

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Eastern Provincial Council including the financial statements for the year ended 31 December 2020 comprising Statement of Financial Performance, Cash flow Statement, significant accounting policies and other explanatory information was carried out, for the year then ended, 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 Council Act No. 42 of 1987 and Provisions of the National Audit Act No. 19 of 2018. The Comprehensive Report was issued on 31 December 2021 in according to the provisions of Section 23(2) of the Provincial Councils Act and Sub-section 11(1) of the National Audit Act No. 19 of 2018 and under the provisions of Section 11(2) of the National Audit Act, Detailed Management Audit Report was issued on 14 December 2021. This report is submitted to the Parliament in terms of Article 154(6) of the Constitution and Sub-section 10(1) of the National Audit Act and a copy of the report is submitted to the Governor for tabling at the Provincial Council under Section 23(2) of the Provincial Councils Act No. 42 of 1987.

In my opinion, except for the effects of the matters described in paragraph of Basis for Qualified Opinion of this report, the accompanying financial statements give a true and fair view of the financial position of the Eastern Provincial Council as at 31 December 2020, 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 the Qualified Opinion

(a) Material Accounting Deficiencies

Audit observation	Comments of the Chief Accounting Officer	Recommendation
(i) Biomedical equipments valued Rs.27.47 million had been brought to the financial statements without being received by the Provincial Department of Health Services during the year under review. Thus, indicating the value of the Biomedical equipments had been overstated in the financial statements for the year under review.	The payments have been made from General Deposit Account as approved in terms of Financial Regulation No. 215(3)(c) during the year 2021.	Equipment value should not be shown in the financial statements without being purchased.
(ii) A recurrent allocation of Rs. 2.17 million had been utilized for the capital expenditure of rehabilitation and improvement works of first floor of the Chief Ministry's Secretariat. Thus, indicating the recurrent expenditure had been overstated by that amount.	The fund had been allocated for recurrent expenditure of the Chief Ministry.	Action should be taken to utilize the recurrent allocation for the recurrent expenditure.

<p>(iii) Capital allocation of Rs.1.29 million facilitated by United Nations Children’s Emergency Fund (UNICEF) had been transferred to the General Deposit Account of Eastern Provincial Ministry of Education without being executing the intended works during the year under review and shown as capital expenditure. Thus, the capital expenditure had been overstated by that amount.</p>	<p>The amount had been transferred to General Deposit Account and paid in the year 2021.</p>	<p>Capital expenditure should be shown in the financial statements after being incurred.</p>
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(b) Lack of any evidence for confirmation of accuracy and existence in the account

Audit observation	Comments of the Chief Accounting Officer	Recommendation
<p>Land and Land Improvements, Building and Structures valued aggregating Rs. 9,479.43 million shown in the financial statements for the year under review could not be satisfactorily accepted in audit due to non-availability of Title deeds, survey plan, valuation reports.</p>	<p>Action will be taken to collect those evidences.</p>	<p>Action should be taken to obtain the relevant evidences.</p>

I conducted my audit in accordance with the Sri Lanka Auditing Standards (SLAuSs). My responsibility with regard to financial statements is further described under the Auditor’s Responsibilities 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 Management 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.

Management of the respective institutions including the Provincial Treasury is responsible for the financial reporting process of the Provincial Council.

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

1.4 Responsibility of the Auditor for the audit of 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 exercised 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.

- A fraud is caused by intentional omission or omission of internal controls.
- Obtain an understanding of internal control of the Provincial Council 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 its 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 ant significant deficiencies in internal control that I identified during my audit.

1.5 Comments on Financial Statements

1.5.1 Head - 902 - Provincial Council Secretariat

Audit observation	Comments of the Chief Accounting Officer	Recommendation
(a) Table of Annual Report		
The Annual Reports for the years from 2014 to 2019 had not been tabled at the Eastern Provincial Council even up to 30 August 2021.	The Provincial Council was dissolved on 30 September 2017. Therefore, once the Provincial Council reformed, those Annual Reports will be tabled.	Action should be taken to table the Annual Report annually.
(b) Unresolved Audit Paragraph		
Members of the Eastern Provincial Council had been granted loans aggregating Rs. 4.6 million without being obtained adequate surety and a sum of Rs.1.10 million had been allowed to be outstanding over 10 years as reported by the Auditor General in paragraph 6.4(a) of Summery Audit Report for the year 2019.	Legal unit of this Provincial Council has being taken legal action to recover these outstanding loan balances.	Action should be taken to recover the outstanding loan balances.

