

North Central Provincial Council – 2014

The audit of financial statements of the North Central Provincial Council for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and statement of financial performance and 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 Councils Act, No. 42 of 1987. This report is issued in terms of Section 23(2) of the Provincial Councils Act. A detailed report to be tabled in the Provincial Council on the observations appear in this report will be issued in due course.

1:2 Management’s Responsibility for the Financial Statements

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

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’s 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 Provincial Council’s

internal control. 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 audit opinion.

1:4 Basis for Qualified Opinion

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

2. Financial Statements

2:1 Qualified Opinion

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 Central Provincial Council as at 31 December 2014 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

2.2.1 Provincial Council Fund

Financial statements relating to the Provincial Council Fund for the year under review was presented to audit on 14 May 2015.

2.2.2 Other Accounts

The progress of presentation of other accounts of the Provincial Council for the year under review as at 30 April 2015 is given below.

	Relating to the year 2014			Relating to the previous years
	Total Number of accounts	Number of accounts presented	Number of accounts not presented	Number of accounts not presented
(i) Appropriation Accounts	30	30	-	-
(ii) Revenue Accounts	23	23	-	-
(iii) Advances to Provincial Public Officers Accounts	33	33	-	-
(iv) Commercial Advance Accounts	07	07	-	-
(v) Fund Accounts	05	02	03	23
(vi) Statute Accounts	07	04	03	01
(vii) Self-employment Revolving Loan Advance Accounts	-	-	-	02
Total	105	99	06	26
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2.2.3 Accounting Policies

All income and expenditure of the Provincial Council Fund had been shown in the financial statements at the accrual basis.

2.2.4 Accounting Deficiencies

The following observations are made.

- (a) Due to non-assessment of the values of the following assets shown in the Register of Fixed Assets of the North Central Provincial Council, their values had omitted from the financial statements and the performance report.

Asset	Quantity
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Lands	540 Acres 1 Rood 10 perches
Vehicles	33
Buildings	124 Buildings in 38,168 Square metres
Household goods and Office Equipment	Large Quantity
Machinery and Equipment	Large Quantity

- (b) Even though the long term financial lease liability amounted to Rs.12,888,653 according to the Note 22 of the financial statements and the performance report, the actual long term financial lease liability amounted to Rs.10,390,606.
- (c) The receipts of interest on investment amounting to this Rs.57,899,982 that should be shown under cash flows from Investment Activities in the cash flow statement had been shown under cash flows from Financing Activities.

2.2.5 Unreconciled Control Accounts

The following observations were made.

- (a) According to the schedule No.03 of the financial statements and the performance report, the pre-payments made relating to the 05 institutions amounted to Rs.1,726,487. Nevertheless it was Rs.802,439 according to the report of the payments made for following year shown in the Note (iii) of the Appropriation Accounts of such institutions.
- (b) There was a unreconciled difference of Rs.8,202,595 between the liabilities included in the schedule 01 and 02 furnished along with the financial statements and the performance report and the liabilities shown in the D.G.SA-8 of the Appropriation Accounts of the Ministry and the Departments.

- (c) The revenue according to the 03 revenue accounts presented to Auditor General by the Provincial Treasury and the Department of Provincial Revenue amounted to Rs.126,744,276 and revenue according to the Notes No.01 and 02 of the financial statements and the performance report amounted to Rs.127,715,642 and as such there was a unreconciled difference of Rs.971,366.

2.2.6 Lack of Evidence for Audit

The following observations are made.

(a) Un-answered Audit Queries

Replies to 04 audit queries issued in the year 2013 including an audit query issued relating to a construction project costing Rs.14,459,914 implemented by the Provincial Department of Agriculture had not been furnished.

(b) Non-maintenance of Books and Registers

It was observed that the Inventory Register and the Register of Quarters and the Register of Losses and the Register of General Deposits had not been maintained properly and updated manner by the Provincial Chief Ministry and the Provincial Department of Agriculture respectively.

(d) Non-submission of Information

The following observations are made.

- i. The Boards of Survey Reports and the Inventory Registers had not been furnished to audit to establish the accuracy of the payments of Rs.5,528,833 made during the year under review to maintain the Media Unit established under Chief Ministry and the value of the various equipment purchased for said media

unit from the beginning of the provincial council up to the end of the year under review and the existence of the said equipment.

- ii. Even though it was called necessary written and verbal information for financial audit for the year 2014 on 18 December 2014 and in the various instances thereafter, providing such information including 106 paid vouchers amounting to Rs.8,003,983 had been delayed or disregarded by the staff of the Chief Ministry and as such the audit of the year under review could not be completed even by 24 April 2015.
- iii. Due to non-availability of the required evidence such as Monthly Accounts Summaries, Participants Attendance Registers and other information, original invoices, details of the beneficiaries Stock Registers, Photographs, Issue orders in the Chief Ministry, 36 transactions amounting to Rs.148,911,967 made during the year review could not be satisfactorily vouched in audit.
- iv. Due to non-availability of the evidence such as Attendance Registers and the bills in the Provincial Ministry of Agriculture it could not be accepted in audit the accuracy of the transactions of Rs.3,675,763 made during the year under review.
- v. Even though a sum of Rs.2,177,035 had been paid relating to 35 programmes conducted for the awareness of the school children and probationers by the Provincial Probation Department, no evidence whatsoever had been furnished to audit to ascertain about the conduct of such programmes.

2.2.7 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with the provisions of laws, rules, regulations and management decisions observed during audit test checks are analyzed below.

Reference to Laws, Rules and Regulations	Value	Non-compliances
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	Rs.	
(a) Provincial Council Act No.42 of 1987	-	In non-compliance with the provisions of the Act, privileges had been given exceeding the privileges entitled to a Member of the Provincial Council by creating 04 posts of Leader of the House, Leader of the Opposition and Chief Whip of the Provincial Council. A sum of Rs.6,461,136 had been paid on the privileges provided in the year 2014 for the holders of the relevant posts and a sum of Rs.11,056,750 had been paid for such privileges for the preceding 2 years.
 (b) Establishments Code		
----- Chapter xxiv, Sections 4.2.5, 4.4, 4.4.1, 4.5 and 4.6	4,184,402	Loan balances recoverable from 95 officers who employed in the Department of Ayurveda, Provincial Department of Health, Provincial Ministry of Health during the period from the year 1992 to 2014 and deceased, retired, vacated of posts and interdicted had not been recovered.
Chapter XIX Sections 5.2 and 5.3	137,959	Action had not been taken to recover house rent from 7 officers who occupied the quarters of 03 provincial hospitals.

