

Northern Provincial Council - 2011

1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraphs from 3 to 6 of this report, the financial statements give a true and fair view of the financial position of the Northern Provincial Council as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 De-merger of the North East Provincial Council

The then North East Provincial Council was de-merged on 22 December 2006 based on the ruling given by the Supreme Court of the Democratic Socialist Republic of Sri Lanka. The Northern Provincial Council is in operation with effect from 01 January 2007. However, a Gazette Notification regarding the de-merger and the establishment of the Northern Provincial Council had not been published up to 31 July 2012. The elected Northern Provincial Council was not established up to 31 July 2012.

1.3 Presentation of Financial Statements

(a) *Fund Accounts of the Provincial Council*

Fund accounts of the Provincial Council for the year under review had been rendered to audit on 28 March 2012.

(b) *Governor's Trust Fund*

A Governor's Trust Fund for Northern Provincial Council had been created with effect from 01 January 2007. Statute for the creation of Fund had not been passed in the Provincial Council. However, the Hon. Governor had on his own initiative created the Governor's Trust Fund in terms of Paragraph 03 of the Governor's Memorandum No. 01/2007 of 01 January 2007. The Governor's Trust Fund should be consisted of donations or contribution received from the Members of the Public, Organizations, Societies and Income generated from projects undertaking. However, no any such contribution had been received from the above sources during the year under review and financial statements of the Governor's Trust Fund for the year ended 31 December 2011 had been rendered to audit, on 02 Feb 2012.

(c) *Other Financial Statements*

The progress of presentation of other financial statements for the year under review as at 30 April 2012 are given below.

Category of Financial Statements -----	Total No. of Financial Statements to be presented -----	Total No. of Financial Statements presented up to 30 April 2012 -----	Total No. of Financial Statements not presented as at 30 April 2012 -----
(a) Appropriation Accounts	32	32	-
(b) Revenue Accounts	06	-	06
(c) Advance to Provincial Public Officers Accounts	32	32	-
(d) Commercial Advance Accounts Activities	04	04	-
	----- 74 =====	----- 68 =====	----- 06 =====

1.4 Rendition of Annual Performance Report by the Provincial Council and Local Authorities -----

- (1) Annual performance report of the Provincial Council in terms of paragraph 04 of the General Treasury Circular No. 01/2004 dated 24 February 2004 had not been prepared and rendered to audit.
- (2) Annual performance reports of the 34 Local Authorities functioning under Northern Provincial Council had not been prepared and submitted to the Provincial Council in terms of paragraph 4.3 of the General Treasury Circular No. 01/2004 dated 24 February 2004.

1.5 Tabling of Annual Reports of the Provincial Council together with the Auditor General's Reports -----

The Auditor General's reports on the financial statements of the Northern Provincial Council for the years 2007 - 2010 had not been tabled in the Assembly of the Council up to 6 October 2012 in terms of Section 23 (2) of the Provincial Councils Act No. 42 of 1987 due to non function of the elected Provincial Council. As a result no any mechanism adopted by the Provincial Council to rectify the matters with regard to irregularities pointed out in the Auditor General's reports since 2007.

2. Comments on Financial Statements -----

2.1 Accounting Policies -----

Accounting policies adopted in preparation and presentation of Financial Statements had not been disclosed in the financial statements in terms of Sri Lanka Accounting Standard No.3.

2.2 Accounting Deficiencies -----

The following observations are made.

(a) **Unexplained differences**

Unexplained differences observed during the course of audit are given in the following table.

<u>Items of Financial Statements</u>	<u>Amount as per Financial Statement Rs.</u>	<u>Amount as per Appropriation Accounts Rs.</u>	<u>Differences Rs.</u>
(i) Deposit Account	570,579,237	570,600,237	21,000
(ii) Payment of Loans and Advances to Provincial Public Officers	254,199,626	224,539,547	29,660,079
(iii) Recovery of Loan and Advances from Public Officer	216,686,327	262,052,847	45,366,520

(b) **Understatement and Overstatement in the Accounts**

- (i) A sum Rs. 8,904,667 being credit balances in the advance account activities of the Livestock Farm and Agriculture Farm and mechanical workshop had been transferred to Provincial Fund Accounts through journal entries. As a result the Provincial Fund Accounts had been overstated by Rs. 8,904,667.
- (ii) Arrears of revenue from various sources of the Provincial Council had not been ascertained and brought to Provincial fund account.

2.3 Common Lapses in the Appropriation Accounts

Repeated common lapses such as non-utilization of provisions fully or partly, incurring expenditure without provision in the Annual Estimates, omission of outstanding liabilities in the accounts, recurrent expenditure being charged to capital expenditure and vice-versa, non-rendition of details of capital expenditure, lack of adequate explanations for the savings and non-reconciliation of departmental books with Provincial Treasury books were observed in the Appropriation Accounts rendered in respect of certain Provincial Ministries and Departments for the year under review too.

In this regard the Chief Secretary had not taken meaningful action on the common lapses on appropriation accounts pointed out in the previous year's audit report as irregularities were increased continuously due to failure to take appropriate actions on timely basis.

In addition to these lapses, the following deficiencies were also observed during the course of audit on the appropriation accounts of the Provincial Ministries and Departments for the year under review.

- (a) Independent confirmations had not been obtained for liabilities amounting to Rs 16,597,536 relating to supplies, Fuel, Electricity etc.
- (b) Expenditure aggregating Rs. 198,781,457 had been incurred exceeding the estimated provisions by 22 Ministries and Departments and approvals in terms of Provincial Financial Rule (PFR) 46 had been obtained after incurring excess expenditure.
- (c) Unsettled losses of Rs. 59,689,555 in respect of previous years had not been carried forward to the subsequent year.
- (d) Expenditure amounting to Rs. 673,784,106 had been incurred relating to 113 objects under 28 Heads of expenditure without creating new object codes.
- (e) Action had not been taken to the losses aggregating Rs. 19,340,000 in terms of Provincial Financial Rules 61 to 74 and it had not been disclosed in the Appropriation account for the year 2011 by the Zonal Education office, Jaffna.

2.4 Non utilization of Provisions

- (a) The entire provision of Rs. 1,243,674,200 relating to 190 objects under 28 Heads of expenditure made in the Annual Financial Statements for the year under review had not been utilized for the intended purposes.
- (b) Supplementary provision amounting to Rs.24,176,817 obtained under 18 objects during the year under review had not been utilized for the intended purpose.

2.5 Expenditure incurred without Provision.

Capital expenditure aggregating Rs. 146,332,726 had been incurred by 16 Departments without provision and this expenditure were regularized at the end of the year from surcharge account.

2.6 Erroneous Classifications

Capital expenditure amounting to Rs.12,550,825 incurred by the Provincial Department of Buildings with regard to capital improvement of Circuit Bungalow, Ratmalana had been erroneously classified under recurrent expenditure. This expenditure was relating to the Provincial Public Administration, but not to the Department of Buildings.

2.7 Deficiencies in the Advances to Public Officers Accounts

The following observations are made.

- (a) Proper action had not been taken to recover the loan balances aggregating Rs.7,033,801 due from the officers who were transferred out of the Provincial Ministries and Departments to other Provincial Ministries and Departments, retired/deceased, released to Projects, vacated posts, and interdicted.

- (b) The Provincial Ministry of Education, Cultural Affairs and Sports had prepared the reconciliation statements with unidentified balances amounting to Rs. 1,428,753.
- (c) It was not possible to ascertain in audit as to whether the debit balance of Rs.524,028,312 shown in the financial statements as due from 05 Ministries and 27 Departments in respect of unsettled loans, reflects the actual realizable amount as proper books of accounts had not been maintained by the respective Provincial Ministries and Departments.
- (d) Action had not been taken to recover the outstanding loan balances amounting to Rs. 5,928,472 due from various categories of staff for over 4 years.

2.8 Settlement of Outstanding Imprest Balances

Imprest balances aggregating Rs.639,411 had remained unsettled by two Provincial Departments. In this regard action had not been taken to recover the outstanding imprest balances from the respective institutions. In this connection the Chief Secretary had stated that the imprest balances had been settled on 29 February 2012 and 20 June 2012 respectively.

2.9 Deficiencies in the Accounts of the Commercial Advance Account Activities

The following observations are made in respect of the under mentioned commercial advance account activities.