1.5.2 Head - 910 - Chief Minister's Secretariat

Audit observation	Comments of the Chief Accounting Officer	Recommendation
Unresolved Audit Paragraph		
Out of Rs. 2 million paid to the former Secretary to the Chief Minister as an advance, a sum of Rs.1.12 million had not been recovered.	Eastern Provincial Public Accounts Committee directed to be recovered the outstanding advances on 29 December 2016. Therefore, the subject had been submitted to the Chief Legal officer, the action on progress.	Action should be taken to recover the outstanding advances.

1.5.3 Head - 911 - Department of Local Government

Audit observation	Comments of the Chief Accounting Officer	Recommendation
Unauthorized Transaction		
Salaries and Wages aggregating to Rs. 1.43 million had been reimbursed by the Eastern Provincial Department of Local Government to 02 Casual Labourers appointed and engaged by the Gomarankadawela Pradeshiya Sabha for the period from 01 October 2016 to 31 March 2020.	It had been erroneously reimbursed with the salary. That amount will be recovered from this Pradeshiya Sabha.	Action should be taken to recover this reimbursed amount of Salaries and Wages.

1.5.4 Head - 912 - Department of Rural Industries Development

Audit observation	Comments of the Chief Accounting Officer	Recommendation
Commercial Advance Accounts		
Outstanding balances of trade debtors amounting to Rs. 04 million of commercial advance activities, had been remained as arrears without being recovered over 05 years.	Action is being taken to recover the outstanding balances.	Action should be taken to recover the outstanding without being delayed.

1.5.5 Head - 921 - Deputy Chief Secretary's Secretariat - Finance

Audit observation	Comments of the Chief Accounting Officer	Recommendation
(a) Revenue Management		
Even though the total revenue aggregating Rs.902 million had been estimated under fourteen recurrent revenue heads, a sum of Rs.331 million had not been collected during the year under review.	Expected revenue from Central Government had not been received.	Action should be taken to issue the revenue invoices timely to collect the estimated revenue annually.
(b) Distribution of Revenue (Stamp Duty)		
Stamp duty collection aggregating Rs.349 million had been allowed to be outstanding without being remitted to the Local Authorities over 02 years.	Stamp duty will be transferred to provincial Council fund account.	Action should be taken to remit the stamp duty timely.

(c) Other Advance Accounts

Balances of Advances to Public Officers Account amounting to Rs.32.6 million pertaining to 07 Departments of Eastern Provincial Council had been unsettled over 05 years without taking actions in terms of National Budget Circular No.118 of 11 October 2004.

Action will be taken to recover.

Action should be taken to recover outstanding balances.

(d) Unresolved Audit Paragraphs

(i) It was revealed that land owners had declared less value for their lands in order to pay less amount as stamp duty. Therefore, additional stamp duty with penalty aggregating Rs. 5.25 million had been imposed in 188 instances for those undervalued properties. However, the action had not been taken to recover the arrears as reported by the Auditor General in paragraph 2.2(c) of Summery Audit Report for the year 2019.

The balance of Rs.5.25 million will be collected and the action on progress.

Action should be taken to collect the outstanding of stamp duty with penalty.

(ii) Six thousand and twenty-six (6,026) deeds registered in the Eastern Province during the period from 2012 to 2018 had not been subjected to assessment by the Revenue Unit of the Provincial Council in order to verify and impose additional stamp duty due to under-valuation of lands as reported by the Auditor General in paragraph 2.3(b) of Summery Audit Report for the year 2019.

Assessments will be accelerated.

Action should be taken to assess the fair value of the registered land.

(e) Non - compliances with Laws, Rules, Regulations and Management decisions

General deposits such as retention money, specific deposits etc. aggregating Rs.9.7 million had been allowed to be retained in the General Deposit Accounts during the period ranging from 09 months to 02 years without being credited to the proper account or to Revenue or refunded as soon as possible in terms of Financial Regulations of the Government of the Democratic Socialist Republic of Sri Lanka F.R.571(3).

Action will be taken in terms of Financial Regulation No. 571.

Action should be taken to settle deposits.

(f) Financial Review

Audit observation

**Comments of
the Chief Accounting Officer**

Recommendation

(i) Financial Results/ Performance

According to the financial statements presented, the operations of the Provincial Council for the year under review had resulted in a surplus of Rs.1,724 million as compared with the corresponding surplus of Rs.1,153 million for the preceding year. Thus, indicating an increase of Rs.571 million in the financial results. Increases in block grant by Rs.5,347 million for the year under review had mainly attributed for the increases.

Not commented.

Action should be taken to identify the various Provincial Revenue sources to be increased Revenue.