(d) North Central Provincial
Financial Rules

261.2.2	4,114,500	Sub-impressts had been paid in excess of the advance limit of Rs.100,000 for 06 staff officers of the office of Regional Director of Health Services, Anuradhapura and in the Provincial Chief Ministry. Ad hoc sub-impressts had been paid repeatedly to such officers in 64 instances without being settled the prior advances obtained by staff officers of such institutions.
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(d) **Financial Regulations**

571	2,298,507	Action in terms of the provisions of the Financial Regulation had not been taken on deposits remained over 02 years in the General Deposits Account of Provincial Department of Ayurveda and Provincial Department of Land Commissioner.
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1645(a)		-	Chief Minister’s Office, Department of Internal Audit and Investigation, Provincial Department of Planning and Operations had not maintained Log Books properly by recording all information relating to the vehicles belonging to them.
1646		-	Chief Minister’s Office, Department of Internal Audit and Investigation, Provincial Department of Planning and Operations had not furnished the Daily

Running Charts and Monthly Performance Summaries relating to the vehicles belonging to them before 15 day of the following month to the Auditor General.

- (e) Public Administration
Circular No.11/90 of 10
October 1990

Even though fuel consumption of every vehicle should be tested once in 06 months, the fuel consumption of the vehicles of the Provincial Council had not been tested.

- (f) Guideline 2.8.1.(b) of the 4,028,260
Procurement Guidelines

A member with the expertise knowledge on the relevant subject had not been included in the Technical Evaluation Committee for the purchase of 36 Laptop Computers and 31 Multi-purpose Printers by the Department of Animal Production and Health.

2.2.8 Transactions without Adequate Authority

The following matters were observed

- (a) Even though the remaining imprest balance as at 31 December should be returned as at 10 January of the following year or prior to the date fixed by the Provincial Treasury, the total of the unsettled debit balances of 18 imprest accounts as at 31 December according to the notes to the financial statements of the year under review amounted to Rs.374,621,850. Out of that, a balance of 85 per cent or Rs.318,744,139 should have been settled by Provincial Road Development Authority.
- (b) According to the notes to the financial statements of the year under review, the unsettled imprest balances of Rs.11,136,395 by 12 institutions including Provincial Ministries/

Departments had been brought forward for over 04 years while written evidence was not made available with the said institutions to establish the accuracy of the such balances.

- (c) According to the Note. 15 to the financial statements and the performance report there were credit balances totalling Rs.2,165,429 in 08 Advances to Provincial Public Officers Account and credit balances totalling Rs.6,008,357 in 02 Commercial Advance Accounts as at 31 December of the year under review. In addition to this the credit balance of Rs.590,398 as at 31 December 2013 in the Advances to public Officers Account Item No.5000 of Provincial Treasury was improved to Rs.659,308 by Rs.68,910 in the year under review.
- (d) The minimum limit of receipts relating to the Provincial Public officers, Advance Accounts of the Governor’s Secretariat and Department of Provincial Health Services had short fallen by Rs.5,,399,422 and the maximum limit of debit balance relating to the Provincial Public Officers Advance Account of the Provincial Commission of Co-operative Employees, and Provincial Department of Health Services had exceeded by Rs.15,557,594.
- (e) The balance after incurred administration expenditure from consultancy fees received for engineering consultation supplied to the Central Government Ministries and Departments during the year under review by the Provincial Department of Engineering had been retained in the General Deposit Account without crediting the Provincial Council Fund. A sum of Rs.1,067,724 out of that had been paid to officers of the Department without a proper approval and a sum of Rs.3,038,330 had been paid to a private institution from the Provincial Council Fund for providing consultancy services for the project of construction of the marketing complex of the Provincial Department of Industrial Development.
- (f) The Chairman and the Deputy Chairman of the Provincial Council had obtained Rs.1,515,120 as salaries and allowances for the personal staff entitled to a member of the Council also, in addition to the official personal staff entitled to the Chairman and Deputy Chairman.

03. Revenue Management

The Provincial Council had collected a revenue amounting to Rs.2,751,657,246 under 23 Revenue Heads during the year under review. It was shown an improvement of 18 per cent or Rs.424,886,828 as compared with the revenue of Rs.2,326,770,418 for the preceding year. Further, such income under 23 Heads in the year under review was 21 per cent of the total income of the Provincial Council and that percentage for the preceding year had been 23 per cent. Audit observations on certain main Revenue Heads are given below.

Revenue Head Number and Particulars.	Estimated Revenue	Actual Revenue	Increase/ (Decrease)	Observations
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	Rs	Rs.	Rs.	
10-02-05-04 Motor vehicles Registration Fees by the Department of Motor Traffic	50,000,000	104,860,533	54,860,533	As the revenue had been collected in excess of the estimated revenue by Rs.54,860,533 it was observed that estimation of revenue had not realistic and correct
10-02-07-00 Stamp Revenue	200,000,000	394,540,996	194,540,996	Stamp revenue had been collected exceeding estimated revenue by 97 per cent.
20-02-02-03 Interest on Investments	35,000,000	85,121,577	50,121,577	As the income had been collected in excess of the estimated revenue by Rs.50,121,577 it was observed that estimation of revenue had not realistic and correct
10-02-12-00 Nation Building Tax	1,500,000,000	1,038,138,168	(461,861,832)	Non achievement of estimated revenue had been 31 per cent.
10-03-07-09 Other License Fees	800,000	91,350	(708,650)	Non-achievement of estimated revenue was 89 per cent.

