

1. Financial Statements

1.1 Qualified Opinion

The audit of Financial Statements of the Eastern Provincial Council for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(3) 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. A summary report on these financial statements in terms of Section 23(2) of the Provincial Councils Act and Sub-section 11(2) of the National Audit Act, No. 19 of 2018 was issued on 30 May 2019. A detailed Management Report in terms of Sub-section 11(1) was issued on 31 May 2019. This report is submitted to the Parliament in pursuance of provisions in Article 154 (6) of the Constitution and Sub-section 10(1) of the National Audit Act.

In my opinion, except for the effect of matters described in section 1.6 of my report, the financial statements give a true and fair view of the financial position of the Eastern Provincial Council as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). My responsibilities, under those standards are further described in section of my report under Auditor's Responsibilities for the audit of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and those charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The management of various Provincial Institutions including the Provincial Treasury are responsible for overseeing the Provincial Council's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Eastern Provincial Council is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Eastern Provincial Council.

1.4 Auditor’s Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5 Report on Other Legal Regulatory Requirements

The financial statements of the Eastern Provincial Council is in consistence with the preceding year in terms of Section 6(1) (d) (iii) of the National Audit Act No.19 of 2018.

1.6 Comments on the Financial Statements

1.6.1 Accounting Deficiencies

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
(a) The Provincial Council had not disclosed the contingent liabilities in the financial statements in respect of 72 court cases instituted by third parties against the Provincial Council.	Action should be taken to disclose in the financial statements.	Presently, The Provincial Council prepared the Financial Statements based on the cash based accounting system. Anyhow in future we will take action to disclosed contingent liabilities in the Financial Statements.
(b) Sums aggregating Rs.6,679,889 in respect of railway warrants payable by 03 Zonal Education Offices, to the Department of Railway for a period from 2004 to 2017 had not been shown under commitments and liabilities in the financial statements.	Action should be taken either to settle the outstanding balances or disclosed it in the financial statements.	Arrears of Railway warrant will be settled fully in future.

2. Revenue Management

2.1 Non-appointment of Provincial Commissioner of Revenue

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
According to Section 2 of the Finance Statute No. 01 of 2008, a Provincial Commissioner of Revenue shall be appointed. Even though the post of Provincial Commissioner of Revenue was vacant from 18 December 2011, the Provincial Council had not taken actions to fill this post in terms of Section 3.2 of an approved Service Minute and Scheme of Recruitment of the Provincial Department of Revenue of the Eastern Province. As a result of non- appointing a Provincial Commissioner of Revenue for 07 years, the activities relating to the collection and administration of provincial revenue of the Eastern Province as stipulated in the Finance Statute had been affected to a large extent.	Action should be taken to fill the post of Provincial Commissioner of Revenue in terms of Finance Statute.	Action will be taken to recruit suitable Provincial Commissioner of Revenue

2.2 Progress of Collection of Stamp Duty and Court Fines

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
(a) According to the mobile service conducted during the year 2017 and 2018 by the Provincial Department of Revenue relating to the collection of stamp duty from the registration of lands at the Land Registry in the Eastern Province, it was revealed that 794 land owners had declared less value for their lands in order to pay less amount as stamp duty. Therefore, additional stamp duty aggregating Rs. 14,190,769 had been imposed for those undervalued properties. However, the Provincial Department of Revenue had not taken actions even up to 31 December 2018 to recover the outstanding back duty of Rs. 4,766,793 from the land owners to whom they were imposed.	Action should be taken to appoint Provincial Commissioner of Revenue to recover back duty.	We can take actions by Courts to recover outstanding back duty once Provincial Commissioner of Revenue is appointed.
(b) Seven thousand six hundred and sixteen (7,616) deeds registered in the Eastern Province during the period from 2012 to 2018 had not been subjected to assessment by the Department of Provincial Revenue in order to verify and impose additional stamp duty due to undervaluation of lands.	Action should be taken to expedite assessment works on deeds.	Department faced major obstacle is lack of human resource and regional officers in Ampara and Batticaloa were closed since 2013 to assess the under value deeds.

