

## **Northern Provincial Council - 2016**

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The audit of financial statements of the Northern Provincial Council (“the Council”) for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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.

### **1.1. 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.

### **1.2. 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 Auditing 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 judgement, 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 preparation and fair presentation of the financial statements of the Council’s 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 Council’s internal control. An audit also includes evaluating the appropriateness of accounting

policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **1.3. 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 Northern Provincial Council as at 31 December 2016 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 Financial Statements of Emergency Fund**

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An Emergency Fund in terms of Section 20(1) of the Provincial Council Act, No. 42 of 1987 had not been established. Hence, the Committee of Public Accounts held on 7 September 2017 directed to the Chief Accounting Officer to look into the matter and pursue action.

#### **2.2.2 Accounting Deficiencies**

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The following deficiencies were observed.

- (i) Differences aggregating Rs. 288,202,984 had been observed between the value of non-current assets shown in the financial statements of the Provincial Fund and 03 Appropriation Accounts of the Provincial Departments. Details are given below.

<b>Name of the Departments</b>	<b>Value as per the financial statements</b>	<b>Value as per the Appropriation Accounts</b>	<b>Difference</b>
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	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
Chief Secretary's Secretariat	24,185,919	312,309,823	288,123,904
Probation & Childcare Services	211,300,241	211,284,911	15,330
Local Government	1,093,474,842	1,093,411,092	<u>63,750</u>
			<b><u>288,202,984</u></b>

- (ii) Rent of Rs. 900,000 received by the General Hospital, Vavuniya on behalf of rented out building during the year under review had not been brought to the financial statements.
- (iii) Revenue of Rs. 6,075,608 generated during the year under review by the Department of Animal Production and Health had not been credited to the revenue account and brought to the financial statements for the year under review.
- (iv) Stamp duties and court fines aggregating Rs.696,040,691 collected by the Provincial Council during the year under review on behalf of the Local Authorities had been shown in the financial statements as revenue instead of showing as liabilities. As a result the surplus for the year under review had been overstated by similar amount.

### **2.2.3 Lack of Evidence for Audit**

#### **----- Unanswered Audit Queries -----**

Replies to twenty one audit queries issued to the following Provincial Departments during the year under review had not been furnished even up to 31 December 2017 and the value of quantifiable transactions relating to those audit queries amounted to Rs.5,666,807. Details are given below.

<b>Name of the Departments</b>	<b>Number of Queries Unanswered</b>	<b>Value of Transactions</b>
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		<b>Rs.</b>
Education	19	2,538,504
Sports	<u>02</u>	<u>3,128,303</u>
	<u>21</u>	<u>5,666,807</u>

#### **2.2.4 Accounts Receivables**

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Action had not been taken by 18 Provincial Departments to recover loan balances aggregating Rs. 18,683,434 due from the officers who were transferred out from the Provincial Ministries and Departments to other Provincial Ministries and Departments.

#### **2.2.5 Non-compliance with Laws, Rules and Regulations, etc**

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Instances of non-compliance with following Laws, Rules and Regulations observed during the course of audit test checks are analyzed and shown below.

<b>Reference to Rules and Regulations</b>	<b>Value</b>	<b>Non-compliance</b>
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	Rs.	
<b>(a) Establishment Code of the Democratic Socialist Republic of Sri Lanka</b>		
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Section 5.4 of Chapter XIX		Rent from the officers who were occupied in Government Quarters had not been recovered from the salaries of the respective officers.
<b>(b) Financial Rules of the Northern Province (PFR)</b>		
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PFR 69 (i)	1,735,000	Losses on vehicle accidents had not been reported to the Auditor General by the Department of Education.
PFR 106 and 107	3,794,357	Payments aggregating Rs.3, 794,357 had been made by a Provincial Ministry and 06 Provincial Departments without being approved and certified by the respective officers.

PFR 407

- Security bond had not been obtained from the officers who are administratively entrusted with custody of cash and stores by the Ministries and Departments of the Provincial Council.

(c) **Financial Regulations of the Government of the Democratic Socialist Republic of Sri Lanka**

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FR 110

- Register of losses and damages had not been maintained by the Provincial Machinery Unit of the Road Development Departments.

FR 511

- 9,535,076
- Provision to cover working losses had not been made in the Annual Estimate relating to the Advance Account Activities of the Department of Road Development during the year under review.

1) (d) **Circular Provision**

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(i) Public Administration Circular No. 41/90 dated 10 October 1990

6,991,464

- Fuel testing for Government vehicles had not been done by six Provincial Ministries and Departments in every six months as requested by the Circular.

(ii) Public Finance Circular

No. 364(3) of 30 September 2002

- Details of Value Added Tax (VAT) paid to the suppliers and contractors by the Department of Animal Production & Health had not been furnished to audit.

(iii) Finance Commission Circular No. 01/2015 dated 25 March 2015

925,495

- Recurrent expenditure had been made from the Capital portion of Criteria Based Grant by the Provincial Ministry of Education.

### 3. Revenue Management

According to the information made available for audit, the total income collected during the year under review and previous four years are given below.

Particulars	For the year ended 31 December				
	2016	2015	2014	2013	2012
	Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million
Tax Income	2,745	2,074	1,754	1,410	1,532
Non-tax Income	<u>370</u>	<u>157</u>	<u>111</u>	<u>121</u>	<u>116</u>
<b>Total</b>	<b><u>3,115</u></b>	<b><u>2,231</u></b>	<b><u>1,865</u></b>	<b><u>1,531</u></b>	<b><u>1,648</u></b>

The following observations were made in this connection.