20-03-02-99 Sundry Receipts	33,000,000	121,612,690	88,612,690	As the income had been collected in excess of the estimated income by Rs.88,612,690 it was observed that estimation of revenue had not realistic and correct.
10-02-09-00 Business Turnover Tax	7,000,000	13,822,738	6,822,738	Actual Revenue of Business Turnover Tax in the year under review had exceeded by 97 per cent of the estimated revenue.
10-02-04-05 Local Liquor License Fees	25,000,000	46,981,760	21,981,760	Actual Revenue in the year under review had been collected more than 88 per cent of the estimated revenue.
10-02-07-01 Stamp Fees on Transferring Properties	65,000,000	79,407,368	14,407,368	Revenue in the year under review had been collected exceeding of the estimated revenue22 per cent year under review.
20-03-03-01 Court Fines	190,000,000	144,216,403	(45,783,597)	Actual revenue had decreased by 15 per cent of the estimated revenue in the year under review.
20-03-02-30 Petroleum Tax Revenue	5,000,000	5,131,586	131,586	A sum of Rs.726,021 directly remitted by the Treasury had not been considered in preparation of Revenue Account.
20-03-02-27 Drugs and Chemicals Tax	130,000	425,263	295,263	The information relating to Tax payers was not made available with the Revenue Accounting officer

The following observations are also made.

- (a) Action should have been taken to prepare realistic and correct estimates as far as possible in terms of the Provincial Financial Rules 41,1,4. Nevertheless when preparing estimates for interest on revenue on loans and advances it was observed that the estimates had been prepared considering preceding years actual income without any basis and without preparing estimates by computing interest on potential actual debit balance in the year under review considering loans and advances granted according to the grades of the officers in each year and the amounts could be paid.
- (b) Even though 25 years had elapsed in establishment of Provincial Council a statute had not been approved to regularize the pawning centres located in the province, and register them and issue the annual licenses relating to the recovery of fees. The Divisional Secretaries had informed that such activities could not be carried out due to non-availability of instructions from the Provincial Council relating to Registration of Pawning Centres, issuing annual licenses and recovery of charges.
- (c) Even though Form NC-100 had been issued by the Provincial Department of Revenue to all Courts located within the North Central Province for the recovery of court fines, an examination in respect of fines collected by those receipt books had not been carried out. As such the accuracy of the amount of fines remitted by the courts could not be accepted and it was observed in audit that new receipt books had been issued without getting back the used receipt books.
- (d) As the Provincial Department of Land Commissioner had not maintained the registers indicating the details such as the extent of land for which taxes to be recovered and the amount of taxes to be recovered and as such the income from taxes on lands could not be specifically estimated and the arrears of revenue at the end of the year could not be computed as well.
- (e) According to the Provincial Council financial statement, the estimated revenue for Revenue code of Fauna and Flora had been Rs.300,000,000. But according to the

Revenue Account it was not shown an estimated revenue and no actual revenue was shown as well. Nevertheless according to the Treasury books, there was an actual revenue amounting to Rs.24,700.

- (f) The Provincial Department of Revenue had not maintained an updated register for the liquor license holders in order to ascertain the particulars such as the number of liquor license holders registered in each Divisional Secretariat division, the amount of revenue to be collected from liquor licenses in each year, the amount of revenue remitted to the Department by Divisional Secretariats and retained income without being remitted and the number of license holders who had not renewed their licenses etc.

4. Financial Review

4.1 Financial Results

According to the financial statements presented, a deficit of Rs.63,101,757 was indicated in the Provincial Fund Account for the year ended 31 December 2014 as compared with the corresponding deficit of Rs.102,194,257 for the preceding year.

4.2 Analytical Financial Review

Even though the recurrent expenditure had increased by Rs.1,880,473,663 and the capital expenditure had decreased by Rs1,663,962,685 in the year under review as compared with the preceding year, the financial results had improved by Rs.39,092,500. The increase of Government recurrent grant by Rs.2,829,258,000 and increase of tax income by Rs.379,422,737 had been the main reasons for that improvement.

5. Authority Accounts / Fund Accounts and Commercial Advance Accounts

5.1 Authority Accounts / Fund Accounts

Under the Statutes approved by the North Central Provincial Council 05 Authorities had been established and 07 Fund Accounts had been commenced. Particulars are given below.

5.1.1 North Central Province Road Development Authority

The following matters were observed in respect of financial statements for the year under review

- (a) Even though the motor vehicles costing Rs.1,640,000 were being utilized in the year under review too had been fully depreciated, they had not been revalued and shown in the financial statements in terms of Sri Lanka Accounting Standards 16 and the value of the lands belonging to the Authority also had not been assessed and shown in the financial statements.
- (b) The value of Rs.2,278,260 of 02 cab vehicles for which the lease premiums paid and completed, had not been deducted from leasehold creditor and not shown.
- (c) According to the bank receipts, a sum of Rs.31 million had been invested in fixed deposits during the year under review and the fixed deposits had not been encashed during the year. However the fixed deposits of Rs.150 million remained at the beginning of the year had been shown in the financial statements of the year under review too, and as such a sum of Rs.31 million had been under stated in the financial statements.
- (d) Adequate and appropriate evidence could not be collected in the audit of financial statements due to non-maintenance of updated General Ledger and the Journal, the statement of liabilities prepared inclusive of total current liabilities amounting to Rs.1,910,442, updated fixed Assets Register, income accounts shown all collected revenue, updated General Deposits Register and updated Fixed Assets Register properly and non-submission of relevant information.

5.1.2 North Central Province Early Child-hood Development Authority

The following matters were observed on the financial statements for the year under review.

- (a) The receipts had not been issued for the cash received amounting to Rs.3,200,370 from the sale of 226,927 news papers of “Tikki Tikiri”and “Siruwar Amudam” and had not been recorded in the registers under the supervision of a staff officer in terms of the provisions of Financial Regulation 165 and 168. Further, adequate particulars relating to printing, distribution and sale of said newspapers, were not made available in the institution.

- (b) A sum of Rs.900,000 obtained by the Chairman of the Authority to pay teachers' allowances for last 03 months of the year 2014 had been used for his personal utilization without being paid to relevant parties.
- (c) A sum of Rs.2,397,910 had been spent for a ceremony of the arrival of the First Lady and a ceremony of awarding souvenirs to President out of the funds given to recurrent expenditure of the Authority by the Chief Ministry and the approval thereon had not been obtained. Further, sufficient bills to confirm said expenditure had also not been furnished.

