

**Northern Provincial Council – 2019**  
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1. Financial Statements  
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1.1 Qualified Opinion  
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The audit of the financial statements of the Northern Provincial Council for the year ended 31 December 2019 comprising the statement of financial position at 31 December 2019 and the 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(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 and provisions of the National Audit Act No. 19 of 2018. The summary report in terms of Section 23 (2) of the Provincial Councils Act and Section 11 (1) of the National Audit Act No. 19 of 2018 was issued on 27 April 2021 and the Detailed Management Audit Report was issued on 06 October 2021 in terms of Section 11 (2) of the National Audit Act No. 19 of 2018. This report will be presented in Parliament in pursuance of provisions in Article 154 (6) of the Constitution and with Section 10(1) of the National Audit Act.

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the accompanying financial statements give a true and fair view of the financial position of the Northern Provincial Council as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion  
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1.2.1 Comments on Financial Statements  
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The following observations are made.

Audit Observation -----	Comment of the Chief Accounting Officer -----	Recommendation -----
(a) An ambulance purchased by the Northern Provincial Council in the year 2011 at the value of Rs.8,500,000, had met with an accident at the mileage of 9,000 km. Instead of repairing the ambulance, action had been taken to improperly write off from the inventory of the District Hospital, Mulativu and eliminate from the statement of non-current assets.	The first report of preliminary investigation is incomplete. A re-investigation has been initiated and is in its final stage.	The investigation should be completed as soon as possible, and suitable action should be taken in terms of Provincial Financial Rules.

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| (b) | The sum of Rs. 3,677,206 granted in the year 2019 for qualitative applications of 66 schools in the education zone of Mulativu, had been retained in bank accounts without being utilized. | Some of those funds have been spent on students' activities. The balance is spent on teaching activities.  | The funds received should be utilized on the intended purpose without delay.  |
| (c) | The officer attached to the Divisional Secretariat, Sandilippai by the Northern Provincial Department of Motor Traffic, had defrauded revenue license fees totalling Rs. 1,499,535.        | The report of preliminary investigation in this connection had been handed over to the Northern Provincial Department of Motor Traffic on 08 April 2021. | The investigation should be completed as soon as possible and the recommendations should be implemented. A suitable internal control mechanism should be implemented. |

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. 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 the Management for the Financial Statements

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

The management of each institution including the Provincial Treasury is responsible for overseeing the Company's financial reporting process.

As per Sub-section 16 (1) of the National Audit Act No. 19 of 2018, the Northern 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 Provincial Council.

### 1.4 Auditor's Responsibilities for the Audit of the Financial Statements

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, 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 and its materiality depends on the 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 Company'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 the Management 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 and Regulatory Requirements

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Special provisions on the following requirements have been included in the National Audit Act, No. 19 of 2018.

- The financial statements of the Provincial Council are consistent with the preceding year in terms of Section 6(1)(d)(iii).
- The recommendations made by me relating to the financial statements of the preceding year in terms of Section 6(1)(d)(iv), have been implemented.

#### 1.6 Comments on Financial Statements

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##### 1.6.1 Non-compliances with Laws, Rules, and Regulations

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Non-compliances with Laws, Rules, and Regulations observed in audit test checks are analyzed below.

Reference to Laws, Rules and Regulations	Non-compliance	Comment of the Chief Accounting Officer	Recommendation
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Section 7.1 of Chapter V of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.	Service of 08 officers who were not reported for duty at the Northern Provincial Department of Probation and Childcare	The relevant Departments have been instructed to promptly issue the letters of terminating their service.	Provisions of the Establishments Code should be followed.

and the Department of Education, had not been terminated and spent from 03 months to 06 years.

2. Financial Review

2.1 Management of Expenditure

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
<p>(a) Thirty six per cent of the provision made on 16 Expenditure Objects had been saved. Provision totalling Rs. 491,148,908 existed in 09 Expenditure Objects had been transferred to other Expenditure Objects. Furthermore, provision had been made on 12 Expenditure Objects through supplementary estimates, nevertheless, out of which Rs.12,918,500 therefrom had been transferred to other Expenditure Objects. The provision which transferred were also not fully utilized.</p>	<p>Provision had been remain saved as imprests had not been received from the Treasury. The intended expenses could not be incurred due to non-receipt of expected revenue.</p>	<p>The approved provision should be utilized on the intended purposes.</p>
<p>(b) Seventy five and fifty one per cent of the recurrent provision received for the Secretariat of the Council and cluster of the Deputy Chief Secretary, had respectively been remain saved.</p>	<p>Provision had been remain saved the Provincial Council had not been functioned and grants from the central Government had not been received as expected.</p>	<p>The approved provision should be utilized on the intended purposes.</p>
<p>(c) Savings in the capital and recurrent provision of the Northern Provincial Council in the year under review are Rs. 1,901 million and Rs. 919 million respectively.</p>	<p>Capital expenses had been remain saved due to reasons such as, inadequate receipt of imprests for capital expenses, no expenses incurred on certain projects, and instructions not received for expenses. As revenue had not been received from the central Government, and expenses had been controlled in accordance with provisions of Circulars, savings had occurred in recurrent provision.</p>	<p>Substantial measures should be taken to utilize provision.</p>