- (a) Total revenue for the year under review had increased by Rs. 884 million or 28 per cent as compared with previous year. Increase of tax revenue by 32 per cent and significant increases in revenue generation from Liquor tavern and stamp duty as compared with the previous year were the main reasons attributed for this improvement in total revenue of the year under review.
- (b) Non-tax revenue of the Council had increased by 135 per cent as compared with the previous year due to increase of court fine by Rs.152,437,312 during the year under review.

#### 4. Financial Review

##### 4.1 Financial Results

According to the financial statements presented, the deficit of the Provincial Council for the year under review was Rs. 23,176,965 as against the surplus of Rs. 142,648,761 for the preceding year. Details are shown below.

	2016 ----- Rs. Millions	2015 ----- Rs. Millions	Variance ----- Rs. Millions
<b>Revenue</b> -----			
Tax	2,745	2,074	671
Non – Tax	370	157	213
Government Grant –			
Recurrent	16,757	16,268	489
Capital	3,658	2,547	1,111
	-----	-----	-----
<b>Total</b>	<b>23,530</b>	<b>21,046</b>	<b>2,484</b>
	-----	-----	-----
<b>Expenditure</b> -----			
Personal Emoluments	14,807	14,128	679
Other Recurrent	4,505	4,244	261
Capital expenditure	4,241	2,531	1,710
	-----	-----	-----
<b>Total</b>	<b>23,553</b>	<b>20,903</b>	<b>2,650</b>
	=====	=====	=====
<b>Surplus / (Deficit)</b>	<b>(23)</b>	<b>143</b>	

##### 4.2 Analytical Financial Review

Total expenditure of the Provincial Council for the year under review was Rs. 23,553 million and out of this, a sum of Rs. 19,312 million had been incurred for recurrent expenditure and it presented 82 per cent of the total expenditure. Out of the total recurrent expenditure, a sum of Rs. 14,807 million had been incurred for personal emoluments and it represented 77 per cent of the total recurrent expenditure and the corresponding recurrent expenditure for the preceding year amounted to Rs. 18,372 million and it represented 87 per cent of total expenditure for that year.

## 5. **Comments on Appropriation Accounts, Advance Accounts, Imprest Accounts and General Deposit Accounts**

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### 5.1 **Comments on Appropriation Accounts**

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

The following deficiencies were also observed during the course of audit on the appropriation accounts of the Provincial Ministries and Departments for the year under review.

- (i) Provisions of Rs. 106,774,578 made under 32 Object Codes had not been fully utilized by 09 Provincial Ministries and Departments due to preparation of expenditure estimates on an ad-hoc basis.
- (ii) Instructions given by the Provincial Treasury for the preparation and presentation of the Appropriation Accounts had not been complied by certain provincial Ministries and Departments.
- (iii) Action in terms of PFR 69 had not been taken on losses aggregating Rs. 49,059,804 shown in the Appropriation Accounts in respect of 35 items of the four Departments over ten years. Details are shown below.

<b>Ministry / Departments</b>	<b>Number of Loss Items</b>	<b>Amount</b>
-----	-----	-----
		<b>Rs.</b>
Agriculture	05	98,259
Animal Production & Health	10	17,554,713
Irrigation	09	21,761,867
Health Services	<u>11</u>	<u>9,644,965</u>
	<b><u>35</u></b>	<b><u>49,059,804</u></b>



- (iv) As per Board of Survey reports for the year under review, large number of assets were reported as missing during the year under review. However, most of the Departments had not included those losses in their Appropriation Accounts and preliminary reports and final reports on losses in terms of Provincial Financial Rules No. 69 had not been furnished by those Departments.
- (v) Ten items of capital expenditure amounting to Rs. 1,890,493 incurred for the capital improvement of various Provincial Ministries and Departments had been erroneously classified under recurrent expenditure.

## **5.2 Advances to Public Officers Accounts**

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It was not possible to ascertain as to whether the debit balance of Rs.18,683,434 in respect of unsettled loans balance shown in the financial statements due from officers transferred out from the 03 Ministries and 15 Departments, reflects the actual realizable amount as confirmations for the debit balances were not made available for audit. Actions on those unsettled loan balances were at very poor level.

## **5.3 Commercial Advance Accounts**

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### **(I) Department of Animal Production and Health**

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The following observations are made.

- (a). Losses aggregating Rs. 95,625 incurred due to death of 16 goats at the Chekaddipilavu Farm had not been brought to the financial statements.
- (b). Eighty seven assets items were made available in three Farms had not been valued and brought to the financial statements.
- (c). Five capital improvements works to the value of Rs. 1,387,668 carried out at two farms during the year under review had not been included in the non-current assets.

**(II) Department of Industry**  
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The following observations are made.

- (a) Action had not been taken to invest the accumulated depreciation aggregating Rs.1,153,342 shown in the accounts as at 31 December 2016.
- (b) Value of 23 consumable items such as fiber machine, wrapping roll set and looms had not been ascertained and brought to the financial statements of the advance account activity.

**5.4 Imprest Accounts**  
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The following observations are made

- (i) Even though the ad hoc sub-imprest should be settled immediately after the completion of the purpose in terms the Financial Regulation 371, ad-hoc imprest amounting to Rs. 336,238 had been settled in 16 instances by 16 officers with considerable period of delays ranging from 01 month to 06 months.
- (ii) Ad hoc sub-imprests totaling Rs. 172,000 had been paid in 07 instances to 06 non-staff grade officers contrary to the Provincial Financial Rule 219.2 by the Ministry of Education.

**5.5 General Deposit Accounts**  
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The following observations are made.