(ii) **Variances of Income and Expenditures**

Year	2020	2019	Variance
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	Rs. million	Rs. million	Rs. million
Income	31,225	27,529	3,696
Expenditure	29,501	26,376	3,125
Surplus	1,724	1,153	571

Audit observation

Block Grant had been increased by Rs.5,347 million or 25 percent while Wages, Salaries and other employment benefits increased by Rs.2,476 million or 12 percent when compare with preceding year. Thus, indicating the surplus had been increased by Rs.571 million or 49 percent when compare with the corresponding figure of the immediate preceding year.

**Comments of
the Chief Accounting Officer**

Not commented.

Recommendation

Action should be taken to increase the provincial revenue and pay for the approved cadre.

1.5.6 Head - 922 - Deputy Chief Secretary's Secretariat - Planning

Audit observation	Comments of the Chief Accounting Officer	Recommendation
(a) Provincial Development Plan		
Under the Provincial Development Plan for the year under review, Even though 790 proposals valued at Rs. 2,924.24 million were approved, 93 proposals for new works and continuation works had been estimated at total value of Rs. 900 million, had not been completed due to the lack of imprest and Covid-19 Pandemic problematic circumstances during the year under review.	Due to the lack of financial provisions and the Covid-19 situation, created a difficult environment to mobilize resources.	Priority action should be taken to implement the interrupted work and complete the work proposals as per the revised activity plan.
(b) Delayed Project		
Even though Construction works of Four Storied Office buildings awarded by the Eastern Provincial Planning Secretariat to a Contractor at an agreed contract price of Rs. 194.5 million to be completed on or before 04 September 2018 and paid Rs.152.91million up to 29 June 2021 with the extension of works in seven times during last 03 years. However, the works had not been completed even up to 15 November 2021.	The reason for the delay in completion of this work was mainly due to unavoidable circumstances.	Sound construction supervision system should be implemented.

(c) Sustainable Development Goal

Although the Planning Secretariat of the Eastern Provincial Council established with the vision of a hub for a Sustainable Balance Development of Eastern Province, it had been observed in audit that the Sustainable Development Goals, target achieved, periodical review of the progress of achievement had not been made by forty Institutions including Secretariats, Ministries and Departments of Eastern Provincial Council in terms of Sustainable Development Act No. 19 of 2017 during over 03 years.

All Provincial Agencies have already been reported Annual Performance Report for the year 2020 based on their sector Goals.

Action should be taken to introduce Sustainable Development Goals.

1.5.7 Head - 923 - Deputy Chief Secretary's Secretariat - Administration

Audit observation

**Comments of
the Chief Accounting Officer**

Recommendation

Observations on the staff Administration

09 officers of Sri Lanka Engineering Service had been worked in a specific work station ranging from 06 to 13 years. However, the Transfer Policy of the officers of in Sri Lanka Engineering Service, worked in Provincial Council had not been established over 05 years.

Engineers from the Department of Building had been transferred to the Department of Education & Department of Local Government as their specific experience.

Action should be taken to formulate the annual transfer policy.

1.5.8 Head - 924 - Deputy Chief Secretary's Secretariat - Engineering

Audit observation	Comments of the Chief Accounting Officer	Recommendation
(a) Transactions in Contentions Nature		
<p>Even though the contribution for the Employee Provident Fund and Employee Trust Fund for the employees of contractual services of Janitorial services and Security services should be contributed by the contractor, a sum of Rs.9.04 million had been paid to the contractor by the Eastern Provincial Council for the period from 01 May 2020 to 31 December 2020 without being verified the detail of registration of Employer for the contributions.</p>	<p>At present payments are being made by the respective ministries and departments by checking the necessary documents related to the ETF and EPF contribution.</p>	<p>Action should be taken to verified the details of registration for EPF/ETF contribution.</p>
(b) Failure to carry out maintenance and repairs		
<p>340 dilapidated vehicles belongs to the Eastern Provincial Council had been kept at the various vehicle Parks of the various departments without being properly maintained or repaired over 01 year.</p>	<p>Heads of the Departments must take initiate action to repair their vehicle with the Mechanical Engineers recommendation.</p>	<p>Action should be taken to repair and utilize vehicles effectively.</p>

(c) Idle/ underutilized Assets

Even though 25 unusable and scrapped vehicles had been requested by 32 Schools for the technological education purposes in Eastern Province, such vehicles had been retained at the various vehicle Parks.

It had been informed over the phone to all the Education Zones to collect the vehicles.

Action should be taken to hand over these vehicle for the utilization of intended purposes of Technological Education of the students.

