

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Northern Provincial Council 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 and 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 provisions of the Section 23(1) of the Provincial Councils Act No. 42 of 1987 and National Audit Act, No.19 of 2018. The Summary Report was issued on 09 November 2022 in terms provisions of Section 23(2) of the Provincial Councils Act and sub Section 11 (1) of the National Audit Act No. 19 of 2018. The Annual Detailed Management Audit Report was issued on 06 December 2022 in terms of sub 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 read in conjunction with sub Section 10(1) of the National Audit Act, No.19 of 2018. A copy of this report is also issued to the Governor for presenting in the provincial council in terms of provisions in Section 23(2) of the Provincial Councils Act No. 42 of 1987.

In my opinion, except for the effect of matters described in the basis for Qualified opinion section of my report the financial statements give a true and fair view of the financial position of the Northern Provincial Council as at 31 December 2021 and its financial performance and cash flow for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

1.2.1 Accounting Deficiencies

The following accounting deficiencies were observed.

Audit Observations -----	Comments of the Chief Accounting Officer -----	Recommendations -----
(a) An expense of Rs. 253,384,916 incurred on renovation and improvement of capital assets during the year under review had not been capitalized under the statement of non-current assets, thus the value of the assets had been understated by that amount.	As per the circulars the same procedure is followed since the year 2017 and instructions have been given by the Department of State Accounts to carry out the necessary corrections through an internal circular.	Appropriate action should be taken to include the expenditure incurred on renovation and improvement under non-current assets in financial statements during the period.

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| (b) | Liabilities totalling Rs. 30,146,459 had not been included in the statement of liabilities and commitments presented along with the financial statements. | As it was prepared on the basis of the bills in hand and the bills for the month of December will be received by us by the end of the month of January in the next year, those were not included in the financial statement. | All liabilities should be entered properly. |
| (c) | According to the cash flow statement, non-current assets of Rs.823,615 had been disposed during the year under review. However, steps had not been taken to adjust in the statement of non-current assets. | A sum of Rs. 783,005 relating to Department of Health had been shown in ACA-6 erroneously. Although non-current assets had been sold at Rs. 40,610 in the Office of the Deputy Chief Secretary – Planning, value of the sale had been shown erroneously, thus this error was incurred. | Correct value of the non-current assets should be disclosed in the financial statements. |
| (d) | Non-current assets of 2,987,802 belonging to the Provincial Department of Rural Development had been understated in the Statement of Financial Position. | Actions are being taken to rectify the reasons for difference as per report of the fixed assets and reconcile the amounts of both statements at current year. | -do- |
| (e) | There was an unreconciled difference of Rs. 5,351,156,079 between the value of non-current assets owned by the Provincial Department of Education as at 31 December 2021 and the value of those assets as at that date according to the report of the CIGAS software. | -do- | -do- |
| (f) | A loss of Rs. 9,944,632 in relation to the accidents of 11 vehicles which were not reimbursed by the insurance company had not been disclosed in notes (i) and (ii) presented along with the financial statements. | It was instructed relating to update of register on losses and all of them had been updated now. It will be disclosed in notes (i) and (ii) of the financial statements of the year 2022. | Losses and damages should be disclosed in the financial statements properly. |

I conducted my audit in accordance with the Sri Lanka Auditing Standards (S.L.Au.Ss). My responsibility with regard to financial statements is further described under the section “Auditors Responsibility”. I believe that the audit evidence that I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation of financial statements that give 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 misstatements, 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 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 to prepare annual and periodical statement.

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

My objective is to obtain a 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, Misstatement 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, exercise professional judgment and professional skepticism throughout the audit. I also:

- Identify and assess the risk of material misstatements of the financial statements, whether due to frauds 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 effect of a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery intentional omission, misrepresentation or override of internal control.
- Deliberate omissions or circumvention of internal controls cause fraud to occur.
- Obtain and 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 internal control.
- Evaluate the appropriateness of applied accounting policies and reasonableness of accounting estimates and the disclosures of related party transactions done by the management.

- Evaluate the overall presentation, Structure and contents of the financial statements including the disclosures and whether the financial statements represent the underline 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 were identified during my audit.

