and Payable

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(a) Accounts Receivable

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An amount of Rs.1,003,972,178 was recoverable to the Provincial Council as outstanding revenue as at the end of the year under review from 02 Divisional Secretariats and 03 Departments from the Provincial Council for over a period of one year.

(b) Imprest Accounts

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The unsettled balances of Imprest to the Provincial Treasury of a Provincial Ministry, 04 Departments and a Divisional Secretariat at the end of the year under review aggregated Rs.9,578,198 and it included a balance of imprest of Rs.819,533 remaining unsettled for over one year.

(c) General Deposit Accounts

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Action had not been taken in terms of Financial Regulation 571 to settle deposits totaling to the value of Rs.12,581,983 exceeding 2 years of 03 Provincial Ministries, 07 Departments, 05 Divisional Secretariats and the Chief Secretary's Office at the end of the year under review.

(d) Staff Loans Recoverable

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The unsettled loan balances exceeding 03 years due to transfer, decease and vacation of posts, interdiction, retirement and other reasons of officers of 04 Provincial Ministries, 08 Departments and 12 Divisional Secretariats aggregated Rs.46,775,721.

2.2.7. Lack of Evidence for Audit

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The following observations are made.

- (a) As the file of long term lease relating to a land of 25 acres in Periyamaduwa Grama Niladhari Division of Pallama Divisional Secretariat had been misplaced, details in this respect had not been presented to audit.
- (b) Annual Lease Registers of 539 files of land revenue of Puttlam Divisional Secretariat had not been maintained in the year under review.

2.2.8. Non-compliance with Laws, Rules, Regulations and Management Decisions

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Instances of non-compliance with laws, rules, regulations and management decisions observed at audit test checks appear below.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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(a) Acts	
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(i) Section 43(1) of Cooperative Societies Act No.05 of 1972 and 43(11) of Cooperative Societies Rules of 1973	Contributions totalling Rs.48,205,766 to be credited from 1110 cooperative societies and cooperative banks belonging to Offices of Assistant Cooperative Commissioners of Kuliyaipitiya and Chilaw had not been credited to the Cooperative Fund even by the end of the year 2013.
(ii) Section 3.5 of Private Medical Institutions (Registration) Act No.21 of 2006	Even though 50 per cent from the registration fee collected by the Director of Provincial Health Services should be paid to the Provincial Council when registering the Private Medical Institutions, an amount of Rs.3,082,660 had been credited to a special account without doing so.
(b) North Western Province Financial Rules	
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(i) P.F.R. 97.4 and 116.2	Half yearly reports in respect of outstanding revenue of 18 Divisional Secretariats in Puttlam District had not been presented to the Auditor General.

(ii) P.F.R. 117.1 and 118

Out of the revenue collected in the year 2013 by the Madampe Divisional Secretariat contrary to provisions of Provincial Financial Rules, the remaining amount of several months after incurring expenses within a range from Rs.1.2 million to Rs.9.1 million, revenue and charges of Provincial Councils amounting to Rs.253,899 recovered by the Chilaw Divisional Secretariat in the years 2012 and 2013 too had been retained in the General Deposit Account without sending to the Provincial Treasury.

(iii) P.F.R. 476

Boards of Surveys had not been conducted in the Office of the Department Provincial Health Services and Bio Medical Engineering Unit in 2012 and 2013, Office of the Deputy Director of Health Services, 02 rural hospitals and 07 central dispensaries in Puttlam District from the year 2010 and another base hospital, district hospital, 03 rural hospitals and 14 central dispensaries and 06 offices of medical officers of health from the year 2011. The Boards of Surveys had not been conducted in the terminal unit, 02 rural hospitals, 10 central dispensaries, an office of medical officers of health and Malaria Unit in Puttlam and Cardiology clinic so far.

Out of the 1180 provincial council schools, the Boards of Surveys in 804 schools had been completed in the year 2012 and reports of 244 schools out of them had not been presented to audit.

Even though the Boards of Surveys had been conducted in 849 schools of 1183 provincial council schools, 35 national schools and 08 zonal offices in the year 2013, only reports of 285 provincial council schools, 24 national schools and 03 zonal education offices had been presented to audit.



(c) Circulars

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| (i) Circulars of the Secretary to the Ministry of Public Administration and Home Affairs No. 14/2008 dated 26 June 2008 and No.13/2008(iv) dated 09 February 2011 | The Commissioner of Probation and Childcare Services had obtained excessive fuel allowances totaling Rs.188,264 in the years 2012 and 2013 contrary to the circular instructions.   |
| (ii) Section 12 of the Circular No. NWPCS/4/2/1/PIE-2011 dated 06 August 2011 of the Chief Secretary of North Western Province                                    | Even though in terms of circulars, 20 per cent of Provincial Investment Provisions should be allocated to the self-employment component, 06 per cent or Rs.161,830 in the year 2012 and 12 per cent or Rs.363,239 in the year 2013 had been allocated contrary to those terms.                            |
| (iii) Public Finance Circular No. PF/423 dated 22 December 2006 of the Deputy Secretary to the Treasury.  | In terms of Paragraph 03 of the Circular, provisions had not been made so as to implement within the statutory frame relating to Public Finance and in terms of Paragraph 4.4 of the circular, accounts of the Cooperative Fund had not been presented for auditing and reporting to the Auditor General. |

2.2.9. Transactions not Supported by Adequate Authority

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Even though goods and 10 types of equipment valued at Rs.599,740 had been purchased and fixed in the physical health unit situated in the premises of Department of Provincial Health Services, those goods had not been properly taken over and inventoried. Financial and administrative affairs had been allowed to be carried out at the discretion of the coach.

3. Revenue Management

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The estimated revenue compared with the actual revenue under each revenue code of the Provincial Council for the year under review and the preceding year appear below.

Revenue Code No.	Description of Revenue	<u>2013</u>		<u>2012</u>	
		Estimated Revenue	Actual Revenue	Estimated Revenue	Actual Revenue
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		Rs.Mn.	Rs.Mn.	Rs.Mn.	Rs.Mn.
10.02,10.03	Tax on production and expenditure	4,941.00	4,007.15	3,242.24	3,409.57
20.02	Lease rent, interest, profit and dividends	203.00	233.29	197.90	187.55
20.03	Sales and fees	447.00	461.11	1,525.26	1,284.04
20.06	Sale of capital goods	2.00	0.24	2.60	0.53
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	Total	5,593.00	4,701.79	4,968.00	4,881.69
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The following observations are made.

- (a) Nineteen per cent or the estimated lease revenue amounting to Rs.933,853,524 could not be collected during the year under review. Similarly, non tax revenue had increased by Rs.42,642, 422.
- (b) The total of outstanding tax and fines recoverable from 06 Divisional Secretariats for the year under review and preceding years amounted to Rs.11,123,585.
- (c) Court fines amounting to Rs.30,895,298 received relating to 25 local authorities and stamp duties amounting to Rs.60,974,947 received relating to 03 local authorities as at the end of the year under review had not been sent to the respective local authorities.

4. Financial Review

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4:1 Financial Result

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According to the financial statements presented, surplus of the Provincial Council Fund for the year ended 31 December 2013 was Rs.275,981,295 as against the deficit of Rs.604,164,364 for the preceding year.

4:2 Structural Financial Review

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Revenue and Expenditure

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According to the financial statements presented, a summary of the Revenue and Expenditure for the year under review and the preceding year appear below.