- (a) **Maintenance of Livestock Farms – Item No. 43202**
 - (i) The value of the fixed assets in the livestock farms at Poonthottam, Chekkadipulavu and Atchchuveli had not been ascertained and brought to accounts.
 - (ii) Cadre for the Commercial Advance Accounts Activities of the Northern Provincial Council had not been determined and fixed/approved by the Provincial Cadre Commission.
 - (iii) Provision for expected losses in the working of advance Accounts activity had not been made in terms of Provincial Financial Rule 18.3.
 - (iv) Statement of losses had not been furnished to audit in terms of Provincial Financial Rule 18.4.
 - (v) **Regional Live Stock Farm, Vavuniya**

Out of the 174,173 eggs placed into the incubator for hatching during the year under review 125,140 eggs only had been hatched which representing 72% of the input. Accordingly 28 per cent of the eggs had spoilt.

(vi) **Regional Live Stock Farm, Atchuveli**

Out of the 52,916 eggs placed into the incubator for hatching during the year under review 36,684 eggs only had been hatched which representing 69% of the input. Accordingly 31 per cent of the eggs had spoilt.

(b) **Textile Industries - Item No. 47302**

- (i) The closing stocks to the value of Rs. 2,586,162 for the year under review had been disclosed at sales value instead of showing at cost or net realizable value whichever is lower. Further, the stock verification reports had not been made available for audit.
- (ii) Separate profit and loss account had not been prepared for each centre to ascertain the performance of each centre.
- (iii) Proper records had not been maintained in respect of purchase of dyeing items and distribution them among the Weaving Centres.
- (iv) The value of Yarn given by the Central Government to Handloom Centres had not been ascertained and brought to accounts. Proper records had not been maintained in respect of receipts of Yarn from Central Government and distributing them among the weaving centres.

(c) **Machinery Unit – Item No. 46202**

- (i) Separate profit and loss account had not been prepared for each Machinery centre to ascertain the performance of each centre.
- (ii) No action had been taken in respect of debtors aggregating Rs. 4,504,900 which were remained as unrecovered as at end of the year under review.
- (iii) The net profit for the year 2011 aggregating Rs. 5,684,215 had been adjusted in the contributed capital account contrary to PFR 281(2).
- (iv) The value of assets shown in the Financial Statements could not be verified in audit as to whether the figures shown in the Financial Statements were reflecting the actual value of the assets of the advance account activities in the absence of physical verification reports.
- (v) Provision for depreciation in respect of fixed assets valued at Rs. 150,816,164 had not been made in the accounts for the year under review.

2.10 Revenue Accounts

Following observations are made.

- (a) Although six numbers of Revenue Codes had been given in the annual financial statements, revenue accounts of the Provincial Council for the year under review had not been prepared and furnished to audit.

- (b) In terms of the provisions of the 13th Amendment to the Constitution of the Democratic Socialist Republic of Sri Lanka revenue such as rent on Government Quarters, interest on advance accounts, vehicle license fees and stamp duties etc. amounting to Rs. 1,312,766,180 had not been taken into the Provincial Funds of the Council in the absence of Statutes passed by the Provincial Council.

2.11 Bank Reconciliation Statements

Following observations are made in respect of adjustments shown in the bank reconciliation statements of certain Provincial Council Institutions.

- (a) Follow up action had not been taken by the Provincial Department of Education on unrealized deposits amounting to Rs. 20,000 for a period of over 6 months by making inquiries from the banks.
- (b) Action had not been taken on the 180 Nos of cheques valued at Rs. 17,208,609 issued but not presented for payments for over six months in terms of P.F.R 237.
- (c) Unidentified debits and credits relating to one bank account amounting to Rs.10,595 and Rs.448,646 respectively were observed in the Department of Regional Director of Health Services of Jaffna, Mullaitivu and Vavuniya. However action had not taken to identify these debits and credits and adjust the relevant accounts.

2.12 General Deposit Accounts

The following observations are made.

- (a) List of the lapsed deposits had not been prepared at the end of each half year in terms of FR No. 571.
- (b) Action had not been taken on deposit balances amounting to Rs. 2,811,477 which were remaining in the accounts of Provincial Ministries and Departments for over 03 years.
- (c) The value of general deposits amounting to Rs. 8,481,261 for the period of over 2 years as at 31 December 2011 on which action could have been taken in terms of Financial Regulation 571 but action had not been taken
- (d) A sum of Rs. 871,558 received during the year under review as stamp duty, contributed pension fund, loan recoveries, contribution to Public Service Provident Fund and Withholding Tax had been kept in the deposit accounts without remitting to the relevant Institutions.
- (e) Although a sum of Rs. 88,515,197 had been transferred to the deposit accounts as unspent capital provision during the previous year, this money had not been utilized for the intended purpose and as a result the capital expenditure had been overstated in previous year.

- (f) A cheque to the value of Rs. 344,446 drawn and canceled subsequently during the year under review had been kept in the deposit account by the Provincial Director of Health Services without making appropriate adjustments.
- (g) The Department of Health and Department of Education had prepared the deposit accounts with unidentified balances amounting to Rs. 62,032,964.
- (h) Funds relating to 5 projects aggregating Rs. 17,329,188 had been kept in the deposit accounts without being utilized for the intended purposes.
- (i) Funds aggregating Rs. 284,225,659 received for the various purposes by fifteen departments including Provincial Treasury, Provincial Ministries and Governors Secretariat had been kept in the deposit account over 2 years without utilizing for the intended purposes.
- (j) Motor bicycles donated by the several NGOs including Food and Agriculture Organization for the farmers at free of charges had been given to the officers at concession price by the Ministry of Agriculture. In this regard recoveries amounting to Rs. 71.4 Million made from the beneficiaries of Motor bicycles were kept in the deposit account without crediting to the Provincial Revenue.

2.13 Lack of evidence for Audit

- (i) 246 items in the accounts relating to 18 Provincial Institutions aggregating Rs. 141,838,732 could not be satisfactorily vouched in audit due to non-availability of required evidence such as bills, receipts, requisitions, confirmations, goods received notes, goods issued notes, works completion certificates etc.
- (ii) Balance of miscellaneous deposit amounting to Rs. 1,058,657 had been transferred to provincial fund account through journal entries without sufficient documentary evidence.

2.14 Rendition of Information to Audit

- (i) According to the information made available to audit several secretaries have owned houses in Jaffna. However the Provincial Council had given houses taken on rent to those secretaries. In this regard details of payment of rent, Electricity, Water bills etc. made to those houses from the Provincial Fund had not been furnished to audit in terms of FR 122 even though called for.

- (ii) Although several vehicles belonging to the Provincial Council were met with accidents during the year under review the particulars of such vehicles were not furnished to audit even though called for.
- (iii) Although several appointments had been made to the Local Authorities by the Provincial Council without considering of cadre requirements, scheme of recruitment, age limits, Educational qualifications etc, the details of those appointments made had not been furnished to audit.
- (iv) Details of Value Added Tax paid to the suppliers and contractors by the Provincial Ministries and Departments had not been furnished to audit even though called for.

2.15 Non-compliance with Laws, Rules, Regulations etc

Non compliances with the provisions in the following Laws, Rules and Regulations were observed during the course of audit.

a) Provincial Financial Rules

Nos. 47(1), 51, 70, 69, 70(5), 76, 105,106,107, 166(3), 172, 220(1), 236(3), 237, 260 (iii), 261, 301, 365(1), 367, 368, 403, 407, 415 (1), 420 (1) (v) (xiii), 433, 434 (2), 434(5), 434 (6)

b) Public Finance Circular No.361 of 14 August 1988

2.16 Implementation of Establishment Matters contrary to the Policies of the Central Government

Following observations are made.

- (a) According to Circular No. PD/BP/9 dated 01 June 1999 issued by the Ministry of Provincial Councils and Local Government, the implementation of establishment matters of the officers of the Provincial Public Service should as far as possible be in accordance with the procedures relating to the officers in the corresponding posts of the Public Service. Instances of non-compliance with that provision are given below.
 - (i) Rental had not been recovered from the Secretaries who were in occupation in the houses taken on rent which were fully furnished with household items to the value of Rs 150,000 (approximately) per Secretary and payment of electricity and water bills for those houses taken on rent and occupied by them also had been made from the Provincial Funds. Action had not been taken in terms of Section 5:3 of Chapter XIX of the Establishments Code and vide a letter dated 06 August 2001 addressed to the Chief Secretary to the then North East Provincial Council by the Secretary, Ministry of Public Administration to recover rent from all

officers including Secretaries for occupation of Government Quarters and the electricity and water bills have to be settled by them. In this connection the Chief Secretary had stated that due to the absence of the Council and the special approval of the Hon Governor, the facilities and privileges enjoyed by the similar categories in the central government and other provincial councils were given to our secretaries too.

