

The audit of financial statements of the North Central Provincial Council for the year ended 31 December 2017, comprising the statement of financial position as at 31 December 2017 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.

**1.2 Management's Responsibility for the Financial Statements**  
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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Provincial Council'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 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

#### **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 had been presented to audit on 31 March 2018.

##### **2.2.2 Other Accounts**

The progress of presentation of other accounts of the Provincial Council by 31 July 2018 relating to the year under review is given below.

	<b>Total Number of accounts</b>	<b>Number of accounts presented</b>
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(i) Appropriation Accounts	31	31
(ii) Revenue Accounts	20	20
(iii) Advances to Provincial Council Public Officers Accounts	33	33
(iv) Commercial Advance Accounts	06	06
(v) Other Fund Accounts	06	06
(vi) Statute Accounts	05	05
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Total	101	101
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### **2.2.3 Accounting Deficiencies**

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The following matters were observed.

- (a) The value of all non-current assets and the value of all works in progress, purchased from the Provincial Council Fund from the inception of the Provincial Council to the end of the year under review had not been disclosed in the financial statements. Without being disclosed such information as opening balances, additions during the year, disposals during the year, revaluations, accumulated depreciation and the net value of the total non-current assets disclosed as Rs.21,643,314,217 in the financial statements had been stated only at cost.
- (b) Even though, income from sale of used vehicles and equipment amounting to Rs.17,341,221 had been shown in the financial statements of the year under review under non-tax revenue, the cost and the accumulated depreciation of those assets had not been adjusted as required. Nevertheless, according to the non-current assets movement reports in the appropriation accounts of the Ministries and Departments, non-current assets valued at Rs.19,226,118 had been disposed of.

- (c) Interest income on investments, receivable totalling Rs.28,882,957 relating to 2 fixed deposit accounts had not been shown in the financial statements.

#### **2.2.4 Unreconciled Control Accounts**

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The following matters were observed.

- (a) Differences totaling Rs.13,661,198 had existed between the balances existed in 2 items of Advances to Provincial Public Officers Account and the balances shown in the financial statements.
- (b) Even though, the capital liabilities relating to 2 Departments according to the financial statements amounted to Rs.7,841,822 such liabilities had been shown as Rs.39,385,858 in the appropriation accounts of the relevant Departments, and as such an un-reconciled difference of Rs.31,544,036 was observed.
- (c) According to the appropriation accounts presented by each Ministry/ Department, the value of opening balances of the Infrastructure, Plant and Equipment and Land and buildings amounted to Rs.3,185,604,511 and Rs.13,577,268,204 respectively but according to the financial statements such balances amounted to Rs.3,294,602,112 and Rs.3,132,938,265 respectively. Therefore, there were differences of Rs.108,997,601 and Rs.10,444,329,939 respectively.
- (d) According to the financial statements, the total closing balances of Infrastructure, Plant and Equipment and Land and buildings amounted to Rs.2,613,215,248 and Rs.19,030,098,969 respectively but according to the appropriation accounts presented by each Ministry/ Department such balances amounted to Rs.3,701,073,643 and Rs.24,324,341,174 respectively. Therefore, differences of Rs.1,087,858,395 and Rs.5,294,242,205 respectively had existed.

### **2.2.5 Accounts Receivable and Payable**

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The following matters were observed.

- (a) A credit balance of Rs.1,984,636 relating to 4 advances to Provincial Public officers accounts and a debit balance of Rs.44,574 brought forward for more than 8 years and sufficient evidence to ensure the accuracy of those balances was not made available to audit. Even though, the Provincial Treasury had taken action to settle them, only a credit balance of Rs.87,615 had been settled in the year under review.
- (b) The total credit balance of 6 advances to Provincial Public Officer accounts and the total credit balance of 2 Commercial advance accounts as at 31 December of the year under review amounted to Rs.2,129,729 and Rs.1,150,440 respectively and the credit balances of advances to Provincial Public Officers account thereof had been brought forward for periods more than 3 years.

### **2.2.6 Imprest Accounts**

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The following matters were observed.

- (a) Debit balances of imprest accounts not settled by 7 Ministries/ Departments as at 31 December 2017 totalled Rs.39,083,855 and the imprest credit balance not settled by the Provincial Department of Health amounted to Rs.56,293.
- (b) Imprest debit balances not settled by 5 Provincial Ministries/ Departments amounting to Rs.35,380,111 brought forward from more than 3 years, out of which a sum of Rs.26,405,861 had related to the Chief Ministry and it had been older than 8 years.

### **2.2.7 General Deposit Accounts**

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The following matters were observed.

- (a) Balances of general deposit accounts of the Provincial Department of Probation and Child Care Services and the Provincial Department of Social Services as at 31 December 2017 totalled Rs.603,771 and Rs.4,542,731 respectively. Action in terms of Financial Regulation 571 had not been taken in respect of balances totalling Rs.128,259 and Rs.790,689 respectively thereof, lapsed for more than 2 years. In addition, sums of Rs.382,702 and Rs.667,762 given by other Departments and external persons for various purposes respectively had been retained in the general deposit account without being performed the relevant purposes.
- (b) Balances of unsettled general deposit accounts in 29 Divisional Secretariats totalled Rs.61,134,053 and the balances lapsed for more than 2 years totalled Rs.814,207.

### **2.2.8 Lack of written evidence for audit**

#### **Unreplied Audit Queries**

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The following matters were observed.

- (a) Replies to 22 audit queries, the computable value of transactions totalling Rs.1,032,458,569 issued to 5 institutions of the Provincial Council relating to the year under review and 2 audit queries, the computable value of transactions amounted to Rs.980,782 relating to the previous year had not been presented even by August 2018.
- (b) Replies to 13 audit queries issued to the Provincial Director of Irrigation by the Provincial Internal Audit and Investigation Department had not been presented even by August 2018 and the Register of Audit Queries had not been updated after 10 November 2017.