	<u>2013</u>			<u>2012</u>		
	Budgeted	Actual	Variance	Budgeted	Actual	Variance
	-----	-----	-----	-----	-----	-----
	Rs.(Mn.)	Rs.(Mn.)	Rs.(Mn.)	Rs.(Mn.)	Rs.(Mn.)	Rs.(Mn.)
Revenue						
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Tax Revenue	4,941.00	4,007.15	933.85	4,322.24	4,205.87	116.37
Non-tax Revenue	652.00	694.64	(42.64)	645.76	675.83	(30.07)
Government Grants	17,568.44	16,332.24	1,236.20	15,519.60	13,159.49	2,360.11
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Total	23,161.44	21,034.03	2,127.41	20,487.60	18,041.19	2,446.41
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Recurrent  
Expenditure

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Personal	16,050.31	15,369.68	680.63	13,380.49	13,860.99	(480.50)
Emoluments						
Other Expenditure	4,650.90	3,800.17	850.73	4,992.30	3,452.59	1,539.71
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Sub Total	20,701.21	19,169.85	1,531.36	18,372.79	17,313.58	1,059.21
Capital Expenditure	2,460.23	1,588.20	872.03	2,114.81	1,327.77	787.04
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Total	23,161.44	20,758.05	2,403.39	20,487.60	18,641.35	1,846.25
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The following observations are made.

- (a) Out of the total expenditure of the year under review, 92.35 per cent was recurrent expenditure and 7.65 per cent was capital expenditure.
- (b) Out of the total expenditure of the year under review, 19.05 per cent, 3.3 per cent and 77.65 were tax revenue, non- tax revenue and government grants respectively.
- (c) According to the financial statements presented, an amount of Rs.748,452,671 in the year under review and an amount of Rs.1,152,378,365 in the preceding year had been invested in treasury bills. In addition to this, out of the funds existed in 03 funds and 07 authorities of the Provincial Council, an amount of Rs.362,714,680 had been invested in fixed deposits in the year under review.
- (d) The entire provisions of Rs.114,151,640 made for 26 Objects by 09 Ministries and Departments of Provincial Councils had been saved. Out of the provisions of Rs.2,377,708,356 made for 262 Objects relating to 20 Heads, savings existed within a range from 10 per cent to 100 per cent.

05. Authority Accounts/Fund Accounts and Commercial Advances Accounts  
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5.1 Authority Accounts/Fund Accounts  
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5.1.1 North Western Provincial Machinery Equipment Authority  
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(a) Comments on Financial Statements  
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(1) Going Concern of the Institute  
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As the institute occurred loss from 2010 to 2013, it had made an adverse effect on net assets. As such a diminution in ownership had been observed and the functioning of the authority without a financial assistance of the Provincial Council/Government/other, was in an unstable condition.

(2) Accounting Deficiencies  
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The following observations are made.

- (i) Even though the financial result of operations of the institute should be adjusted to the accumulated fund, the capital account had taken a negative value of Rs.81,425,060 at the end of the year under review as it had been adjusted through the capital account.
- (ii) Even though gratuity of Rs.17,827,630 should be allocated to 86 employees who had exceeded a period of 05 years in service, allocations had been made less by Rs.17,235,598 as gratuity had been shown as Rs.592,032 in financial statements.

(3) Accounts Receivable and Payable  
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(i) Accounts Receivable  
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An amount of Rs.52,833,070 was recoverable as charges for repairing as at 31 December 2013. Balances of over 02 years valued at Rs.28,231,328 had been included in it.

(ii) Accounts Payable

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No action had been taken to settle the advance amounting to Rs.1,824,169 received from the Chief Ministry before many years.

(b) Financial Review

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Financial Result

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According to the financial statements presented, the financial result of the Authority for the year ended 31 December 2013 was a deficit of Rs.4,304,499 as compared with the deficit of Rs.10,433,627 of the preceding year, thus indicating a decrease of Rs.6,129,128 in the financial result.

(c) Operating Review

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(1) Performance

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The main source of income of the institute was renting out vehicles and priority had not been given to repair the said vehicles as soon as they are broken down. Even though the vehicle bearing No.MG 07 was broken down at the beginning of October 2013, no action had been taken promptly to repair the said vehicle. As such the income lost to the institute was approximately Rs.1,355,640.

(2) Management Inefficiencies

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The following observations are made.

(i) Staff Loans of Rs.628,700 paid to an interdicted Director of Management could not be recovered even at the end of the year under review.

(ii) Nation Building Tax of Rs.5,505,492 payable during the period from 2009 to 2013 and Value Added Tax of Rs.6,168,353 payable for the years 2012/2013 had not been remitted to the Commissioner General of Inland Revenue.

(iii) Employees Provident Fund and Employees Trust Fund of Rs.10,153,833 payable and surcharge payable to Employees Trust Fund for the year under review and the preceding year had not been paid to the respective institutions.

(d) Idle and Underutilized Assets

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A stock older than 10 years valued at Rs.2,353,291 had been retained in the store.

(e) Uneconomic Transactions

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A surcharge of Rs.1,384,808 had been paid in the year under review to the Employees Trust Fund on the basis of non- payment on due date.

5.1.2. Human Resources Development Authority

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(a) Comments on Financial Statements

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Accounting Deficiencies

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An amount of Rs.98,970 incurred for construction of the building for Elawaka Grass Projects had not been capitalized and no action had also been taken to transfer the title of the land where the building was constructed, to the authority.

(b) Financial Review

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Financial Result

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According to the accounts presented, the deficit before the computation of Provincial Council Grants of the Authority for the year ended 31 December 2013 amounted to

Rs.5,939,372 as compared with the deficit of Rs.3,938,790 for the preceding year, thus indicating an increase of Rs.2,000,582 in the deficit. A deficit of Rs.89,372 and a surplus of Rs.1,561,210 had been shown respectively due to grants of Rs.5,850,000 and Rs.5,500,000 received from the Provincial Council for the year under review and the preceding year respectively, thus indicating a decrease of Rs.1,650,582 in the financial result in the year under review as compared with the financial result of the preceding year.

(c) Operating Review

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Management Inefficiencies

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The following observations are made.

(i) Loans granted on Provincial Council Funds

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Out of the loan amounting to Rs.9,092,578 granted from the Provincial Council Fund, an amount of Rs.1,845,303 recoverable from 03 persons and 20 societies was recoverable from over a period of 03 years.

(ii) Loans granted on Projects

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Out of the loan amounting to Rs.33,421,500 granted to 194 institutions and persons under project loans, an amount of Rs.16,175,006 had not been recovered even by the end of the year under review. It had also included a sum of Rs.975,000 granted to 11 persons during the period from 2006 to 2013 by the Authority.

(d) Transactions of Contentious Nature

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Property loan of Rs.3,239,300 had been released under the Revolving Fund to 05 officers of the Authority during the year 2013 under an annual interest rate of 5 per cent without approval of the Secretary to the Chief Ministry or the Governor contrary to the objectives.



5.1.3. Road Passenger Transport Authority

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(a) Comments on Financial Statements  
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(1) Accounting Deficiencies  
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The following observations are made.

- (i) As monthly running charts and entrance fees of Rs.1,224,000 recoverable from 322 buses in the year under review had not been brought to accounts, profit and current assets of the year had been shown less by the said amount.
- (ii) Stocks valued at Rs.105,616 had been omitted completely from the accounts.

(2) Accounts Receivable  
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No action had been taken to recover the balance of Rs.860,501 receivable from respective parties, being brought forward from a period between 02 and 13 years.

(3) Non-compliance with Laws, Rules, Regulations and Management Decisions  
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The following instances of non-compliance were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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(i) Section 3.4.2 (a) of the Procurement Guidelines 2006	Even though the shopping method had been used for purchases and repairs, an amount of Rs.507,497 had been paid for repair of vehicles in 11 instances without maintaining written

evidence on details, quantity, time of handing over the tender, place and responsibility.

