

## **Head 264 – District Secretariat of Jaffna**

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### **11. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the District Secretariat of Jaffna for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance and cash flow statement for the year then ended 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 provisions of the National Audit Act, No.19 of 2018. The summary report including my comments and observations on these financial statements presented to the District Secretariat in terms of Section 11(1) of the National Audit Act, No.19 of 2018 was issued to the Accounting Officer on 21 June 2022. The Annual Detailed Management Audit Report was issued to the Accounting Officer on 15 August 2022 in terms of Section 11(2) of the National Audit Act, No.19 of 2018. This report is presented to Parliament in pursuance of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read in conjunction with Section 10 of the National Audit Act, No.19 of 2018.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the financial statements give a true and fair view of the financial position of the District Secretariat of Jaffna as at 31 December 2021, 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**

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My opinion is qualified based on the matters described in paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities for the financial statements are further described in the Auditor's Responsibilities Section. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### **1.3 Responsibilities of the Chief Accounting Officer and the Accounting Officer for the Financial Statements**

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The Accounting Officer are responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and provisions in Section 38 of the National Audit Act, No.19 of 2018 and for the determination of the internal control that is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

In terms of Sub-section 38(1)(c) of the National Audit Act, the Accounting Officer shall ensure that an effective internal control system for the financial control exists in the District Secretariat and carry out periodic reviews to monitor the effectiveness of such systems and accordingly make any alterations as required for such systems to be effectively carried out.

#### **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 misstatement, whether due to fraud or error and to issue an auditor's summary 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 on economic decisions taken by users 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 skepticism throughout the audit. I also:

- Appropriate audit procedures were designed and performed to identify and assess the risk of material misstatement in financial statements whether due to fraud or errors in providing a basis for the expressed audit 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.
- An understanding of internal control relevant to the audit was obtained in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District Secretariat's internal control.
- Evaluate the 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.
- Evaluate the overall presentation, structure and content of the financial statements including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accounting Officer 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 Requirements

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I express the following matters in terms of Section 6 (1) (d) of the National Audit Act, No. 19 of 2018.

- (a) The financial statements are consistent with the preceding year,
- (b) The following recommendations made by me on the financial statements of the preceding year had not been implemented.

### Audit Observation

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### Reference to the Paragraph

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A property owned by another is treated as a non-current asset

1.6.1(a)

## 1.6 Comments on Financial Statements

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### 1.6.1 Accounting Deficiencies

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#### Audit Observation

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#### Comments of the Accounting Officer

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#### Recommendation

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- (a) A sum of Rs.280,438 of rental income collected from government quarters and bungalows as per the cash flow statement, was not shown as income in the statement of financial performance.  
It will be shown as income in the future.  
All rental income must be disclosed in the financial statement.
- (b) There was a difference of Rs.5,032,037 between the statement of financial performance and the statement of advance accounts for the year under review.  
This is correctly shown in Annex 1 of the reconciliation statement.  
It should be possible to compare similar figures between accounting statements.
- (c) Due to not accounting for the correct assessed value of land and buildings belonging to a Divisional Secretariat, the value of non-current assets in the statement of financial position had been understated by Rs.77,621,167.  
Currently, the correct value is specified in the Cigas software.  
The correct value of fixed assets should be accounted for.

(d)	Due to non-valuation and accounting of 05 buildings and 11 motorcycles belonging to the District Secretariat and 02 Divisional Secretariats, the statement of financial position did not reflect the correct value of non-current assets.	Once the assessment values of the respective assets are received, they are accounted for.	-Do-
(e)	Although the non-current asset balance as at 31 December 2020 in the statement of financial position, and the treasury notes as at 01 January 2021 should be the same, there was a difference of Rs.55,071,292 between them.	This matter has been discussed with the Public Accounts Department and steps have been taken to correct it.	-Do-
(f)	Non-current assets were overstated in the statement of financial condition due to non-accounting of the disposal of 09 motorcycles amounting Rs.256,500 in 04 divisional secretariat offices.	Actions are being taken to account for the disposal.	-Do-
(g)	Non-current assets were understated in the statement of financial position as a van belonging to the District Secretariat worth Rs.2,600,000 was not accounted for.	Steps have been taken to account for the value of this vehicle promptly.	-Do-
(h)	Purchases of fixed assets during the year under review were understated by Rs.55,145,349 in the statement of financial position than the value shown as per Treasury computer printouts.	This matter has been discussed with the Public Accounts Department and steps have been taken to correct it.	-Do-
(i)	Damage to fixed assets of Rs.2,663,709 was not accounted for in District Secretariat and a Divisional Secretariat.	Erroneously it was not shown in the Financial Statements.	Transactions should be properly accounted for.
(j)	Although the land on which the Karainagar Divisional Secretariat is located, value of Rs.2 million, is owned by a private party, the value was shown in non-current assets in the financial statements. Although an	Not answered.	The private land should be taken over by the government.