## 2.2.9 Non – compliances

### 2.2.9.1 Non – compliance with Laws, Rules, Regulations and Management Decisions

Instances of Non-compliances with Laws, Rules, Regulations and Management Decisions are given below.

<b>Reference to Laws, Rules etc.</b>	<b>Value</b>	<b>Non-compliance</b>
(a) Provincial Councils Act No.42 of 1987	4,227,019	Contrary to the Provincial Councils Act, posts such as leader of the Council, Leader of the opposition, Chief Organizer of the government wing, Chief Organizer of the opposition wing had been created and given special privileges, transcendent to a Provincial Councillor and allowances totalling Rs.4,227,019 had been paid to them relating to the period from 01 January to 30 September 2017. A total sum of Rs.30,007,143 had been paid relating to the previous 5 years period, as well for those privileges.
(b) Financial Rules of the North Central Provincial Council		
(i) Rule 54.4	-	Even though, 4 months to 3 years and 9 months had elapsed after being occurred 33 accidents to 22 vehicles belonging to 3 Departments, action had not been taken to conduct preliminary investigations, determine the responsible officers and to take action in respect of losses. Action had not been taken to reimburse the value of these losses from the insurance company as well, even by 15 June 2018.

(ii) Rule 169.1	727,825	Payments on 29 vouchers not certified had been made by the Provincial Department of Probation and Child Care Services.
(iii) Rule 259	26,550,411	Mobilization advances paid by the Chief Ministry in the year 2010 for the rehabilitation of tanks had not been settled even by the end of the year 2017.
(iv) Rule 283.4	196,678	Action in respect of 8 cheques issued and lapsed for more than 6 months shown in the bank reconciliation statements of the Provincial Department of Social Services and the Provincial Department of Probation and Child Care Services, had not been taken.
(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.		
Financial Regulation 571(2)	5,119,243	The Provincial Department of irrigation had not taken action in respect of 55 lapsed deposits.
(d) Public Administration Circular No.24/2014 of 12 November 2014.	-	A sum of Rs.27,244,074 had been paid as interim allowances to the personnel staff of Ministers and officers of the Provincial Council including 33 Provincial Councillers relating to the period November 2014 to September 2017, with the approval of the Governor.



- (e) Circular No.2014/01 dated 28 January 2014 of the Provincial Public Service Commission. - The change of station transfer procedure had not been applied relating to 23 officers attached to the Anuradhapura Ayurveda Hospital during the period ranging from 5 to 32 years.

### **2.2.9.2 Non-compliance with tax requirements**

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In terms of paragraph 6 of the Circular No.SEC/2015/05 dated 06 July 2015 of the Commissioner General of Inland Revenue, 'PAYE' tax from the officers of the Provincial Ministry of Irrigation, Land, Rural Development and Women Affairs, Provincial Department of Education, Provincial Department of Probation and Child Care Services and Provincial Department of Social Services whose monthly remunerations exceeded Rs.62,500 had not been deducted from their salaries and remitted to the Commissioner General of Inland Revenue.

### **3. Revenue Management**

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A revenue of Rs.3,661,269,184 had been collected under revenue code 21 relating to the revenue head 5 during the year under review by the Provincial Council. When it is compared with the revenue of Rs.3,553,017,374 in the previous year, an improvement of Rs.108,251,810 was indicated. Similarly, the revenue under the revenue code 21 during the year under review, represented 16 per cent of the total revenue of the Provincial Council but it had been 18 per cent in that previous year.

The following matters were observed in that connection.

- (a) Even though, 26 years had elapsed since the establishment of the Provincial Council, a statute to levy fees had not got approved when the pawning centres, located within the area of Provincial Council are regularized and registered and issuing annual licenses.

- (b) As the Provincial Land Commissioner's Department had not maintained registers, containing the particulars of extent of taxable lands and the taxable value of land income, the land tax revenue could not be specifically estimated and the arrears of land tax as at the end of the year could not be calculated.
- (c) A register of liquor license holders had not been prepared and maintained in an updated manner by the Provincial Department of Revenue.

#### **4. Financial Review**

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##### **4.1 Financial Results**

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According to the financial statements presented, a deficit of Rs.305,268,801 had existed in the Provincial Council Fund for the year ended 31 December 2017 as compared with the deficit of Rs.980,543,868 for the preceding year.

##### **4.2 Analytical Financial Review**

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Even though, the total expenditure including other expenses, salaries and wages and subsidies had increased by Rs.541,644,201 in the year under review as compared with the preceding year, increase of funds received from line Ministries and Departments and tax revenue by Rs.1,384,789,353 and Rs.157,968,470 respectively had mainly attributed to decrease the deficit by Rs.675,275,069.

#### **5. Statute Accounts/ Fund Accounts /Commercial Advance Accounts and Other Advance Accounts**

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##### **5.1 Statute Accounts/ Fund Accounts**

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###### **5.1.1 North Central Provincial Road Development Authority**

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The following matters were observed.

- (a) The Accountant of the Provincial Road Development Authority who had been dismissed from service was reinstated by stating faulty reasons by the Secretary to

the Chief Ministry and an acting General Manager had withdrawn an another formal inquiry being conducted against this Accountant by transcendent his powers. Furthermore, the Chief Secretary had issued a vehicle permit as well to him on concessionary basis during the year under review based on false information presented by the Authority.

- (b) Liabilities of Rs.14,600,772 had been committed by the Authority during the year under review without approved provisions.
- (c) Even though the Authority had collected Value Added Tax amounting to Rs.5,357,470 during the period from October 2015 to 31 December 2017, action had not been taken to remit such taxes to the Commissioner General of Inland Revenue being activated the value added tax file which had become inactive during that period.
- (d) Assets valued at Rs.95,960,400 belonged to other entities but used by the Authority had not been vested in the Authority and accounted.
- (e) Action had not been taken to recover balances of 8 receivable accounts totalling Rs.23,255,035 brought forward since several years and to settle 2 payable balances totalling Rs.1,501,250.