- (ii) Paragraph 2.1 of the Gazette Notification of the Democratic Socialist Republic of Sri Lanka of 16 January 2004
- Even though determining of routes where the permanent bus services are required, selecting permit holders through an open tender procedure in the North Western Province should be carried out, permits had been issued charging a minimum amount of Rs.1,731,000 for 83 route permits contrary to the said procedure in the year 2013.

(b) Financial Review

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Financial Result

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According to the financial statements presented, the financial result before the computation of Provincial Council Grants of the Authority for the year ended 31 December 2013 had been a deficit of Rs.10,566,847 as compared with the deficit of Rs.8,004,524 for the preceding year, thus indicating an increase of Rs.2,562,323. After adjusting grants of Rs.14,700,000 and Rs.21,835,290 received from the Provincial Council for the year under review and the preceding year respectively, deficits had become surplus of Rs.4,133,153 and Rs.13,830,766 respectively, thus indicating a decrease of Rs.9,697,613 in the financial result in the year under review as compared with the financial result of the preceding year.

(c) Operating Review

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(1) Operating Inefficiencies

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The following observations are made.

- (i) An amount of Rs.267,369 was recoverable from 09 Mobile Route Inspectors as at the end of the year under review.

(ii) Even though an advance of Rs.100,000 had been paid to a private firm in December 2009, to design an Accounting and Management Software for the Authority, the advance had become a fruitless expenditure due to incompleteness of the said purpose even by the date of audit.

(2) Transactions of Contentious Nature

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The following observations are made.

- (i) An expenditure of Rs.161,874 had been incurred in 07 instances of non – compliance with the objective of the Authority.
- (ii) A loan of Rs.8,850,000 had been obtained holding the Employees Gratuity Fixed Deposits as guarantee contrary to Section 5.2.2(5) of Public Enterprises Circular No. PED/12 of 02 June 2003, Budget Circular Nos.81 of 09 January 1999 and 150 of 07 December 2010 and without prior approval of the Treasury and a vehicle first registered in the name of a person had been purchased at a cost of Rs.8,400,000.

5.1.4. Chief Minister Fund

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Financial Review

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Financial Result

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According to the financial statements presented, the expenditure over income of the Chief Minister Fund for the year under review amounted to Rs.313,104 as against the income over expenditure of Rs.269,000 for the preceding year, thus indicating a deterioration of Rs.582,104 in the financial result.

5.1.5. Provincial Environmental Authority

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(a) Comments on Financial Statements

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(i) Accounting Deficiencies

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Even though 04 types of assets valued at Rs.4,203,443 had been fully depreciated, no action had been taken to revalue and bring to accounts as the said assets are being used.

(ii) Lack of Evidence for Audit

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A detailed inspection on office and science equipment and computer accessories valued at Rs.5,297,141 could not be carried out due to non-maintenance of a Register of Fixed Assets properly.

(iii) Non-compliance with Laws, Rules, Regulations and Management Decisions

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In terms of Public Administration Circular No.30/2008 dated 31 December 2008 and section 10 of Chapter XXIV of the Establishments Code, despite limiting the maximum distress loan for Rs.250,000 which could be obtained by an officer, an amount of Rs.914,660 had been overpaid to 06 officers contrary to circular instructions.

(b) Financial Review

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Financial Results

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According to the financial statements presented, the financial result before the computation of Provincial Council Grants of the Authority for the year ended 31 December 2013 had been a deficit of Rs.864,484 as against the surplus of Rs.2,641,976 for the preceding year, thus indicating a decrease of Rs.3,506,460 in the financial result. After computation of grants of Rs.5,350,000 and Rs.5,356,230

received from the Provincial Council for the year under review and the preceding year respectively, the said values had become surplus of Rs.4,485,516 and Rs.7,998,206, thus indicating a decrease of Rs.3,512,690 in the financial result in the year under review as compared with the financial result of the preceding year.

#### 5.1.6. North Western Provincial Development Authority

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##### (a) Comments on Financial Statements

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##### (1) Accounting Deficiencies

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The following deficiencies were observed.

- (i) Four assets valued at Rs.532,083 to be brought to account under buildings and constructions of the balance sheet had been shown under the Fisheries Equipment Account.
- (ii) One hundred and forty one items of fixed assets at a cost of Rs.8,640,520 with a zero book value had not been revalued and brought to account by 31 December 2013.

##### (2) Receivable and Payable Accounts

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##### (i) Receivable Accounts

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The value of the balances receivable from officers and external parties as at the end of the year under review amounted to Rs.5,723,261 and out of the said amount, Rs.3,072,038 from over a period of one year and Rs.621,242 from over a period of 03 years were recoverable.

##### (ii) Accounts Payable

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The value of the account balances payable as at the end of the year under review amounted to Rs.5,022,526 and out of the said amount, Rs.1,839,964 from over a period of one year and Rs.28,423 from over a period of 03 years were payable.

(3) Lack of Evidence for Audit

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Confirmation on receivable income of Rs.5,532,925 had not been presented.

(b) Financial Review

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Financial Result

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According to the financial statements presented, the financial result before the computation of Provincial Council Grants of the Authority for the year ended 31 December 2013 had been a deficit of Rs.8,506,577 as compared with the deficit of Rs.6,971,778 for the preceding year, thus indicating an increase of Rs.1,534,799 in the financial result. A deficit of Rs.1,254,577 and a surplus of Rs.444,652 had been reflected due to grants of Rs.7,252,000 and Rs.7,416,430 received from the Provincial Council for the year under review and the preceding year, thus indicating a decrease of Rs.1,699,229 in the financial result in the year under review as compared with the financial result of the preceding year.

(c) Operating Review

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Idle and under- utilized Assets

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Ten boats had been purchased at a cost of Rs.1,169,640 in the year 2009 to construct a centre for tourists at Thalagaswewa, Ibbagamuwa. Even though the said boats had been provided to the Kurunegala Urban Council due to failure in the project, they had been piled up without being used.

Even though architectural expenditure of Rs.238,925 had been incurred for this centre in December 2009, it had become a fruitless expenditure.

5.1.7. Industrial Services Bureau

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(a) Comments on Financial Statements

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(i) Accounting Deficiencies  
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As computation of gratuity had been carried out contrary to the Gratuity Payment Act No.12 of 1983, an overprovision of Rs.264,219 had been made.

(i) Unexplained Differences  
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A difference of Rs.1,095,134 between closing balances of 05 ledger accounts and closing balances according to the account existed.

(ii) Accounts Receivable and Payable  
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An inspection on receivable balances totalling Rs.1,645,210 and payable balances totalling Rs.4,075,682 over 03 years had not been carried out and settled.

(iii) Lack of Evidence for Audit  
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Registers of Fixed Assets relating to fixed assets of Rs. 65,173,261 and their depreciation amounting to Rs. 17,375,804, detailed schedules on the fixed deposits of Rs.17,688,400 and the details on investment of Rs. 2,560,000 had not been furnished and as such they could not be satisfactorily vouched.

(iv) Non-compliance with Laws, Rules, Regulations and Management Decisions  
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Without complying with the Procurement procedure as per the Provincial Financial Rule 420.3, purchasings valued at Rs. 1,129,477 had been made in 10 instances.

(b) Financial Review

Financial Result.

According to the financial statements presented, the income over expenditure of the Bureau for the year ended 31 December 2013 amounted to Rs.25,653,389 as compared with the corresponding income over expenditure Rs.14,370,604 for the preceding year thus indicating an increase of Rs.11,282,785 in the financial results.

(c) Operating Review.

(1) Management Inefficiencies

For the purpose of purchasing two egg incubators, a sum of Rs. 1,480,000 had been paid in 2012, whereas those machines had not been supplied up to date. Although action had been taken to initiate legal action against this transaction which had been done without complying with the provisions in the Provincial Financial Rule 164 (b), it had not been disclosed by the final accounts. Further, since these two incubators had not been received, the two chicks breeding centers established at Padeniya and Kuliypitiya had become inoperative.