- (ii) 14 Nos of Buildings were taken on rent by the Provincial Council for office purposes since January 2011 without adopting proper procurement procedure and a sum of Rs.7,467,252 had been paid as rental during the year under review. In this regard valuation for the payment of rental had not been obtained from the Chief Valuer of the Valuation Department.
- (iii) A sum of Rs. 9,707 million had been paid as salaries to the staff attached to the Provincial Ministries and Departments during the year under review without obtaining approval from the Salaries and Cadre Commission.
- (iv) Although cadre for Regional Commissioner were not approved, reemployed non Sri Lanka Administration Service Officers were appointed to Kilinochchi, Jaffna and Vavuniya as Regional Commissioners on contract basis. A sum of Rs. 1.5 million had been paid as salaries in addition to the vehicle maintenance, fuel and other office maintenance expenditure to them contrary to the Public Administration Circular No. 9/2007 dated 11 May 2011.

3. Financial and Operating Review

3.1 Financial Results

According to the Financial Statements presented, the operation of the Provincial Council Fund for the year under review had resulted in a surplus of Rs. 721,712,394 as against the deficit of Rs. 47,201,940 for the preceding year, thus indicating an improvement in the financial results by Rs. 768,914,334 due to increase in Non Taxable Revenue and Government Grant by Rs. 9,775,312,049.

3.2 Financial Performance

According to the Financial Statements presented, a summary of the revenue and expenditure for the year under review and the preceding year are given below.

Revenue Items	<u>Revenue</u>					
	<u>Budget</u> Rs. Million	<u>2011</u> <u>Actual</u> Rs. Million	<u>Variance</u> Rs. Million	<u>Budget</u> Rs. Million	<u>2010</u> <u>Actual</u> Rs. Million	<u>Variance</u> Rs. Million
Taxable and Non - Taxable Revenue	42	1,312.80	(1,270.80)	35.23	155.19	(119.96)
Government Grants	11,717.20	10,870.70	846.50	11,757.17	11,320.21	436.96
	11,759.20	12,183.50	424.30	11,792.40	11,475.40	317.00
Expenditure	<u>Expenditure</u>					
	<u>Budget</u> Rs. Million	<u>2011</u> <u>Actual</u> Rs. Million	<u>Variance</u> Rs. Million	<u>Budget</u> Rs. Million	<u>2010</u> <u>Actual</u> Rs. Million	<u>Variance</u> Rs. Million
Recurrent expenditure						
Personal Emoluments	7,606	7,583	23	6,800.16	6,783.02	17.14
Others	<u>2,162</u>	<u>2,124</u>	<u>38</u>	<u>1,899.84</u>	<u>1,893.20</u>	<u>6.64</u>
Sub Total	9,768	9,707	61	8,700.00	8,676.22	23.78
Capital Expenditure	1,949	1,754	195	3,057.17	2,846.20	210.97
Grant Total	11,717	11,461	256	11,757.17	11,522.42	234.75

3.3 Operating Review

Following observations are made.

- (a) Total expenditure for the year under review was Rs. 11,461 million and of this, 84.6% represented recurrent expenditure while 15.4% represented capital expenditure. Further out of the total expenditure a sum of Rs. 7,583 million or 66 per cent had been incurred for personal emoluments.
- (b) Arrears of revenue under the motor vehicle revenue licenses had not been ascertained and brought to the Financial Statements.

3.4 Utilization of Provincial Funds

Particulars of funds received from various sources for the Development Work proposals of the Provincial Council and the actual expenditure incurred thereon are given below.

<u>Description of Items</u>	<u>Funds Received</u>	<u>Actual Expenditure</u>	<u>Savings</u>	<u>Percentage of Utilization</u>
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>%</u>
(i) Provincial Specific Development Grants (PSDG)	1,150,000,000	1,040,120,034	109,879,966	90
(ii) Education Sector Development Project (ESDP)	80,500,000	58,876,300	21,623,700	73
(iii) Northern Road Connectivity Project (NRCP)	700,000,000	481,626,472	218,373,528	69
(iv) United Nations Children's Fund (UNICEF)	309,000,000	305,353,651	3,646,349	99
(v) Provincial Road Project (PRP)	654,000,000	234,089,574	419,910,426	36
(vi) Criteria Based Grant (CBG)	344,319,000	276,250,000	68,069,000	80
(vii) Pro-poor Rural Development Project/ United Nations Population Fund (UNFPA)	45,000,000	2,027,680	42,972,320	04
(viii) Matching grant	30,000,000	27,000,000	3,000,000	90
(ix) Nawodaya Northern Provincial Council	100,000,000	-	100,000,000	00
	<u>3,412,819,000</u>	<u>2,425,343,711</u>	<u>987,475,289</u>	<u>71</u>

3.5 Provincial Funds

The following observations are made.

- (a) Even though the bank balances had been increased continuously ranging from Rs. 400 million to Rs. 1,775 million from January 2007 to December 2011 and this matter was pointed out in my previous years audit report too, no action had been taken to utilize this money for the benefit of the general public in the Province up to 30 June 2012.

- (b) 217 cheques valued at Rs. 15,188,932 written by the Provincial Ministries and Department on 31 December 2011 had not been presented to the banks up to 31 March 2012 and lying idle in the respective bank current accounts. In this connection, the actual expenditure of the Provincial Council for the year under review had been overstated in the appropriation accounts of the Northern Provincial Council (under Head 315) by that amount.
- (c) Bank balance amounting to Rs.5 million kept in the Bank of Ceylon Taprobone branch since 2008 had been remained without being utilized for any transaction and allowed to idle for over 4 years As a result intended purpose for the money received from the General Treasury had not been achieved.

3.6 Human Resources Management

3.6.1 Approved and Actual Cadre

The information pertaining to the proposed and actual cadre of the Northern Provincial Council as at 31 December 2011 is shown below.

Ministries, Departments and Institutions of the Provincial Council other than Schools.

<u>Category</u>	<u>Proposed</u> <u>Cadre</u> Nos.	<u>Actual</u> <u>Cadre</u> Nos.	<u>Vacancies/</u> <u>(Excess)</u> Nos.
Executive grades	1,173	630	460
Supporting Staff and Minor grades	26,047	23,851	2,196
Others (Casual / Temporary)	1,109	696	413
	<u>28,329</u>	<u>25,177</u>	<u>3,069</u>
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Although the Department of Management Services of the General Treasury had not approved the cadre for the recruitment of Technical officers and Regional Commissioners, appointments for such posts had been made by the Northern Provincial Council and a sum of Rs. 861,540 approximately had been paid as salaries during the year under review.

3.6.2 Irregular Appointments and Remunerations

Most of the recruitments to the Provincial Council had been made on an ad-hoc basis without following any proper recruitment procedure and certain appointments were not made within the purview of approved scheme of recruitment applicable to all Island services or provincial public services. Following observations are made in this regard.

- (a) Salaries had been paid to the reemployed retired public officers contrary to the Public Administration Circular No. 9/2007 of 11 May 2007. In this connection a sum of Rs. 3.36 million had been paid over the entitled salary.
- (b) Four Non Sri Lanka Administrative service officers had been appointed for the vacant posts of the Sri Lanka Administrative service.
- (c) Letters of appointment had been issued to nine contract basis employees including legal consultant without obtaining the approval from the Cabinet of Ministers.
- (d) Certain retired officers had been appointed without following proper procedure in terms of Section 2.1 of Chapter 11 of the Establishments Code.
- (e) Although senior accountants were available in the Provincial Council, most of the Ministries and Departments had appointed junior accountants as Chief Accountants. As a results better financial control and discipline had not been implemented in those Ministries and Departments.
- (f) Most of the Ministries and Departments had appointed Management Service Class III as Chief Management Clerk instead of Management Service Class I
- (g) Most of the Management Assistant works had been assigned to the Programme Assistants.
- (h) Although Sri Lanka Accountant Service is an all island service, 25 officers had been appointed to perform duties of Accountants without considering the judgement given by the Supreme Court on 11 February 2007.

3.7 Performance of the Provincial Ministries and Departments

The following observations are made in respect of the performance of some of the Provincial Ministries and Departments of the Northern Provincial Council during the year under review.

3.7.1 Governor Secretariat

- a) Although an office building for the Hon. Governor's Secretariat had been newly constructed and completed at a cost of Rs. 61.8 Million in Jaffna during the year under review a sum of Rs. 1,440,000 had been paid as rent for offices functioning at Jaffna and Colombo during the year under review without obtaining valuation report from the Chief Valuer of the Department of Valuation.
- b) Approval from the Finance Commission had not been obtained to spend Rs. 61.8 Million to construct the above building.