- (i). List of lapsed deposits had not been prepared by several Ministries and Departments at the end of each half year in terms of Provincial Financial Rules 571. Further, retention money, individual deposits, project fund and tender deposits of a Ministry and 09 Departments aggregating Rs.88,090,458 had been kept in the deposit without being disposed them.
- (ii). Funds aggregating Rs. 63,884,006 released by the Provincial Treasury for the procurement of vehicles and construction of buildings had been kept in the deposit

account without being utilized for the intended purposes by the Chief Secretary's Secretariat.

## 6. Operating Review

### 6.1 Performance

#### (a) Utilization of Specific Funds

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

Description of Sources	Budgeted	Actual Expenditure	Savings	Percentage of Utilization
	----- Rs.	----- Rs.	----- Rs.	-----
Provincial Specific Development Grants (PSDG)	3,199,300,000	1,800,000,000	1,399,300,000	57
Criteria Based Grant (CBG)	475,000,000	437,000,000	38,000,000	92
Education Sector Development Project (ESDP) / (TSEP)	465,000,000	289,000,000	176,000,000	63
Northern Road Connectivity Project (NRCP)	750,090,000	515,698,803	234,391,197	69
United Nations Children's Fund (UNICEF)	11,350,000	7,808,921	3,541,079	69
Jaffna Kilinochchi Water Supply and Sanitation Project	1,150,000,000	582,103,056	567,896,944	51
Iranamadu Irrigation Development Project	1,250,000,000	1,235,438,206	14,561,794	99
Health Sector Development Project (HSDP)	365,000,000	365,000,000	--	100
Construction of Provincial Administration building	150,000,000	74,000,000	76,000,000	50
NRCP (Additional Planning)	1,002,260,000	675,335,060	326,924,940	68

The following observations are made.

- (i) Budget proposals had been prepared without considering Provincial Financial Rules and needs of the Provincial Council as mentioned in the Guidelines of the Finance Commission. As such the provision aggregating Rs. 1,052,662,907 made under 29 Heads in the Budgeted Financial Statements for the year under review had not been utilized for the intended purposes
  - (ii) Capital expenditure aggregating Rs. 189,381,597 had been spent by 04 Ministries and 23 Departments without provisions for those expenditures in the Annual Estimates. Subsequently, this expenditure had been regularized at the end of the year through surcharge account.
- (b) Establishment of Electric Power Generating Plant by Fixing Wind Turbines  
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An agreement had been signed by one of the Secretary of Northern Province with two private companies to establish the electric generating plants by fixing wind turbines on 19 March 2014 after considering the financial support of Rs. 430 million. The lease rental for this project had been fixed at the rate of Rs. 20 million for the first 10 years and at the rate of Rs. 23 million for the next 10 years. The following observations are made in this connection.
- (i). A sum of Rs. 2,933.81 million had been paid to the above companies by Ceylon Electricity Board during the period from December 2014 to December 2016 for the supply of electricity to national grid at the area of Pallai Divisional Secretariat, whereas only a sum of Rs. 25 million had been received by the Northern Provincial Council as a rentals during over last 03 years.
  - (ii). An incentive allowance aggregating Rs. 840,000 had been paid from this revenue to 20 officers attached 02 Provincial Departments without being obtained an approval from the authority concern.
  - (iii). The Chief Secretary of the Northern Province had not signed in the agreement in order to implement the above project.

- (iv). Sanction from the Land Commissioner had not been obtained to utilize the Government land for this purpose.
- (v). Approval from the Board of Provincial Ministers had not been obtained before sign the agreement.
- (vi). Agreement signed in the name of or on behalf of the Northern Provincial Council had not been approved by the Council.
- (vii). The budgeted income and expenditure of this project had not been included in the budget of the Provincial Council since 2014.
- (viii). Impact to the environment due to implementation of this project had not been assessed by the relevant authorities.

## **6.2 Transactions in Contentious Nature**

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The following observations were made.

- a) Four roads which were not under the purview of Provincial Road Development Department had been constructed at a cost of Rs. 5.1 million in Mannar District during the year under review.
- b) At a physical verification it was observed that an over payments of Rs.1,992,127 had been made to contractors in eighteen instances by the Department of Education and an over payment of Rs 231,158 had been made to the contractor by the Office of the Deputy Director of Agriculture, Mannar in connection with construction of internal road as the payments were made based on the measurement of works instead of considered the actual works done by the contractor.
- c) Out of the imprest amounting to Rs. 6 million released to the Urban Council, Mannar by the Department of Local Government for the purpose of paying advances to the shop owners of Mannar District due to destroyed their shops by fire during the year 2012, a sum of Rs. 4.97 million had not been settled even up to 31 December 2017. In this regard no action had been taken by the relevant authorities to recover the money so paid to the private parties even lapse of 5 years. Further, the Committee on Public Accounts directed the Chief Accounting Officer on 07 September 2017 pursue action in accordance with the legal

advice as the matter had already been referred to the Attorney General's Department for seeking legal advice.

- d) One cheque to the value of Rs. 1,839,239 had been written during the year under review by the Department of Health Services without completion of the construction works of the Bio Medical Engineering Unit.

### **6.3 Apparent Irregularities**

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The following observations were made.