5.1.3 North Central Province Construction Development and Machinery Agency

The Agency had not presented the financial statements for the year under review for audit and the observations revealed during the course of audit on transactions are given below.

- (a) A digital printing machine valued at Rs.1,225,000 had been purchased in October 2013 without an approval of proper Procurement Committee and a Technical Evaluation Committee and without the approval of Board of Directors of the Institute in terms of the provisions of Procurement Guidelines 2.8.1(a) (b) and (c). The machine had to be repaired in a short period after the installation and as such it was revealed that the machine had been utilized by some other institution and it was dismantled and removed one.
- (b) The Business Turnover Tax and Goods and Services Tax amounting to Rs.1,174,400, that should be remitted to the Department of Inland Revenue for the previous periods of the year 2002 had not been remitted properly and as such the, Department of Inland Revenue had filed a case in the Colombo District Courts to recover said amounts
- (c) Value Added Tax collected by the institution amounting to Rs.18,165,671 during the period from the year 2002 to 2014 under the Value Added Tax Act No.14 of 2002, had not been remitted to Commissioner General of Inland Revenue.

- (d) Due to non-remittance of contributions to Employees Provident Fund amounting to Rs.3,109,880 relating to the period from 2009 to 2014 in terms of the provisions of Section 10(1) and (2) of the Employees Provident Fund, a surcharge amounting to Rs.1,683,200 had been imposed.
- (e) Even though 735 machine hours amounting to Rs.4,890,160 had been worked for digging of 304 drinking water wells closed to reservoirs in the Anuradhapura District without entering in to an agreement with the client institution in the year 2014, a loss of Rs.2,728,733 had been incurred by the Agency due to the payments amounting to Rs.2,161,427 only had been paid by such client institution for carrying out the work.

5.1.4 North Central Province Industrial Development Authority

The following matters were observed in respect of the financial statements of the Authority for the year under review.

- (a) Ten glass cabinets had been made by spending Rs.133,333 to keep the selling goods of Industrial Development Authority to be displayed in tourist hotels. Six cabinets out of that had been kept in tourist hotels while one cabinet had been kept in the sales out let in office premises and 03 others had been kept in the office premises unsecuredly. Further, action had not been taken to brought to account for all such cabinets as assets of the Authority.
- (b) A sum of Rs.1,450,453 had remained outstanding, out of the loans amounting to Rs.3,387,940 granted as factory equipment loans, compressor machines loans, multi-purpose wood work machines loans, self-employment loans and bicycle loans paid for 126 beneficiaries in the years 2010 and 2011.

5.1.5 North Central Province, Passenger Transport Authority

The following observations were observed on financial statements of the year under review relating to the Authority.

- (a) Even though monthly transport allowance entitled had been Rs.30,000 in terms of the Public Administration Circular No 14/2008 dated 26 June 2008, a sum of Rs.40,000 had been paid as transport allowances and as such a sum of Rs.140,000 had been over paid in

the year under review comprising Rs.120,000 for the Chairman and Rs.20,000 for General Manager of the Authority.

- (b) In terms of the Public Administration Circular No. 13/2008 dated 26 January 2008 as amended by the Circular No 13/2008(iv) dated 09 February 2011, the monthly fuel allowance should be 140 litres. Due to providing with 170 litres a sum of Rs.57,978 and Rs.14,607 had been over paid to Chairman and the General Manager respectively during the year under review. Sums of Rs.58,431 and Rs.25,887 had been paid to the Chairman and the General Manager respectively for obtaining fuel in addition to above amount of fuel in 06 instances and 03 instances respectively without having the Chief Secretary's personal approval.

5.1.6 North Central Province Environment Authority

Financial statements for the year under review and the preceding year relating to this Authority which established in January 2012 had not been presented to audit.

5.1.7 North Central Province Contingencies Fund

The following observations revealed in respect of the financial statements of the Fund for the year under review are given below.

- (a) No activity whatsoever had been carried out to achieve the objectives of the above Fund since the commencement of the Fund in the year 1990.
- (b) Even though 24 years had elapsed since the establishment of the Fund the rules required for the implementation of this Fund had not been prepared by the Governor in terms of Section 20(3) of the Statute.

5.1.8 North Central Province Chief Minister's Fund

Financial statements for the year under review and for preceding 2 years had not been presented to the Auditor General and a sum of Rs.5,185,974 was available in the Fund as at 31 December of the year under review.

5.1.9 North Central Province Incentive Fund

The following matters were observed in respect of the financial statements of the Fund for the year under review.

- (a) Even though the amount of Rs.6,694,950 shown as receipts of provisions should be for second half of the year 2011 and first half of the year 2014, it had not been disclosed by notes or amount relating to each half year separately.
- (b) The made up of incentive allowance amounting to Rs.3,216,116 paid during the half year of 2011 had not been presented in the notes.

5.1.10 North Central Province Rural Development Fund

The following matters were observed.

- (a) This Fund was commenced in January 2012 in terms of Section 26 of the North Central Provincial Rural Development Statute No 03 of 2011. The audit of any activity relating to any item which carried out from Provincial Fund should be carried out by the Auditor General in terms of the Article 154 of the Constitution and the Sections 23(1) and 23(2) of the Provincial Council Act No 42 of 1987. However, the provisions for the audit of the financial statements of this Fund should be carried out by the Auditor General had not been included in the Statute. In terms of the Section 26(2) of the Statute ,this Fund should comply with the provisions stated in part 3 of the Provincial Councils Act No.42 of 1987 and as such the financial statements of the Fund Should be prepared and presented to the Auditor General. However, the financial Statements of the Fund from the year of commencement of the Fund up to the year under review had not been presented to the Auditor General.
- (b) Even though an expenditure totalling Rs.2,000,000 had been incurred from the Rural Development Fund for “Grama Probodini New Year Programme”, and “Pulathisi Mangala Sihinaya” and for printing coloured flags of Grama sanwardana, the written concurrence of the Secretary to the Ministry as the Chairman of the Rural Development Fund had not been obtained for any decision when making decisions relating to incurring such expenditure.