## 2.2 Financial Review

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According to the financial statements presented, there was a surplus of Rs. 8,040,486,055 in the Provincial Council Fund for the year ended as at 31 December 2019 as compared to the corresponding surplus of Rs. 8,213,740,548 in the preceding year.

## 3. Statutory Accounts / Fund Accounts / Commercial Advance Accounts and other Advance accounts

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### 3.1 Other Advance Account

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Audit Observation	Comment of the Chief Accounting Officer	Recommendation
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Action had not been taken effectively to recover a sum of Rs. 245,094 from 02 officers whose service had been terminated and Rs. 153,967 from a deceased officer.	Loan balance of one officer whose service had been terminated, is being recovered from his guarantor, and action has been taken to recover the loan balance of the other officer after being reinstated. Action is taken to settle the loan balance of the deceased officer through the Department of Pensions.	Prompt action should be taken for the recovery of outstanding loan balances.

## 4. Operating Review

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### 4.1 Management Inefficiencies

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Audit Observation	Comment of the Chief Accounting Officer	Recommendation
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(a) Three schools in the education zone of Mulativu are maintained at temporary huts.	No provision had been made for construction of one school whereas proposals had been made to construct buildings for the other 02 schools under the PSDG Programme.	Construction of 03 buildings should be prioritized.
(b) Funds to be utilized on development activities had been idly retained in current accounts by the Pradeshiya Sabha, Karachchi. The monthly balance of those accounts ranged between Rs. 49 million and 93 million.	Funds in the current accounts had been invested in fixed deposits in the year 2019.	The excess funds should be utilized to achieve the objectives mentioned in the Pradeshiya Sabhas Act.

## 4.2 Transactions of Contentious Nature

----- Audit Observation -----	----- Comment of the Chief Accounting Officer -----	----- Recommendation -----
(a) As for the construction of a building for the Ayurvedic hospital, Vattakachchi, a sum of Rs. 718,395 had been paid by the Pradeshiya Sabha, Karachchi owing to erroneous measurements.	Action will be taken once the report of the investigation committee appointed by the Commissioner of Local Government is received.	Overpayments should be recovered without delay.
(b) The zonal education office in Jaffna had paid Value Added Tax totalling Rs. 654,995 to the contractors who had not been liable to the Value Added Tax. However, no action had been taken in that connection over a period of 2 ½ years.	The Department of Inland Revenue informed that an audit would be conducted in this connection and action would be taken accordingly.	It is necessary to verify as to whether the contractors have been registered for tax refund before paying the tax. Payments made erroneously should be recovered.
(c) The livestock cooperative society of Musali had deposited 03 cheques valued at Rs. 2,524,750 in 03 personal bank accounts maintained by the Veterinary Superintendent of Manthai West. Furthermore, cheques valued at Rs. 11,150,000 issued to 03 employees of the veterinary hospital, Murungan and 07 beneficiaries had also been encashed by the said vet.	Except for providing assistance in the capacity of the Veterinary Superintendent of Manthai West for implementing the relevant plans, the office of the Veterinary Superintendent had not spent financial provision.	An investigation should be conducted on the said misappropriation of funds.
(d) The zonal education office, Wadamarachchi had overpaid a sum of Rs. 112,527 relating to the constructions made at the basketball stadium of the Ja/Sidambara Vidyalaya.	Due to unrest prevailed at the school, the constructions had been abandoned halfway. The concrete posts already built at the stadium had been damaged. The bills had been prepared and verified by the Foreman of the school thus a sum of Rs. 285,000 had been paid by the zonal director of education after being verified that the works had been completed.	Payments should be made only for the works actually done. Payments made erroneously should be recovered.