- (a) According to the Circular No. PD/BP/9 dated 01 June 1999 issued by the Ministry of Provincial Councils and Local Government, the implementation of establishment matters the officers of the Provincial Public Service should as far as possible in accordance with the procedures relating to the officers in the corresponding posts of the public service. In contrary to the provisions in this Circular, the Chief Secretary had issued another Circular to pay monthly electricity charge of Rs. 3,500 and rent of Rs. 15,000 for each Secretary from the Funds of the Provincial Council. In this regard, the Committee on Public Accounts had directed the Accounting Officer on 07 November 2017 to look into the matter and implement decisions not to be contrary with the provisions of the Establishment Code and Financial Regulations as far as possible.
- (b) Department of Sports had purchased 4368 sports items to the value of Rs. 3 million during the year 2016 in order to distribute among the sports clubs in the Northern Province. However, no evidence were made available in audit for the distribution of those sports items among the sports clubs.
- (c) A sum of Rs. 1,000,000 given to the Provincial Council by the Department of Sports Development during the year under review had been retained in the deposit account of the Provincial Department of Sports without executing the relevant activities.

### **6.4 Uneconomic Transactions**

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Even though the, Department of Co-operative Development has an own building facility with 20 rooms at Poonthodam, Vavuniya, a sum of Rs.2,700,000 had been spent as rental from the

Provincial Fund during the year under view and previous 7 years by the Co-operative College, Vavuniya for a private building obtained on rental basis for the purpose of functioning the College.

## 6.5 Assets Management

### Idle and Underutilized Physical Resources

The following observations are made

- (i) Physical resources of a Provincial Ministry and ten Departments were allowed to be idle or underutilized during the year under review as analyzed below.

<b>Name of the Organization</b>	<b>Category of Assets</b>	<b>Number of Units</b>	<b>Value</b>	<b>Idle or Underutilized Period</b>
			<b>Rs.</b>	
Department of Agriculture	Vehicles	07	325,000	Over 03year
	Trailers	04	95,000	Over 05 years
	Water pumps	09	112,000	Over 03 years
	Machineries	02	Value not made available	Over 06 years
	Other assets	01	-do-	Over 04 years
Department of Animal Production and Health	Machineries	16	3,694,432	Over 03 years
	Buildings	06	35,798,794	Over 02 years
	Goat shed and Poultry shed	04	4,695,830	Over 01 year
	Vehicles	09	Value not made available	Over 05 years
	Equipment	1496	4,057,993	Over 02 years
	Generators	05	Value not made available	Over 03 years
Department of Land Commissioner's	Quarters			
	- Vavuniya	10	-do-	-do-
	- Mannar	06	-do-	-do-
	- Kilinochchi	30	-do-	-do-
	- Mullaithivu	44	-do-	-do-

	- Jaffna	01	-do-	-do-
Department of Probation and Child Care Services	Other Assets	25	955,000	Over 02 years
	Buildings	03	16,293,659	Over 02 years
Department of Rural Development	Building - Food and Handicraft Cottage	01	3,000,000	Over 06 months
Ministry of Education and Cultural Affairs	Motor Vehicles	03	Value not made available	Over 03 years
Department of Education	Lands & Buildings of the Closed school	90	-do-	10 - 15 years
	Motor vehicles	15	-do-	Over 02 years
	Other assets	517	-do-	Over 02 years
	Classrooms buildings	03	6,513,716	Over 06 months
Department of Local Government	Unserviceable articles	34	Value not made available	Over 04 years
Department of Health Services	Motor Vehicles	25	-do-	Over 08 years
	Unserviceable Articles	190	-do-	Over 3 – 5 years
	Dialysis Machines and Various type of accessories	08	43,989,506	Over 06 months
Department of Industries	Almyrahs	04	Value not made available	Over 02 years
	Handlooms	12	-do-	-do-
	Machineries	12	-do-	Over 01 year
	Water pumps	03	-do-	Over 01 year
	Others	09	-do-	Over 02 years
Deputy Chief Secretary – Planning	Overhead projector	02	-do-	-do-

- (ii) Fourteen markets and fourteen other capital works constructed by using Provincial Specific Development Grant to the value of Rs. 12.46 million and Rs. 229.69 million respectively were allowed to be idled without being utilized for intended purpose for over 2 years due to various reasons.



- (iii) Physical resources of three Advance Account Activities also were idle or underutilized during the year under review.
- (iv) Nine Hemodialysis machines and other various type of accessories valued at Rs.107,482,000 had been purchased by the Regional Directorate of Health Services Jaffna, Mullaithivu, Mannar and Vavuniya on 19 December 2016 and supplied to 09 hospitals on 27 January 2017. Even though 200 chorionic kidney disease patients had been reported during the first half year of 2017 in each Hospital, action had not been taken to make utilize these equipment effectively. Further, these were allowed to be idle during over last 07 months due to non-availability of trained human resources and lack of area spaces in the above Hospitals including building facilities.
- In this connection, the Medical Superintendent of the Base Hospitals stated that” the medical equipment supplied without being request by the hospital as such the machine cannot be operate without being appoint a Consultant and 03 Medical Officers, 03 Nurses and 03 Minor Employees with a provision of adequate training”.
- (v) Meaningful action had not been taken by the Provincial Council to obtain the ownership of several vehicles donated by Line Ministry and Non-Governmental Organizations.
- (vi) Major part of lands owned by the Provincial Department of Indigenous Medicine had been allowed to be idle without being utilized for Herbal Garden Projects . Details are given below.