1.5 Comments on the Financial Statements

1.5.1 Head 411 – Provincial Ministry of Agriculture and Agrarian Services, Animal Husbandry, Irrigation, Fisheries and Water Supply

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
<p>Construction activities of 02 works had not been completed within the extension period of contract which was entered. However, performance security valued at Rs. 663,700 could not be credited to the income due to non-receiving of extension of period for performance security thereof.</p>	<p>Payment of remaining work relating to renovation of Tharmakerny road had to be paid and retention money had been debited in the general deposit account. A request had been forwarded for giving extension of period for performance security relating to Pachchilaipalli Ayurvedic hospital. However, request had been made by the contractor to terminate the work as per mutual understanding.</p>	<p>Action should be taken to obtain performance security within the prescribed period while awarding contracts.</p>

1.5.2 Head 431 – Provincial Department of Irrigation

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
<p>(a) Contrary to Guideline 6.1.4 of the Government Procurement Guidelines 2006, bid documents had been issued for 11 work schemes with estimated value of Rs. 62,250,000 without maintained related documents.</p>	<p>Documents related to issue of bid documents are currently being maintained.</p>	<p>Adherence to the prescribed procurement guidelines should be ensured.</p>

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| (b) | Contrary to paragraph 04 of section 01 of Document ICTAD/SBD/03 issued by the Institute for Construction Training and Development (ICTAD), action had been taken by the Department of Irrigation to award the contract of Rs. 2,160,207 to a contractor who has not a valid registration in the Institute for Construction Training and Development. | Taking into consideration the adverse situation in the country due to Covid 19, the execution of works and effective utilization of government funds, the above work had been awarded to the lowest bidder. | The provisions of the prescribed document should be followed. |
| (c) | A sum of Rs. 18,261,241 had been spent for 08 projects executed in the year under review, but all those projects had been abandoned without being completed. | Due to the Corona epidemic and adverse situations in the country, the final payments could not be made before the end of the financial year. Continuous actions have been taken to complete in the coming year in a manner to fulfill the related objectives and none of the related projects have been abandoned without being implemented. | Priorities should be identified and works should be completed. |
| (d) | Although a sum of Rs. 32 million had been spent and completed the lift irrigation project for upper agricultural lands by Puluthiyanaaru pond in the year 2015, the project has not been utilized until now. | After the renovation in 2016, it was officially handed over to the relevant organization by the then Chief Minister. After the renovation, the urgent and essential technical advice related to the relevant project is being given till now. | A feasibility study should be done properly before executing projects. |

1.5.3 Head 450 – Provincial Department of Health

Audit Observation	Comment of the Chief Accounting Officer	Recommendation
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(a) Payment of Rs. 3,599,640 had been made from November 2015 to July 2020 for the monthly transport and fuel allowance given to a Medical	A letter has been sent by the Secretary to Ministry to the Provincial Health Director to recover irregular monthly	Appropriate action should be taken regarding irregular payments made.

- Officer Grade – 01 holding the post of Medical Superintendent which is categorized under Deputy Medical Administrative Grade contrary to the provisions of Public Administrative Circular No. 22/99.
- travel allowance of Rs 3,599,640 paid from the concerned officer. It will be notified once recovered.
- (b) An incinerator valued at Rs. 8 million installed at Pointpedro Hospital in October 2016 had become inoperable due to lack of adequate safeguards, improper maintenance after warranty period and installation without proper feasibility study.
- Efforts were made to shift the incinerator to another location, but due to public protests, no other location has been found so far. However, measures have been taken to protect the machine.
- Formal feasibility studies should be done before implementing the projects.
- (c) Action had not been taken to cancel bid security of Rs. 83,000 relating to bidders who had not undertaken two works after issuing acceptance letter and credit it to government revenue.
- I would like to inform you that action had not been taken to transfer to the government revenue due to travel restrictions imposed between districts across the country due to the heavy impact of the Covid 19 pandemic.
- The reasons for revenue loss incurred should be identified and the revenue loss should be rectified.
- (d) Action had not been taken as per guideline 5.4.8(a) of Government Procurement Guideline 2006 that Performance security should be transferred to revenue within the prescribed period when a bidder fails to perform the work. Therefore, revenue of Rs. 228,000 to be received to the Government had been lost.
- As per the letter of acceptance, the date of commencement of the work is mentioned as 18.08.2021. However, the work was stopped as per the formal notification on 15.09.2021. Hence, action had not been taken to recover the performance security of the concerned supplier amounting to Rs. 228,000.00.
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- (e) (i) As per guideline 5.4.8 (b) of the Procurement Guidelines 2006, performance security should be obtained beyond 28 days from the date of completion of a contract, but 20 construction work schemes estimated at Rs.
- The performance security was taken up to the date of completion of the work erroneously. In the future, performance security will be taken for more than 28 days.
- Adherence to the prescribed procurement guidelines should be ensured.