office building was constructed on this land for Rs.58.14 million, the ownership of the land had not been taken over by 30 June 2020.

**(k) Non-maintenance of Registers and Books**  
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It was observed during audit test checks that the District Secretariat/Council had not maintained the following registers while certain other registers had not been maintained in the proper and updated manner.

<b>Audit Observation</b> -----	<b>Comments of the Accounting Officer</b> -----	<b>Recommendation</b> -----
<p>(i) <b>Security Register</b></p> <p>A Security Register containing the details of all officers and employees required to give security had not been updated in terms of Financial Regulation 891(1).</p>	<p>Action had been taken to update.</p>	<p>Action should be taken as per Financial Regulations.</p>
<p>(ii) <b>Inventory of Electrical Fittings</b></p> <p>An Inventory of Electrical Fittings had not been updated for more than 8 years in terms of Financial Regulation 454(2).</p>	<p>-Do-</p>	<p>-Do-</p>
<p>(iii) <b>Records of Losses</b></p> <p>A Record of losses had not been updated in terms of Financial Regulation 110 up to date.</p>	<p>-Do-</p>	<p>-Do-</p>
<p>(iv) <b>Record of Liabilities</b></p> <p>A Record of liabilities had not been updated in terms of Financial Regulation 214.</p>	<p>-Do-</p>	<p>-Do-</p>

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| (v)   | <b>Attendance Register of the Procurement Committee and Technical Evaluation Committees.</b><br>The Secretary of the Committee had not updated an attendance register more than 8 years as per the Guideline 2.11.2 of the Government Procurement Guidelines. | -Do- | -Do- |
| (vi)  | <b>Tender Invitation Register</b><br>A Tender Invitation Register had not been maintained in updated manner for more than 8 years.  | -Do- | -Do- |
| (vii) | <b>Fixed Assets Register</b><br>A Fixed Assets Register had not been updated in terms of Financial Regulation 502(2) as appeared in its Appendix II.  | -Do- | -Do- |

**(k) Lack of Evidence for Audit**

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<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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Although the value of a land belonging to a Divisional Secretariat was stated as Rs.13,200,000 in the statement of financial position, there was no evidence of its ownership.	It had been gazette in the year 2021 for takeover by the government. When this is taken over, steps will be taken to include it in the Cigas software package.	Steps should be taken to obtain proof of ownership of the land.

## 2. Financial Review

### 2.1 Management of Expenditure

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
Due to the fact that the expenses were not properly estimated, the remaining allocations of Rs. 12,710,000 in 08 expenditure objects were transferred to other expenditure objects.	Transfers between expenditure objects were made on the agreement of the Chief Accounting Officer.	Estimates should be prepared properly for expenses.

### 2.2 Non-compliance with Laws, Rules and Regulations

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
Contrary to the Ministry of Home Affairs Circular No. 08/2019, a Divisional Secretariat had given Rs.210,000 as a monthly allowance to the salary as entertainment expenses.	Currently, separate payments are being made.	Action should be taken as per the Circular.

### 2.3 Utilization of Provisions made available by other Ministries and Departments

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) Since no funds were received for the works of Rs.1,068,434,962 performed in the year under review, the payments remained as liabilities.	Due to non-release of funds from the Treasury, they are shown as bills in hand.	Liabilities should be settled as soon as funds are received.
(b) During the year under review, out of the allocation of Rs.3,263,094,323 received from 19 other ministries and departments, the allocation of Rs.1,125,558,486 or 34 percent was	This was due to the fact that the treasury did not release the funds and the allocations of the expenditure subjects were	-Do-

saved. Those savings ranged between 05 percent and 100 percent of the net allocation of the respective expenditure objects. blocked.

