

## **North Central Provincial Council**

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### 1. Financial Statements

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#### 1.1 Opinion

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In view of the comments and observations appearing in this report, I am unable to express an opinion on the financial statements of the North Central Provincial for the year ended 31 December 2011 presented for audit.

#### 1.2 Comments on Financial Statements

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##### 1.2.1 Presentation of Financial Statements.

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The following observations are made.

##### (a) Financial statements of the Provincial Council.

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The financial statements of the Provincial Council for the year under review had been presented for audit by 11 April 2012.

##### (b) Other Accounts

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The Progress relating to presentation of other accounts of the Provincial Council for the year under review as at 30 April 2012 is shown below.

For the year 2011

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		Total No. of Accounts	No. of Accounts presented	No. of Accounts not presented	No. of Accounts not presented with regard to prior years
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(i)	Appropriation Accounts	29	29	--	--
(ii)	Revenue Accounts	21	21	--	--
(iii)	Advance Accounts to Provincial Council Officers	57	45	12	01
(iv)	Commercial Advance Accounts	05	05	--	--
(v)	Fund Accounts	03	02	01	--
(vi)	Enactments Accounts	05	04	01	--
(vii)	Self Employment Revolving Loan Advances Account	01	--	01	--
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Total		121	106	15	01
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1.2.2 Accounting Policies

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All income and expenditure of the Provincial Council Fund had been shown on cash basis in the financial statements.

1.2.3 Accounting Deficiencies.

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The following deficiencies were observed.

- (a) Although it has been revealed that the financial statements had been prepared according to the Generally Accepted Accounting Principles, liabilities amounting the sum of Rs.60,959,437 as at 31 December 2011 to various institutions of the Provincial Council had not been shown as current liabilities and the value of assets purchased from the Provincial Council Fund from the inception of the Provincial Council up to end of the year under review and the value of work in progress had not been depicted in the financial statements.
- (b) Out of the Interest income earned from the Emergency Fund covered up by enactments and which had been shown in the financial statements furnished to the Auditor General, a sum of Rs.1,192,257 had been shown as revenue in the financial statements of the Provincial Council. As a result, the revenue of the Provincial Council had been overstated by a similar amount.
- (c) Although created and maintained by the North Central Provincial Council, the total value of 3 funds amounting to Rs.8,717,336 had not been covered up by approved enactments and it had not been shown in the financial statements. Instead of utilizing this amount for the objective for which it was created, it had been retained by the Provincial Council.

- (d) The balance of Rs.6,886,444 in the Agricultural Production Sales Revolving Fund under the Ministry of Agriculture which had not been covered up by an approved enactment had not been shown in the financial statements.
- (e) The amount lying in the Ranaviru Seva Fund during 2011 had been invested in a deposit account and the interest income of Rs.25,553 had not been disclosed in the financial statements.

#### 1.2.4 Unreconciled Control Accounts

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The following observations are made.

- (a) The debit balances of the Provincial Council Officers Advance Account relating to the Department of Provincial Animal Production and Health Services amounted to Rs.19,312,529 according to the financial statement and it was Rs.19,862,332 as per subsidiary registers. The unreconciled balance was Rs.549,803.
- (b) The balance of deposit amounting to Rs.794,755,053 as per financial statements had been shown as Rs.555,629,159 in the General Deposit Control Account (except transfers of Widows' and Orphans' Pension Contributions) resulting in an unreconciled difference of Rs.239,125,894.
- (c) According to the financial statements, contributions amounting to Rs.23,497,250 deducted by institutions of the Provincial Council had not been remitted to the Widows' and Orphans' Pension Fund and retained. This was Rs.239,605,146 as per General Deposit Control Accounts and the unreconciled difference was Rs.216,107,896.

1.2.5 Deficiencies in Operating Bank Accounts

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The following observations are made.

Bank Reconciliations  
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- (a) Follow up action had not been taken with regard to the deposits of Rs.49,059,808 remaining unrealized for over 6 months in 6 bank accounts of 5 Ministries and Departments.
- (b) Action had not been taken in terms of Financial Regulation 396(d) with regard to cheques issued for Rs.2,200,217 remaining unrepresented to the bank for payments for over 6 months in 7 bank accounts of the 5 Ministries and Departments.
- (c) The receipts and payments relating to unidentified debits of Rs.7,254,340 in 7 bank accounts and unidentified credits of Rs.4,590,145 in 7 bank accounts had not been identified and accounted for.