<b>Location of Land</b>	<b>Total extent of land</b>	<b>Idle land</b>
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	<b>In acre</b>	<b>In acre</b>
Navakeri	03	01
Kalmadunagar	100	40
Naruvilikulam	05	05
Yogapuram	05	05
Nayinamadu	<u>05</u>	<u>02</u>
<b>Total</b>	<b><u>118</u></b>	<b><u>53</u></b>

- (vii) Nine Industrial Centers of handlooms and coir industry had been allowed to be idle by the Department of Industry since 2015.
- (viii) Even though 53 Schools in the Northern Province had been closedown due to various reasons, lands, buildings, furniture and other assets of those schools had not been used for any other purposes.
- (ix) Thirty two Development works such as children parks, markets, bus terminal, shopping complex, training centre and cultural hall, etc. constructed at a total cost of Rs. 459.91 million in remotes and less populated areas from the Fund of the North East Local Services Improvement Project had remained idle over 03 years. Further, the shopping complexes constructed at Thailaimannar Railway Station, Iranai Illuppaikulam, Periyamadu and Andankulam and a indoor stadium and cultural hall constructed in the premises of the Nallur Pradeshiya Sabha had not been utilized for intended purposes for over 3 years.
- (x) Several market buildings including under mentioned 3 markets constructed at a cost of Rs. 39,699,199 in Jaffna District had not been utilized for the intended purpose due to constructions were located at improper places which are not suitable for market.

<b>Name of the Market</b>	<b>Pradeshiya Sabaha</b>	<b>value</b>	<b>Period of Idle</b>
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		<b>Rs</b>	<b>in months</b>
Thuraiyoor Fish Market	Velanai	10,299,852	42
Muththaveli Market Complex	Velanai	16,729,347	6
Velanai Market	Velanai	<u>12,670,000</u>	24
		<b><u>39,699,199</u></b>	

## **6.6 Identified Losses**

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The following observations are made.

- (i). Final reports in terms of Provincial Financial Rule 70(5) had not been furnished by 04 Provincial Departments in respect of losses amounting to Rs.49,059,804 occurred during the year 1999 to 2016. Details are given below.

<b>Name of the Departments</b> -----	<b>Number of Losses</b> -----	<b>Amount</b> -----
		<b>Rs.</b>
Agriculture	05	98,259
Animal Production & Health	10	17,554,713
Irrigation	09	21,761,867
Health Services	<u>11</u>	<u>9,644,965</u>
	<b><u>35</u></b>	<b><u>49,059,804</u></b>

- (ii). Action on loss of 10 vehicles and 02 machineries occurred during the period of war had not been taken by the Department of Agriculture up to now.

## **6.7 Contract Administration**

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The following observations are made.

- (a) Considerable period of delays in completion were observed with regard to construction works of Handloom Industrial Complex to the value of Rs. 2,785,495 at Pandiyankulam, Mullaitivu. However, penalties/liquidated damage had not been imposed in term of paragraph 8.14.1 of the Government Procurement Guidelines.
- (b) Deficiencies such as non-deduction of liquidity damage, poor quality of construction works, payment made without completion of BOQ items were observed and reported to the management on the following works.

<b>Name of the Works</b> -----	<b>Amount</b> -----
	<b>Rs. Mn</b>
Cultural Hall, Vavuniya Singala Pradeshiya Sabha	6.71
New office building Vavuniya Singala Pradeshiya Sabha	4.90
Mamylumkulam Transformer Road Vavuniya Singala Pradeshiya Sabha	1.65
New office building Vavuniya Singala Pradeshiya Sabha	14.90
Children Park Vavuniya, UC	<u>8.00</u>
	<b><u>36.16</u></b>

- (c) Construction works carried out for renovation of playground at Kayts completed after intended completion period of 85 days. In this connection liquidated damage of Rs.171,253 had not been recovered from the contractor by the Department of Sports.

## **6.8 Delays in Distribution of Goods**

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Items purchased during the year under review to the value of Rs. 2,109,204 from the Provincial Specified Development Grants and Criteria Based Grant had not been distributed among the beneficiaries until 20 January 2017 by the Department of Rural Development.

## **6.9 Weaknesses in Implementation of Project**

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### **(a) Cheques written without Commencement and Completion of Construction Works**

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Construction of Kabadi Court had been estimated at a cost of Rs. 5 million at Vavuniya District. However, before the commencement of construction works, three cheques for Rs.3,014,206 had been written by the Department of Sports to meet the expenditure. One cheque to the value of Rs. 1,786,341 had been subsequently credited to the revenue account on 14 September 2016 and other two cheques written for said work had been kept in the deposit accounts without being utilized for the intended purposes. This Kabadi Court had not been constructed even up to the date of this report.

### **(b) Ineffective Operation of Breeding Farm**

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Under the special project for promoting livestock development in the Northern Province, Aninchainkulam breeding farm had been established in a land with extent of 50 acres in 2013 with the objective of produce optimum number of heifers and stud bull calves and goats. It was further expected to produce about 36,000 liter of milk and 25MT of meat annually in order to contribute to the national economy. However, the Farm had not been effectively functioned as 17 cows and 08 calves only were available at Farm. In the meantime 08 cows were killed by wild animals as this Farm is situated near the forest area.

The instrument to get milk had been purchased at a cost of Rs. 3.7 million in 2003 could not be used by the Farm and allowed to be idled. A sum of Rs. 245,460 collected as revenue for the year under review whereas an expenditure of Rs. 4,632,674 had been incurred for the Farm

activities. As a result, a sum of Rs. 4.4 million had been lost to the Farm. A goat shed also had been constructed to the value of Rs. 1.2 million. However, no goats were made available in the shed. Further, more valuable trees removed from the land area to establish the Farm were not made available for audit inspection. In this regard no records were maintained for valuable uncounted trees by the office.

## **6.10 Observations on Foreign Funded Projects implemented in the Northern Province**

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### **6.10.1 Northern Road Connectivity Project (NRCP)**

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The following observations are made.

- (i). It was expected to spend Rs 3,530.8 million, for the construction of provincial road with an extent of 153.31 km. However, only 147.65 km had been constructed during the project period.
- (ii). Revised Estimate was exceeded the original estimate from 2 to 11 per cent during the project period. However, the reason for the revised estimate had not been adequately explained. Details are given below.