### **5.1.2 North Central Province Development, Construction and Machinery Agency**

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The following matters were observed.

- (a) The Value Added Tax totalling Rs.17,518,141 relating to the period 2003 to 2015 and the Goods and Service Tax totalling Rs.8,966,846 collected during the period 1999 to 2000 in terms of Goods and Services Tax Act No.34 of 1996 had not been remitted to the Commissioner General of Inland Revenue but retained instead. In addition, rates payable as at 31 December 2017 amounted to Rs.4,483,123.

- (b) A considerable extent of objectives stated in the statute No.11 of 1990 on the establishment of North Central Province Development Construction and Machinery Agency and the objective of creating a fund to provide money for certain other functions to be supportive to the Agency had not been executed.
- (c) Action had not been taken to repair or to dispose of 19 motor vehicles belonged to the Agency which had been subjected to natural calamity for the period of from 3 years to 16 years even by 24 April 2018.

### **5.1.3 Pre-childhood Education Development Authority**

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The following matters were observed.

- (a) Action had not been taken to settle pre-school teachers allowances of Rs.3,000,000 payable for the period of 3 months of the year 2014 even in the year 2017 and brought forward instead.
- (b) Action had not been taken to recover a sum of Rs.681,712 from the relevant party receivable from sale of newspapers in respect of the years 2014 and 2015 published by the Authority.
- (c) The Managing Director of the Pre-childhood Education Development Authority served during the period from 14 November 2013 to 19 March 2015 in the Authority had misappropriated teachers allowance of a sum of Rs.900,000 in October 2014 without making payments to teachers, but a preliminary inquiry had not been conducted in respect of this fraud even up to 24 April 2018. Similarly, without taking action in terms of Provincial Financial Rules 76.1.1 and 76.2.1, the Chief Accounting Officer and the Accounting Officer, his appointment had been disempowered and action had also not been taken to get back equipment valued at Rs.146,898 and 3 office files held in the custody of him.

#### **5.1.4 Provincial Industrial Development Authority**

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The following matters were observed.

- (a) The action plan prepared for the year under review irrespective of the targeted objectives of the Authority had been limited only to train entrepreneurs and provision of loan facilities.
- (b) Capital equipment valued at Rs.3,997,488 had been awarded to the registered entrepreneurs of the Authority under the loan scheme of 2010 and 2012. Even though, the recovery period in terms of agreements had lapsed for periods ranging from 2 to 6 years, the Authority was unable to recover the loan balance of Rs.1,319,860 therefrom even by 31 December 2017.
- (c) Of the loan of Rs.200,000 paid to 2 Entrepreneur Societies under the Industrial Entrepreneur Societies Strengthening Project, the outstanding loan balance and interest thereon as at 30 September 2018 was Rs.61,466 but appropriate action had not been taken to recover same.
- (d) Out of a sum of Rs.5.1 million received to the Authority in the year 2016 for the Industrial Villages Revolving Fund Project, loans of Rs.5,099,980 had been granted to Entrepreneur Societies, but only a promissory note had been signed as a security of the loan. Out of a loan of Rs.1,615,000 granted to one Entrepreneur Society, loan installements due as per the agreement were not recovered since July 2017.

#### **5.1.5 Provincial Chief Minister's Fund**

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Despite, provisions are not made by the statute relating to the Chief Ministers Fund for the supply of money from the expenditure heads, a provision of Rs.17,500,000 had been given under the expenditure head in the year under review.

## **6. Operating Review**

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### **6.1 Performance**

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#### **6.1.1 Education**

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The following matters were observed.

- (a) In addition, to the teachers, 322 teachers instructors and 72 subject Directors had been employed within the North Central Province by the Provincial Department of Education in the year 2017. A sum of Rs.26,500,000 under the Provincial Council and provision of Education Sector Development Project and a sum of Rs.73,234,107 under the Provincial Council and Central Government Provisions had been spent during the year 2017 for conducting in house sessions. Nevertheless, out of 19,455 students sat for the GCE (O/L) examination in the year 2017, 628 students had failed all subjects whereas out of 12,130 students sat for the GCE (O/L) examination, 1,188 students had failed all subjects. In addition, the total marks for all 2 papers obtained by 7,358 students out of 24,836 students sat for the year 5<sup>th</sup> scholarship examination had been at a level less than 70 marks.
  
- (b) In the implementation of the compulsory Education orders in terms of extraordinary gazette notification No.1963/30 of the Ministry of Education, the following observations are made.
  - (i) In terms of paragraph 4.2 of the gazette notification, reports in respect of students who had not admitted to a school, students subjected to risk of leaving the school and those who had not reached to the expected provable level to be appropriately submitted by school committees, supervisory committees, Competent Authority of the Provincial Department of Education and the Provincial Director of Education had not been submitted.

- (ii) There were 363 boys and 221 girls who did not go to school had been identified in 2017 in the North Central Province and only 135 boys and 67 girls of them had been referred for education as at 31 December 2017. A complete report in respect of taking future action of those children had not been obtained and the progress report to be sent to the Provincial Director of Education by the school supervisory Committees, 3 months after being schooled had not been sent.
  - (iii) Information about students who had not reached to the expected probative level which was a principle criteria of the compulsory Education Orders Implementation Project had not been reported by any zonal Education Offices whatsoever.
- (c) The construction works of the sanitary facilities Improvement Project, implemented in the schools of North Central Province on the Central Government provision of Rs.264,894,898 in the year 2017, should have been completed by 15 October 2017. However, the expected physical progress had not been reached even by 31 December 2017 and particulars are given below.
- (i) This project was implemented in 208 schools under type 'B' and it was observed that the physical progress of 78 schools, 88 schools and 20 schools had been only 40 per cent, 40 to 60 per cent and 60 per cent to 80 per cent respectively. The physical progress of only 42 schools was observed as 80 to 100 per cent.
  - (ii) This project was implemented in 27 schools under Type 'G' and the physical progress of 25 schools had been less than 80 per cent level and more than 80 per cent level had existed only in 2 schools.