1.5.9 Head - 926 - Department of Provincial Internal Audit

Audit observation

**Comments of
the Chief Accounting Officer**

Recommendation

Non - compliances with Laws, Rules, Regulations and Management decisions

The annual internal audit plan should be prepared paying special attention to the approved annual action plan of each entity, budget estimate, procurement plan, budget proposals and other development projects. Furthermore, to ensure effective performance in the organizations, it should be covered performance audit, system audit, financial audit and special investigations focusing auditing of high-risk activities of the organizations. However, the performance audit had not been carried out over 02 years in terms of Management Audit Circular No. DMA/ 01- 2019 of 12 January 2019.

Instructions had been given to concentrate in future.

Action should be taken to conduct the performance audit on activities of Provincial council.

1.5.10 Head - 932 - Department of Animal Production and Health

Audit observation

**Comments of
the Chief Accounting Officer**

Recommendation

Abandoned Project

Three Projects had been estimated at total cost of Rs. 5.4 million from the Provincial Specific Development Grants fund allocated in 2019, However, the projects had been abandoned without being commenced over 02 years.

Projects could not be fully implemented due to lack of imprest.

Commence the projects in accordance to approved action plan and complete on time.

1.5.11 Head - 934 - Department of Irrigation

Audit observation

**Comments of
the Chief Accounting Officer**

Recommendation

Shortages of Contract Administration

The construction works of three storied buildings for the Eastern Provincial Irrigation Engineer's Office at Pottuvil estimated at total cost of Rs. 21.8 million had been commenced in 2010 and a sum of Rs.4 million had been incurred for the works. However, the action had not been taken to complete the balance works over 10 years.

A proposal with drawings and estimates amounting Rs. 9.40 Mn to construct only ground floor of the building has been sent to the Secretary, Ministry of Agriculture to include this proposal under CBG allocation for year 2021, so far, no response has been received

Action should be taken to expedite to commence the balance works.

1.5.12 Head - 941 - Department of Education

Audit observation	Comments of the Chief Accounting Officer	Recommendation
(a) Observations in relation to Education, regarding excess and shortage of teachers and attachments		
(i) 250 performing principals had been appointed to 250 schools without being taken action to recruit the principals from Sri Lanka Principal Service over five years.	This temporary arrangement will be revoked soon after the recruitment of principals.	Action should be taken to recruit the principals without being delayed.
(ii) The posts of 293 Principals had been vacant in schools of fourteen Education Zones in a percentage ranging from 04 percent to 63 percent while 33 principals had been excesses in schools of other three Education Zones of Ampara District.	Action will be taken to transfer the excess cadre for the schools with shortages of Principals.	Action should be taken to placement of principals for the schools with shortages in principal.
(iii) The posts of 1,262 Teachers had been vacant in schools of eleven Education Zones in a percentage ranging from 05 percent to 23 percent while 1,063 Teachers had been excesses in Schools of other six Education Zones.	Action will be taken to transfer the excess cadre for the schools with shortages of teachers.	Action should be taken to placement of teachers for the schools with shortages in teachers.

1.5.13 Head - 950 - Ministry of Health

Audit observation

**Comments of
the Chief Accounting Officer**

Recommendation

Non - compliances with Laws, Rules, Regulations and Management decisions

Staff Scheduled Quarters Rent aggregating Rs.1.47 million had not been recovered from 08 officers of the Eastern Provincial Ministry of Health Services over 01 year in terms of Sub-section 5:4:1 of Chapter XIX of the Establishment Code amended by the Public Administration Circular No.04/2016 of 26 August 2016.

Rental estimates for all quarters are currently being conducted by the Department of Valuation.

Action should be taken to recover the quarters rent as per the provision in the Establishment Code.

1.5.14 Head - 951 - Department of Health Services

Audit observation

**Comments of
the Chief Accounting Officer**

Recommendation

(a) Operating Inefficiencies

Even though ninety Laptop computers, other equipments had been provided for improving the quality and efficiency of the Government Health Care Services introducing Electronic Medical Report System under the Digital Health Project, those equipments had been retained in four Base Hospital located in Dehiaththakandiya, Kattankudy, Valaichenai, Eravurand in Vaharai Divisional Hospital without being taken action to implement this system during the period from 01 to 03years.

Action has been taken to implement the project by utilizing the fund allocated.

Action should be taken to utilize the assets effectively.