(2) Transactions of Contentious Nature.

The following observations are made.

- (i) In terms of Section 5.2.2.(5) of the Public Enterprises Circular No. PED 12 dated 02 June 2003, Budget Circular No. 81 dated 09 January 1990 and the Budget Circular No. 150 dated 07 December 2010, before a vehicle is purchased prior approval of the General Treasury should be obtained. Nevertheless, a vehicle manufactured in 2008 had been purchased at a cost of Rs. 4,000,000 from a private establishment without obtaining such approval. Quotations in accordance with the provisions in Procurement Circulars had not been called in public for this purpose and the approval of the Board of Directors as well had not been granted. It was further observed that the provisions in this connection too had not been allocated.



- (ii) Without preparing required specifications and devoid of a procurement procedure an advance amounting to Rs.386,280 had been paid for the purchase of a used steam boiler valued at Rs.545,000 in the year 2013.

#### 5.1.8 North- Western Folk Art Foundation

##### (a) Comments on Financial Statements.

##### (1) Accounting Deficiencies.

The following observations are made.

- (i) When comparing the opening balances in the General Ledger for the year under review with the closing balances of the relevant accounts of the preceding year, a difference amounting to Rs.2,212,490 was observed.
- (ii) A difference of RS. 1,005,701 between the totals of the analysis columns in the Cash Book relating to 05 months and the relevant ledger entries was observed.
- (iii) An income amounting to Rs. 694,534 received as anniversary income and head office income had been omitted from the Revenue Accounts.
- (iv) The amount of Rs.746,052 relating to 06 current accounts included in the trial balance could not be identified in the financial statements.

(2) Lack of Evidence for Audit.

Due to the unavailability of evidence indicated against each accounting item, the following items could not be satisfactorily vouched in audit.

<u>Accounting Item</u>	<u>Amount</u> Rs.	<u>Evidence not made available.</u>
(i) Total of 10 ledger accounts	1,601,778	Accounts opened in the General Ledger.
(ii) Debtors	966,878	Detailed schedules on debtors
(iii) Auction sale income	106,580	Particulars on sold items and bills
(iv) Purchasings – Viskam Nivasa, Kurunegala	702,362	Reasons given rise to the differences between drafted final account,2013 and revised account.
(v) Purchasings – Viskam Nivasa, Chilaw.	360,334	
(vi) Purchasings 50 D	415,984	

(b) Financial Review.

Financial Results.

According to the financial statements presented, the financial results of the Fund for the year ended 31 December 2013 reflected a surplus of Rs.8,017,584 before the calculation of Provincial Council Grants as compared with the corresponding deficit of Rs.662,975 for the preceding year, thus indicating an increase of Rs.8,680,559 in the financial results. The grants of Rs.900,000 and Rs.1,500,000 received from the Provincial Council for the year under review and the preceding year respectively had resulted in an increase in the surplus up to Rs.8,917,584 in the year under review and the deficit in the preceding year had become a surplus of Rs.837,025. As compared with the preceding year, an increase of Rs.8,080,559 of the financial results for the year under review could be observed.

5.1.9. Early Child Education Development Authority

(a) Comments on Financial Statements

(b) Financial Review.

(i) Financial Results

According to the financial statements presented, the financial results of the Authority for the year ended 31 December 2013 reflected a deficit of Rs3,167,174 before the calculation of Provincial Council Grants as compared with the corresponding deficit of Rs.3,445,246 for the preceding year, thus indicating a decrease of Rs.278,072 in the deficit. The grants of Rs.5,650,000 and Rs.5,800,000 received from the Provincial Council for the year under review and the preceding year respectively had resulted in the deficits becoming surpluses of Rs.2,482,826 and Rs.2,354,754 respectively. Accordingly, as compared with the preceding year, an increase of Rs.128,072 of the financial results could be observed for the year under review.

5.1.10 Co-operative Employees' Pension Scheme.

(a) Comments on Financial Statements

(1) Accounting deficiencies

The following observations are made.

(i) Without being capitalized a sum totalled Rs.7,000,000 comprising Rs.5,000,000 and Rs.2,000,000 received from the Co-operative Development Fund and the North-Western Co-operative Rural Bank Association respectively, it had been shown as revenue in the year in the financial statements .

(ii) The financial statements had not been prepared on accrued basis and as such following impacts had caused to the financial results and the financial position.

- Since audit fees for the year under review had not been allocated, expenditure had been understated.
- Membership fees and contribution amounting to Rs.2,612,485 received in 2014 from 32 Co-operative Associations relating to the year 2013 had not been brought to the accounts as receivable income and as such the income for the year under review had been understated by that amount.
- Contribution of Rs.285,549 refundable to 12 resigned members had not been brought to the accounts as current liabilities and as such liabilities had been understated.

(b) Financial Review.

Financial Results

According to the financial statements presented, the income over expenditure of the pension scheme amounted to Rs.39,105,662 by the end of the year under review as compared with the corresponding income over expenditure of Rs.18,777,479 for the preceding year, thus indicating an increase of Rs.20,328,183 in the income over expenditure for the year under review.

(c) Accountability and Good Governness.

Budgetary Control

The following observations are made.

- (i) Even though provisions amounting to Rs. 1,400,000 had been made for 04 Objects, the actual expenditure amounted to Rs.463,244 and as such excess provisions of Rs.936,756 had been made.
- (ii) Provisions of Rs.1,454,000 had been made for expenditure, whereas no expenditure whatsoever had been incurred out of the above provisions.

5.1.11 Sport Fund.

(a) Comments on Financial Statements

(i) Accounting Deficiencies

The income amounting to Rs.92,950 received during the year under review had not been brought to the accounts under the receivable income.

(ii) Non-compliance with Laws, Rules, Regulations and Management Decisions.

The following non-compliances were observed.

Reference to Laws, Rules, Regulations and Management Decisions.      Non-compliances.

P.F.R. 475

The former officer in charge of the Shilpa Kala Shalika centre had not properly handed over the movable and immovable assets of the centre to the present officer in charge of the centre.

P.F.R. 476

The Annual Board of Survey had not been conducted for the years 2009,2010,2011 and 2013.

(b) Financial Review.

Financial Results.

According to the financial statements presented, the expenditure over the income of the Sport Fund for the year ended 31 December 2013 amounted to Rs.18,223,353 as compared with the corresponding expenditure over the income of Rs.15,373,470 for the preceding year, thus indicating an increase of Rs.2,850,065 in the deficit.

(c) Operating Review.

(1) Performance

Since repairs to the pavilion, badminton court, main conference hall and the swimming pool of the Janadipathi Shilpa Kala Shalika Centre, Kuliypitiya had not been properly carried out, their activities could not be efficiently fulfilled.

(2) Underutilization of Funds.

A sum of RS. 1,100,000 received under the Provincial Specific Grants in 2006 for the construction of a sport complex had been invested in a fixed deposit account.

(3) Idle and Underutilized Assets

The following observations are made.

- (i) Musical instruments and 04 Mercury bulbs valued at Rs. 249,165 had not been utilized for 08 years.
- (ii) The computer of the office remained out of service for two years.
- (iii) The tube well constructed at a cost of Rs. 388,120 during the year 2009 could not be utilized due to lack of water.

5.1.12. Small Irrigation and Rural Road Maintenance Fund.

(a) Comments on Financial Statements

(i) Accounting Deficiencies.

Since the financial statements had been prepared on financial basis, interest of Rs.465,662 receivable for the year under review had not been disclosed in the financial statements and the interest income of Rs.639,698 applicable to the preceding year had been included in the interest income of the year under review.