- (iii) Under type 'BG' this project had been implemented in 46 schools and their physical progress had been less than 80 per cent in 35 schools and more than 80 per cent level had existed only in 11 schools.
- (d) The subject coverage of 68 graduates recruited to the Sri Lanka Teachers Service class 3(1)(a) for the Teachers vacancies in the North Central Province in the year 2016/2017 for teaching such subjects as Mathematics, English etc. in Sinhala/Tamil mediums had been less than 30 per cent level. Non-availability of sufficient number of qualified graduates within the province had been the reason therefor.

### **6.1.2 Health**

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The following matters were observed.

- (a) Even though, the target to reduce the number of infectious diseased persons by 20 per cent and 20 per cent in the years 2016 and 2017 respectively which were 1,120 in the year 2015, the total patients had increased by 9.5 per cent and 95 per cent in the relevant years respectively.
- (b) According to the Annual Plan for the year 2017 number of leprosy patients, dengue patients and Lismanisis patients should have been less than 40, 182 and 67 respectively but the number of actual patients had been 46, 1,086 and 182 respectively.

### **6.1.3 Other Issues**

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The following matters were observed.

- (a) The Provincial Department of Rural Development had conducted 3 sewing training courses under the 'Liyasawiya' project in the year 2016 and a sum of Rs.1,824,000 had been paid as resource persons allowances. However, out of the



number of students enrolled those 3 courses amounting to 485,460 and 35 respectively, only 264, 280 and 13 students respectively had completed the courses and 40 per cent of the students sat for the examination had failed the examination.

- (b) Out of 838 rural development societies established in 29 Divisional Secretariats in the North Central Province by the Provincial Department of Rural Development, 308 societies had become dormant by 31 December 2017. However, the Department had not taken necessary action to re-active those societies.
- (c) A sum of Rs.15,777,003 had been spent from 2014 to 2017 for the establishment of 18 cluster villages by the Provincial Department of Industrial Development. Of those 18 villages 2 had been at dormant level by December 2017 and out of 188 beneficiaries who had been trained during the period from 2014 to 2017, 84 had left this program. As an action plan had not been prepared for this project, the progress could not be examined.
- (d) Even though, there was an ability to enrol 700 students to carpentry schools during the academic years from 2013 to 2017, only 217 students had been enrolled by the Provincial Department of Industrial Development. The number of carpentry schools by which any students had not been enrolled amounted to 7 and out 217 students enrolled, 87 had dropped out the course without being completed. Moreover, the Department had not carried out a follow-up action procedure in respect of students who had successfully completed the course from carpentry schools.
- (e) Even though, 552 students had been enrolled for Textiles Centres during the period from 2012 to 2017 by the Provincial Department of Industrial Development, 259 therefrom had left the course and there were 28 Textile Centres by which no students had been enrolled in the year 2017. Similarly, the sale of

Textile Products in the year 2017 had dropped by Rs.1,271,618 as compared with that of the year 2016.

## **6.2 Management Inefficiencies**

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The following matters were observed.

- (a) Even though, seven debit balances of Rs.1,401,872 existed in 9 Provincial Council Officers advance accounts, relating to 9 Divisional Secretariats and 2 credit balances of Rs.33,157 had remained unsettled, even 2 to 6 years had elapsed after taking place transactions, any steps had not been taken to settle those balances.
- (b) 4,584 units of goods, consisting of stationery miscellaneous equipment and 30 types of cloths, the value of which could not be established, received as donations to the Provincial Department of Probation and Child Care Services during the period 2014 to 2017 had not been documented even by December 2017.
- (c) Even though, 12 teachers of the Provincial Department of Education had taken 465 days no-pay leave in excess of the approved leave in the year 2017 relevant deductions had not been made for such no pay leave.
- (d) As sufficient number of labourers had not been approved for the development of herbal gardens, about 45 acres, 2 roods and 15 perches in extent maintained by the Department of Ayurveda, their maintenance had been limited and action had not been taken to acquire the lands more than the extent of 86 acres with hospitals, central dispensaries and herbal gardens where activities of the Department were operated.
- (e) Empty glass bottles disposed of after being used drugs for treatments had been stacked outdoors of the Ayurvedic Hospital premises but the Ayurvedic hospital

had not followed a systematic methodology to remove or to clean and re-use of those empty bottles.

- (f) Due to such reasons as increase of prices of ayurvedic drugs insufficient financial provisions, limitation of import of certain drugs, non-receipt of dried drugs within the specified period and not received adequate quantities etc., there was a server shortage of essential drugs within the whole year and as such the general public who were interested in ayurvedic treatments could not be ascertain benefits appropriately.
- (g) The opportunity to provide reliefs to patients by utilizing the knowledge of Medical practitioners serve in the Ayurvedic Hospitals and Central dispensaries who studied had been deprived of due to non-availability of essential equipment such as pressure meters E.N.T. sets and laboratory facilities in those entities.
- (h) The training centre established at the Ayurvedic hostel premises, Galadiwulwewa with the objective of training traditional medical practioner had not been used nearly 2 years.
- (i) Even though, the new ward complex in the Manampitiya hospital had been completed on 22 July 2017 by spending a sum of Rs.7,983,782, it had not been opened for patients due to existence of shortfalls even by 31 December 2017.

### **6.3 Operating Inefficiencies**

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The following matters were observed.

- (a) Even though, the imprest received from the Ministry of Education of the Central Government under the “nearest school is the best school” project amounted to Rs.1,644,000,000, the Provincial Council had incurred expenditure up to Rs.1,956,734,245 and as such the imprest had exceeded by Rs.312,734,245.