- c) Contract for construction of boundary wall, vehicle park, well, security hut, sump and water tank at a cost of Rs. 4 Million had been awarded without following tender procedure.
- d) Payment for variation of Rs. 13.3 Million, above the original cost of estimate which represent ranging from 22 percentage to 156 percentage had been made without obtaining approval from relevant authorities.
- e) Although original cost estimate for furniture and equipment was Rs. 3 Million, items were procured for Rs. 7 million without adopting proper tender procedure.
- f) 19 numbers of items to the value of Rs. 446,000 shown in the BOQ to construct vehicle park, well, security hut, sump and water tank had been increased by the technical officer above the quantity claimed by the contractor in the bill without valid reasons.

3.7.2 Procurement of furniture and office equipment for the Governor’s Secretariat Rs. 7,006,430.

A sum of Rs. 7,006,430 had been made by the Department of Buildings for the procurement of furniture and office equipment for the Governor’s Secretariat during the year under review. In this connection the following observations are made.

- a). Although the transactions were relating to the Governor’s Secretariat, payments were made through the Department of buildings.
- b). The payments were not supported with the original invoices.
- c) Payments were made without giving inventory certificate in the vouchers

3.7.3 Provincial Treasury

The Provincial Treasury had not made separate provisions in the Annual Estimates for Value Added Tax in terms of Section 01 of the Public Finance Circular No 364(3) of 30 September 2002. Therefore, the Provincial Council was unable to compute the Value Added Tax paid by the various institutions of the Provincial Council to outside parties. In this connection considerable amount had been paid by the Provincial Council from the capital allocation as VAT without provision in the annual estimates.

3.7.4 Ministry of Education, Cultural Affairs and Sports

18 cheques written on 31 December 2011 for a sum of Rs. 1,412,146 in respect of purchase of capital assets had not been presented to bank up to 31 March 2012 Further these purchases had not been completed up to 31 March 2012.

3.7.5. Provincial Director of Education

- a) Uneven distribution of text books, uniforms and furniture among the schools under Provincial Director of Education office had been observed in audit.
- b) Sub imprest ranging from Rs.128,000 to Rs. 600,000 had been paid to the several officers including non staff grades contrary to the Provincial Financial Rule 219.2(ii)
- c) Considerable period of delays were observed in settlement of advances paid to the various officers for various purposes due to payments made without preparing estimates.
- d) The following expenses aggregating Rs. 2,634,297 incurred by the Provincial Department of Education could be considered as uneconomic transactions as value of refreshment was provided for more than the participants at higher prices.

<u>Description of Expenses</u>	<u>Rs.</u>
Refreshment for Musical Programme	837,185
Awarding of prizes for Special days including Deepavali	854,250
Cultural programme conducted at Colombo	139,452
Refreshment expenses for preschools	421,410
Lighting and sound system for Tamil literature programme conducted at Mannar.	382,000

	2,634,297
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- e) Valuable books denoted by the Asia foundation had been kept in the stores over one year without action being taken to distribute those books to the needed schools.

f) Improper Deployment of Teachers

- (i) Teachers were not properly deployed according to vacancies available in the Schools for the particular subjects. As a result, shortage of Teachers were observed in certain Schools for the relevant subjects and excess of Teachers were observed in certain Schools for these subjects. Due to the improper deployment of Teachers, performance of G.C.E O/L and A/L examinations had not been achieved. If the deployment of teachers had been made properly according to vacancies for the subjects, better performance could have been achieved.
- (ii) A sum of Rs. 84,750,000 had been provided to 1,016 schools in twelve Zonal Education Offices for quality inputs. However, a sum of Rs. 3,498,263 had been retained without being utilized for the intended purposes due to lack of

proper supervision and control over the funds allocated under quality inputs by the Provincial Department of Education. Further it was observed that out the funds of Rs. 81,251,737 released to the schools considerable amount of money had not been utilized by the several schools during the year under review.

g) Utilization of Education Sector Development Fund.

(i) **Construction of digital Library Building at Central College, Kilinochchi Rs.2.097847.**

- (a) Final payments to the above work had been made without completion of the several works.
- (b) Most of the works including roof and door frame work had not been properly done.
- (c) Eighty seven nos of furniture and multimedia projector issued to the digital Library by the Zonal Director of Education, Kilinochchi on 29 November 2011 had not been utilized for the intended purposes.
- (d) Computers were not delivered to the Digital Library. As a result, value of the building amounting to Rs. 2,097,847 and Furniture and Equipment valued at Rs. 1,254,080 for the library had not served the intended purpose of the project.

(ii) **Construction of Digital Library at J/ Karainagar Dr.Thiyagarajah MMV – Rs. 2,297,857**

Following observations are made.

- (a) Although the Digital Library was opened on 20 July 2011 the Library had not been functioned up to 31 December 2012
- (b) Electricity connection had not been made up to 30 April 2012
- (c) The Department had planned to issue steel furniture to the Library. However wooden furniture was issued.
- (d) Computers were not delivered to the Digital Library. As a result value of the building amounting to Rs. 2,056,498 and furniture and equipment valued of Rs. 1,254,080 spent for the Library had not served the intended purpose of the project.

3.7.6 Department of Sports

The sports kits valued at Rs. 447,180 purchased by the Department of Sports had not been utilized for the intended purposes.

3.7.7 Department of Industries

- (i) Although a capital provision of Rs. 5,500,000 had been made for Centre for Enterprise Development Service, the Department of Industries had not implemented a Monitoring System to evaluate the progress of the objectives.
- (ii) Although a capital provision of Rs. 500,000 had been made for Micro credit the Department of Industries had not obtained the approval from Finance Commission to implement the activities of Micro Credit.
- (iii) Although a capital provision of Rs. 4,500,000 had been made for building and structures, tank and roads this fund had not been utilized for the intended purposes.

3.7.8 Department of Co-operative Development

- (i) Although a capital provision of Rs.21.6 Million had been made for Provincial Centre for Livelihood Credit Management System, the Department of Co-operative Development had not implemented a Monitoring System to evaluate the progress of the objectives.
- (ii) A sum of Rs.20 Million had been utilized for Micro credit activities without provision in the annual estimate. Further it was observed that approval from the Finance Commission had not been obtained to utilize the provincial fund for the Micro Credit activities.

3.7.9 Ministry of Health

A van belonging to the Ministry of Health had met with an accident during the year 2010 and a sum of Rs. 795,000 had been spent to repair the vehicle. But, the Ministry had not insured the vehicle for the year 2010 in terms of circular No MF/P/VEH/1 dated 12 September 1994 of the Ministry of Finance and Planning. As a result the possibility of obtaining a portion of the repair charges from the insurance had been deprived to the Provincial Council. In this regard no action had been taken even this matter had been pointed out in the previous year audit report too.

3.7.10 Department of Indigenous Medicine

- (i) Eighty four free Ayurvedic Dispensaries operated under the Local Authorities for rendering service to the general public had been functioned without proper supervision and supply of adequate drugs.
- (ii) The Department of Indigenous Medicine had been established under the Ministry of Health to develop Ayurvedic Medicine and establishment and maintenance of

Herbarium. However a large amount of money had been spent on purchase of Medicines from private traders and Ayurvedic Corporation.

3.7.11 Department of Health

- a) Most of the Buildings and Medical Equipment were lying idle in certain Hospitals due to non-availability of doctors and subordinate staff. Therefore the expenditure incurred on these buildings and equipment could be considered as fruitless and the benefits out of this expenditure had not reached to the general public. Details are given below.

<u>Medical Officer of Health Office</u>	<u>No. of Institutions</u>	<u>No. of Medical officers available</u>	<u>Approved Cadre</u>
Jaffna	42	30	99
Mullaithivu	09	18	55
Kilinochchi	13	22	62
Mannar	16	44	89
Vavuniya	11	108	94
	<u>91</u>	<u>222</u>	<u>399</u>
	=====	=====	=====

- b) No action had been taken to increase the number of cadre for dental units as number of hospital were available in the Northern Province are 61 whereas approved cadre for dental unit was 27 numbers only. Details are given below.

<u>Medical Officer of Dental Units</u>	<u>No. of Hospitals</u>	<u>No. of Dental surgeons available</u>	<u>Approved Cadre</u>
Jaffna	26	18	09
Mullaithivu	06	05	03
Kilinochchi	09	05	04
Mannar	10	08	04
Vavuniya	10	10	07
	<u>61</u>	<u>46</u>	<u>27</u>
	=====	=====	=====

- c) There should be Medical Consultants in each hospital in Mannar, Kilinochchi, Mullaithivu, and Jaffna RDHS divisions. However only 11 Medical Consultants were available as at 31 December 2011 out of 51 Medical Consultants needed in Northern Provincial Hospitals.
- d) Although 1011 Schools are functioning in the Northern Province only 15 Dental units were functioned in the Schools of the Northern Province.