## 2.4 Irregular Transactions

Audit Observation	Comments of the Accounting Officer	Recommendation
<p>(a) According to the 35 supplement of the Government Procurement Guidelines of 2006, the maximum limit for the purchase of goods by a regional procurement committee is Rs.01 million, but exceeding that limit, 06 Divisional Secretariats had made purchases of a total of Rs.35,924,074.</p>	<p>More attention will be paid to such errors in the future.</p>	<p>Procurement guidelines should be followed.</p>
<p>(b) Contrary to Financial Regulation 137, 02 Divisional Secretariats had made payments on behalf of vouchers amounting to Rs.2,916,452 without authorization for payment.</p>	<p>- Do -</p>	<p>Action should be taken according to the Financial regulations.</p>
<p>(c) (i) Contrary to Financial Regulation 138, 03 Divisional Secretariats had made payments on behalf of uncertified vouchers amounting to Rs.4,625,338.</p>	<p>- Do -</p>	<p>- Do -</p>
<p>(ii) 07 Divisional Secretariats had made payments of Rs.33,723,077 for vouchers without proof of payment confirmation, contrary to Financial Regulations 137, 138, 139 and 237.</p>	<p>Deficiencies in some supporting documents have now been corrected.</p>	<p>- Do -</p>
<p>(iii) The District Secretariat and 07 Divisional Secretariats had written 300 cheques amounting to Rs.119,543,789 before receipt of goods and services and retained them in the office, contrary to Financial Regulations 137 and 138.</p>	<p>By now the deficiencies have been rectified and the above cheques have been given to the concerned.</p>	<p>- Do -</p>



## 2.5 Deposit Balances

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### Audit Observation

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### Comments of the Accounting Officer

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### Recommendation

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| (i) The total amount of payments to be given to third parties by 02 Divisional Secretariats was Rs.393,990 and was kept in the temporary deposit account without being given to the concerned persons for more than 06 months.  | Arrangements will be made to settle.                           | These temporary deposits should be promptly refunded to the concerned persons.                      |
| (ii) A sum of Rs.23,728,618 were received by the District Secretariat and 02 Divisional Secretariats for a project to build 03 high-tech sewage systems. The money was kept in the deposit account for a period of 06 months to 03 years without taking any action to perform the related tasks, or to settle it. | Actions have been taken to settle the above deposits promptly. | Actions should be taken to return these deposits to the relevant parties within the stipulated time |
| (iii) Payments of Rs.2,037,026 made from deposits in a Divisional Secretariat were not certified by two responsible officers as per Financial Regulation 206.   | Currently all vouchers are corrected.                          | Action should be taken according to the Financial regulations.                                      |
| (iv) Six retention deposits totaling Rs.1,643,767 were kept in the deposit account for more than 02 years by the District Secretariat and a Divisional Secretariat contrary to the Financial Regulations 571.   | Arrangements have been made to settle the deposits.            | - Do -  |

## 2.6 Operation of Bank Accounts

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### Audit Observation

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Cheques amounting to Rs. 16,382,753 which were accounted as expenses in the year under review were retained by 02 Divisional Secretariat offices and Contrary to Financial Regulations 141 and 386, the cheques did not even bear the signatures of the drawers.

### Comments of the Accounting Officer

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All the matters have now been rectified and the cheques have been issued to the concerned.

### Recommendation

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Action should be taken according to the Financial regulations.

### 3. Operational Review

#### 3.1 Non-achievement of expected Outcome

Following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) Necessary buildings and machinery for the Nirveli Ashbanana Chips manufacturing project were established and handed over to the Nirveli Ashbanana Producers and Sales Co-operative Society in June 2020. From that date till now all those assets have been unused and without proper maintenance for a period of 02 years. The relevant cooperative society administration was of the opinion that the production costs were high and the machine was unsuitable for the production needs. However, the amount of Rs. 10,325,421 spent on this project was fruitless due to the lack of proper feasibility study.	The District Cooperative Development Assistant Commissioner has informed that the production process will be started using these machines.	Adequate measures should be taken to ensure that projects are properly planned before execution, technical assessments are carried out to ensure their success and unused assets are utilized in a productive manner.
(b) In the year 2020, a sum of Rs.1,980,000 was spent to construct a building for a livelihood training center and only the foundation and a few pillars of the building were completed, then the construction was abandoned.	Although it was stated in the reply that this training center was being used, it was revealed during physical audit that it was a false statement.	- Do -