- 91,710,849 had been obtained performance security valid only up to the date of contract completion.
- (ii) In the procurement of dry foods for hospitals with estimated value of Rs. 6,722,540, 10% of performance security to be obtained as per the procurement guidelines was obtained by reducing Rs.336,127. At present, 10 percent performance security is being obtained. -do-
- (iii) Contracts had been awarded for the purchase of 07 goods valued at Rs. 41,931,033 without obtaining performance security. Advice has been given to get performance security while purchasing goods in the future. -do-
- (f) Contrary to Guideline 6.1.4 of the of Procurement Guidelines 2006, although the relevant department had issued bid documents for 05 work schemes with an estimated value of Rs. 369,299,000, no records related to it had been maintained. Records relating to issue of bid documents are maintained. -do-
- (g) Although the letter of acceptance as per guideline 8.7.1 (b) of the Procurement Guidelines 2006 should be issued within the bid validity period, a contract worth Rs. 1,620,000 was issued after 03 days of expiry of the bid validity period. Due to heavy workload and visits of officers to COVID – 19 isolation centers on rotation basis, the acceptance letter for this work could not be sent within the stipulated time. -do-
- (h) Contrary to Guideline 8.9.1 (b) of the Procurement Guidelines 2006, 08 procurements totalling Rs. 43,436,553 had been executed without signing the contract. In future, it has been advised to sign contracts for the purchase of goods as per guideline 8.9.1 (b) of the Procurement Manual and Guidelines. -do-

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| (i) | As per Paragraph 30 of Section 01 of Document ICTAD/SBD/03 issued by the Institute for Construction Training and Development (ICTAD), the contract should be entered into within 28 days of the issuance of the letter of acceptance, but contrary to this, contracts of four work schemes totalling Rs. 13,677,000 were signed after a delay of between 06 days and 38 days. | Delays occurred due to delays in technical and evaluation work on the procurement process due to the spread of Covid-19 and the limited performance of duties in government offices as per Circular No. 3/2021. | Compliance with the provisions of the relevant document should be confirmed. |
| (j) | In spite of the fact that the performance security should be obtained within 14 days of the issuance of the letter of acceptance of the contract as per paragraph 31 of section 01 of document ICTAD/SBD/03 issued by ICTAD/SBD/03, The period ranging between 02 days and 52 days was delayed while obtaining performance security of 12 contracts worth Rs.126,792,770. | The contractors who received the letters of acceptance had started the preliminary work of setting up the work schemes at the work site. However, the performance security was paid late. | -do- |
| (k) | 14 vehicles remained unused due to non-repair or lack of vehicle registration certificate. Also, preliminary investigations have not been conducted up to now for 04 vehicle accidents that occurred during the year under review. Further final investigations have not been completed for 04 accidents that occurred in previous years. | Explanations have been requested for non-repair of 04 vehicles. The ownership transfer documents of 02 vehicles and 07 three-wheelers have been submitted to the motor traffic department. Steps have been taken for formal inquiry for 02 vehicles. Initial investigation reports have been finalized for 03 vehicles. For 03 more vehicles, instructions have been given to complete the preliminary investigations as soon as possible. Also, one vehicle was handed over to the insurance company as it was completely damaged. | Adequate action should be taken to repair the vehicles and investigations should be done in due periods as per the Financial Regulations and the Establishment Code. |

(l)	The recruitment procedures of Professions Supplementary to Medicine Health Service Officers which totaled 1127 out of approved cadre had not been updated till now.	The service minute has been approved for 07 posts. For others, continuous action is being taken as per the instructions of the Provincial Public Service Commission.	Steps should be taken to update the service minute/ recruitment procedures etc.
(m)	There were 113 vacancies out of 865 posts of approved medical staff.	Staff vacancies of Mannar district has reduced to 32. There are 7 vacancies in Jaffna district.	Appropriate continuous action should be taken to fill up the vacancies.
(n)	There were 188 vacancies out of 1119 posts of Nursing Officers and out of that, 87 vacancies were in Jaffna district.	Due to the appointment of nursing officers, the number of vacancies had been decreased to 126 and it had been decreased to 58 in Jaffna district. The excess and vacant posts in Kilinochchi district have been rectified.	-do-