1.2.6 Accounts Receivable and Payable.

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A sum of Rs.5,550,007 was recoverable from various institutions and persons by the Development, Construction and Machinery Agency from 2000 to 2010 and a sum of Rs.3,115,517 was payable to various Institutions and Persons during the period 2004 to 2011. Action had not been taken to settle these even during the year under review.

1.2.7 Imprest Account

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The following observations are made.

- (a) The unsettled debit balances of imprest as at 23 January 2013 amounted to Rs.306,070,953. Of these, balances exceeding 69 per cent amounting to Rs.212,226,803 had to be settled by the Provincial Road Development Authority.

- (b) Five balances aggregating Rs.8,280,079 shown as debtors in the financial statements of 2010 had been shown under the unsettled imprest balance of Provincial Departments in the financial statements for the year under review. Related evidence to confirm the corrections of those balances which continues to exist for many years had not been furnished to audit.

#### 1.2.8 General Deposits

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The balance of the General Deposit Account as at 31 December 2011, as per financial statements of the year under review was Rs.818,252,303. Meanwhile, action had not been taken in terms of Financial Regulation 571 with regard to lapsed deposits of Rs.65,940,473 of 6 institutions revealed at sample checks.

#### 1.2.9 Lack of Evidence for Audit

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The following observations are made.

(a) Unreplied Audit Queries

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Replies had not been furnished even as at 23 January 2013 for 24 audit queries issued during the year under review.

(b) Non Maintenance of Books and Registers

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Registers of fixed assets had not been maintained with regard to the overall Provincial Council and each institution of the Provincial Council in terms of provisions in the Management Audit Circular No.DMA/2009(02) dated 01 September 2009.

(c) Non rendition of Information

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Payments aggregating Rs.3,979,502 and receipts aggregating Rs.19,248,339 relating to 9 cheques received from various persons and lying in the safe could not be satisfactorily vouched in audit due to the absence of information such as proper Procurement Committee Reports, Distribution Registers, Work Completion Reports, Appointment Letters, Attendance Certificates etc.,

1.2.10 Non compliance

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Non-compliance with Laws, Rules, Regulations etc.,

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Instances of non compliance observed at sample checks with regard to laws, rules and regulations are analyzed and shown below.

Reference to Laws, Rules, Regulations

Non Compliance

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(a) Acts

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| (i) State Land (Recovery of Possession Act) No.07 of 1979         | Action had not been taken to oust the unauthorized occupant from the official quarters of Galadiulwewa Ayurveda Hospital who resides there for over 10 years. |
| (ii) Section 16 of the Employees Provident Fund Act No.15 of 1958 | The Development Construction and Machinery Agency had not paid Employees Provident Fund contributions of Rs.1,687,616 for the years 2009 and 2011.            |
| (iii) Paragraph 16 of the Employees Trust Fund Act No. 46 of 1980 | The Development Construction and Machinery Agency had neglected payment of contribution amounting to Rs.473,614 to the Employees Trust Fund                   |

- (b) Provincial Treasury Circular No. NCP/2002/11 dated 09 December 2002 and paragraph 01 of the National Budget Circular No.118 dated 11 October 2004
- The Zonal Education Office, Dimbulagala had not taken action to settle by means of monthly summary of accounts or by cash payments or by installments or by remittance of interest, the loan balance of Rs.6,835,012 of 405 officers who had gone on transfers and the loan balances of Rs.1,020,389 of 35 officers who had come on transfers during 1991 to 2011.
- (c) Financial Regulation 371
- Action had not been taken even during the year under review by the Development Construction and Machinery Agency to settle the advances of Rs.4,464,250 granted to officers for various purposes from 2007 to 2010.

## 2 Financial Review

### 2.1 Financial Results

According to the financial statements presented, the surplus of the Provincial Council Fund for the year ended 31 December 2011 was Rs.1,583,081,989 as compared with the surplus of Rs.414,139,132 of the previous year.

### 2.2 Revenue and Expenditure

According to the financial statements presented, a summary of the revenue and expenditure for the year under review and the previous year is shown below.