5.1.11 North Central Province Education Development Fund

The following matters were observed.

- (a) There was a balance of this Fund established and implemented in January 2005 amounting to Rs.8,331,893 as at 31 December of the year under review. In terms of the paragraph 8(1) of the Extra Ordinary Gazette Notification of the Democratic Socialist Republic of Sri Lanka, No 1346/8 dated 23 June 2004, the financial statements from the year of commencement of the Fund up to the year under review had not been presented to the Auditor General.
- (b) Even though 1,800,000 lotteries tickets printed for improvement of financial position of the Education Development Fund had been properly handed over to the principals, the principals of 94 schools in Dimbulagala, Polonnaruwa, and Hingurakkoda zones had not sold any of the ticket from 24,965 ticket books taken by them valued at Rs.4,993,000 and the ticket books also had not been returned to the Ministry.

5.2 Commercial Advance Accounts

5.2.1 Rajarata F.M Services Advance Account

It was informed by the Chairman of the Broadcasting Corporation that the agreement entered on 06 May 2011 between North Central Provincial Council and the Broadcasting Corporation on allocation of air time would be cancelled on 31 January 2014. However, 05 officers had been recruited on 01 January 2014, and the Secretary to the Ministry had approved to pay Rs.120,000 for 03 months period at the rate of Rs.40,000 per month for said officers on 14 March 2014. It was observed in audit if the immediate response had been paid to the letter dated 03 January 2014 of the Co-ordinator of Rajarata F.M, by the Secretary to the Ministry it could have been possibility of avoiding the improper payment of Rs.120,000 by cancelling the relevant appointments.

5.2.2 Bitumen Purchase Advance Account

The following matters were observed on above advance account during the year under review.

- (a) Out of the debtor balances recoverable amounting to Rs.26,465,683 as at 01 January 2014 a sum of Rs.11,357,380 or 43 per cent only had been recovered during the year.
- (b) Out of the total sales of Bitumen amounting to Rs.13,153,518 during the year under review, a sum of Rs.1,013,907 or 8 per cent only had been recovered during the year.
- (c) The Authority had failed to explain the objectives specifically for maintenance of Bitumen Advance Account, and this account had been identified as a Commercial Advance Account. The Authority had made an attempt to show an unrealized profit through this account by providing Bitumen to contractors for maintenance of roads priced with 10 per cent to the cost.

5.2.3 Quality Control Advance Account

The following matters were observed relating to this Commercial Advance Account during the year under review.

- (a) The value of the fixed assets purchased from the Funds of the Quality Control unit of the Provincial Department of Engineering had not been disclosed in the accounts.
- (b) Travelling payments of Engineering Association which was not coming under the purview of the advance account activity amounting to Rs. 64,690 had been debited to the advance account.
- (c) Sums ranging from Rs.1.5 million to Rs. 7 million had been retained idle in a bank current account maintained by Bank of Ceylon Branch, Kekirawa during the period from July to December without earning an interest income.

5.2.4 Agri Development Advance Account

The following matters were observed relating to this Commercial Advance Account in the year under review.

- (a) The money - in – transit amounting to Rs.16,295 shown continuously in the accounts since the year 2006 had not been identified and made necessary adjustments.
- (b) Minimum limit of receipts amounting to Rs.700,000 authorized for the year 2014 had not been reached by Rs.283,838.

6. Operating Review

6.1 Performance

Particulars of the projects approved, implemented and completed for the utilization of development grants received by the Provincial Council during the year under review are given below.

	Provincial Council Development Grants		Provincial Specific Development Grants		World Bank Aid		Other Capital Assets Grants	Block Grants	
	New Projects	Continued Projects	New Projects	Continued Projects	New Projects	Continued Projects	Continued Projects	New Projects	Continued Projects
Number of approved Development Projects	1,062	344	550	302	226	48	01	54	25
Number of Projects Implemented	1,059	242	550	266	218	35	01	54	25

Number of Projects Completed during the year	855	199	264	257	149	22	01	23	23
Approved Expenditure (Rs.000)	594,492	389,496	535,232	452,177	424,171	156,242	35,000	61,698	13,301
Expenditure incurred during the year (Rs.000)	471,994	203,938	290,164	427,543	240,271	91,509	17,920	52,193	12,775

The following observations are also made.

- (a) Out of the New Development Projects amounting to Rs.594,492,450 approved under Provincial Council Development Grants, 1059 projects had been implemented and a Sum of Rs.471,994,662 had been utilized thereon. Nevertheless 855 development projects only had been completed during the year. Similarly, out of 344 continued development projects amounting to Rs.389,496,180 during the year under review, 242 projects had been implemented and sum of Rs.203,938,178 had been utilized thereon and 199 development projects had been completed.
- (b) All 550 New Development Projects amounting to Rs.535,232,725 approved under the Provincial Specific Development Grants had been implemented and a sum of Rs.290,164,778 had been utilized thereon. However 264 development projects only had been completed during the year. Further, out of 302 continued development Projects amounting to Rs.452,177,540 for the year under review 266 projects had been implemented and a sum of Rs.427,543,764 had been utilized thereon and only 257 projects had been completed.
- (c) Out of 226 new development projects approved under World Bank Aid amounting to Rs.424,171,200 two hundred and eighteen projects had been implemented and a sum of Rs.240,271,620 had been utilized thereon. However, 149 development projects only had been completed during the year. Similarly, out of 48 continued development projects estimated for

Rs.156,242,120 for the year under review, 35 projects had been implemented and a sum of Rs. 91,509,266 had been utilized thereon and only 22 projects had been completed during the year.

- (d) All 54 new development projects approved under Block Grants amounting to Rs.61,698,270 had been implemented and sum of Rs.52,793,314 had been utilized thereon. However, only 23 development projects had been completed during the year. All 25 continued projects amounting to Rs.13,301,176 for the year under review had been implemented and a sum of Rs.12,775,284 had been utilized thereon and only 23 projects had been completed.
- (e) Even though a new development project approved under Other Capital Assets Grants amounting to Rs.35,000,000 had been implemented and completed during the year, only a sum of Rs.17,920,150 had been paid.