- (b) As the Provincial Department of Probation and Child Care Services had not prepared and presented a Procurement Plan proper action plan, imprest plan and human resources management plan the reasons given for the justification of savings of provisions in the year under review amounting to Rs.10,298,729 could not be accepted.
- (c) According to the Action Plan of the Provincial Department of Rural Development, creation of the rural Development data system, commenced in the year 2016, should have been completed by 20 November 2017 and a sum of Rs.1,488,500 had been spent therefor. However, such data system had not been established even by 06 February 2018.
- (d) Even though, the balance 1971 packets of uniform cloths in the East Nuwaragam Palatha Education Zone in the year 2015 had been handed over to the Anuradhapura Zonal Education Office there was a shortage of 425 packets of uniform cloths thereof by July 2017. Moreover, the balance of 3903 packets of cloths after being distributed uniform cloths in the year 2015 among the students in Anuradhapura Education Zone had been retained in the zonal Education Office in Anuradhapura even by the end of the year under review.
- (e) Even though, it was identified that 85 buildings belonging to 50 schools in the Kekirawa Education Zone had been at a demolition and removal condition, the progress and the relevant information in respect of the removal of those buildings were not made available to audit.
- (f) A sum of Rs.72,000 fraudulently obtained from an ad-hoc advance of Rs.100,000 issued to an officer of the Provincial Ministry of Agriculture for the Deyata Kirula exhibition held in Ampara in the year 2013. In considering the matters arising at the preliminary investigation, the Chief Secretary had directed the Secretary to the

Ministry of Agriculture by his letter dated 01 September 2017 that the money should be settled together as a first step of the disciplinary process but that officer had paid that money only on 03 September 2018. However, any other action whatsoever had not been taken against that fraudster.

- (g) A sum of Rs.157,204,050 had been spent only during the period from 2015 to 2017 for the sterilization of dogs implemented under the provision of the Ministry of Health and Indigenous Medicines. However, the number of hospitalised persons who were bitten by dogs had increased by 23 per cent in the year 2017 as compared with that of the year 2015 and the number of deaths by hydrophobia had been doubled.
- (h) Even though, the economic centre at Medawachchiya constructed by incurring a sum of Rs.47,297,258 during the period 2006 to 2016 had been opened on 04 August 2017, 20 trade stalls out of 28 trade stalls opened had been closed down. In reaching agreements relating to 13 stalls opened, 3<sup>rd</sup> of the deposits amounting to Rs.7,381,166 to be made by leasees had not been recovered even by 06 March 2018 and the arrears of rent relating to 28 trade stalls opened as at 06 February 2018 amounted to Rs.314,500. Even though, the Chief Valuer had instructed to apply the monthly rent assessed at Rs.8,500 for the 2 ensuing years since the year 2017, the Chief Ministry had stated in the lease agreement that stall rent would be revised once in 5 years.

#### **6.4 Under-utilisation of Funds**

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The following matters were observed.

- (a) The entire net provision of Rs.124,106,807 made for 2 expenditure objects in the Provincial Ministry of Irrigation, Lands, Rural Development and Women Affairs had been saved.

- (b) Out of the provision of Rs.1,157,234,110 made under the Provincial Specific Development Grants and the Second Health Sector Development Project (SHSDP), nearly 50 per cent had not been utilized.

## **6.5 Idle and Under-utilized Assets**

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The following matters were observed.

- (a) Seventeen items of audio equipment received on 16 May 2017 to a store in the Provincial Department of Social Services had retained in the store even by 22 February 2018 and such equipment received in the year 2016 had not been distributed in respect of 63 requests.
- (b) There were 1,491 teachers quarters in the schools of the North Central Province out of which 830 quarters had been idle and 1040 teachers quarters had been under repairable condition but the Provincial Department of Education had not paid attention thereon.
- (c) Four rooms in the Kekirawa Teachers Centre operated in a 2 storied building with 9 rooms had not been used for an effective purpose and it had been utilized for storing broken equipment. Two plastic water tank with the capacity of 500 litres and 1000 litres had become non-usable.
- (d) The fully completed toile system built in the Thammuththegama bus stand, spending a sum of Rs.1,787,819 under the Environment and Ornamentation Project in the selected towns and sub-towns in the year 2016, had been handed over to the Thalawa Pradeshiya Sabha on 18 January 2017 but it had not been opened for general public even by 31 July 2018.
- (e) Nine buildings, valued at Rs.84.5 million constructed by the Provincial Department of Health Services on the provision of the Ministry of Health,

Nutrition and Indigenous Medicine and the North Central Province 05 dialysis machines valued at Rs.13.9 million one ex-ray machine and drugs valued at Rs.1.6 million had become idler. Furthermore, office equipment valued at Rs.6.9 million purchased in the year 2017 and electrical equipment had become idle even by 10 July 2018.

- (f) As clinical activities had not been commenced 264 items relating to 41 units of medical equipment given for the establishment of a Kidney deceases Prophylactic Unit at Aralaganwila Hospital had become inoperative even by July 2018.
- (g) Due to non-availability of specialist Medical Officers in 5 major field in the Padawiya base hospital medical equipment, labour room equipment surgery machines and accessories including surgeries, labour rooms and buildings had become inoperative.
- (h) The construction work of the Training Centre at the office of the Provincial Director of Health Services the construction work of which was approved in the year 2015 on the provision of Rs.59.5 million, without being prepared a total cost estimate, had not been completed even by 10 July 2018. However, furniture office equipment and electrical equipment valued at Rs.6,907,252 purchased in the year 2017 had become inoperative.
- (i) Out of 34 official quarters belonged to the North Central Province Ayurvedic Hospital 31 had become obsolete due to non-maintenance properly.

## **6.6 Irregular Transactions**

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The following matters were observed.

- (a) The Secretary Council had reported to the Director General of Pensions stating that a female officer in grade 1 of the Provincial Management Assistants Service

who reached the retirements age as an officer in grade 11 of the Sri Lanka Administrative Service. Moreover, as a higher salary scale, over the salary scale she was entitled had been stated her monthly pension and the retirement gratuity as well had been overstated.