(b) Non - compliances with Tax Requirement

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| (i) Even though the total of Value Added Tax (VAT) aggregating Rs.5.55 million had to be paid at the rate of 08 percent, total of Rs.10.42 million had been paid at the rate of 15 percent by three Regional Directorate of Health Services in Eastern Province. As a result, a sum of Rs.4.87 million had been overpaid to the contractors during the period from 01 December 2019 to 31 December 2020 contrary to the amendments made to the Section 2A of the Value Added Tax Act, No. 14 of 2002, and Act, No. 06 of 2005, published in Extraordinary Gazette No. 2151/52 dated 29 November 2019. | Due to the lack of imprest the above payment were not made in due time, and paid later at the rate of 5 percent. | Action should be taken to recover this overpaid Value Added Tax. |
| (ii) Nation Building Tax aggregating Rs.2.94 million had been paid to the suppliers by 03 Regional Directorate of Health Services during the period from the year 2016 to 2020 without being remitted to the Department of Inland Revenue in terms of Nation Building Tax Act, No. 09 of 2009. | It had been instructed to the related Regional Directors of Health Services to recover the entire paid amount from the suppliers.. | Action should be taken to recover and remit to the Department of Inland Revenue. |

1.5.15 Head - 961 - Department of Road Development

Audit observation	Comments of the Chief Accounting Officer	Recommendation
(a) Commercial Advance Accounts		
(i) Outstanding balances of machinery hiring charges amounting to Rs.1.4 million of commercial advance activities had not been collected over 10years.	Legal action is being initiated to collect these outstanding balances.	Action should be taken to expedite the collections process.
(ii) Commercial activities of the machinery unit had been incurred losses ranging from Rs.3 million to Rs.5 million over 03 years without being established profit-oriented mechanism.	The action has been taken to establish proper mechanism to make it as effective for profitable oriented.	Action should be taken to establish an effective review on activities of machinery unit.
(b) Failure to carry out maintenance and repairs		
30 machinery items purchased for the commercial advance activities of the machinery unit had been idled without being taken action to repair ranging from 02 to 10 years.	Action has been taken to repair the machineries.	Action should be taken to repair and utilize machinery effectively.

(c) Idle/ underutilized Assets

Eight Soil Testing Equipments donated by JICA Project in the year 2013, had been issued to the Testing Laboratory of Eastern Provincial Department of Irrigation in Ampara Range and Chief Engineer's Office of the Eastern Provincial Department of Road Development in Batticaloa respectively had been idled over 07 years without being utilized for the intended purposes.

The necessary action will be taken to use these testing equipment efficiently in future.

Action should be taken to utilize donated items for the purpose of soil testing .

1.5.16 Head - 962 - Department of Land Administration

Audit observation

**Comments of
the Chief Accounting Officer**

Recommendation

Unresolved Audit Paragraph

Lease Rental aggregating Rs.328.89 million pertaining to the leased Government lands by nine Divisional Secretariats of Eastern Province had not been recovered by the Department of Land Administration of the Eastern Provincial Council and allowed to be arrears during the period from 01 to 04 years as reported by the Auditor General in paragraph 2.4(b) of Summery Audit Report for the year 2019.

Action is being taken to recover these lease rentals aggregating Rs. 328.89 million.

Action should be taken to collect the arrears of lease rentals.

1.5.17 Statute Accounts

(a) Housing Authority

Audit observation

**Comments of
the Chief Accounting Officer**

Recommendation

Observations on the Staff Administration

A sum of Rs. 7 million had paid for Personnel Emoluments for 21 Staff by the Housing Authority of the Eastern Provincial Council two statutory institutions during the year under review established in terms of Statutes passed by the Eastern Provincial Council. However, neither Scheme of Recruitment nor staff cadre had been approved ranging from 04 to 07 years.

Even though the request for the approval had been forwarded several times to the Department of Management Services, had been rejected.

Action should be taken to approve the cadre and scheme of recruitment.

(b) Road Passenger Transport Authority

Audit observation

**Comments of
the Chief Accounting Officer**

Recommendation

Revenue Management

Revenue from route permit amounting to Rs.29.75 million had been shown in the statement of financial position as a capital instead of recurrent revenue in the statement of financial performance for the year under review.

It has been mentioned as recurrent revenue on income and expenditure statement for the year under review.

Action should be taken to show the revenue from route permit as a recurrent revenue.

(c) **Tourism Bureau**

Audit observation

**Comments of
the Chief Accounting Officer**

Recommendation

Observations on the staff Administration

A sum of Rs. 4 million had paid for Personnel Emoluments for 13 Staff by the Tourism Bureau of the Eastern Provincial Council 02 statutory institutions during the year under review established in terms of Statutes passed by the Eastern Provincial Council. However, neither Scheme of Recruitment nor staff cadre had been approved ranging from 04 to 07 years.

Even though the request for the approval had been forwarded several times to the Department of Management Services, had been rejected continuously.

Action should be taken to approve the cadre and scheme of recruitment.