6.1.2 A sum of Rs.10,452,210 had been spent for 06 reconstructed tanks which were subjected to audit out of the reconstructed tanks during the period from the year 2011 to 2014. The related reports of the feasibility studies had not been submitted and as such it could not be reviewed in audit, the economic benefit of the entire expenditure.

6.2 Management Inefficiencies

The following observations are made.

- (a) The ownership of the lands in extent of 07 acres and 85 perches in which 20 textile centers maintained by the Provincial Department of Industrial Development had vested with the Government / Authority or other external parties. However, action had not been taken to transfer the ownership of such lands to the Department even by 29 May 2015.
- (b) A sum of Rs.1,095,000 had been received by the Governor's Secretariat from Ranaviru Seva Authority in the year 2014 for construction of Ranaviru Monument and a sum of Rs.600,000 had been received from Provincial Treasury for Ranaviru Felicitation Ceremony and the activities relating to Ranaviru Plaque. However, the Ranaviru Felicitation Ceremony only had been held by the Governor's Secretariat and a sum of Rs.1,464,134 had been returned to the Provincial Treasury.

- (c) It was mentioned that the provisions made for 03 Objects of Provincial Department of Ayurveda for the year 2014 were not sufficient and supplementary provisions totalling Rs.21,861,000 had been approved. However, provisions of Rs.17,641,307 or 81 per cent out of that had been saved.
- (d) The progress reports relating to the activities implemented by the Provincial Land Commissioner's Department on implementation of North Central Province Land Development Statute had not been prepared.
- (e) An audit query had been issued in the preceding year relating to settlement of the ownership of the land including Mahavilachchiya Regional Hospital building and Quarters and the unauthorized acquisition. However, proper action had not been taken to avoid such unauthorized acquisition.
- (f) Out of the assets purchased by the Provincial Council and the Provincial Council Secretariat, substantial amount of assets had been provided for 04 persons who appointed for the posts contrary to the provisions of the Provincial Council Act. However, those goods were not made available in the offices of said 04 persons situated in the premises of the Provincial Council Secretariat. Even though a sum of Rs.5,830,380 had been paid as salaries and allowances during the under review to such persons who held the posts and personal staff of the Leader of the House and Leader of the Opposition, the adequate evidence to ascertain the attendance of the said staff were not made available to audit and it was observed that they were not in the office at the time of inspection.

6.3 Operating Inefficiencies

The following observations are made.

- (a) Nine categories of equipment valued at 11,951,677 had been purchased during the year under review on the request of the disabled persons without the decision to purchase equipment on requirement and a stock valued at Rs.13,994,647 had remained in the stores as at 31 December 2014.
- (b) Four hundred and four cheques valued at Rs.1,100,900 drawn to be given to the Traditional Ayurveda Medical Practitioner on 30 December 2014 had been retained with the institution without handing over to them even by 31 March 2015. Even though the validity period of 30 days for the cheques had elapsed, necessary actions had not been taken thereon.

- (c) The management had not taken necessary action to settle the advances amounting to Rs.1,000,000 given to the Kahatagasdigiliaya Multi-purpose Co-operative Society to purchase paddy in the Maha Season 2012/2013 even though the attention had been paid by an audit query.
- (d) In the examination of stock registers of drugs of the District Hospital, Thambuttegama on 03 March 2015, it was observed that the stocks of drugs valued at Rs.6,338,310 relating to 31 invoices of drugs had not been entered into the stock books.
- (e) The laboratory of the hospital had been closed down for a period about 11 months. due to a vacancy of a Medical Laboratory Technician in Horowpathana Hospital since 01 December 2013. Therefore, the chemicals utilizing for the laboratory tests were remained unutilized. Further, a stock of chemicals of 09 categories valued at Rs.493,186 was remained outdated.
- (f) The functions of the Emergency Treatment Unit of the District Hospital, Thambuttegama in which the constructions were completed by spending Rs.3,894,043 had not been commenced even during the year under review.
- (g) Some of the functions included in the objectives and the functions of the other Ministries and Departments of the North Central Provincial Council and the Ministries and Departments of the Central Government but not included in the objectives and functions of the North Central Province Chief Ministry had been carried out by the Chief Ministry, and the amount paid for such activities during the year under review amounted to Rs.65,362,633.
- (h) It was observed that 28 activities out of 39 activities planned to be implemented under “Rana Bimata Arunalu” Project were the objectives and activities relating to other Ministries Departments.

6.4 Transactions of Contentious Nature

The following observations are made.

- (a) The total allowances had been paid for Provincial Council Chief Minister and Provincial Council Ministers and allowance for their personal staff from the provisions made under Expenditure Heads of each Ministry. Nevertheless, in addition to such payments, the allowances of drivers and the personal staff amounting to Rs.4,877,400 had been paid in the

year 2014 under Expenditure Head of Provincial Council and Council Secretariat while the allowances paid for the preceding two years amounted to Rs.8,056,200.

- (b) Despite that a permanent driver had been deployed for a vehicle belonging to Department of Rural Development, a casual driver of personal staff of the Education and Cultural Minister had also been deployed for the service of such vehicle and a sum of Rs.282,693 had been paid as salaries for the period from January to December in the year under review.
- (c) Even though a sum of Rs.3,415,893 had been paid as incentive allowances in the year 2014 for the officers of the Provincial Land Commissioner's Department and for the officers who worked for the land duties in the Divisional Secretariats, no evidence whatsoever had been furnished to audit to confirm that such officers directly involved to collect the tax income, or they have collected the tax income from land taxpayers by arriving them. Further, a proper approval had not been obtained from the Governor to pay such incentive allowance or for incentive allowance scheme.
- (d) Overtime allowances of Rs.146,716 had been paid to two Medical Officers served in the office of the North Central Provincial Director of Health Services in the year 2014 for 356 ¼ overtime hours before 8.30 a.m and between 12.00-13.00
- (e) Two Medical Officers including Medical Officer in charge served in the Regional Hospital, Horawpathana had worked for private practice in the quarters contrary to the paragraph 05 of the General Circular No. 02/99 of the Ministry of Health dated 17 March 1999 but disciplinary action had not been taken in terms of paragraph 11 of the above Circular.