## 3.2 Procurement

Instances of violating the provisions of the Government Procurement Guidelines of 2006 were as follows.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
(a) 02 Divisional Secretariats had purchased items amounting to Rs.1,672,462 without following the procurement process.	Since there was insufficient time to follow the procurement process and purchase, purchases were made based on the procurement decisions already taken by the District Secretariat.	Procurement guidelines should be followed.
(b) Contrary to Section 3.6 of the Procurement Guidelines, 07 Divisional Secretariats had arranged to purchase goods worth Rs. 30,201,478 through re-orders in a range of 60 percent to 24,700 percent beyond the existing limit to repurchase up to 50 percent of the original contract value.	More attention will be given to such subjects in the future	- Do -
(c) According to 4.1 and 4.4 of the procurement guide, the same procurement should be done at once without dividing, but without reasonable reasons, 02 divisional secretariat offices had divided the procurement into several parts of 02 projects totaling Rs.8,207,258.	For the requests that had already been received, purchases were made in parts. Also, because of the shortage of dollars, the procurement process did not offer to provide more goods at the agreed prices, so it was necessary to re-bid.	- Do -
(d) A Divisional Secretariat had signed agreements on behalf of 02 contracts without obtaining performance security of Rs.290,366 as per section 5.4.8 (a) of the Procurement Guidelines.	A performance security was not obtained from the contractor in error. But, the tasks were completed within the stipulated period. More attention will be paid to such matters in the future.	Performance bonds must be obtained and contracts should be signed.

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| (e) | According to section 8.9 of the procurement guidelines, agreements were not signed for 03 purchases of goods, the value of which was more than Rs.500,000 per procurement, totaling Rs.8,432,824, awarded by 03 Divisional Secretariats. | The divisional secretaries have been instructed to pay more attention to such subjects in the future. | Procurement guidelines should be followed. |
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### 3.3 Losses and damages

Following observations are made.

<b>Audit Observation</b>	<b>Comments of the Accounting Officer</b>	<b>Recommendation</b>
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(a) There was a financial loss of Rs.1,763,627 because instead of buying the goods based on the bid prices called by the Divisional Secretariats, the District Secretariat called the prices again and bought the goods at a higher price.	Due to the notification that it is not possible to supply the goods on the bid prices called by the Divisional Secretariat while giving the supplier a large number of orders, purchases were made according to the bid prices obtained by the District Secretariat.	Procurement guidelines should be followed.
(b) A loss of Rs. 724,293 had occurred due to the purchase of 02 water filling machines by the District Secretariat in 02 procurements, which could have been purchased in single procurement.	Due to the notification that due to shortage of dollars, goods can no longer be supplied at the existing bid prices, Bids were invited again.	- Do -
(c) The milk preservation project, which cost Rs.56,640,750 to be completed in 2019, was not completed until July 2022. However, since the District Secretariat had signed the contracts without obtaining the original copy of the performance security amounting to Rs.4,822,238,	Payments have been made for the amount of buildings constructed and part of the machinery has been received but no payments have been made for that. The performance security had not been extended by the contractor and the security had not been converted into cash due to an error.	The original copies of the surety bond must be obtained and the agreement signed.

the security against the violation of the agreements could not be credited to the revenue.

However, currently the work is being done on the basis of termination.

### 3.4 Internal Control Weaknesses

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#### Audit Observation

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It was observed in the audit test checks carried out in the District Secretariat and 06 Divisional Secretariats that instead of handing over the cheques to the payee, the officers in charge of the cheques, kept signature and received the cheques.

#### Comments of the Accounting Officer

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The signature and rubber stamp of the recipient was noted on the cheque counterfoil and the checks were issued.

#### Recommendation

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Cheques should be handed over to the payee.

### 4. Human Resource Management

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#### Audit Observation

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Out of 1,456 approved staff posts, there were 188 vacancies and 485 excesses as on 31 December 2021.

#### Comments of the Accounting Officer

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Accepted.

#### Recommendation

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Related arrangements should be made to fill the vacancies as necessary and assign the excess staff to other offices.