Rupees Thousands (000)

	Revenue					
	2011			2010		
	Budgeted	Actual	Variance	Budgeted	Actual	Variance
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Revenue relating to the Provincial Council Items						
Tax Revenue	1,508,466	1,621,262	(112,796)	1,063,850	836,171	227,679
Non Tax Revenue	231,333	351,610	(120,277)	312,350	332,571	(20,221)
Government Grants	10,469,250	10,313,423	155,827	10,717,660	10,676,670	40,990
Total	12,209,049	12,286,295	(77,246)	12,093,860	11,845,412	248,448

Rupees Thousands (000)

	Expenditure					
	2011			2010		
	Budgeted	Actual	Variance	Budgeted	Actual	Variance
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Recurrent Expenditure						
Personal Emoluments	6,553,681	6,576,552	(22,871)	6,830,734	6,379,727	451,007
Other Expenditure	1,727,563	1,620,050	107,513	1,809,077	1,556,948	252,129
Sub Total	8,281,244	8,196,602	84,642	8,639,811	7,936,675	703,136

Capital Expenditure	3,443,630	2,506,611	937,019	3,798,048	3,494,801	303,247
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Total	11,724,874	10,703,213	1,021,661	12,437,859	11,431,476	1,006,383
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The following observations are also made.

- (a) Out of the total expenditure of Rs.10,703,213,413 for the year under review, 77 per cent was recurrent expenditure and 23 per cent was capital expenditure. Of the total expenditure of Rs.11,431,475,621 of the previous year, 69 per cent was recurrent expenditure and 31 per cent was capital expenditure. Accordingly, capital expenditure of the Provincial Council for the year under review had dropped by 8 per cent compared with the previous year. The recurrent expenditure of the year under review had increased by 8 per cent than the previous year. This increase had attributed to the decrease in capital expenditure of the year under review than the previous year.
- (b) According to the financial statements, a sum of Rs.10,703,213,413 had been utilized during the year under review by using the Government Grant of Rs.10,313,423,130 together with the receipts of the Provincial Council amounting to Rs.1,927,872,272. However, the Provincial Council had not adopted an accounting procedure to separately identify the expenditure incurred by utilizing the revenue of the Provincial Council and from each grant of the Central Government. As a result, it could not be confirmed in audit whether the surplus of the year under review amounting to Rs.1,583,081,989 was due to the savings in Treasury Grant or due to the savings in revenue of the Provincial Council.

2.3 Revenue Administration

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The following observations are made.

- (a) The particulars relating to arrears of revenue during the end of the year under review and the previous year, as per financial statements are shown below.

Revenue Head	2011	2010	2009
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	Rs.	Rs.	Rs.
Stamp fees for vesting Properties	-	-	256,020
Business Turnover Tax	29,766,884	18,877,787	43,914,744
Revenue from Motor Vehicle licences	2,238,236	5,769,544	4,994,613
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	32,005,120	24,647,331	49,165,377
	=====	=====	=====

- (b) The estimated revenue from land and other licenses and motor vehicle licenses for the year under review amounted to Rs.38,000,000 and Rs.210,000,000 respectively. The actual revenue had exceeded the estimated revenue and it was Rs.67,433,880 and Rs.284,388,661 respectively. As a result, it was observed that although the Revenue Accounting officers should attempt to prepare their estimates as feasible as possible and correctly in terms of F.R. 85(1)(c), it had not been done so.

2.4 Non-compliance with Advance Account Limits

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As a result of not acting in accordance with the Financial Regulation 503 of the Sri Lanka Republic and the Provisions in E 369 of the Financial Rules of the North Central Provincial Council, the maximum limit of debit of an Advance Account Item had

exceeded by Rs.261,364 and the minimum limits of receipt of 3 items had dropped by Rs.3,259,424.

## 2.5 Human Resources Management

### 2.5.1 Approved and Actual Cadre

The information relating to the approved and actual cadre of the North Central Provincial Council as at 31 December 2011 is shown below.