- (e) The Veterinary Superintendent of Murungan had purchased 4500 one month old hens at a higher price under the livelihood assistance project contrary to instructions given in the Circular, No. NP/26/02/CSR/2016/02 dated 05 July 2016. As such, an overpayment of Rs. 427,500 had been made.
- According to the Letter of pricing, No. NP/26/02/01/PSDG of the Director of the Provincial Department of Livestock Products and Health dated 04 March 2016, price of a hen had been decided as Rs. 300 including loading and unloading.
- An investigation should be held on the failure to follow Circular instructions, thereby recovering the overpayments.
- (f) In order to implement a livelihood assistance programme of the central Government, sums of Rs. 4,025,000 and Rs. 2,638,050 had been credited by way of cheques to the personal accounts pertaining to the vets of Murungan and Nanattan respectively.
- The vets of the Government had taken action in accordance with the decision taken by the Divisional Secretariat, Nanattan on 30 June 2016. The committee of preliminary investigation verified that the Government vets had been responsible only for the technical evaluation on the cattle and the payment made to the supplier of cattle.
- A formal inquiry should be held on the utilization of funds in this manner.
- (g) Instead of making payments to the relevant supplier in respect of the milch cows purchased at the value of Rs. 2,534,750 for livelihood improvement of the people in Manthai West, the funds had been credited to the personal bank account of the relevant Veterinary Superintendent.
- An investigation is being conducted in this connection by the Northern Provincial Ministry of Agriculture.
- Recommendations of the investigation should be obtained promptly, and necessary action should be taken.
- (h) Having been assessed by the Provincial Department of Irrigation, the old metal gates of the Thondamanaru breakwater that had been auctioned in April 2019 at the value of Rs. 4,041,004, had not been removed by the buyer within a period of 24 hours as per the agreement, nevertheless the gates had been removed after a delay of one month. The Provincial Director had refunded 55 per cent of the said amount to the buyer. As such, the Government had sustained a financial loss of Rs. 2,211,335.
- As the cost of measuring these gates and calculating their value is very high, therefore a rough estimate was made and the relevant auction was called. The actual value of the old iron could be estimated during the appraisal done by the bidders during their removal. As the value of gates was found to be less, no income was lost except for the deduction of Rs. 2,211,335.
- A formal inquiry should be conducted on the matters such as, failure to accurately assess the auctioned items, failure to take action as per the agreement on the items not removed, and refunding the sales income of the auction to the buyer.

## 4.3 Identified Losses

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
Medicines of the Mannar district hospital worth Rs. 2,547,786 had become expired. This had been attributed to the lack of a methodology to distribute the excess medicines of a hospital to other hospitals.	Action is being taken to write off the losses by appointing a committee of investigation relating to the expired stocks.	A mechanism should be prepared to ensure the optimal availability of stocks of medicine.

## 4.4 Implementation of Projects

## 4.4.1 Delayed Projects

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
Nineteen building construction and renovation activities valued at Rs. 179.65 million executed by the Northern Provincial Department of Education, had not been commenced on the dates mentioned in the agreement. However, those activities had been commenced after a delay ranging from 30 to 155 days.	Due to delays in assessments, technical evaluation, preparation of contract documents, and planning, the activities could not be commenced as planned.	Action should be taken on the violation of agreement.

## 4.4.2 Unimplemented Projects

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
Construction of 05 buildings to be executed by the Northern Provincial Department of Education under the "Nearest school – the best school" programme at the value of Rs. 44.73 million, had not been commenced.	This project had not been implemented due to reasons such as, lack of space for constructing buildings, and necessity to construct classrooms at other schools.	Projects should be implemented by properly identifying the requirement.



## 4.5 Activities Contrary to the Objectives

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
Term test fees totaling Rs. 12,519,303 charged from students by the zonal education offices contrary to the Circulars of the Northern Provincial Ministry of Education, had remained idle in the bank accounts. No monies whatsoever had been credited to the provincial revenue, nor had those monies been spent on students' welfare as well.	As the schools had not been functional properly since March 2020, no term tests or model tests were conducted. As such, fees will not be charged from the students in favor of the exams to be held from the year 2021 and the remained money will be utilized thereon.	Money should not be held idle.

## 4.6 Management of Assets

## 4.6.1 Failure to Maintain and Repair

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
Due to failure in proper maintenance, furniture in the assembly hall of the Provincial Council had been destroyed by termites. Hence, a sum of Rs. 7.1 million had been spent on repairing them.	It was observed that the tables had been destroyed by termites. However, most of the money spent on repairs had been utilized on modernizing the assembly hall, installation of an automatic video system, and change the location of furniture.	Security of the furniture should be ensured.

## 4.7 Staff Administration

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
(a) There existed 6336 vacancies in the approved cadre of the Northern Provincial Council being 40468.	Approval had been received to fill 1463 vacancies since the effective date of the Circular, No. 02/2020 of the Department of Management Services dated 26 October 2020, and out of that 272 vacancies had been filled.	Action should be taken either to fill vacancies or revise the approved cadre.

- (b) There existed 1535 and 444 vacancies in the academic and non-academic staffs of the Northern Provincial Department of Education respectively with 13 excess employees. Some of the vacancies have been filled on the approval of the Governor whereas approval of the Department of Management Services had not been received on the other vacancies. Action has been taken on the excess employees. Action should be taken to fill the vacancies as per the requirements, and the excess employees should be attached in a productive manner.