4.7.11.1 Regional Director of Health Services, Jaffna

 Following observations are made.

A) **Renovation works of wards and staff quarters at Base Hospital, Tellipalai Rs.9,483,051**

- i. Bill of quantity of the 19 items of work aggregating Rs. 795,590 had been increased by the Technical Officer without any reason. In this regard proper approval had not been obtained from relevant authorities in terms of the Financial Regulations to increase the items of the bill of quantity
- ii. Excess quantity of works were carried out without obtaining approval from relevant authorities, As a result, an over payment of Rs.1,219,370 had been made to the contractor.

B) **Payment made without checking final bill of the contract payments.**

The following contract payments had been made without checking quantities, measurement and price of the items with BOQ.

<u>Nature of Work</u>	<u>Amount paid</u> <u>Rs.</u>
(i) Final payment for construction of Regional Training Centre for RDHS, Pannai, Stage I	3,928,972
(ii) Final payment for construction of Regional Training Centre for RDHS, Pannai, Stage II	1,422,305
(iii) Final payment for construction of Regional Training Centre for RDHS, Pannai, Stage III	1,531,421
	----- 6,882,698 =====

C) **Payment of Value Added Tax (VAT) Rs.19,715,882**

Value Added Tax aggregating Rs. 19,715,882 had been paid during the year for various contractors and suppliers. But, monthly statement of the VAT payments had not been sent to the Commissioner General of Inland Revenue with a copy to the Auditor General on or before 15 day of the following month in terms of the Procurement Guidelines – 2006.

D) **Payments of Diet**

- (i) Payments for half diet had been paid as for full diet. Technical Evaluation Committee had approved the rates without analyzing the rates applicable for full and half diets. Details are given below.

<u>Description</u>	<u>Karaveddy</u>		<u>Kondavil</u>		<u>Analaitivu</u>		<u>Nainativu</u>		<u>Velanai</u>		<u>Manipay</u>	
	<u>Full</u>	<u>Half</u>	<u>Full</u>	<u>Half</u>	<u>Full</u>	<u>Half</u>	<u>Full</u>	<u>Half</u>	<u>Full</u>	<u>Half</u>	<u>Full</u>	<u>Half</u>
	<u>Diet</u>	<u>Diet</u>	<u>Diet</u>	<u>Diet</u>	<u>Diet</u>	<u>Diet</u>	<u>Diet</u>	<u>Diet</u>	<u>Diet</u>	<u>Diet</u>	<u>Diet</u>	<u>Diet</u>
	<u>rate</u>	<u>rate</u>	<u>rate</u>	<u>rate</u>	<u>rate</u>	<u>rate</u>	<u>rate</u>	<u>rate</u>	<u>rate</u>	<u>rate</u>	<u>rate</u>	<u>rate</u>
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
Fresh Fish	98	134	100	150	120	127	75	140	100	135	90	120
Beef	98	135	110	150	120	127	75	140	-	-	90	120
Dry Fish	98	135	110	150	120	127	75	140	100	135	90	120
Vegetable	90	120	-	-	110	112	75	130	100	110	-	-
Egg	98	117	100	150	120	127	75	140	-	-	90	120

- (ii) Rates of diet for the following hospitals had been decided by the contractors for full and half diet. In this connection Technical Evaluation Committee had not analysed the rates. As a result a considerable amount had been over paid. Details are given below.

<u>Description</u>	<u>Gurunagar</u>		<u>Pandatharippu</u>		<u>Alaveddy</u>		<u>Punkudutivu</u>	
	<u>Full & Half</u>		<u>Full & Half</u>		<u>Full & Half</u>		<u>Full & Half</u>	
	<u>Diet rate</u>		<u>Diet rate</u>		<u>Diet rate</u>		<u>Diet rate</u>	
	<u>Rs.</u>		<u>Rs.</u>		<u>Rs.</u>		<u>Rs.</u>	
Fresh Fish	120		-		140		130	
Beef	-		-		140		130	
Dry Fish	120		125		-		-	
Vegetable	50		-		-		120	
Egg	120		100		-		130	

- (iii) Two contractors had submitted same rates for the five categories of diet. In this connection Technical Evaluation Committee had not evaluated the payments made at same rates for different categories of diets. Details are given below.

Divisional Hospital, Kodikamam

<u>Description</u>	<u>Full Diet rate</u>	<u>Half Diet rate</u>
	<u>Rs.</u>	<u>Rs.</u>
Fresh Fish Diet	135	50
Beef Diet	135	50

Dry Fish	135	50
Vegetable	135	50
Egg	135	50

- (iv) Canned fish had been supplied on Monday, Tuesday, Wednesday ,Saturday and Sunday instead of fresh fish, dry fish and beef as agreed by the contractor to Divisional Hospital, Delft where enough quantity of fresh fish were available.
- (v) Due to improper technical evaluation made without considering rates for quantity of diets and type of diets, huge amount of money had been paid to the contractor, as over payments by the Regional Director of Health Services.

3.7.12 Department of Probation and Child Care Service

- a) The daycare centers had been maintained by private individuals under the supervision of the Probation Officer. Although a sum of Rs 8,771,111 had been spent for daycare centres no proper financial discipline had been implemented on daycare centres.
- b) Children are referred by Courts to the certified schools which are under the Department of Probation and child Care Services for the purpose of providing them with security, and a vocational training and rehabilitation with a view to releasing them to the society as good citizens. However six children in certified schools at Jaffna had escaped due to lack of security and supervision.

3.7.13 Department of Social Services

Weaknesses observed in control of funds with regard to Public Assistance Monthly Allowance (PAMA) of the Department of Social Services are given below.

- (i) Overlooking the lapses in the certified statements of payments at the post offices.
- (ii) Failure to ascertain details of payments at the Post offices.
- (iii) Failure to issue application forms yearly and to take action.
- (iv) Overlooking the signature of persons other than that of the actual recipients.
- (v) Non recovering the unpaid funds from the Post Offices as early as possible.

3.8 Assets Management

4.8.1 Idle and Underutilized Assets

Assets of the Provincial Council were idle or underutilized during the year under review as analyzed below

<u>Nature of Assets</u>	<u>Details</u>	
(a) Buildings	85 Quarters	}
(b) Vehicles	04 Pick up vehicles 10 Motor bicycles	
(c) Machinery	02 Generators 53 Computers 226 Computer accessories	
(d) Office Equipment	107 Plastic Chairs	
		126 furniture items
		Value not made available

3.8.2 Physical Verification of Assets

- a) Assets valued at Rs. 332,822,052 as at 31 December 2011 computed at book value as at 31 December 2011 and not supported by the physical verifications/ board of survey reports are shown below.

	<u>Amount Rs.</u>
i) Agriculture Farms	113,256,440
ii) Livestock Farms	54,197,968
iii) Textiles industries	14,551,480
iv) Machinery Unit	150,816,164

	332,822,052
	=====

3.9 Identified Losses and Damages

- (a) An Ambulance belonging to the Deputy Provincial Director of Health Services, Mannar had met with an accident on 03 December 2003. The repair cost of the vehicle was Rs. 695,700. Inquiries had not been conducted with regard to the accident to fix the responsibility and the report in respect of this loss had not been furnished to the Auditor General in terms of Provincial Financial Rule No. 70
- (b) A vehicle belongs to the Ministry of Education had met with an accident and repairs cost of Rs. 1,368,564 had been paid to a private garage. Further a sum of Rs.

1,036,344 only had been reimbursed by the Insurance Company. Balance of Rs. 332,220 had been paid from the Provincial Fund. In this regard inquires had not been conducted to fix the responsibility in terms of Provincial Financial Rule No. 70.

- (c) Final reports in terms of PFR 70(5) had not been furnished by the four Provincial Departments in respect of losses amounting to Rs 56,418,312 occurred during 1999 to 2011. Details are given below.

	Rs.
Department of Animal Production and Health	17,554,713
Department of Irrigation	22,794,842
Ministry of Health	13,142
Department of Health	9,644,965
Department of Industries	6,410,650
	<u>56,418,312</u>
	=====

- (d) As per Board of Survey reports, large number of assets were reported as missing during the year under review. But most of the departments were not included these losses in their Appropriation Accounts and preliminary reports and final reports on losses in terms of Provincial Financial Rules No 69 had not been furnished by those Departments.