(b) Financial Review.

Financial Results

According to the financial statements presented, the operating activities of the Fund for the year ended 31 December 2013 had resulted in a surplus of Rs.2,675,869 as compared with the corresponding surplus of Rs.2,590,911 for the preceding year, thus indicating a net deterioration of Rs.275,042 in the financial results.

(c) Operating Review

(1) Performance

- (i) In accordance with the Small Irrigation and Rural Road Maintenance Fund Statute No.03 of 2004, the Small Irrigation and Rural Road Maintenance Fund had been established for the collection and distribution of funds required for the maintenance of small irrigations and rural roads in the North-Western Province properly in the suitable circumstances. Nevertheless, maintenance activities of the rural roads had not been carried out for the year under review and the preceding year.
- (ii) Out of the selected 684 small irrigation schemes only a payment amounting to Rs.1,231,420 had been made in respect of 170 schemes during the year under review while a payment of Rs.715,402 had been made in respect of 51 schemes during the preceding year.
- (iii) A sum of Rs.129,809 had been earned from the operating activities of the fund during the year under review while a sum of Rs. 3,777,479 had been earned from the investment activities. The contribution of the operating activities and the investment activities to the total revenue of the Fund represented 3 per cent and 97 per cent respectively.

- (iv) A sum of Rs. 1,231,420 alone had been incurred in respect of operating activities of the Fund during the year under review and the amount invested in the fixed deposit for the year under review alone amounted to Rs.4,570,000.
- (v) Despite the circumstances that loans are obtained incurring higher expenditure for loan services by the government to maintain government services, government funds had been invested under low interest rate.

#### 5.1.13 North-Western Provincial Resources Development Authority

##### (a) Comments on Financial Statements

###### (i) Going Concern of the Institute.

The authority had continuously suffered losses since past 04 years and the cumulative loss at the beginning of the year under review was Rs.2, 065,370 and the net loss for the year amounted to Rs.1,059,262.

###### (ii) Failure to reveal the Transactions with the Related Parties.

Fiberglass valued at Rs. 1,165,000 ordered from the North-Western Provincial Ministry of Fisheries had not been manufactured as at 31 December 2013 and it had been brought to the account considering the same as sales.

###### (iii) Accounting Policies

Provisions for the depreciation in respect of fixed assets valued at Rs.18, 284,476 relating to three projects had not been made for the year under review.

###### (iv) Accounting Deficiencies

The Centrifuge machine valued at Rs.1,071,302 purchased under the Sustainable Aqua Culture Development Project during the year under review had not been brought to the account as fixed assets.



(v) Accounts Receivable and Payable

Debtors valued at Rs.4,246,023 and creditors valued at Rs.4,260,357 had not been settled as at the end of the year under review.

(b) Financial and Operating Review.

(i) Financial Results.

According to the financial statements presented, the expenditure over the income of the Authority amounted to Rs.1,059,262 for the year under review as compared with the corresponding expenditure over income of Rs. 1,155,267 for the preceding year thus indicating an increase of Rs.96,005 in the financial results.

(c) Operating Review.

(1) Management Inefficiencies.

The land area of the Authority and the machines worthy of Rs. 2,105,840 had been made available to the contractor for his usage, free of charge.

(2) Idle and Underutilized Assets.

The following Observations are made.

- (i) Five buildings valued at Rs.16,077,000 and 24 machines valued at Rs. 11,829,373 situated at the Fish Production Project, Fish Processing Project, Reproduction Centre at Sinnapaduwa, Observation Centre at Mundalama and the Head Office premises had remained idle for 5 to 8 years.
- (ii) The P.C.R.Laboratory valued at Rs.9,916,336 had remained idle for two years without carrying any test.

5.2 Commercial Advance Account

5.2.1 North-Western Province Training Centre- Account No.26002.

(a) Comments on Financial Statements.

(1) Accounting Deficiencies.

The following observations are made.

- (i) The cheque valued at Rs. 173,907 received by the bank had been recorded twice in the Cash book and as such course fee income had been overstated by Rs.173,907. Therefore, the profit too had been overstated by that amount.
- (ii) Even though a sum of Rs. 1,348,475 had been shown as receivable course fee as at 31 December 2013 in the accounts, according to the registers a sum of Rs.2,710,534 pertaining to the year 2013 had been received in 2014. Therefore, the profit and the current assets for the year under review had been understated by Rs.1,362,059.

(2) Lack of evidence for audit.

Since the evidence indicated against following each item had not been made available, they could not be satisfactorily vouched at the audit.

<u>Item</u>	<u>Amount</u>	<u>Evidence not made available</u>
	Rs.	
Lands	7,000,000	(i) Register of fixed Assets (ii) Detailed notes (iii) Board of Survey Reports (iv) Documents in support of the ownership Time analysis Balance confirmation letters.
Buildings	92,400,000	
Vehicles	3,800,000	
Furniture	1,237,901	
Other machinery	1,205,798	
Office and training equipment	8,414,976	
Accrued expenditure	733,488	
Receivable income	1,348,475	

(3) Non-compliance with Laws, Rules, Regulations and Management Decisions.

The following non-compliances were observed.

Reference to Laws, Rules, Regulations

and Management Decisions.

Non-compliances.

Provincial Financial Rules

(i) P.F.R. 375. (1)

Even though provisions should be get allocated to write off the net loss in the Commercial Advance Account, it had not been so done.

(ii) P.F.R. 546

Even though security bonds should be obtained from the offices engaged in the receipt of cash, cheques , goods etc. and the officers signing cheques and the officers certifying the vouchers , action had not been taken accordingly.

(b) Financial Review

Financial Result

According to the financial statements presented, the profit for the year ended 31 December 2013 prior to the adjustment of depreciation amounted to Rs.206,790 as compared with the corresponding profit of Rs.1,175,740 prior to the adjustment of depreciation for the preceding year thus indicating decrease of Rs.968,850 of the profit. After the adjustment of depreciation at the rate of Rs.2,847,092 and Rs.2,612,736 for the year under review and the preceding year respectively, a loss of Rs.2,640,302 and 1,436,996 had been depicted. Accordingly, as compared with the preceding year, a decrease of Rs.1,203,306 of the financial results could be observed for the year under review.

(c) Operating review

Management Inefficiencies

According to the financial statements, the fixed assets for the year under review had been shown as Rs.114,058,675, whereas they had been estimated as Rs.76,000,000 by the Provincial Assessor. Accordingly, underestimation of Rs.38 million of the assets had been made and as such the assessment report had been an ineffective activity.

5.2.2 Entrepreneurship Development Services Combined Reproductive Farm, Mawathagama-Account No.25002.

(a) Comments on Financial Statements

(1) Accounting Deficiencies.

The following observations are made.

- (i) Four items of expenditure totalled Rs.154,225 incurred for the activities of the Farm from the Ministry Head under the Provincial Specific Development Grants had not been brought to the accounts.
  
- (ii) Even though expenditure of Rs.429,744 had been incurred for the removal of earth filled in the anicut of the canal flowing through the farm and repairs of the banks in the either side, it had not been shown in the accounts pertaining to the year 2012 or the year under review.

(2) Non-compliance with Laws, Rules, Regulations and Management Decisions.

Following non-compliances were observed.

Reference to Laws, Rules, Regulations  
and Management Decisions.

Non-compliances.

North- Western Provincial Financial  
Rules

(i) P.F.R. 375. (1)

If a net loss is expected in the Advance Account, provisions should be get allocated to write off the said loss Nevertheless, action had not been taken accordingly.

(ii) P.F.R. 377 (1)

Even though provisions of Rs.604,478 had been made during the year under review for the depreciation of capital assets, that amount had not been sent to the Provincial Treasury to credit it to the Depreciation Reserve Fund of the General Deposit Account.