6.5 Irregular Transactions

Deviation from the Procedure laid down in the Procurement Guidelines

The following observations are made.

- (i) Even though in terms of 2.14.1 of the Procurement Guidelines it should be invited not less than 05 sealed quotations for purchases less than Rs.2 million by a Departmental Procurement Committee the quotations had been obtained only from 03 institutions in purchasing 31 multi-purpose printing machines at Rs.840,100 on 31 December 2014 by the Department of Animal Production and Health.
- (ii) When the procurement value of the goods and services of a Department is exceeded more than Rs.2 million, the authority of such procurement process should be referred to a Ministry Procurement Committee in terms of Supplement 21 issued on 23 February 2012 in addition to Guidelines 2.14.1 of the Procurement Guidelines. Nevertheless, the procurement process for the Poultry Farm project of the Department of Animal Production and Health amounting to Rs.2,784,626 had been carried out by the Departmental Procurement Committee.
- (iii) In terms of supplement 22 of Procurement Manual dated 09 March 2011 when awarding direct contracts for Community Based Organizations it should not be exceeded Rs.02 million of the total value of contracts already awarded and the value of the proposed contract. In contrary to that, the office of the Regional Director of Health Services, Anuradhapura had awarded 02 contracts amounting to Rs.2,612,028 to the Samurdhi Village Society No.18 within a same period.
- (iv) Even though the limit of the procurements of goods and services could be made to a Regional Procurement Committee by following Shopping Procedure amounted to Rs.500,000 in terms of Guideline 2.14.1 of the Procurement Guidelines 2006 and Supplement 21 of Procurement Manual, in contrary to that the Regional Procurement Committee of the office of the Regional Director of Health Services Anuradhapura had made purchases amounting to Rs.2,612,409 exceeding such limit in 03 instances.

6.6 Apparent Irregularities

The following observations are made.

- (a) The maximum number of official vehicles could be allocated for utilization and for security purpose of the Hon. Chief Minister had been 03, in terms of the paragraph 2.1 of the Circular letter of the His Excellency the President No.CSA/P1/40 dated 04 January 2006 as amended by the even number dated 19 November 2007. However, the Hon. Chief Minister of North Central Provincial Council had utilized 15 vehicles exceeding such approved limit and obtained 44,850 liters of fuel valued at Rs.5,989,771 for running of that vehicles.
- (b) As the two official vehicles and a back-up vehicle allocated to the Hon.Chief Minister are diesel vehicles fuel liters 13,250 had been obtained during the year to the official two diesel vehicles and back-up security vehicle exceeding the fuel limit entitled in terms of the circular letter dated 19 November 2007 of the Hon. President and a sum of Rs.1,800,983 had been paid thereon.
- (c) The cost incurred for salaries, overtime and travelling of excess personal staff during the year under review amounted to Rs.9,634,113 due to maintaining a personal staff exceeding the personal staff entitled to a Minister in terms of paragraph 1.1 of the Circular letter of the Hon. President No CSA/P1/40 dated 04 January 2006.
- (d) The authority should be given to issue fuel orders by the Secretary of the Chief Ministry or an authorized Government Officer who had given the authority by the Secretary in the fuel applications obtained from the officer in charge of vehicles before issuing fuel orders for vehicles. But the fuel had been obtained for the vehicles allocated to them by given authority to issue fuel orders by Chief Minister or his personal staff using official frank of the Secretary of the Ministry.

6.7 Assets Management

In terms of Section 6.10 of the Chapter XIX of the Establishments Code and the Act No.07 of Government Quarters (acquire ownership) of 1969 as amended by the Acts No 03 of 1971 and No 40 of 1974 when an officer deceased the Government Quarters occupied by the officer should be handed over back. Nevertheless, as against such provisions the family members of an officer deceased had occupied the Government Quarters without paying any rent for 11 years since 29 April 2004. However, such quarters had not been taken back even up to March 2015, the date of audit. Further, proper action had not been taken against 04 officers who occupied the quarters in which the lease period had ended, in terms of the provisions of Sub-section 6.14 of the Chapter XIX of the Establishments Code and Act No 07 of Government Quarters of 1969 (acquire ownership) and it was observed that such occupants had occupied the quarters forcibly with taking legal actions to acquire the Government Property.

6.8 Idle and Under- utilized Assets

The following observations are made.

- (a) Four categories of self- employment equipment valued at Rs.318,878 purchased in the year 2013 by the Department of Rural Development were retained in the stores without being distributed even by 14 January 2015.
- (b) Construction of a main bund and canals and bunds to carry spilled water to paddy fields from anicut of the Bakmeegahaulpatha reservoir and the paddy fields under the reservoir had not been identified and cultivated and as such a sum of Rs.2,610,560 spent for reconstruction of such reservoir had become a fruitless expenditure.
- (c) Three vehicles belonging to Provincial Engineering Department had remained idle for a period ranging from 02 years to 10 years.
- (d) One Binocular Microscope and one Ec Meter purchased to the value of Rs.264,510 in the year 2012 had remained idle in the Service Training Institute without utilizing from the date of purchase up to April 2015, the date of audit.

6.9 Uneconomic Transactions

The following observations are made.

- (a) Life Insurance premiums amounting to Rs.1,387,391 had been paid annually on behalf of the Hon. Members and Ministers and the Governor while the receipts or other documents received from Sri Lanka Insurance Corporation were not made available for audit to confirm such payments.
- (b) Despite that 20 officers exceeding the approved cadre had been deployed in the personal staff of the Minister, overtime and holiday pay allowances amounting to Rs.9,804,032 had been paid to the personal staff during the year under review. Accordingly, monthly overtime and holiday pay cost per one approved post amounted to Rs.54,467 and it was observed that the opportunity had been given to work on overtime and holiday pay without identifying the requirement.
- (c) Even though a sum of Rs.3,709,708 had been paid to a Surveyor of the Provincial Land Commissioner's Department as salaries and allowances, the evidence for his daily attendance for reporting to work or approved future programmes or survey directions issued to him were not made available for audit.