#### (a) Ministries, Departments and Institutions of the Provincial Council

Category of Staff	Approved Cadre	Actual Cadre	No. of Vacancies	Surplus Cadre
(i) Senior	689	468	221	-
(ii) Tertiary	1,528	1,518	10	-
(iii) Secondary	2,219	1,411	808	-
(iv) Primary	2,465	2,012	453	-
(v) Others (Casual/ Temporary)	11	441	-	430
	6,912	5,850	1,492	430
	=====	=====	=====	=====

(b) School Staff

Category of Staff	Approved Cadre	Actual Cadre	No. of Vacancies
(i) Principals	942	458	484
(ii) Teachers	13,629	12,924	705
(iii) Teaching Assistants	1,490	1,407	83
(iv) Planning /Development/ Programme Assistants /Management Assistants	838	28	810
(v) Librarian	12	5	7
(vi) Minor Employees	742	104	638
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	17,653	14,926	2,727
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Grand Total	24,565	20,799	3,766
	=====	=====	=====

(c) During the year under review, the North Central Provincial Council had paid Rs.348,877,542 as overtime and holiday pay and 81 per cent of this amounting to Rs.286,071,212 belonged to the overtime and holiday pay of the staff of the Department of Provincial Health Service. The vacancies in that department pertaining to all grades were 238. The cost of monthly overtime and holiday pay of a vacant post was of a very high value such as Rs.100,164. The monthly cost of overtime and holiday pay of the actual staff of 3298 of that Department was Rs.7,228 per person.

## 2.5.2 Idle and Under Utilized Human Resources

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The following observations are made.

- (a) Though four officers had been recruited from 08 February 1989 for the information unit established by the Chief Ministry, the posts had not been approved in terms of F.R. 71. Salaries and wages amounting to Rs.9,432,880 had been paid to those officers upto 31 December 2011 without assigning any other duties to them.
- (b) Forty eight Acting Principals had been engaged in service in the Hingurakgoda Educational Zone without paying attention to Section 13.1.1 and 13.3 of Chapter 11 of the Establishments Code and Rule No.118 of the Manual of Procedure of the Public Service Commission and contravening the Circular of the Ministry of Higher Education No.2000/4 dated 07 January 2000 and the service minutes of Principals.

## 2.5.3 Human Resources Released to other Institutions

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The following observations are made.

- (a) Four officers belonging to the staff of various institutions of the North Central Provincial Council had been released to institutions of the Central Government for over one year. Salaries and allowances to those officers had been paid by the institutions to which the staff belongs to, even during the year under review.
- (b) Nine teachers of the Polonnaruwa Educational Zone had been assigned to the staff of the Ministers/ members and the Sri Lanka Army. The Provincial Department of Education had paid salaries and allowances amounting to Rs.2,976,584 during the year 2011. But, the amount concerned had not been reimbursed to the Provincial Council even as at 23 January 2013.

- (c) There were 90 vacancies for Principals and 229 vacancies for Teachers at the Hingurakgoda Educational Zone. In spite of this, it was revealed at test checks carried out in audit that there were 29 instances where teachers had been assigned irregularly and contravening the service conditions to national schools, teacher training centres of the Central Government, zonal education office, national cadet corps and to schools with more facilities within the educational zone.
- (d) Eight teachers who were serving at the Schools of the educational zones of Kebithigollawa, Thambuththegama and Galenbindunuwewa had been released to the personal staff of the Ministers. But, the salaries and allowances paid to them amounting to Rs.7,981,872 as at 31 December 2011 had not been reimbursed.

## 2.6 Assets Management

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### 2.6.1 Idle and underutilized Physical Resources

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It was observed at the sample checks carried out in audit that certain physical resources remained idle or underutilized as classified below.

Category of Assets	Number/ Category/ Quantity	Value
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		Rs.
(i) Buildings	02	Not assessed
(ii) Vehicles	21	- do -
(iii) Machinery	55	- do -
(iv) Office Equipment	36	- do -

(v)	Others	02	- do -
		-----	
		116	
		=====	

- (a) The two storied building of the Gal Amuna Maha Vidyalaya half completed in 2000 had not been fully completed as at 31 December 2011. As a result, the ground floor too could not be used and was lying idle.

#### 2.6.2 Annual Board of Survey conducted

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According to the Public Finance Circular No.441 dated 09 December 2009 as amended by the letter of the Director General of Public Finance No.PF/Board of Survey/01 dated 17 December 2010, the board of survey for 2011 should have been conducted before 15 March 2012 and the report concerned should be furnished to the Auditor General. However, a ministry and 4 departments of the Provincial Council had not furnished those reports to the Auditor General even as at 23 January 2013.

#### 2.6.3 Employees' Loans Recoverable

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The following observations are made.