(b) Financial Review

Financial Results

According to the financial statements presented, the loss of the Advance Account for the year under review amounted Rs.850,506 as compared with the corresponding profit of Rs.68,448 for the preceding year, thus indicating deterioration of Rs.918,954 of the financial results. Decrease in the total turnover, increase in the direct material expenditure and increase in the indirect expenditure by Rs. 433,912, Rs.569,260 and Rs.69,531 respectively had mainly given rise to the above deterioration.

(c) Operating Review.

Underutilization of Funds

Out of the provisions of Rs.535,140 allocated under the Provincial Specific Provisions for the establishment of Animal Development Training Reproduction Unit, a sum of Rs.329,402 had been spent for the electrification of the official quarter of the Estate Manager and the purchase of lawnmower deviating from the relevant purpose.

5.2.3 Handling Activities of the Farm and Distribution of Seed Paddy- Account No.25102

(a) Comments on Financial Statements

(1) Exceeding the Limits of the Advance Account.

The amount that exceeded the Maximum limit of the account was Rs.1,023,963.

(2) Accounting Deficiencies

Although seven items of assets valued at Rs.2,344,714 purchased from the other expenditure heads during the year under review had been transfer to the Farm, it had not been credited to the Property Transfer Account.

(3) Unreconciled Control Account.

In accordance with the Wariyapola Farm Nursery Account and the stock registers a difference of Rs. 1,093,435 was observed.

(4) Non-compliance with Laws, Rules, Regulations and Management Decisions.

The following non-compliances were observed.

Reference to Laws, Rules, Regulations

and Management Decisions.

Non-compliances.

Provincial Financial Rules

(i) P.F.R. 375. (1)

If a net loss is expected in the Advance Account for the year under review, provisions should be get allocated to write off the said loss ,whereas it had not been so done

(ii) P.F.R. 377 (1)

Even though provisions of Rs.1,884,490 had been made during the year under review for the depreciation of capital assets, that amount had not been sent to the Provincial Treasury to credit it to the Depreciation Reserve Fund of the General Deposit Account.

(b) Financial Review

Financial Results

According to the financial statements presented, the loss of the Advance Account activity for the year under review amounted Rs.7,282,846 as compared with the corresponding loss of Rs.4,618,721 for the preceding year, thus indicating an increase of Rs.2,664,125 of the loss. Decrease in the turnover by Rs.5,001,596 and increase in the administration and overhead cost by Rs. 141,130 had mainly given rise to the above increase.

(c) Operating Review.

Management Inefficiencies

It was observed at the physical verification that although a period of 4 to 5 months had elapsed from the date of production of seeds of Solanum, Winged beans, Orid seeds and Ground nuts of 471 Kg , steps had not been taken to sale them.

5.2.4. Tissue Culture Laboratory, Wariyapola- Account No.25003

(a) Comments on Financial Statements.

(1) Accounting Deficiencies

The following observations are made.

- (i) Eighty two items of fixed assets and inventory goods transferred by the Colombo University had not been assessed and brought to the accounts.
- (ii) Main Ledger Accounts had not been maintained in respect of 7 balance items totalled Rs.4,502,574 shown in the trial balance and the Manufacturing, Trading and Profit and Loss Account.

(2) Non-compliance with Laws, Rules, Regulations and Management Decisions.

Delays in banking a sum totalled Rs.484, 585 in 12 instances in terms of the Financial Regulation 177 of the Democratic Socialist Republic of Sri Lanka could be observed.

(b) Financial Review

Financial Results

The profit of the operations of the Advance Accounts activities for the period from 01 July 2013 up to 31 December 2013 amounted to Rs.125, 757.



6 Operating review

6.1 Performance

(a) Government Grants.

The details on the provisions received for the Development proposals and the expenditures are given below.

<u>Source</u>	<u>Provision</u> Rs.	<u>Expenditure</u> Rs.	<u>Savings</u> Rs.
(i) Criteria Base Grants	96,880,000	83,579,689	13,300,311
(ii) Provincial Specific Development Grants	1,112,996,500	759,741,130	353,255,370
(iii) Collective Grants	255,991,700	241,314,598	14,677,102
(iv) Other Grants	<u>704,957,017</u>	<u>310,191,145</u>	<u>394,765,872</u>
	<u>2,170,825,217</u>	<u>1,394,826,562</u>	<u>775,998,655</u>

(b.) Provincial Development Plan

As per the provincial development program for the year under review, 1397 work proposals worth of Rs. 878,234,241 for new and continuous works had been approved. Physical progress of those work proposals are as follows.

	<u>New works</u>	<u>Continuous works</u>	<u>No of Total Work Proposals</u>
(i) Fully completed	1,147	166	1,313
(ii) Completed more than 50 per cent	37	02	39
(iii) Completed less than 50 per cent	23	-	23
(iv) Not commenced	19	03	22
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Total	<u>1,226</u>	<u>171</u>	<u>1,397</u>

- (c.) Seventy four acres of land from the premises of the Combined Farm Development Training Center , Wannigama owned by Department of Animal Production and Health, should be used for cultivating grass; nevertheless, only 5 acres had been used. Hence, the production of milk was low due to dearth of grass for cattle.
- (d.) Only 313 had been enrolled for training in the year 2013 despite the 5 year plan of the Department of Small Industries targeting 772 apprentices and 20 of them had completed the course and earned certificates. An expense of Rs. 114,416,000 had been borne in that connection denoting an amount of Rs. 365,546 per individual. When compared with those who successfully completed the training the amount was as high as Rs. 5,720,800. The Institute could not achieve targeted performance owing to reasons such as failure to enroll targeted No of apprentices, improper training, and failure to take actions properly to retain the enrolled students.
- (e.) Thiththawella Lake Multiple Small Irrigation Development Programme had been commenced in the year 2010 on a cost estimate of Rs. 13,300,000. The provincial Ministry of Agriculture had spent an amount of Rs. 16,162,641 to execute 10 activities of the program by the end of the year 2012; however, the program had been abandoned in the year 2013. It was revealed that the planned activities had not been executed productively and efficiently and achievement of targeted objectives had failed.

## 6.2 Management Inefficiencies

Following observations are made.

- (a) A land of 20.52 hectares in the Kaluthodai village of Vanathavilluwa Divisional Secretary's division had been leased out to a company on long term basis in the year 1994 for a commercial affair and the company had been liquidated in October 2010. Without the land taken over by the Government, the Divisional Secretariat, in the year 2014 had informed the said company to pay rentals without legal grounds.
- (b) Necessary actions had not been taken on 184 applications for obtaining lands on long term lease received by the Divisional Secretariat, Puttalam .
- (c) A land with acreage of 116 acres and 56 perch in the Mundalama Divisional Secretary's division had been illegally used by 12 persons since 2013.

- (d) A land of 5 acres in the Nurani Industrial Park owned by the Government in Vennappuwa Divisional Secretary's division had been transferred to a private iron factory since 1999. Two and half acres of the land had been leased out to the said company in the year 2009 under the long term lease agreement No 4/10/15695 whereas, the rest of the land with 2.5 acres had been illegally used from 1999 to 2009. Another land with 0.158 hectares in the same industrial park had been leased out to a woman since 1999; nevertheless, the land, not used for the expected task had not been acquired in terms of the agreement.
- (e) Twelve parcels of land owned by the Government in Mahawewa Divisional Secretary's division, had been illegally used by various people for 2-30 years and no action had been taken to generate income by leasing out the lands properly on long term basis.
- (f) Loans receivable from 77 teachers transferred out to schools in other regions from Putlam educational zone amounted to Rs. 1,836,913 including loans amounting to Rs. 1,563,684 that remained non-settled for more than a year.
- (g) Provincial Education Department, North Western Province had received a total of 262 complaints in the year 2013 on child abuse, financial frauds, and other acts of misconduct and out of that, 199 complaints had been submitted to zonal education offices with only 70 complaints explained. Zonal Educational Office had conducted investigations on 30 complaints out of which, 10 complaints were still under scrutiny and 129 complaints had been brought forward without being solved.  
Zonal Educational Office, Giriulla had received 176 complaints from 2010 to 2013 out of which, investigations on 41 complaints had not been concluded.