<b>Package No.</b>	<b>Original Estimate (BOQ)</b>	<b>Revised Estimate (BOQ)</b>	<b>Percentage of Increase</b>
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	<b>Rs.</b>	<b>Rs.</b>	
NP 01	369,700,453	408,861,959	11
NP 03	331,858,549	337,782,743	02
NP 05	348,787,303	400,388,413	15

In this regard the Project Director had stated that “the details design submitted by the contractor had been approved by the supervision Consultant after award of the contract”.

### **6.10.2 North East Local Services Improvement Project (NELSIP)**

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The following observations are made

- (i). Out of the project fund aggregating Rs.775 million released to 34 Local Authorities in the Northern Province, a sum of Rs. 13.8 million had remained unspent and kept in

hands by respective Local Authorities as at 31 December 2016. However, this amount had been shown in the financial statements as expenditure incurred by the Project.

- (ii). Three years of delays in completion of the construction of Muththaveli Market were observed.
- (iii). Issues on Financial Control
  - Expenditure aggregating Rs.90,591,729 had been charged under Infrastructure Service Delivery component. Subsequently that expenditure was surcharged during the project period without given any reason.
  - A sum of Rs.6,117,905 had been paid out of the project fund by the Point Pedro Urban Council to remove the waste water released by the general public. However, the approval had not been obtained from the donor agency for this purpose.
- (iv). Value Added Tax (VAT)
 

VAT aggregating Rs. 3,168,012 paid by 05 Pradeshiya Sabha of the Northern Province for civil works without confirm the validity of VAT registration numbers of the contractors ,Subsequently it was revealed those numbers were inactive.

## 6.11 Human Recourses Management

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Information relating to approved and actual cadre of the Provincial Council as at 31 December 2016 is shown below.

### 6.11.1 Ministries/ Departments of the Provincial Council other than Schools

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Category of Staff	Approved Cadre	Actual Cadre	Vacancies
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Senior Level	1,769	1,216	553
Tertiary Level	1,625	979	646
Secondary Level	23,005	21,439	1,566
Primary Level	<u>8,580</u>	<u>8,388</u>	<u>192</u>
	<b><u>34,979</u></b>	<b><u>32,022</u></b>	<b><u>2,957</u></b>

The following observations are made in this regard.

- (a) The Provincial Council had not taken action to fill 2,957 vacancies falling to Administrative Service, Planning Service, Technical Service, Educational Administrative Service, Scientific Service, Librarian Service, Development Officer and Management Assistants Services.
- (b) Provincial Department of Revenue is functioning without being appointed professionally competent Officer or Commissioner who should be in the Sri Lanka Inland Revenue Service.
- (c) Five Grade I Officers of Sri Lanka Administrative Service had been paid salaries for the period ranging between 2 to 6 months without performing any duties in the Provincial Council or elsewhere.
- (d) Three Provincial Engineer Service Officers were appointed without being obtained the approval from the Department of Management Services.
- (e) Fifty staff members recruited and working in the Provincial Council. However, these officers were not comes under any category of service.

#### 6.11.2 Staff of the School Education Sector

Excess and shortage of Principal and Teachers had existed at the office of Provincial Director of Education (PDE) and Zonal Directors of the Education. However action had not been taken to deploy the excess cadre to fill the shortage cadre within the Province. The Details of cadre position as at 31 December 2016 are given below.

Districts	Approved Cadre		Actual Cadre		Vacancies		Excess
	Principal	Teachers	Principal	Teachers	Principal	Teachers	Principal
Jaffna	551	8,839	561	7,740	-	1,099	10
Kilinochchi	147	2,294	96	2,008	51	286	-
Mannar	158	2,258	97	1,769	61	489	-
Vavuniya	215	2,770	198	2,242	17	528	-
Mullaitivu	149	2,277	102	1,815	47	462	-
<b>Total</b>	<b>1,220</b>	<b>18,438</b>	<b>1,054</b>	<b>15,574</b>	<b>176</b>	<b>2,864</b>	<b>10</b>

The following observations are made in this regard

- a) No action had been taken to fill 2864 vacancies in posts of teacher and 176 vacancies in the posts of principal in five Districts.
- b) Although National School of Sampath Nuwara Maha Vidhyalaya is not under the preview of the Northern Province, approximately Rs. 2,000,000 had been paid as salaries from the Provincial Fund to 44 teachers and other staff working in the above school.

### 6.11.3 Staff of the Health Sector

Excess and shortage of health officers had existed at the office of Provincial Director of Health Services (PDHS) and Regional Director of the Health Services (RDHS). However, action had not been taken to deploy the excess cadre to fill the shortage cadre within the Province. The details of cadre position as at 31 December 2016 are given below.

Districts	Medical Officer			Dental Surgeon			Nursing Services		
	Approved	Actual	Vacancies	Approved	Actual	Vacancies	Approved	Actual	Vacancies
Jaffna	218	165	53	37	24	13	246	210	36
Kilinochchi	107	85	22	13	10	03	122	91	31
Mullaitivu	123	69	54	11	07	04	112	93	19
Vavuniya	124	75	49	17	12	05	128	121	07
Mannar	<u>149</u>	<u>133</u>	<u>16</u>	<u>14</u>	<u>20</u>	<u>(06)</u>	<u>218</u>	<u>201</u>	<u>17</u>
	<b><u>721</u></b>	<b><u>527</u></b>	<b><u>194</u></b>	<b><u>92</u></b>	<b><u>73</u></b>	<b><u>19</u></b>	<b><u>826</u></b>	<b><u>716</u></b>	<b><u>110</u></b>

The following observations are made.