- (b) On the contrary of the orders of the National Salaries and cadre commission and existing rules and regulations, 2 Karayala Karya Sahayaks had been given the Post of Chief Alliance Officer and the Deputy Alliance Officer and an overpayment of Rs.452,256 had been made for the period from 10 April 2012 to 31 December 2017.
- (c) On the letter No.314/23 (1) of 03 May 2001 approved by the Governor and contrary to the paragraph 6 of chapter xix of the Establishments Code, house rent subject to a maximum of Rs.500 per month had been recovered from the salaries of all Secretaries and Deputy Secretaries of the Provincial Council, including the Secretaries to the Provincial Ministries.

## **6.7 Weaknesses in contract Administration**

### **(a) Polonnaruwa Deepa Uyana Development Project**

The following matters were observed.

- (i) The total cost estimate for the Deepa Uyana Development Project in Polonnaruwa had not been prepared and got it approved by the Chief Secretary in terms of guideline 4.3.1 of the government procurement guidelines and the Chief Ministry had prepared 4 estimates, the total cost of which amounted to Rs.155,405,419 from time to time relating to this report.
- (ii) The first estimate of the construction of toilet system prepared for Rs.15 million, the construction work had been awarded to a contractor selected from bidders having been called for bids from the registered contractors



for construction works. In addition, 3 contracts, the total estimates cost of Rs.140,642,518 prepared for landscaping had also been awarded to the same contractor contrary to the procurement guidelines, even though the bids should have been called for landscaping from the contractors who had been registered as specialised construction contracts for landscaping in the construction Industries Development Authority (CIDA)

- (iii) According to the measurements of turfs spread on the Deepa Uyana premises taken by using G.P.S Coordinators and measurement tapes, the extent had been 8,844.11 square meters. However, according to the payment bills, payments had been made for 10,211.01 square feet of turfs at Rs.2,600 per square feet and as such an over payment of Rs.3,553,940 had been made for 1,366.90 square feet.

(b) Welikanda Sinhapura Water Scheme

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The following matters were observed.

- (i) Without being prepared a total cost estimate for the Welikanda, Sinhapura Drinking Water Scheme planned to be constructed in the year 2013 for the fulfilment of drinking water requirement of the people of the Welikanda Sinhapura area, an estimate for a sum of Rs.3,443,380 had been prepared only for making a water tank. Similarly, without following the proper procurement procedure for the construction of this work an agreement had been entered into with a contractor on 17 November 2014.
- (ii) The preparation of estimates for pipe laying of this project planned in the year 2013 had been done in the year 2016 for a sum of Rs.6,065,680. This contract had been awarded to an another contractor deviating from procurement procedure stating that the work should be expeditiously completed before rainy season on a decision obtained by a cabinet board

memorandum of the Provincial Council. In terms of the agreement the construction work thereof should have been completed as at 31 December 2016 but it had not been completed even by 22 November 2017.

- (iii) An estimate had been prepared for Rs.8,421,000, stated as the balance work of this project and that contract had also been awarded to the contractor who had done the second stage and an agreement had been entered into on 28 December 2017. This project planned in the year 2013 had not been handed over to the beneficiaries even by 30 June 2018 and the Divisional Secretary, Welikada had spent a sum of Rs.1,227,450 during that period for the supply of drinking water to 350 families living in the catchment areas.

(c) Repair of Kandakaduwa Junior school Teachers quarters

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The following matters were observed.

- (i) The repair work of 2 teachers quarters in Kandakaduwa Junior School had been awarded to a contractor on 23 and 29 December 2016 for a total estimate of Rs. 3,999,991. Even though, it was stated that the shopping method had been applied for the selection of that contractor, no clear evidence was available to ensure whether that method had been applied.
- (ii) Formal agreements on form CIDA/SBD/03 in terms of guideline 8.9.3 of the procurement guidelines 8.9.3 of the procurement guidelines had not been signed relating to those contracts.
- (iii) Even though, the repair works had been commenced in December 2016, works had not been completed even by 30 June 2018 and the contractor had abandoned the work. Sufficient attention of the officers responsible for the construction of teacher quarters had not been paid for the repair of

those quarters essentially required for the teachers served in this school situated in a very difficult area with lack of transport facilities.

(d) Repair of Circuit Bungalow of the Chief Secretariat

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The following matters were observed.

- (i) Even though, the contract for the repair of circuit bungalow of the Chief Secretariat had been awarded to a contractor for a sum of Rs.3,172,332 in the year 2016, a formal agreement had not been entered into in terms of guideline 8.9.3 (b) of the Procurement Guidelines.
- (ii) The work of this contract should have been commenced on 15 August 2016 and completed within 94 days but the completion of work had delayed up to 31 May 2017. However, the evidence to ensure the extension of contract period was not available in the contract file and action had not been taken to recover the demurrage charges of Rs.310,889 for the delayed period of 196 days.

(e) Construction of the Mihinthale Veterinary Office

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The following matters were observed.

- (i) Even though, 108 contractors had been registered in the North Central Provincial Council for the constructions more than the value of Rs.5 million, the Provincial Ministry of Agriculture had called for quotations only from 6 registered contractors selected as habitual for the construction contract of the Mihinthale Veterinary Office for an estimated value of Rs.6,155,584.
- (ii) Agreements had been signed with the selected contractor for the value of Rs.6,142,175 and the works should have been completed by 18 April 2017. However, the construction works had not been commenced even by

17 November 2017 but the physical progress according to the progress report of the Ministry was 40 per cent.

(iii) Even though, the construction works had not been done in accordance with the agreement action had not been taken to get the validity period of performance bond valued at Rs.307,109 to be expired on 16 May 2017 extended or encash it. Furthermore, action had not been taken to black list the contractor who had abandoned the contractor.

(f) Construction and other repairs of the three storied building in the Hathareswala Maha Vidyalaya

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The following matters were observed.

(i) In terms of guideline 6.2.2 of the procurement guidelines a minimum period of 21 days should be given to potential bidders for the presentation of quotations under the National Competitive bidding system. Nevertheless, the period given for the presentation of bids was only 13 days for the construction of 3 storied building and other repairs in the Hathareswala Maha Vidyalaya under the “nearest school best school” project.