### 6.3 Operational Inefficiencies

Following observations are made.

- (a) One hundred and eighty eight categories of items worth of Rs. 751,611 purchased by 5 Divisional Secretaries in Kurunegala district in 2012 and 2013 through Provincial Investment funds, 282 plastic chairs purchased by Divisional Secretariat, Dankotuwa in Puttalam district in 2011, 2012 and 2013, and 194 items under 25 categories purchased in 2013, had been retained without being distributed up to February 2014.

- (b) A stock of 559,177 units worth of Rs. 3,016,124 comprising 162 categories of medicines and surgical instruments belonging to 2 hospitals of Provincial Department of Health Services, 2 MOH offices and Provincial Medical Supplies Unit, and another stock of 874,344 units comprising 84 categories of surgical instruments and medicines of which, the value had not been assessed, had been discarded owing to expiration, sample failures, discoloration and changes in odor.

#### 6.4 Transactions of Contentious Nature

Following observations are made.

- (a) Combined allowances amounting to Rs. 281,800 had been paid to Chairman of the Provincial Council, Opposition Leader, Provincial Minister of Social Welfare and his personal staff during the year 2013 breaching the instructions in the Public Expenditure Management Circular No CSA/P1/40 of His Excellency the President dated 04 January 2006 and the amended Circular No CSA/p1/40 dated 18 March 2006
- Allowances for telephone and fuel amounting to Rs. 870,291 for 9 months in the year 2013 had been paid to Deputy Chairman of the Provincial Council and the Whip of the ruling party defying the said Circular.
- (b) An amount of Rs. 4,870,671 had been paid to the Chairman of the Provincial Council, Opposition Leader, 04 Provincial Ministers, and 46 Provincial Council members during the year 2013 defying the letter of the General Secretary to the Parliament dated 26 September 2013.
- (c) Despite the 36 Tailoring Instructresses in the permanent staff of the Ministry of Social Welfare, 4 resource persons had been assigned in 11 instances at a rate of Rs 500 per hour sans a proper approval and amounts of Rs. 192,000 and Rs. 15,765 had been paid for allowances and refreshments.

6.6 Apparent Irregularities.

An amount of Rs. 174,091 had been fraudulently obtained by overstating the value indicated on 10 reimbursement vouchers for travel expenses related to first 4 months in the year 2013 of the office of Director of Health Services in Kurunegala district.

6.7 Idle or Underutilized Assets.

Following observations are made.

<u>Institute</u>	<u>No of Assets</u>	<u>Value Rs.</u>	<u>Idle Period</u>
Ayurvedic Hospital, Kurunegala	Panchakarma, acupuncture and yoga centre	3,859,706	From 2012
Hospital , Ambanpola Base	Beds for Panchakarma	-	From 2011
Kuliyapitiya Base	Hospital, Building with 4 operating theatres	411,000,000	From 2012
Kuliyapitiya MOH	Hospital, 4 Storey medicine store	-	From 2010
Polpithigama District	Office, 68 Units of goods	-	From 6 to 20 Years
Polpithigama District	Hospital, Primary treatments unit	1,059,620	From 2012
Polpithigama District	Hospital, 270 items discarded from wards and clinics	-	2-15 Years
Polpithigama District	Hospital, 2 storey building for children's wards	6,612,023	From 2009
Base Hospital, Maravila	Theatre lamp	1,300,000	From 2011
Divisional Alawwa	Secretariat, 2 Buildings on a land owned by Government	-	From 1996
Base Hospital, Puttalam	01 Spectrometer ,	630,000	From 2012
	07 medical instruments.	-	From 2011

## 6.8 Identified Losses

Following observations are made.

- (a) One hundred and one parcels of lands owned by the Government in 2 Grama Niladhari divisions in Puttalm Divisional Secretary's division were being illegally used. Further, Government- owned lands in 2 more Grama Niladhari divisions were being used by around 600 persons for more than 5 years.
- (b) An overpayment of Rs. 407,592 had been made for carpeting Bazaar Street in Chilaw under the supervision of Provincial Executive Engineer's Office.

## 6.9 Weaknesses in Contract Administration

Following observations are made.

- (a) Following matters were revealed during the field inspection carried out on the construction of a 2 storied building at the probation center in Kuliypitiya by the Department of Probation and Child Care Services under the supervision of North Western Province Engineering Department at an expense of Rs. 10,446,172
  - i. Estimated cost for aluminum windows, metal grills , concreting and plastering the floor of the building had been exceeded by an amount of Rs. 63,610.
  - ii. Although 5 colored water basins should have been fixed as per the approved estimate, colorless models had been fixed with prices for the colored ones being paid.
  - iii. A loss of Rs. 23,423 had incurred due to a concreted and plastered area of 70.98 m<sup>2</sup> at the upstairs had been cracked with holes on the surface.
  - iv. Four dual type doors had been fixed, but an expense of Rs. 30,504 had become futile as one door had been remaining permanently closed.
  - v. Outer and inner walls at the ground floor and upstairs had been cracked at 9 places. Walls were decaying as waste water was flowing down the walls and water percolated through the roof during rainy days.

- vi. Tanks for supplying water were inaccessible
  - vii. Occupants had been inconvenienced as the drainage system for the waste water from wash rooms on the upstairs and downstairs had been blocked.
- (b) When the passage at the OPD of the Ayurveda Hospital , Kurunegala was repaired under the inspection of Department of Engineering, 09 work items valued at Rs. 480,137 and 20 work items worth of Rs. 732,409 as stated in the estimate, were left out. Instead, 16 work items worth of Rs. 337,384 were overly executed. However, it was revealed in the physical audit inspection that cracks had formed on the tiles and floors had become hollow in the rooms of Administrative Officer, Ward Clerk, and Matron, and the rest room of the doctors.
- (c) Although it was agreed to construct the 2<sup>nd</sup> phase of the 60’\*43’ building with 3 floors for the class rooms at a cost of Rs. 4,622,564 at the Holy Family Convent , Kurunegala under the supervision of the Department of Engineering, an amount of Rs. 440,725 had been overpaid. It was not possible to close 2 windows in a class room and cracks had formed on the walls of several class rooms.
- (d) Out of 11 projects allocated to Provincial Engineering Office, Kurunegala at a cost of Rs. 1,267,833, 03 work items worth of Rs. 545,279 had not been executed up to the end of 2013.
- (e) Rs. 441,422 worth of provisions inclusive of Rs. 245,233 for the renovation of Nithogama lake and Rs. 196,189 for constructing the Hanwatta reservoir, had been allocated though, the Department of Engineering had abandoned execution of those works.

#### 6.10 Delayed Projects.

Following observations are made.

- (a) The Chief Secretary had been given an amount of Rs. 1,000,000 by the Secretary to the Ministry of Local Government and Provincial Councils to implement “*Three Bhasha Sri Lanka*” program for 2011. Nevertheless, no action had been taken as of 28 March 2014 to launch the program.

- (b) *Wayamba Govi Gedara* had been constructed at a cost of Rs. 58,495,655 through 7 estimates from 2008 to 2013 under the supervision of Department of Engineering ; however, the building had so far not been used.
- (c) Provisions had been allocated for another building prior to the completion of 90\*25 two storied building at the *Maliyadewa Model School* , Kurunegala of which construction began in 2008 under the supervision of NWP Department of Engineering ; however, construction of both buildings had not been completed even by 2013.