2.3 Arrears of Revenue

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
(a) Lease income for Government lands relating to 09 Divisional Secretariats totalling Rs. 208,313,183 had remained as arrears since the year 1991. However, prompt actions had not been taken to recover those arrears of income up to 30 April 2019.	Action should be taken to recover lease income without further delay.	According to the Circular No:1992/58, all lease recovery has been delegated and powered to Divisional Secretary. But due to the war situation of these area, those procedures have been delayed.
(b) Even though it has been 10 years after the establishment of the Department of Provincial Revenue, a Statute had not been enacted in order to register the pawning centres operating in the Eastern Province and issue annual license in this respect. As a result, a considerable amount of revenue had been lost to the Provincial Council.	Action should be taken to enact Provincial Statute for pawning centres.	A Statute for pawn broking has been drafted in all three Language and action will be taken to submit the statute to the council after commencement.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Provincial Council for the year under review had resulted in a surplus of Rs. 1,708,421,018 as compared with the corresponding surplus of Rs. 2,434,433,298 for the preceding year, thus indicating a deterioration of Rs. 726,012,280 in the financial results. Increase in salaries and wages by Rs. 1,664,374,790 during the year under review had mainly attributed for the deterioration.

4. Statute Accounts

4.1 Eastern Province Road Passengers Transport Authority

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
The Eastern Provincial Road Passengers Transport Authority had purchased 13 Point of Sales (POS) connected with General Packet Radio Service (GPRS) system and 2000 ticket rolls on 08 June 2015 at a cost of Rs. 1,142,000 in order to record the arrivals and departures of private buses to the bus terminals. However, those items had not been used for 04 years for the intended purposes due to the lack of proper software system to operate the machines.	Action should be taken to install software system to operate point of sales without further delay.	The system is working under testing period after several malfunction of the software for many years. If the software is functioning properly, we can implement these machines in future.

4.2 Eastern Province Provincial Housing Authority

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
According to the Housing Development Plan (2015-2019) prepared by the Eastern Provincial Housing Authority, it was expected to construct 6,600 houses for houseless families at the total estimated cost of Rs. 3,225 million during the year under review. However, no houses had been constructed during the year except providing housing assistance of Rs. 10,600,000 to fifty beneficiaries under the Criteria Based Grant and providing financial assistance of Rs. 7,500,000 during the year under review for constructing 300 toilets.	Action should be taken to implement housing development plan by generating its own funds.	Due to the lack of funds, proposed housing schemes could not be implemented.

5. Operating Review

5.1 Performance Review

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
(a) According to the Action Plan of the Provincial Public Service Commission for the year under review, the Commission should conduct 38 Efficiency Bar (EB) examinations during the year under review for the officers of the Institutions coming under the purview of the Eastern Provincial Council. However, 11 EB examinations had not been conducted during the year under review. Further, applications for two EB exams were received on 24 April 2018, no EB exam had been conducted during the year under review.	Action should be taken to conduct Efficiency Bar examination on time.	Due to the lack of resources for certain kind of technical Services, the Efficiency Bar examination has been postponed to 2019, and the action was taken to conduct the above Efficiency Bar Examination before August 2019.
(b) According to the letter No. G/EPC/B/14/R/H dated 20 June 2014 issued by the Secretary to the Governor of the Eastern Province, the funds had been made available during the year 2014 for salaries and other expenditure subject to condition that the Provincial Housing Authority must generate its own funds without depending on the Consolidated Funds. However, the Authority had failed to start any business activities in order to generate its own funds to meet expenditure even after the lapse of 04 years from the establishment of the Authority.	Action should be taken to generate its own fund without further delay.	It is very difficult to start any business activities at this juncture due to inadequate permanent staff and lack of allocation to invest in income generation activities. However, the Authority prepared and submitted project proposals to various funding agencies and central ministries in order to start profit based activities through which Authority raise the funds for its development activities. But all those efforts are going failure due to non-response of funding partners. Now the Authority is planning to establish a soil testing unit in Trincomalee using the unused relevant machineries which were available at Urban Council, Trincomalee in near future.