- (a) The arrears of balances of Provincial Public Officers as at 31 December 2011 aggregated Rs.732,673,032. It was revealed at sample checks that the balances of arrears of 24 institutions over 01 year aggregated Rs.92,301,921.
- (b) According to the information of the Hingurakgoda Educational Zone with regard to the Advance to Provincial Public Officers Account, a sum of Rs.3,434,994 was recoverable from the officers who had gone on transfer from the office as at 31 December 2011 and these balances of loan remained arrears for 01 to 15 years.



## 2.7 Vehicle Utilization

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The following observations are made.

- (a) Officers who are entitled for official vehicles should not use vehicles from the pool in terms of Public Administration Circular No.13/2008 dated 26 June 2008 and the Public Administration Circular No.13/2008(iv) dated 09 February 2011. However, it was observed as per running charts that in addition to the fuel allowances of Rs.167,850 obtained for the period from April to December 2011 for the vehicles assigned to the Provincial Council and the Secretary to the Council, 1051 liters of fuel for Rs.80,191 had been obtained on 22 orders during the period from April to December 2011 for 2 vehicles of the pools used by them.
  
- (b) Milometers of 18 vehicles used by 4 institutions including 2 ministries of the Provincial Council and a department were not functioning.

## 2.8 Apparent Frauds/ Irregular Transactions

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The following observations are made.

- (a) The Provincial Ministry of Agriculture had purchased 3000 packets of seed of high quality from the seed and plant materials center of the Department of Agriculture, Peradeniya for Rs.75,000. But, before placing the orders for the seed, specification had not been obtained from an experienced officer of the field and samples of the seed relating to the order had not been obtained. As a result, the beneficiaries had rejected those seeds and the required seeds had to be purchased again. The seeds had been purchased from a private supplier for Rs.210,000 deviating from the procurement procedures.
  
- (b) The reconstruction of 53 roads for a distance of 175.73 k.m. which had been affected by floods was estimated at Rs.3,592 million. Instead of calling for open tenders so as the Government could get the maximum benefit, suppliers had been

selected by calling for limited quotations by means of 741 projects with an estimated value of less than Rs.5 million. Of those projects, more than 80 per cent had been entrusted to one contractor out of all the contractors selected. Meanwhile, as a result of distributing it among 741 projects, tender board allowances amounting to Rs.3.58 million had to be paid.

## 2.9 Uneconomic Transactions

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The following observations are made.

- (a) The Ministry of Rural Infrastructure Facilities had obtained a vehicle on hire and had paid Rs.470,180 as vehicle hire charges during the year under review while there were 4 adequate vehicles.
- (b) Instead of obtaining the consultancy services from the Department of Engineering of the North Central Province for the Project for construction of a marketing complex with 50 shops, the Department of Provincial Industrial Development had obtained the services from a private firm and had paid Rs.313,800 in 2011.
- (c) Proper forecast had not been made for the year's need for raw materials. Raw materials had been purchased for Rs.13,004,774 and Rs.11,550,844 respectively for the textile centers and carpentry schools of the Provincial Department of Industrial Developments while the opening stocks of raw materials in 2011 was Rs.8,109,272 and Rs.7,201,762 respectively. As a result, at the end of the year there were balances of raw material stock at Textile Centers amounting to Rs.17,638,040 and at the carpentry Schools amounting to Rs.9,460,810.

## 2.10 Transactions without Adequate Authority

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The following observations are made.

- (a) Approval of the Treasury had been granted to hire vehicles on lease for only a period of 6 months till such time an arrangement is made to prepare a proper procedure for supply of vehicles in terms of Public Administration Circular No.353(5) dated 31 August 2004. But, approval had been granted to obtain vehicles on financial hire purchase method for a limited period of 60 months as per Budget Circular No.150 dated 07 December 2010. However, contravening those Circulars the Ministry of Co-operatives had obtained 2 vehicles on hire for a period of 7 years, that is from 2005 to the year under review and had paid Rs.4,048,835 as vehicle hire charges.
- (b) A sum of Rs.7,785,035 had been paid on 6 instances to implement projects not relevant to the objectives and functions of the Ministry of Rural Infrastructure Facilities.
- (c) Housing loans amounting to Rs.4,200,000 had been paid to 56 beneficiaries to repair their houses by the Co-operative Rural Bank in 2010. Of these, loan installments amounting to Rs.241,371 remained recoverable.
- (d) Restoration of tanks destructed due to terrorist activities had been implemented in 2009 and 2010 by the Chief Ministry, North Central Province using the Provision of the Ministries of Nation Building and Economic Development under the supervision of the Provincial Department of Irrigation without feasibility studies and neglecting the Procurement Procedure on an erroneous estimate and with an irregular agreement. This had become a failure due to the weakness in its implementation, administration and supervision. The loss incurred to the government on these projects was Rs.78.7 million. The mobilization advance of

Rs.31.2 million paid without proper authority had not been recovered from the party concerned even as at 31 December 2011.