1.5.4 Head 460 – Provincial Department of Education

Audit Observation -----	Comment of the Chief Accounting Officer -----	Recommendation -----
(a) Vacancies in the posts of divisional director of education and assistant director of education were filled with 30 principals and 15 teachers.	The roles of these officers are essential. Therefore, these duties are assigned on the basis of covering the duties belonging to the officers of next level of service in the educational administrative structure that can be performed.	Appropriate continuous action should be taken to fill up the vacancies.
(b) There were 224 vacancies out of 507 approved cadre of school watcher and 06 labourers were included in the school cadre without proper approval.	New appointments have been suspended in accordance with the circular of the Ministry of Finance.	-do-

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| (c) | Five new quarters valued at Rs. 26.81 million had been constructed, but it had not been used for the last 03 to 05 years due to lack of electricity and furniture. | Instructions are given for further action. | Appropriate action should be taken on idle assets. |
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1.5.5 Head 481 – Provincial Department of Land Commissioner

Audit Observation	Comment of the Chief Accounting Officer	Recommendation	
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(a)	According to Section 19(2) of Chapter 464 of the Land Development Ordinance, 702 land permits prepared for 32 Grama Niladhari Divisions and 243 grant papers prepared for 27 Grama Niladhari Divisions had been kept at the Karachchi Divisional Secretariat since 2014 without being distributed to the respective beneficiaries.	Actions are being taken to provide the said land documents within a month and suitable actions are being taken promptly and issued to the owners within a month.	Appropriate action should be taken regarding unissued land licenses and grant papers.
(b)	Action had not been taken to recover outstanding land lease of Rs. 21,407,487 receivable for business purposes by 06 Divisional Secretariats for more than one year.	Out of total receivable lease of Rs. 24,887,109, a sum of Rs.1,290,222 had been collected in this year. Arrangements have been made to recover the remaining amount through the relevant divisional secretariat.	Appropriate action should be taken to recover uncollected dues.

1.5.6 Provincial Fund Management

Audit Observation	Comment of the Chief Accounting Officer	Recommendation	
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(a)	Loan balances of Rs. 3,467,619 due from 30 officers who have been transferred to other government institutions remained as arrears for more than 02 years.	As on 31.05.2022, outstanding loan balance due from 30 officers had been reduced to Rs. 2,711,245. Also, further steps have been taken to recover this balance.	Prompt continuous action should be taken regarding unrecovered balance.

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| (b) | Adequate actions had not been taken to recover loan balance of Rs. 5,651,631 from 71 officers who had left service, deceased, retired and suspended. | Due to the measures taken to recover the loan balance, the balance to be collected from the 58 officers belonging to the above mentioned category has been reduced to Rs. 4,066,699. | -do- |
| (c) | Exceeding the allocation of 05 expenditure items of Rs. 23,987,770 had been committed for liabilities. | Unexpected new costs and increases in costs due to the COVID-19 pandemic incurred in the end of the year and unscheduled operations are shown in year-end accounts as liabilities in anticipation of next year's provision. | Budgetary control should be followed properly. |
| (d) | Expected revenue of Rs. 313,483,834 from 12 income codes had not been collected and it represents ranging from 13 per cent to 63 per cent of estimated revenue. | A sum of Rs. 313,483,834 had not been collected in the government's revenue codes ranging from 13 per cent to 63 per cent due to the shutdown of the country due to the COVID-19 pandemic, the impact on economic activities. | In accordance with the provincial financial rules and the relevant circulars, the estimates of the government revenue should be prepared at the optimum level. |
| (e) | Stamp duties totaling Rs. 80,855,814 belonging to the local government institutions had been transferred to the income of the provincial council by the provincial treasury in the year under review due to the non-submission of requests by the relevant local government institutions for over 02 years. | There had been delays in obtaining land registrations details from provinces other than the Northern Province. Actions are being taken by local government institutions to submit reimbursement requests and recover these stamp duties. | Actions should be taken to prepare a methodology in which the amount due to the local government institutions can be identified and issued to the relevant institutions. |