5.2 Operating Inefficiencies

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
(a) Out of 06 Commercial Advance Account Activities, 03 Commercial Advance Account Activities were not in operation for more than 09 years. However, actions had not been taken to wind up those 03 Commercial Advance Account Activities.	Action should be taken to windup non-commercial Advance Account activities.	Follow up action are being taken to windup non operative commercial activities.
(b) Mobile extension services center (Soil test Lab) at a cost of Rs. 10,500,000 was being constructed by the Department of Agriculture under PSDG for the purpose of providing better mobile extension services in Eastern Province. However, a feasibility study had not been conducted by the Department to identify the requirement of this building without even considering the availability of building at Karadiyanary In-Service Training buildings.	Action should be taken to utilize this centre for the intended purposes.	The main function of in-Service-Training Centre Karadiyanaru is to strengthen the capacities and skills of field level officers and farmers through theory and practical training in order build up their capacities to disseminate improved agricultural practices leading to increased production and productivity. Soil testing activities are not part of the in Service Training Centre functions. Soil testing activities needs buildings, laboratories and special diagnostic equipment's as well as trained human resources which are not included in Service Training Centre operational plan. In such circumstances it was decided to establish the soil testing facilities in Trincomalee for the benefit of crop farmers in Eastern Province though forwarding project proposals in Annual Implementation Plan for Agriculture Sector in Province Specific Development Grant. Once the construction of building is completed action be taken to commence the soil testing facilities on desired scale.

5.3 Apparent Irregularities

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
Goods such as furniture and sports items purchased for Rs. 608,000 under Criteria Based Grants (CBG) in the year 2017 for the supply of 21 Pre-schools in the Eastern Province had not been supplied to the respective Pre-schools even up to 31 March 2019. However, the payments for the above goods had been made in the year 2017 to the supplier by the Pre-school Education Bureau without obtaining the goods. As a result of this, the Government funds had been misappropriated.	Action should be taken to make payments after obtaining goods and internal control system must be introduced to stop malpractices.	The Secretary of the Ministry of Education has formed a committee to inquire and to submit a report with regard to purchasing activities with Provincial Council members' fund. Actions will be taken according to the suggestions and recommendation of the inquiry committee report.

5.4 Weakness in Contract Administration

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
(a) The Provincial Ministry of Education had awarded a contract at a cost of Rs. 23.6 million for the construction of a Technological Faculty building at a school in Kinniya Zonal Education Office for the use of 66 students. However, the contractor had failed to complete the construction work even up to 30 April 2019. As a result, the Technological Faculty students had completed only 10 study practical's out of 66 compulsory practical trainings. Further, the equipment's had remained idle in the School without being utilized by the students.	Necessary action should be taken to complete the contract and utilized equipment without further delay.	Even though, numerous actions and monitoring given to the contractor, this building work was unable to be completed on time. Therefore, this work had been terminated and re- bid called for the completion of work. At the same time, action taken to include former contractors name in the black list of contractors.

- (b) Two storeyed buildings had been constructed at a cost of Rs. 11,145,438 across the Canal in one of Kattankudy Schools of Batticaloa Central Zone to accommodate 459 primary education students without considering the environmental impacts of blocking of water in the Canal and without obtaining prior approval from Urban Development Authority and Central Environmental Authority. As a result, water flow in the Canal had been clogged and stagnated to become a breeding place for mosquitoes.
- Action should be taken to start primary schools in an environmentally friendly location and measures should be taken to relocate a portion of this school to a near vacant land.
- The Zonal Director of Education, Batticaloa Central indicated in his report that this fund was received from a Minister of Kattankudy region. At the same time as we consider the Environmental aspects and health situation of students, we directed ZDE, Batticaloa Central to stop this work immediately.

5.5 Assets Management

5.5.1 Idle and Underutilized of Assets

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
A total sum of Rs. 12.32 million had been spent in the year 2017 under Digital Health Project to the five selected Base Hospitals in the Eastern Province. However, equipment such as Laptops, Printers, HD Cameras, Barcode Readers and Servers valued at Rs. 12.32 million had not been used for the intended purposes up to 30 November 2018.	Action should be taken to utilize assets on time.	Actions have been taken to utilize the medical equipment and instructed five base hospitals and get the technical knowledge from Central Health Ministry.

5.6 Procurement

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
There were no Dialysis Units at Base Hospitals of Nintavur and Valaichenai due to the lack of reported Chronic Kidney Disease (CKD) patients. However, the Provincial Department of Health had procured equipment for dialysis treatment at a cost of Rs. 18,555,000 and the medical drugs amounting to Rs. 6,147,426 for those hospitals without considering the needs. As a result, such equipment was remained idle from 22 March 2017 up to date.	Action should be taken to utilize Dialysis Units or transfer them to needed hospitals.	Unfortunately, due to shortage of medical experts at Base Hospitals Kinniya, Muthur, Valaichenai are not functioning.