2.11 Transactions of a Contentious Nature.

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The following observations are made.

- (a) While selecting a supplier of security services for the period 01 May 2010 to 30 April 2011 for the Provincial Council and the office of the Secretary of the Sabha, the Procurement Committee had rejected the institution quoting the lowest price stating that it does not comply with the requirements of the administrative council and the institution that had quoted the highest price had been selected. However, the amount quoted by that institution for a supervisory security officer for the period from 01 May 2011 to 30 April 2012 had not complied with the requirements of the administrative council. The Procurement Committee had acted without transparency and honesty and had awarded the security services contract to the institution that had quoted the highest price. The payments made during that period amounted to Rs.1,318,032.
  
- (b) There were 26 vacancies for principals in schools of the Polonnaruwa Educational Zone. Junior teachers had been appointed to act in the posts of principals and vice principals without considering the seniority of teachers who served in those schools.

2.12 Operating Inefficiencies

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The following observations are made.

- (a) As a result of the delay in remitting of Employee's Provident Fund and Employee's Trust Fund, those funds had levied surcharges on the Development Construction and Machinery Agency which amounted to Rs.1,104,803. This had been paid during the year under review. But, the Agency had not taken action to

recover the amount from the officers concerned for non-remittance of contributions in time and to take disciplinary action against them.

- (b) During the year under review, the Pre-school Development Authority had purchased school equipment for Rs.3,993,541 on 6 instances. As a result the economic benefit of totally obtaining those equipment on a single occasion as well as to avoid additional payments made to members of 5 procurement and technical committees had been deprived of.
- (c) The Chief Ministry of the North Central Province had spent Rs.2,396,800 in 2009 and Rs.2,198,536 in 2011 both totaling Rs.4,595,336 on the project for generating supply of electricity from timber for villages of the North Central Province where there is no electricity. But, the project had become a total failure as a result of the lack of feasibility studies and weak plans.
- (d) The Chief Ministry had purchased 20,000 Solar lanterns for Rs.292,659,480 during the period 2008 to 2011. The weaknesses in its production and operation, beneficiaries not being rendered the services as agreed by the supplier and weaknesses in supervision had caused the lanterns to be kept aside without being used. The following observations too were made.
  - (i) Solar lanterns are exempted from Value Added Tax. But, Value Added Tax totaling Rs.13,429,614 had been paid, made up of, Rs.5,213,400 to the supplier for 5000 solar lanterns purchased in 2011 and Rs.8,216,214 to the supplier and the Department of Inland Revenue for 4500 lanterns purchased in 2009. Action had not been taken even as at 23 January 2013 to get a refund of the tax.
  - (ii) The Cabinet of Ministers had granted approval for purchase of lanterns during the year under review subjected to a limit of Rs.30,000,000. But

5000 solar lanterns had been purchased by paying Rs.77,618,000 exceeding the limit by Rs.47,618,000.

- (e) The Chief Ministry of the North Central Province had purchased 7500 water filters for Rs.80,640,000 for distribution among selected beneficiaries during the years 2010 and 2011, by utilizing the Provincial Development and the Provincial Development Specific Funds. The following observations were made at the audit test checks carried out in this connection in November 2011.
- (i) Purchases had been made contravening the government procurement procedure.
  - (ii) Although, 3268 water filters had been distributed among beneficiaries, the beneficiaries had avoided using them for reasons such as, rusting caused in the water sterilizers, weaknesses in operating them and the services agreed by the supplier not being rendered.
- (f) The Provincial Department of Agriculture implemented a programme to manufacture carbonic fertilizer and to encourage its usage. This programme was expected to publicize production of compost in the surroundings of 400 schools in year 2011. As it was not planned properly, the distribution of goods valued at Rs.1,014,850 had been delayed till July 2012 due to the failure in getting the expected sum of Rs.180,000. As a result, the objective of the project could not be fulfilled.
- (g) During the year under review, a maximum limit of expenditure of Rs.5,000,000 had been allowed for the Agriculture Development Advance Activities of the Provincial Development of Agriculture with the objective of supplying necessary agricultural materials at reasonable price to the farmers of the North Central Province. But, during the year under review, only a sum of Rs.101,488 that is 2 per cent had been spent. As such, the minimum limits of receipts relating to the