- (a). Out of 119 approved cadre for consultant as at 31 December 2016, 65 consultants are only working in the Province.
- (b). Out of 721 approved cadre for Medical Officers, 527 Medical Officers are only working as at 31 December 2016. As a result, several peripheral Hospitals are functioning without a single MBBS Medical Officer.



- (c). Several shortages of Nursing Officers are observed in major hospitals. Out of 826 approved posts only 716 Nursing Officers are being working in the Province as at 31 December 2016.
- (d). Out of 92 approved posts for Dental Surgeons, 73 Dental Surgeons are only working as at 31 December 2016. As a result 19 vacancies in the Province still not filled.
- (e). Action had not been taken to fill 42 Sri Lanka Ayurveda Medical Service Officers.

#### **6.12 Utilization of Motor Vehicles**

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 The following observations are made.

- (a) Two vehicles attached to the Provincial Department of Health Services met with accidents during the year 2016. These vehicles had been repaired at a cost of Rs. 788,450 by Provincial Department of Health Services during the year under review. Out of this an amount of Rs.277,285 only had been received as insurance claim. However, meaning full action had not been taken by the Department to determine the losses on accident amounting to Rs. 511,165 in terms of Financial Regulation 104 and 110.
- (b) Most of the vehicles had been handed over to garages for repairs over period ranging from one to five years by Regional Director of Health Service, Mannar, Vavuniya, Killinochchi, and Mullaitivu.

#### **6.13 Bank Reconciliations**

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 Action had not been taken by the Department of Health in respect of two un- presented cheques valued at Rs. 73,474 over six months in terms of Provincial Financial Rule 237.

#### **6.14 Supervision over the Affairs of the Local Authorities**

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 The following observations are made.

Instances of qualified audit opinion on the financial statements of the Local Authorities are given below.

<b>Districts</b>	<b>Number of Local Authorities</b>	<b>Number of qualified audit opinion expressed on the Financial Statements</b>
Jaffna	17	17
Mulithivu	04	04
Kilinochchi	03	03
Vavuniya	05	05
Mannar	<u>05</u>	<u>05</u>
	<b><u>34</u></b>	<b><u>34</u></b>

The major observations in the Auditor General's report issued to the respective Local Authorities are summarize are shown below.

a) Unutilized Fund

Sums aggregating Rs. 1,367,448,670 had been kept in the fixed deposit by 34 Local Authorities without being utilized for development works.

b) Renovation of Pigeon Nest

A sum of Rs. 1,292,854 had been allocated in 2015 for the renovation of Pigeon Nest in Delft. Out of that, an amount of Rs. 612,401 only had been spent for this works without being obtained approval from the Department of Archeology. The balance works had not been completed even up to 10 April 2018.

c) A children park had been constructed during the year 2016 under the "One Million Project" by Vali North Pradeshiya Sabha in a private land without being obtained permission from the owner of the land. However, the completed Children's Park had not been used for the intended purpose for over 2 years. In this connection Chief Secretary of the Council had stated that "judgment is in pending as Naguleswaram Temple Trustees had filed the case in Mallakam Court regarding the public access.

d) Appointments and Salary payments made by the Municipal Council

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The following observations are made.

- (i). A Veterinary Surgeon had been appointed on 20 March 2014 on contract basis by the Municipal Council without being obtained prior approval from the Public Service Commission. However, the Commissioner of Local Government Northern Province had been instructed to terminate appointment. Nevertheless, the appointment was continued up to 23 March 2015 and a sum of Rs.419,215 had been paid as salary for this officer.
  - (ii). An Engineer had been appointed for supervision of capital works of the Municipal Council by the Provincial Public Service Commission for the period of 01.09.2014 to 15.02.2015 on contract basis at a salary of Rs. 35,297 per month. However, his service is continuing up to 13 October 2015 without obtaining the approval and a sum of Rs.421,254 had been paid as salary for this un-authorized period. Further, a sum of Rs.294,840 had been spent for transport facility provided to the officer.
  - (iii). Seven electricians had been appointed based on the interview held without considering the required professional and education qualifications stipulated in the Service Minutes of Semi-skilled Employee's Service. Further, it was observed that out of 36 shortlisted applications, 23 applications were rejected, even though they were eligible for the interview as per the newspaper advertisement published in this connection.
  - (iv). Although ten Fire Extinguishers were appointed in 2014 by the Municipal Council Jaffna, required qualifications had not been fulfilled by the three Extinguishers according to Section 16.3 of Service Minutes of Provincial Fire Extinguishers Service.
- e) Cash fraud of Rs.2,934,429 had been committed by Management Assistant of the Municipal Council, Jaffna during the year under review. However, a sum of Rs. 320,000 only had been recovered from this officer.

- f) Sums of Rs. 21,653,627 and Rs. 65,150,000 had been deposited in the fixed deposits of private Bank and the National Savings Bank respectively by the Municipal Council, Jaffna which was situated out of the authorized area of the Municipal Council.
- g) Physical resources under the several Local Authorities in Jaffna District were allowed to be idled or underutilized as analyzed below.