(ii) In signing the agreement for this contract on 12 October 2016 for the sum of Rs.35,708,705 (excluding VAT) the detailed agreement form ICTAD/SBD/02 had not been used.

(g) Construction of Polonnaruwa, Palugasdamana canal 2 Community Hall

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Construction of Palugasdamana canal 2 Community Hall Project in Polonnaruwa had been awarded to a contractor for a value of Rs.4,052,210 selected by calling limited quotations. The value of the second estimate prepared subsequently, amounted to Rs.11,482,561. Without calling for bids from registered bidders in the CIDA C -7 grade or above grade, this contract had been awarded to the first

contractor himself who had registered in CIDA C-7 grade by the Chief Ministry Board memorandum No.2017/145 of ministers had been submitted for the deviation from procurement guideline.

(d) Construction of buildings at Medawachchiya Sri Subhuthi Maha Vidyalaya

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Even though, agreement had been entered into for the construction of Medawachchiya Sri Subhuthi Maha Vidyalaya buildings for a sum of Rs.26,508,384 on 29 August 2016, it was revealed that the performance bond presented by the contractor valued at Rs.1,326,000 therefor had been a spurious document. Action had not been taken to black list the contractor on this ground and action had also not been taken to complete this project.

**6.8 Projects not gained expected benefits**

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Under the distribution of mango plants project of the Chief Ministry and the Provincial Ministry of Agriculture, 33,158 mango plants valued at Rs.13,263,200 in the years 2015, 2016 and 2018 by the Chief Ministry and 6000 mango plants in the same variety valued at Rs.2,550,000 with the beneficiaries contribution of 25 per cent in the years 2015 and 2016 by the Provincial Ministry of Agriculture had been purchased and distributed. Field inspection observed that nearly 50 per cent of those plants were destroyed.

**6.9 In-completed Projects**

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The following matters were observed.

- (a) Out of 55 houses proposed to be constructed in 17 Divisional Secretariats during the year under review under the “Shrama Abhimani” Housing Project of the Provincial Department of Rural Development, 7 houses had not been built even by 31 December 2017.
- (b) Out of the provision of Rs.1,500,000 allocated for the construction of 37 culverts in 19 Divisional Secretariats under the construction of culvert in rural roads

project of the Provincial Department of Rural Development, only 31 culverts had been built as at 31 December 2017 by incurring a sum of Rs.1,240,000.

- (c) Out of the provision of Rs.566 million made in the year 2013 under the second Health Sector Development Project (SHSDP) 47 projects valued at Rs.269 million had not been completed even by 30 June 2018.
- (d) Two doctors quarters and a water tank, the contractual value of which amounted to Rs.56,056,567, scheduled to be completed the construction work during the year 2017 and to be handed over to the Thammuththegama Hospital had not been completed and handed over to the Hospital even by 08 January 2018.

#### 6.10 Projects not commenced

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Even though, a provision of Rs.1,716,326 had been allocated to the Provincial Department of Sports for 18 projects under the Provincial Council Development grants those projects had not been started even by the end of the year under review.

#### 6.11 Personnel Administration

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Particulars of approved and actual cadre of the North Central Provincial Council as at 31 December 2017 are as follows.

##### 6.11.1 Staff of Provincial Ministries, Departments and Institutions

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	Approved Cadre	Actual Cadre	No.of vacancies	Excess cadre
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(i) Senior	485	312	173	-
(ii) Tertiary	192	110	84	02
(iii) Secondary	2,363	1,524	839	-
(iv) Primary	1,437	1,260	200	23
(v) Others (Casual/ Temporary)	12	-	12	-
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Total	4,489	3,206	1,308	25
	=====	=====	=====	=====

The following matters were observed.

- (a) Action had not been taken to fill the vacancies of 1,308 posts, consisting of 173 posts in senior level, 84 posts in tertiary level, 839 posts in secondary level and 200 posts in primary level existed for a long period in various Ministries, Departments and other institutions of the Provincial Council.
- (b) Promotion of officers for the post of District Sports Officer had not been carried out even by 31 December 2017 in terms of the combined service minute of the sports officers in the Provincial Department of Sports.

#### 6.11.2 Staff of Schools

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	<b>Category</b>	<b>Approved</b>	<b>Actual</b>	<b>No.of Vacancies</b>	<b>Excess</b>
	-----	-----	-----	-----	-----
(i)	Principals	1,087	815	272	-
(ii)	Teachers	16,830	16,580	250	-
(iii)	Planning and Finance Assistants/ Development Assistants/ Program Assistants/ Management Assistants/ Laboratory Assistants/ Warden	935	103	842	10
(iv)	School KKS/ School Watcher/ Cook/ School Labour	1,318	1,484	01	167
(v)	Others	-	11	-	11
		-----	-----	-----	-----
	<b>Total</b>	<b>20,170</b>	<b>18,993</b>	<b>1,365</b>	<b>188</b>
		=====	=====	=====	=====

The following matters were observed.

- (a) Even though, the approved number of teachers in the Provincial Department of Education amounted to 16,830, the actual number was 16,580 and as such the number of vacancies amounted to 250. However, as 322 teachers as teaching instructors 287 teachers as acting principals and 50 to other non-education stores had been attached from the approved cadre and as such the actual number of teachers vacancies stood at 909.
- (b) Fifteen teachers belonging to 06 Education Zones of the province had been attached to the Sri Lanka Army, various ministries and other institutions. The Provincial Council had paid a sum of Rs.14,946,015 had been paid to them as salaries during the period from 2004 to 2017, out of which the amount not reimbursed was Rs.12,516,699.
- (c) There were 469 teachers vacancies in 6 Education Zones whereas 219 excess teachers in 2 Education Zones as at 31 December 2017. Even though, the number of vacancies would have been reduced to 250 after being rectified this situation necessary action had not been taken to rectify this position by the education authorities.
- (d) Even though, the approved number of principals for the provincial schools as at 31 December 2017 amounted to 1087, the number of actual principals amounted to 815 and as such the number of vacancies stood at 272. Of that, 23 excess posts in 2 zones of Anuradhapura and Polonnaruwa and 295 vacancies had existed in the other 6 zones.