6.10 Deficiencies in Contract Administration

The following observations are made.

- (a) Even though the agreement period was from 10 September 2012 to 24 February 2013 in respect of the contract for constructions of Ayurveda Central Dispensary, Nachchaduwa amounting to Rs.5,619,719 the period had been extended up to 24 May 2013 by 03 months in 02 instances without being submitted acceptable reasons.
- (b) Four contracts for renovations of Ayurveda Hospitals in Galadiulwewa, Gal Amuna, Nachchaduwa and Ayurveda Drugs Manufactory, Thelhiriyawa which exceeded the estimated

value of Rs.2.5 million of each contract had been awarded by obtaining limited quotations without following open competitive tender procedure.

- (c) The estimates had been prepared to supply 450 meter cubes of gravel and to compact and make for the project for construction of access roads to Government officers housing scheme of Moragoda,Thulana implemented by the Provincial Land Commissioner’s Department. As the relevant earth compaction reports were not made available and the total amount of Rs.686,000 had been paid to Pradeshiya Sabha, Thalawa even though it was recommended to pay only Rs.205,800 or 30 per cent of the total amount in the recommendation report of the Technical Officer.
- (d) “Dog Friendly Home” constructed at a cost of Rs. 99,602,472 by the office of the Regional Director of Health Services, Anuradhapura was opened on 03 May 2013, but it was closed since May 2014. Further the agreement period for the completion of the contract relating to construction of Dog Friendly Home was 84 days, an extension period of another 365 days had been given thereon.
- (e) Seven contracts amounting to Rs.10,160,761 had been awarded by the office of the Regional Director of Health Services, Anuradhapura to 07 Community Based Societies of which not confirmed that adequate financial feasibilities and equipment facilities were made available.

6.11 Personal Administration

Approved and Actual Cadre

The particulars of the approved cadre and the actual cadre of the North Central Provincial Council as at 31 December 2014 are given below.

(a) Provincial Council Ministries, Departments and Institutions

	Approved	Actual	Excess	(Shortage)
(i) Senior	633	261	--	(372)
(ii) Tertiary	249	177	--	(72)
(iii) Secondary	3,702	2,038	--	(1,663)
(iv) Primary	1,742	1,315	--	(427)
(v) Others (Casual/Temporary)	13	683	670	--
	6,339	4,474	670	(2,534)

(b) Even though, approved cadre of the Provincial Department of Industrial Development was 157, only 116 persons employed and as such there were 43 vacancies and 02 excesses.

(c) Despite that the establishment of Provincial Internal Audit and Investigation Department by the North Central Provincial Council to carry out functions of the Internal Audit and Investigations, an Investigation Officer had been appointed under the Chief Ministry and a sum of Rs.883,058 had been paid as salaries.

6.11.2 School Cadre

	Approved	Actual	Excess	Number of Vacancies
	-----	-----	-----	-----
(i) Principals	1,000	754	--	246
(ii) Teachers	15,940	14,688	--	1,252
(iii) Teaching Assistants	--	389	389	--
(iv) Planning and Finance Assistants/ Development Assistants/ Program Assistants	796	96	--	700
(v) Laboratory Assistants/ Wardens	60	17	--	43
(vi) School Aide	417	62	--	355
(vii) Watchers	339	33	--	306
	-----	-----	-----	-----
	18,552	16,039	389	2,902
	=====	=====	=====	=====

6.11.3 Hospital Cadre

	Approved	Actual	Excess	vacancies
	-----	-----	-----	-----
(i) Specialist Medical Officers	71	09	--	12
(ii) Graded Medical Officers	356	278	--	78
(iii) Other Medical Officers	85	90	05	--
(iv) Nurses (Hospital)	590	464	--	126
(v) Nurses (Public Health)	31	19	--	12

(vi)	Middle Level Technological Officers	182	222	40	--
(vii)	Laborers (General)	329	225	--	104
(viii)	Labourers (Sanitary)	350	234	--	116
(ix)	Attendants	435	334	--	101
		-----	-----	-----	-----
		2,379	1,875	45	549
		=====	=====	=====	=====

7. Accountability and Good Governance

7.1 Action Plan

The Provincial Council and each Ministry, Department and Institutions had not prepared action plans for the year under review in terms of Circular No.PF/R/2/2/3/5(4) dated 10 March 2010 of the Director General of Public Finance.

7.2 Internal Audit

The main functions of the Provincial Internal audit and Investigation Department are the prevention of errors and frauds in the Ministries, Departments and Other Institutions of the Provincial Council, ensuring the safeguard of assets, identification of weaknesses in systems and controls and reporting precautions to overcome these weaknesses to top management. When assigning audits and investigations in each year, it should be carried out for enabling to identify the main deficiencies of the internal controls of the all institutions including 05 Provincial Ministries, 16 Departments and 09 Institutions not come under the purview of the Ministry and 05 Authorities. Nevertheless according to Audit plan of the Provincial Internal Audit and Investigation Department for the year 2014 the total of 730 Mandays of the Department had been allocated to carry out the audit of 02 Ministries only.

7.3 Audit and Management Committees

In terms of paragraph 6 of the Management Audit Circular No.DMA/2009(1) dated 09 June 2009, Audit and Management Committee Meetings should be held at least once in a quarter. However, the Ministries/ Departments of the Provincial Council had not held said committee meetings during the year under review.

7.4 Procurement Plan

A Procurement Plan had not been prepared by the Ministries, Departments and Other Institutions of the Provincial Council for the year 2014, in terms of National Budget Circular No.128 of 24 March 2006.

8. Systems and Control

Special attention is needed in respect of the following areas of systems and controls.

- (a) Accounting
- (b) Revenue Administration
- (c) Contract Administration
- (d) Fixed Assets
- (e) Utilization of Funds
- (f) Human Resource Management
- (g) Project Planning and Implementation
- (h) Procurement Procedure
- (i) Stores Procedure
- (j) Attendance and Overtime Control