3.10 Utilization of Vehicles

Following observations are made

- (a) According to the information made available, the total number of vehicles available in the Provincial Council was 603, whereas the number of drivers employed was around 400 only. Due to the heavy shortage of drivers, the drivers were outsourced from the Multi Purpose Cooperative Societies for the several Departments.
- (b) Out of 85 Ambulances available in the Northern Provincial Council, seven Ambulances had been allowed to idle without making repairs for a period for more than four years. However, action had not been taken to repair those vehicles.
- (c) Daily running charts had not been properly maintained and official purpose of visits had not been recorded in the daily running charts in terms of PFR No. 432.
- (d) Certain Departments had not rendered the daily running charts and monthly performance summaries in respect of their official vehicles to audit in due dates during the year under review in terms of PFR 433.
- (e) Most of the vehicles were handed over to the garages for a period ranging from one to five years for repairs by the Regional Directors of Health Services Mannar, Vavuniya, Kilinochchi, and Mullithivu Districts.

- (f) Departmental actions on loss of four ambulances in previous years had not been taken up to December 2012.

3.11 Deficiencies in Procurements

Following observations are made

- (i) Procurement plans for the year under review had not been prepared by several Ministries and Departments in terms of Section 4.2 of the Procurement Guidelines 2006.
- (ii) Expenditure on procurement could not be examined in audit due to the non rendition of approved estimates and quotations furnished by the bidders by the several departments.
- (iii) According to Section 2:5 of the Procurements Guidelines, three members should be in the procurement committee, but payments had been made to more than 3 members. According to the Section 2.9.1 of the Procurement manual, the meetings of the Procurement committee should be held in outside the working hours. However it was observed that all meetings of the Procurement Committee had been held during office hours.
- (iv) Construction works had been awarded to the approved societies by the Department of Road Development without evaluating their financial and physical capacities in terms of Section 164.1 of the Procurement Guidelines-2006.
- (v) **Purchase of 100 Laptop Computers for Rs. 9,100,000.**

A sum of Rs. 9,100,000 had been paid by the Provincial Treasury for the procurement of 100 Laptop computers at the rate of Rs.91,000 to distribute among the students who were completed Advanced Level Examination. In this regard the following observations are made.

- a). Procurement procedure in terms of Section 1.2.1 of Procurement Guidelines - 2006 had not been adopted.
- b). Details of items ordered and received, distribution list and acknowledgements from the recipients were not made available for audit verification.
- c). Budgetary provision to purchase of 100 Laptop computers were not made available.
- d). Although, the money was not allocated in the budget to procure the items through object Code 2302 of the Provincial Treasury Head 421 the expenditure had been charged to Head 421 Provincial Treasury.

(vi) **Installation of Air conditioners to a Private Institution (Veerasingam Hall) for Rs.6,145,688.**

Seventeen Air conditioners were procured by the District Secretariat, Jaffna without Technical Evaluation report in terms of Section 2.8.3 of the Procurement Guidelines 2006. Subsequently payments made for the procurement of the Air conditioners had been settled to the District Secretariat, Jaffna by the Provincial Treasury. In this regard following observations are made.

- a). Procurements of Air conditioners and installation at a value of Rs. 6,145,688 had been made for the private institution which was not come under the purview of the Provincial Treasury.
- b). Budgetary provision had not been made for the expenditure.
- c). Purpose of 17 Nos of Air conditioners procured at high capacity from the provincial funds had not been made available for audit verification.
- d). At the time of audit inspection carried out seventeen Air Conditioners fixed in the private institution (Veerasingam Hall) were not made available.

(vii) **Procurement of 15 Tractor Tipper Trailers and 20 Bowsers for Rs. 8,575,000.**

A sum of Rs. 8,575,000 had been paid on 18 July 2011 for the procurement of above items to implement resettlement activities through Pradeshiya Sabhas. In this regard following observations are made.

- a). No financial provisions were made in the budget to incur the expenditure.
- b). Although activities are related to the Ministry of Resettlement, Provincial Treasury had spent for the items procured.
- c). At least five quotations should be obtained in terms of Section No.2.14.1 of Procurement Guide lines 2006, But procurement had been made based on two quotations only.
- d). Distribution of the items purchased and acknowledgements of items received were not made available for audit.

(viii) **Procurement of Brand New Toyato Car – Rs.9,950,000**

A sum of Rs. 9,950,000 had been paid to purchase a brand New Toyato Car on 28 June 2011. In this connection the following observations are made.

- a). The car had been purchased for the official use of the Hon Governor. However the expenditure had been charged under Provincial Treasury Head No.421 instead of Head No.400 Governor's Secretariat.
- b). No budgetary provisions were made available in the Annual estimate.
- c). Purchase had been made contrary to Section 2.14.1 of the Procurement Guidelines-2006 as procurement decision were made based on two bids only.
- d). In addition to 14 numbers of vehicles including 03 cars, 05 Jeeps and a Van already available at the Governor's Secretariat, a brand new car had been procured during the year under review without valid reasons.

- e). General Treasury approval had not been obtained to procure the vehicle in terms of National Budget Circular No. 112 of 24 July 2003.

(ix) Purchase of 700 Bicycles – Rs. 8,859,500.

A sum of Rs. 8,859,500 had been paid by the Provincial Treasury for the purchase of 700 push Bicycles for the distribution among resettled peoples. In this connection following observations are made.

- a). The Provincial Treasury had purchased the Bicycles without budgetary provision in the annual estimates.
- b). Procurements were made contrary to Section 2.14.1 of the procurement Guide lines as procurement decision were made based on three quotations only instead of 5 quotations.
- c). Payments had been made to the supplier who was not a dealer of bicycles sales.
- d). A sum of Rs. 2,307,500 had been made for 200 Bicycles without obtaining original invoices.
- e). Out of 700 Bicycle 479 Bicycles were distributed through Governor, Regional Commissioners, Member of Parliament and others. However details of distribution of balance 221 bicycles had not been furnished for audit. Beneficiaries' lists and acknowledgement from the recipients of the bicycles were also not made available for audit.

(x) Procurement of 10 buses for Rs. 32,200,000.

A sum of Rs. 32,200,000 had been paid for the purchase of ten buses during the year under review and these ten buses distributed to the Northern Region Transport Board by the Provincial Treasury. In this connection the following observations are made.

- a). The expenditure had been charged under Provincial Treasury Head No.421 without budgetary provision in the annual estimate.
- b). Although the buses were handed over to the Northern Region Transport Board without an agreement entered into with SLTB, ownership of the buses still with the Northern Provincial Council even after lapse of one year.
- c). Procurement decision for purchase of buses were made based on two bids only instead of five in terms of Section 2.14.1 of the Procurement Guide lines - 2006
- d). General Treasury approval had not been obtained for the procurement of ten buses in terms of National Budgeted Circular No.112 of 24 July 2003.

(xi) Payments made for construction of Houses - Rs. 59,400,000.

A sum of Rs. 59,400,000 had been paid to the security forces Head Quarters, Palaly during the year under review for the construction of houses in the area of Delft and Palai. Following observations are made in this regard.

- a). Although budgetary provision were not available in the annual estimate in the Provincial Treasury this expenditure had been charged to the Provincial Treasury Head No.421 by newly created object code 3006 contrary to PFR No. 47.
- b). Details such as estimates and actual expenditure of each house constructed, number of houses constructed location of houses constructed, completion reports, list of beneficiaries were not made available for audit verification.
- c). The payment vouchers relating to the construction of those houses were not certified by the certifying officer in terms of PFR No.107.

(xii) Procurement of Galvanized Iron roofing sheets – Rs. 18,400,800.

A sum of Rs. 18,400,800 had been paid by the Provincial Treasury for the purchase of Galvanized Iron roofing sheets for the utilization of the people affected by flood during the year under review. In this connection the following observations are made.

- a). Details such as requisition from the relevant sources, list of affected people, list of beneficiaries, acknowledgement from the recipients, utilization of roofing sheets were not furnished for audit verification.
- b). It was informed by the recipients that quality of the iron roofing sheets supplied were very inferior quality and was not in a position to utilize more than one time and not durable.
- c). The purchases were made from the supplier in Colombo who was not an iron roofing sheet dealer. This supplier was a dealer of plastic items and fancy goods.
- d). All payments were made for Goods Received Note (GRN) prepared by the supplier instead of preparing by the officers of the Provincial Council.
- e). Out of 24,300 roofing sheets purchased and distributed, acknowledgements from the recipients were made available for 12,350 roofing sheets only.
- f). At the Procurement Committee meeting one member only participated and signed in the procurement documents contrary to Section 2.4 of the Procurement Guide lines 2006.
- g). Transport chargers amounting to Rs. 406,200 had been paid to the supplier without request made by the supplier. Further an approval from the procurement committee or relevant authorities had not been obtained for the payment of Transport charges. It was further noted that first lot of 5,000 roofing sheets were supplied without transport charges as supplier agreed to supply the items without transport charge. But, subsequent supplies were made with transport charges even though the supplier had not requested. Further procurement committee had not mentioned anything about transport charges.