- (e) Out of 287 teachers attached as Acting Principals as at 31 December 2017, 164 teachers had been from Kebithigollewa, Kekirawa and Galenbindunuwewa zones.
- (f) As at 31 December 2017 843 vacancies in the non-academic staff and 177 excesses had existed. Excesses consisted of 156 school Karya Sahayaka, 11 Watchers and 10 Laboratory Assistants.
- (g) Eighty three vacancies and 04 excesses had existed in the cadre of the Zonal Education Offices as at 31 December 2017. Even though, all approved 60 management assistants posts had fallen vacant none of the officers had been recruited and this situation had directly affected to hamper the performance of the Zonal Education Officers.
- (h) The Provincial Department of Education had released 50 teachers to other institutions for periods ranging from 01month to 25 years, removing from active teaching process relating to the objectives of the Department and the total salaries and allowances paid to 45 teachers so released amounted to Rs.132,092,401.
- (i) An assistant teacher of the Provincial Department of Education released for the duties of another entity from 01 December 2004 to 02 January 2014 had not fulfilled the requirements to earn the salary increments during that period but a total sum of Rs.2,415,691 had been paid as salaries with all salary increments for that period. In addition, despite any criteria to be fulfilled while being promoted had not been fulfilled, this officer had been promoted to the class 1 of the Sri Lanka Teachers Service with effect from 01 July 2014.

### 6.11.3 Staff of Hospitals

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Category	Approved	Actual	No.of Vacancies	Excess
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(i) Specialist Medical Officers	21	21	-	-
(ii) Other Medical Officers	397	464	01	68
(iii) Registered Medical Practitioners	44	34	10	-
(iv) Para-Medical Service	1,100	787	313	-
(v) Nurses	621	632	22	33
(vi) Technology Service (Dispenser, Public Health Field Officer)	230	165	69	04
(vii) Health KKS (Junior)	394	696	-	302
(viii) Health KKS (General)	363	162	201	-
(ix) Attendants including Other Employees	687	575	112	-
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Total	3,857	3,536	728	407
	=====	=====	=====	=====

In excess of the approved Health Karya Sahayakas (Junior) of 394 as at the end of the year 2017 in the Provincial Department of Health 302 had been recruited. However, as those employees had engaged in the functions of Administration Division and other various functions, duties of the Health Karya Sahayaka (Junior) had god done by external cleaning services entities. Accordingly, a sum of Rs.144,552,476 had been paid to 138 employees of 2 cleaning services entities during the period from 2015 to 2017.

### 6.12 Bank Accounts

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Action had not been taken to identify and settle 92 unidentified receipts valued at Rs.3,501,114 relating to 9 bank accounts and 2 unidentified payments valued at Rs.2,139,222 relating to 2 bank accounts of the Provincial Department of Education.

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

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### **7.1 Action Plan**

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Action plans had not been prepared by 34 Ministries, Departments and Institutions of the Provincial Council for the year 2017 in terms of circular No.01/2014 of 17 February 2014.

### **7.2 Procurement Plan**

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Out of 35 Ministries, Departments and other institutions of the Provincial Council, 34 institutions had not prepared procurement plans for the year 2017 in terms of National Budget Circular No.128 of 24 March 2006.

### **7.3 Tabling the Annual Reports**

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Annual reports for the year 2016 and prior years had not been tabled in parliament.

### **7.4 Observations on unresolved audit paragraphs**

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**7.4.1** Of the audit paragraphs stated in the Auditor General's report for the year 2016, the paragraphs in respect of which action had not been taken are given below.

- (a) Unsettled imprest balances totalling Rs.26,788,954 relating to 3 Ministries/ Departments had remained for more than 5 years.
- (b) Without being recovered any contributions whatsoever from the beneficiaries sums of Rs.6,073,748 for the period 2013-2015 and Rs.3,300,196 for the year 2016 had been paid for an accidents and Health private insurance scheme operated in respect of 34 persons including Ministers, councillors and the Governor of the Provincial Council.

- (c) An over payment of Rs.1,196,244 had been made in getting the service of an advertisement agent for publishing advertisements during the period from January to 21 July 2016 by the Chief Secretariat.
- (d) As the Technical Evaluation Committee had not given clear and formal recommendations for the bid submitted with the minimum price for the purchase of 25,000 village chicks the Provincial Ministry of Agriculture had rejected that bid and awarded the relevant contract to the supplier who had submitted the bid exceeding the above price by Rs.80 per chick resulting by incurring a loss of Rs.2,000,000.

**7.4.2** The directive given by the Committee on Public Accounts to write off the sum of Rs.1,170 million over estimated in the reconstruction of road damaged by floods by the Provincial Road Development Authority in the year 2010 had not been executed.

#### **7.5 Sustainable Development Targets**

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Targets to be accomplished, gaps and appropriate indicators to measure the progress in reaching the achievement of Sustainable Development Goals had not been identified by the Provincial Council.

#### **8. Systems and Controls**

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Weaknesses in systems and controls observed in audit were brought to the attention of the Heads of Institutions of the Provincial Council from time to time. Special attention is needed in respect of the following areas of systems and controls.

**System**

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**Weaknesses in the system**

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(a) Revenue Administration	Non-preparation of proper estimates.
(b) Contract Administration	Procurement guidelines not followed, lack of supervision.
(c) Fixed Assets	Certain assets not documented.
(d) Utilization of Funds	Fund not optimally utilised.
(e) Human Resources Management	i Informal scheme of recruitment. ii Non-filling employees vacancies.
(f) Execution of project Management	Non-implementation of planned projects
(g) Stores Control	Stock books not maintained properly and in an updated manner.