<b>Category of Assets</b>	<b>Number of Units</b>
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Land and Buildings	05
Vehicles	<u>14</u>
	<u><b>19</b></u>

- h) Twenty nine unrealized cheques valued at Rs. 28,998 had been transferred to deposit account without being remitted to Government revenue by the Poonakary Pradeshiya Sabha.
- i) The office building of the Manthai Pradeshiya Sabha constructed in 2004 by the North East Rehabilitation Housing Project had been renovated at a cost Rs. 4 million in years 2009, 2011, 2013 and 2015. Subsequently, this building was reconstructed by spending Rs. 23.19 million under the “Puraneguma Project”, after demolished the old building. Removed items which were unusable condition had not been scheduled and handed over to the stores of the Pradeshiya Sabha.
- j) Four type of charges such as issue of development licenses, initial plan approval, issue of conformity certificates and covering approval had to be recovered in respect of telecommunication towers constructed in the territory areas belongs to the Local Authorities in Northern Province. However, those charges had not been recovered based on the assessment and brought to the accounts in terms of Gazette Extraordinary Notification No. 1597/8 of 17 April 2009.
- k) Action had not been taken to recover the advertisement charges from the several advertisements displayed in the authority areas of the Local Authorities in the Northern Province.

- l) Arrears income totaling Rs. 1,867,898,761 to be recovered from 34 Local Authorities of the Northern Province had remained unrecovered even up to 31 December 2016.
- m) Rates and Taxes had not been recovered from 02 unlicensed famous Tourist hotels operated in the authorized area of the Municipal Council, Jaffna.
- n) Rent recoverable from bus halts had not been recovered from Ceylon Transport Board of the Northern region by the Urban Council, Chavakachcheri.
- o) Charges for 32 transmission towers established by the private companies within the authority area of 07 Local Authorities in Jaffna District had not been collected.
- p) Action had not been taken by Municipal Council, Urban Councils and 03 Pradeshiya Sabhas in respect of debtors aggregating Rs. 813,854 remained unrecovered during the year under review.
- q) Action had not been taken to collect arrears of lease rental of Rs. 1,014,069 recoverable from lease of land for the periods of 2013 to 2016.

## **7. Accountability and Good Governance**

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### **7.1 Action Plan**

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The Provincial Council, 05 Provincial Ministries and 27 Provincial Departments had not prepared Action Plans for the year under review in terms of the National Budget Circular No. 128 of 24 March 2006.

### **7.2 Internal Audit**

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Internal Audit Unit had not established by five provincial Departments according to the Audit and Management Circular No. DMA/2009(i) dated 09 June 2009 and PFR 98.

### **7.3 Audit and Management Committee**

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The Audit and Management Committee should meet at least once in a quarter in terms of paragraph 06 of the Management Audit Circular No. DMA/2009(I) dated 09 June 2009.

However, six Departments had not conducted even a single meeting of the Audit and Management Committee during the year under review.

#### **7.4 De-merger of the North East Provincial Council**

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Then North East Province was de-merged on 22 December 2006 based on the ruling given by the Supreme Court of the Democratic Socialist Republic of Sri Lanka. However, a Gazette Notification regarding the de-merger and the establishment of the Northern Provincial Council had not been published even up to 31 December 2016. The elected Northern Provincial Council was established on 25 October 2013 after completion of 7 years from the de-merger of the then North East Provincial Council.

#### **7.5 Annual Performance Report**

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In terms of PFR 257.2 and Provincial Financial Circular No PF/AP/01/2017 dated 12 January 2017 issued by the Chief Secretary to the Northern Province, Annual Performance Report on the activities in the year 2016 had not been prepared and rendered for audit by 01 Ministry and 04 Departments.

#### **7.6 Un-rectified Audit Paragraphs**

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The following observations are made.

(a) **Un rectified Matters reported on the Previous Year's Audit Reports.**

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No meaningful action had been taken by the relevant authorities to rectify the several irregularities pointed out in my audit reports issued in previous years.

- (i) Payment made for the purpose of livelihood of the families of special needs required to the political detainees, rehabilitated detainees and LTTE cadre died on civil war Rs. 43 million.
- (ii) Irregular salary payment of Rs. 105,345 made by the Zonal Education Office, Valikamam.
- (iii) Irregular appointments to the Sri Lanka Education Administrative Service Grade – II and Sri Lanka Teachers Service.

- (iv) Fraudulent payment of Rs. 4,418,506 made under the North East Local Services Improvement Project.
  - (v) Three cheques valued at Rs. 813,600 written and kept in the deposits account by the Regional Director of Health Services, Vavuniya without being delivered to the relevant parties even up to 25.05.2016.
  - (vi) Eight cheques valued at Rs. 9,630,004 written by the Department of Buildings and kept in deposits account even up to 31.03.2016 without being delivered to the relevant parties.
  - (vii) Non remittance of pension contributions amounting to Rs. 1,840,390 by the Local Authorities in Mannar District to the Director of Pension.
  - (viii) Losses on vehicle accident amounting to Rs. 1,735,000 at Mannar Education Zone.
- (b) Actions on directives given by the Committee of Provincial Public Accounts on 09 June and 17 June 2017 had not been taken by relevant authorities on the following issues.
- (i) Identified losses of Rs. 17,554,713.
  - (ii) Irregular procurement of 10 tractors and 05 trailers Rs. 4,425,000.
  - (iii) Non-submission of list of beneficiaries and detailed reports with regard to supply of sewing machine by Provincial Department of Rural Development.
  - (iv) Admission fees collected by J/Hindu Primary School Rs. 2.4 million.

## 8. Systems and Controls

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

- (i) Revenue Administration – Revenue estimate had not been prepared as an effective instrument.
- (ii) Contract Administration – Non completion of works within the contract period.
- (iii) Utilization of Vehicles – Accidents were not reported to Auditor General.
- (iv) Control on Fixed Assets – Assets utilization and maintenance of fixed assets were very poor.
- (v) Internal Audit – Internal Audit Unit had not been established in several Provincial Departments.