6.11 Implementation of Projects on Lands/Properties Improperly Taken Over

Ownership of lands where 8 Ayurvedic hospitals and 22 central dispensaries were located, had not been taken over by the Department of Ayurveda.

6.12 Resources Given to other Government Institutes/Resources Owned by External Parties.

Lands and buildings of the Primary School , *Ganegoda* vested in the Divisional Secretary, *Maspotha* on 27 August 2005, had been granted to a paper recycling industry operating under Industrial Development Board; nevertheless, no action had been taken to vest the said property in the relevant institute.

6.13 Staff Administration

Particulars on the approved and actual No of cadres in the Provincial Council as at 31 December 2013 are as follows.



(a) Staff of the Departments, Ministries, and Zonal Offices

	<u>Approved No</u>	<u>Actual No</u>	<u>Vacant</u>	<u>Surplus</u>
Senior Level	1,441	1285	156	-
Tertiary Level	539	395	144	-
Secondary Level	9,542	7,819	1,723	-
Primary Level	4,427	3,894	533	-
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Total	<u>15,949</u>	<u>13,393</u>	<u>2,556</u>	-

(b) School Staff ( Excluding Zonal Office)

	<u>Approved No</u>	<u>Actual No</u>	<u>Vacant</u>	<u>Surplus</u>
Principal	1,461	1,220	241	-
Teachers	23,292	23,720	-	428
Minor Staff	1,908	1,805	103	-
Other	614	635	-	21
Casual, Temporary	-	-	-	-
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Total	<u>27,275</u>	<u>27,380</u>	<u>344</u>	<u>449</u>

(c) Staff of the Cabinet of Ministers

	<u>Approved No</u>	<u>Actual No</u>	<u>Vacant</u>	<u>Surplus</u>
Private Secretary	06	06	-	-
Coordinating Secretary	08	07	01	-
Media Secretary	06	04	02	-
Public Relations Officer	06	06	-	-
Personal Assistant	06	06	-	-
Management Assistant	18	13	05	-
KKS	08	09	-	01
Other (Driver)	24	205	-	181
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Total	<u>82</u>	<u>256</u>	<u>08</u>	<u>182</u>

(d) Local Government Staff (Provincial Councils)

	<u>Approved No</u>	<u>Actual No</u>	<u>Vacant</u>	<u>Surplus</u>
Senior Level	28	22	06	-
Tertiary Level	48	22	26	-
Secondary Level	970	689	281	-
Primary Level	2,489	2,860	-	371
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Total	<u>3,535</u>	<u>3,593</u>	<u>313</u>	<u>371</u>

**6.13.1 Observations on the Staff of Other Institutes except for Provincial Councils, Education and Health**

Following observations are made.

- (a) Officers of the Sri Lanka Administrative Service should be appointed to the post of Municipal Secretary; nevertheless, super grade officers of the Management Assistant Service had been appointed in the said post of all three municipal councils in North Western province on acting basis.
- (b) There should be super grade officers in the Management Assistant Service for the post of Secretary to the Pradeshiya Sabha; however, 09 Local Government Officers, 2 Program Assistants, and 04 officers in the Management Assistant Service Grade I and II had been appointed at 15 Pradeshiya Sabha in the province on acting basis.
- (c) As qualified persons had not been appointed for 152 posts out of 317 posts in 33 Local Governments in the division of Provincial Council, it was not possible to expect that the public service intended by the Local Governments by creating those posts, would not be a reality.
- (d) Department of Management Services had assigned 803 Graduate Trainees to Department of Local Government and Local Government Institutes. Comparing the assigned and approved Nos in the Institutes, there was a surplus of 8 in the Department of Local Government, and 09 in Kurunegala district, and 32 vacancies in Puttalam district. Comparing the approved Nos under the divisions of Local Government Institutes, there were 02 surpluses in Kurunegala district and 132 vacancies in Puttalam district.
- (e) There were 104 vacant positions as per approved staff of the Department of Cooperative Development as at 31 December 2013.

**6.13.2 Surpluses , Vacancies and Appointments Related to Education.**

Following observations are made.

- (a) Out of the 192 schools in education zone in Puttalam, principals had been appointed in 88 schools on acting basis as at the end of the year under review and there were 1076 vacancies for teachers.

- (b) As teachers of the Sinhala and Tamil medium schools in education zone in Puttalam, had been transferred without successors in the year 2013, there existed 307 vacancies.
- (c) Twelve persons in the principal grade had been appointed in the Teacher's service at 8 schools including a national school in Chilaw education zone and 37 teachers from 37 schools in areas such as Arachchikattuwa, Chilaw, Nattandiya, and Wennappuwa, had been appointed in Principal posts on acting basis during 2013.
- (d) Action had not been taken by the end of the year under review to fill 344 posts in the school staff of Provincial Education Department. The Institute had also not obtained approval on the 449 persons appointed excessively in 2 posts.

#### 6.13.3 Surpluses and Vacancies in Each Service of Health Sector.

Following observations are made.

- (a) Department of Health had taken no actions to fill 1753 vacancies by the end of the year under review.
- (b) Department of Ayurveda had failed to fill 158 vacancies by the end of the year under review.
- (c) Forty five posts for Dispensing Chemists had been approved for Ayurvedic hospitals and central dispensaries though, all of those posts remained vacant. Employees from other services had been appointed, instead.
- (d) No action had been taken to obtain approval for 278 employees appointed excessively by the Department of Health.
- (e) Officers and other employees totalling 1343 with respect to 33 posts in the staff of Department of Health, Kurunegala district had been in the service for 5 -10 years and more than 10 years respectively as of 31 October 2013.
- (f) There were a surplus of 22 Medical Officers and 16 vacancies existed in the base hospitals in Maravila and Puttalam respectively as per cadre reports of the office of the Provincial Director of Health Services for the year 2013. Overtime and other allowances for the excessive staff had been continuously paid.

6.14 Bank Reconciliations

Following observations are made.

- (a) The value of cheques that elapsed 6 months after being issued with respect to 15 bank accounts out of 18 maintained by the Department of Education , amounted to Rs. 1,915,164 and action had not been taken in terms of Provincial Financial Regulations 283
- (b) As for 8 bank accounts of the Provincial Department of Education by the end of the year under review, there were unidentified debits amounting to Rs. 235,483 and unidentified credits with respect to 6 bank accounts amounting to Rs. 916,153. Necessary actions had not been taken by identifying them.

07. Accountability and Good governance.

7.1 Action Plan

An Action Plan for the year 2013 had not been prepared by Provincial Revenue Department, Ministry of Road Development, Transport, Power & Energy and Housing & Construction, Governor's office, and Department of Small Industries.

7.2 Internal Audit

An internal audit division had not been established at each institute of the Provincial Council for the year under review.

7.3 Audit and Management Committees.

Following institutes had not established audit and management committees for the year under review.

Ministry of Health, Indigenous Medicine, Sports and Youth Affairs, Provincial Revenue Department, Provincial Department of Internal Audit, Provincial Department of Education, Wayamba Janakala Foundation, Cooperative Development Foundation, Industrial Services Bureau, Ministry of Agriculture, Fisheries, Animal Production &

Development, Small Irrigation and Agrarian Services Development , Provincial Department of Agriculture, Governor's Office.

08. Systems and Controls

Special attention of the Provincial Council should be drawn on the following areas of Systems and Controls.

- (a) Accounting and collection of revenue.
- (b) Assets and human resources management.
- (c) Execution of contracts and payments.
- (d) Implementation of projects.
- (e) Financial activities and operations control of institutes established under statutes.
- (f) Utilization of vehicles.