- h). The supplier had not mentioned the gage measurement in the bid documents.
- i). Official seal had not been affixed in the bid documents.
- j). According to the evidence made available for audit these roofing sheets had been purchased from the Ceylon Galvanized Industries at a very cheaper price by the supplier and sold to the Provincial Council at higher prices.

(xiii) Procurement of 70 numbers of water tanks (1000l) for resettled families Rs. 894,000.

A sum of Rs. 894,000 had been paid for the purchase of 70 water tanks during the year under review. The following observations are made in this regard.

- a). The expenditure had been charged under Provincial Treasury without provision made in the annual estimates.
- b). 50 water tanks were purchased to deliver to the Pradeshiya Sabha of Karachchi. However, these water tanks had not been issued to that Pradeshiya Sabha up to 31 December 2012 and allowed to be idle in the stores.

(xiv) Procurement of 33 125cc Bajaj motor bikes – Rs. 4,173,181.

A sum of Rs. 4,173,181 had been paid for the purchase of 33 numbers of 125cc Bajaj Motor bikes during the year under review. In this connection the following observations are made.

- a). The expenditure had been charged under Provincial Treasury Head No.421 without budgetary provision made in the annual estimates.
- b). Procurements were made contrary to Section 2.14.1 of the Procurement Guidelines as procurement decision were made based on three quotations only instead of five quotations.
- c). Approval from the General Treasury and Finance Commission had not been obtained for the procurement of 33 motor bikes for the use of office aids.

(xv) Procurement of 10 Advertisement Boards at a size of 8’x6’ for the Jaffna District Rs. 865,000.

A sum of Rs. 865,000 had been paid for making 10 numbers of 8’x6’ Advertisement Boards for Jaffna District on 16 December 2011. In this connection the following observations are made.

- a). The expenditure had been charged under Head No.430 Provincial Ministry of Agriculture instead of Ministry of Economic Development.

- b). Procurements were made contrary to Section 2.14.1 of the Procurement Guidelines as procurement decision were made based on three quotations only instead of five quotations.
- c). Procurements were made without the recommendation of the Technical Evaluation Committee contrary to Section 2.8.3 of the Procurement Guidelines – 2006.
- d). Cost per advertisement board at Jaffna was Rs. 26,000 approximately But, quotations were not obtained in Jaffna. However the boards were supplied by a private company in Hokandara at the rate of Rs. 86,500 per board and the company was not a registered supplier of the Northern Provincial Council. As a result a sum of Rs. 605,000 had been over paid for the 10 numbers of boards.
- e). 57 Advertisement boards also were procured during the year 2012 at a cost of Rs. 86,500 per board from the same supplier without following procurement procedure whereas the transactions were not under the preview of the Provincial Ministry of Agriculture.

(xvi) Procurement of 200 water pumps with accessories – Rs. 6,580,000.

A sum of Rs. 6,580,000 had been paid for the purchase of 200 numbers of solex water pumps with accessories during the year under review. In this connection the following observations are made.

- (a) The expenditure had been charged under Head No. 430-3-2-2306(32) Ministry of Agriculture without budgetary provision made in the annual estimates.
- (b) Beneficiaries' lists had not been made available for audit.
- (c) Value Added Tax (VAT) amounting to Rs. 705,000 had been paid to the supplier without a VAT Registration number.

(xvii) Procurement of 05 Top land Heavy Duty Diesel pumps with accessories – Rs. 4,755,000.

A sum of Rs. 4,755,000 had been paid for the purchase of 05 numbers of Top land Heavy Duty Diesel pumps with accessories during the year under review. In this connection the following observations are made.

- a). The expenditure had been charged under Head No.431-44-4-2303 Department of Agriculture without budgetary provision made in the annual estimates.
- b). These procurements were made contrary to Section 2:14:1 of the Procurement Guidelines as procurement decision were made based on two quotations only instead of five quotations.
- c). Beneficiaries' lists had not been made available for audit.

- d). Value Added Tax (VAT) amounting to Rs. 509,465 had been paid to the supplier without a VAT registration number.

(xviii) Procurement of 10 Paddy combine harvesters (Model 4LZ-2-0) - Rs. 15,300,000.

A sum of Rs. 15,300,000 had been paid for the purchase of Ten numbers of paddy combine harvesters during the year under review. In this connection the following observations are made.

- a). The expenditure had been charged under Head No. 431-44-4-2304 Department of Agriculture without budgetary provision made in the annual estimates.
- b). Supporting evidence such as procurement decision, Good received notes and beneficiaries' lists had not been furnished along with payment vouchers.

(xix) Procurement of 100KVA Generator – Rs. 2,647,128.

A sum of Rs. 2,647,128 had been paid for the purchase of 100KVA Generator for the Provincial circuit bungalow and dormitory in Jaffna during the year under review. In this connection the following observation are made.

- (i) The expenditure of Rs. 2,373,624 had been charged under the deposit account of the Provincial Department of Buildings without proper authority.
- (ii) Reasonableness for the procurement of high capacity (100KVA) Generator could not be ascertained in audit due to non- availability of relevant documents.

3.12 **Transactions in contentions Nature**

-
- (i) **Payment of Arbitration charges Rs.2,482,181 relating to NECORD Project**
Although the expenditure of Rs. 2,482,181 were relating to NECORD Project, Arbitration charges for the construction of a four storied OPD and clinic complex building at General Hospital, Vavuniya had been made from Northern Provincial councils fund instead of NECORD Project fund.
- (ii) **Expenditure of Old Park Development – Rs. 10,857,486.**
A sum of Rs. 10,857,486 had been paid for development of old park, Jaffna. In this connection the following observations are made.
- a). The expenditure had been charged under Head No.461-15-4-2201 Provincial Department of Buildings without budgetary provision made in the annual estimates.
- b). Although the activities and ownership of land were related to the District Secretariat, Jaffna, work at a cost of Rs. 10.8 Million had been

entrusted to the Provincial Department of Buildings and expenditure had been incurred from the provincial funds.

- c). In this regard management charges amounting to Rs. 370,000 had been charged by the Department of Buildings during the year under review.

(iii) **Transaction not Supported by Adequate Authority**

a) **Payment of course fee – Rs. 410,200**

A sum of Rs. 410,200 had been paid to Seven Programme Assistants and 04 social services officers as reimbursement of Master Degree course fee including library fee of Rs. 750 without proper authority. In this connection following observations are also made.

- (i) The expenditure had been charged under the Provincial Planning Secretariat and Department of Social Services of the Northern Provincial Council without budgetary provision in the annual estimates.
- (ii) As per service minutes of the Programme Assistants and Social Service Officers requirement to complete Master Degree Programme was not compulsory for the confirmation of such posts.

(iv) **Payment of Compensation to the Temporary Shop Owners – Rs. 600,000**

A sum of Rs. 600,000 had been paid by the Provincial Ministry of Local Government, to six temporary shop owners in contrary to Pradeshiya Sabhas Act No. 15 of 1987 during the year under review. Further it was observed that the above expenditure had been charged under head No. 471-60-4-1901 Provincial Ministry of Local Government without budgetary provision made in the annual estimates.

(v) **Over -payment of Salaries to the Re-employed Officers – Rs. 3,360,959**

Salaries to the re-employed retired public officers on contract basis had been paid in contrary to the Public Administration circular No. 09/2007 dated 11 May 2007. As a result a sum of Rs. 3,360,959 had been overpaid to them.

(vi) **Acquisition of Excess quantity of Land for construction of office of the Divisional Hospital and Medical Officers Health (MOH)- Rs. 37.5 Million.**

A sum of Rs. 37.5 million had been paid on 31 December 2011 by the Provincial Ministry of Health for acquisition of 15 acres of land to construct MOH office building even though 5 acres of land was already owned by the Department which was donated by the public on 7 August 2010. At the time of acquisition, the market price per acre was Rs. 200,000 only. As a result a sum of 7.5 million was over paid. Further valuation from the Chief valuer of the valuation Department was not obtained prior to make the payment. Further it

was observed that the building was constructed at the land to the extent of less than one acre only.

(vii) **Misappropriation of Fund - Rs.2.887 million.**

570 numbers of water pumps had been issued by the Food and Agriculture Organization to the Deputy Director of Agriculture at a value of 50% concessions on cost of purchase. Out of the 570 water pumps 264 Nos of water pumps only were distributed to the Farmers. In this connection collection of Rs. 2.887 million from the Farmers during the period 15 August 2011 to 12 September 2011 had been deposited in a private bank account of the Provincial Director of Agriculture without remitting to the Government account. As a result, funds deposited in the private bank had been misappropriated by the Provincial Director of Agriculture.

(viii) **Circular Instructions**

The Provincial Council had issued a circular indicating allowances for the members of the Board of Survey contrary to the Financial Regulation 756 and Public Finance Circular No. 441 dated 09 December 2010.

3.13 Achievement of Objectives

Institutional objectives had either not been achieved at all or had not been achieved adequately as shown below.

a) **Provincial Public Service Commission.**

The main objective of the Provincial Public Service Commission is to recruit suitable persons to the Provincial Public Service. 41 recruitment schemes had been prepared by an officer of the Commission during the year under review. But these schemes had not been implemented to recruit the suitable officers until end of the year under review.

3.14 Implementation of Projects.

a) **Local Level Nutrition Interventions for Northern Province Project.**

According to the Financial Statements and other information made available for audit, out of the funds amounting to Rs. 300,000,000 made available for the period, a sum of Rs. 24,841,242 only had been utilized for the activities of the above project during the year under review.

b) **Provincial Road Project.**

- i) As per Project agreement, seven packages of road construction with a total length of 100 km should be completed at a cost of Rs. 2,660 Million.

However, the Project office had commenced its Road work for 4 numbers of packages only with a total length of 55 km at a contract value of Rs.1,515.4 Million and other 3 packages of contract works to the length of 45 km had not been awarded to the contractor even though eight months lapsed after the financing agreement entered. The Project Director informed me that due to total contract value of awarded contracts is Rs. 1,697.2 Million (Including VAT) and due to insufficient funds, they could not proceed with procurement for remaining 45 km.

- ii) Although a sum of Rs. 558,130,986 had been received as imprest during the year ended 31 December 2011 the expenditure incurred for this period was Rs. 234,089,574 only as per books of accounts. Therefore, the Special (Dollar) Account balance as at 31 December 2011 amounting to Rs. 346,653,804 had been lying idle without being utilized for the activities of the Project.

3.15 Supervision over the Affairs of the Local Authorities

In pursuance of provision in Section 4.2 of the Eighth Schedule to the Thirteenth Amendment to the Constitution of Sri Lanka, the supervision of the Local Authorities of the Province had been devolved on the Provincial Council. The matters observed in audit of the financial statements of the Local Authorities were brought to the notice of the Heads of the respective Local Authorities. In this connection, following observations are made.

- (a) Out of the 34 Local Authorities in the Northern Province, only 05 Local Authorities had rendered annual accounts for the year under review for audit before 31 March 2012. Further, 08 annual accounts of the Local Authorities in the Northern Province in respect of the year under review had been rendered before 30 June 2012.
- (b) Instances of unqualified audit opinions and qualified audit opinions expressed on the final accounts of the Local Authorities are given below.

<u>District</u>	<u>No. of qualified audit opinion expressed on the accounts</u>	<u>No. of unqualified audit opinion expressed on the accounts</u>
Jaffna	06	11
Multhivu	-	04
Kilinochchi	-	03
Vavuniya	-	05
Mannar	02	03
	-----	-----
	08	26
	=====	=====

- (c) The Commissioner of Local Government or the Chief Secretary or the Secretary to the Ministry in charge of the subject of Local Government of the Northern Provincial Council had not taken steps to implement an effective and meaningful methodology for the internal audit of the Local Authorities.
- (d) Contracts for the roads, toilets and tube well works had been awarded to Rural Development Societies, Women Rural Development Societies and Community centers without adopting proper Tender Procedure, Procurement Committee decision, etc. in terms of Procurement Guidelines - 2006. Further, in terms of Section 3.9.1 of the Procurement Guidelines and Manual, contracts may be awarded to the Community Development Societies (Praja Sanwardhana Samithi) which contributed to the development activities in the Local Government Sector and not to the Community Centers.
- (e) According to the information furnished to audit arrears of revenue as at 31 December 2011 in the five districts of the Provincial Council are given below.

<u>Districts</u>	<u>No of local authorities</u>	<u>Arrears of Revenue</u> <u>Rs.</u>
Jaffna	14	280,605,191
Mulithivu	03	13,569,969
Kilinochchi	01	122,308
Vavuniya	05	55,543,101
Mannar	05	10,398,585
	28	<u>360,239,154</u> =====

In this regard, no meaningful action had been taken to collect the revenue in arrears amounting to Rs. 360,239,154 by the respective Local Authorities.

(f) **Courts Fines and Stamp Duty Rs. 221,638,007**

Fines imposed by the courts situated within the area of Local Authorities according to the statutory provisions and the stamp duty relating to transfer of property retained by the Provincial Council or other Authorities had been kept with them without being remitted to the Local Authorities due to non - making timely request. Details of unrecovered court fines and stamp duties as at 31 December 2011 were as follows.

<u>Districts</u>	<u>Stamp duty arrears</u> <u>Rs.</u>	<u>Courts fine arrears</u> <u>Rs.</u>
Jaffna	156,355,876	21,490,927

Multhivu	-	7,279,455
Kilinochchi	-	10,248,787
Vavuniya	3,378,703	18,742,098
Mannar	18,350	4,123,811
	<u>159,752,929</u>	<u>61,885,078</u>

- (g) Assets and liabilities of the 26 Local authorities to the value of Rs. 249,414,242 had been written off during the year under review through provisional Journal without obtaining authority in terms of FRR 102 and 103. Details are given below.

<u>Districts</u>	<u>Details of Local authorities</u>	<u>Amount</u> <u>Rs.</u>
Jaffna	02 Urban Councils	9,584,906
	13 Pradeshiya Shabas	20,185,660
Mannar	01 Urban Council	235,905
	04 Predeshiya shabas	18,781,713
Kilinochchi	03 Predeshiya shabas	133,542,197
Mullaithivu	03 Preseshiya Shabas	69,083,861
		<u>249,414,242</u>

- (h) Common deficiencies observed in audit relating to the financial statements of the Local Authorities are summarized below.
- (i) Assets and inventory items received as donations and gifts from various Non – Governmental Organizations (NGOs) specially after Tsunami were not properly inventorized.
 - (ii) Human resources of the Local Authorities were utilized by various institutions / NGOs specially after Tsunami without proper authority.
 - (iii) Provincial Commissioner of Local Government had not taken adequate action on reports of the Local Authorities furnished by the Investigation Officers of the Provincial Commissioner.
 - (iv) Undue delays in the preparation of Bank reconciliation statements were observed.
 - (v) Balances of control accounts did not agree with the balances shown in the subsidiary registers or records.
 - (vi) Members of several Local Authorities who were not entitled to use official vehicles were utilizing the official vehicles.

- (vii) Local Authorities had executed construction works using own labour force. However no proper job sheets had been prepared. Therefore, no inventory control or stock control were exercised. Due to this, it was not possible in audit to verify stock position and ascertain shortages / excesses of stocks.
- (viii) Actual value of the land and buildings of the Local Authorities had been understated in the financial statements as valuation of land and buildings had not been done and brought to accounts
- (ix) Value of the Motor vehicles donated by the various parties had not been brought to the financial statements. As a result assets values of the local authorities had been understated in the financial statements.
- (x) Revenue rates and taxes could not be increased due to failure to carryout assessment on properties over 25 years.
- (xi) Although several land owned by the Sabhas were utilised for bus halts by the Northern Region Transport Board, no recoveries were made from the Northern Region Transport board.
- (xii) Appointments were made over the approved cadre by the Municipal Council, Jaffna. In this connection a sum of Rs. 7,605,420 had been paid as salaries and Rs. 2,835,000 had been paid as cost of living allowance for the unapproved cadre.
- (xiii) Pension contribution made by the Local Government services had not been remitted to the Director of Pensions. In this regard a sum of Rs. 109,000 had to be paid as at 31 December 2011 to the Director of Pension by the Municipal council, Jaffna

4 Functions of The Internal Audit Department

Following observations are made.

- (a) The Governor's Secretariat had not been subjected to audit by the Provincial Internal Audit Department in terms of Provincial Financial Rule 99.
- (b) The Auditor General had not been consulted in preparation of the internal audit programme by the Provincial Internal Audit Department in terms of PFR 101.
- (c) No meaningful action had been taken by the Provincial Ministries and Departments on the several matters reported by the Provincial Internal Audit Department.

- (d) Audit and Management Committee had not been established at several Departments and meeting were not conducted in terms of Treasury Circular No. IAI/2000/01 on 12 June 2000

5 Systems and Controls.

In view of the deficiencies observed in recruitment and remuneration of staff, procurement of assets, accounting procedures, maintenance of accounting records, utilization of assets etc, the systems and controls in operation were not adequate to ensure economy and effectiveness in the administration and financial management of the Provincial Council. Special attention is needed in those areas.