advance account activities had not been reached by Rs.2,622,878. The balance of transit of Rs.16,295 continuously shown in the accounts from years prior to 2006 had not been identified and settled even during the year under review.

- (h) The utilization of 06 items of recurrent expenditure had increased in the range of 44 to 103 per cent during the year under review, as compared with that of the year 2010.
- (i) Legal action had not been taken against the unauthorized structures and their using in an area comprising 13 Acres, 02 Roods and 30 Perches belonging to the Mahawilachchiya Rural Hospital as per survey and supplementary land details available at the Mahawilachchiya Divisional Secretary office.
- (j) The Development Construction and Machinery Agency had not remitted the Value Added Tax of Rs.12,537,565 as at 31 December 2011 to the Commissioner General of Inland Revenue within the time specified in terms of the Value Added Tax Act No.14 of 2002.
- (k) Although there was possibility to carry out quality control activities through the quality control unit of the Provincial Department of Engineering, the Provincial Department of Irrigation had purchased quality control equipment for Rs.1,338,376 in 2009. Later, it had been handed over to the quality control unit of the Department of Engineering. Quality control equipment had again been purchased in the year 2011 too for Rs.2,587,340 deviating from Procurement Procedures.
- (l) The economic rent of Rs.75 assessed in 1996 had been recovered in the year 2011 too from 70 out of 520 quarters belonging to the Dimbulagala Educational Zone Schools which are presently occupied by teachers. Four hundred and sixty six quarters requiring complete renovation for a long time for which the Provincial

Department of Education had not made provision, and as such 450 school quarters remained idle.

- (m) Although the land belonging to the school of the Educational Zone Hingurakgoda together with the paddy land been occupied by unauthorized persons, the deeds or entitlement certificates of the said land had not been obtained and the security confirmed.
- (n) Economic rent at the rate of less than Rs.500 had been recovered from 170 out of 256 quarters relating to schools in the Hingurakgoda Educational Zone. These quarters had not been repaired for a long time and that had been cited as the reason. However, the Provincial Department of Education had not made adequate provision for repairs to quarters for a long time.
- (o) A sum of Rs.1,225,000 had been spent to purchase 2500 flower buckets for distribution among members of the Agriculture Development Co-operative Societies under the Home Garden Vegetable Cultivation Development Programme of the Department of Agriculture. The provision made was Rs.1,000,000. Of this a sum of Rs.778,701 remained as balance after incurring expenditure on other purposes. This was not adequate. As such, 31 per cent of the provision under the Agriculture Development Co-operative Societies Promotion Programme had been made use of.

## 2.13 Performance

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During the year under review, payments amounting to Rs.715,469 had been made on 09 occasions from a capital object of the Department of Social Services for a seminar conducted for students who were to appear for the G.C.E. (AL) 2011 Examination with a view to uplift the educational results which does not come under the mission and key functions of the Department of Social Services.



2.13.1 Government Grants

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 Details of Provision received and expenditure incurred with regard to the Provincial Council Development Work Schemes in shown below.

Source	Government Provision Received	Utilization	(Surplus/ Under Utilization)
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	Rs.000	Rs.000	Rs.000
(a) Criteria Based Grant	1,577,000	1,313,786	263,214
(b) Provincial Specific Development Grant	1,078,750	1,103,635	(24,885)
(c) Collective Grant	7,595,670	8,221,279	(625,609)
(d) Other Grant	62,003	64,513	(2,510)
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Total	10,313,423	10,703,213	(389,790)
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2.13.2 Provincial Development Plan

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 Approval had been granted for the proposed 1573 works valued at Rs.1,960,963,763 under the New work and the continued work coming under the Provincial Development Plan for the year under review. The progress of the proposed works, as per progress report of the Provincial Council is shown in the following table.

	New Work -----	Continued Work -----	Total Number of Work Proposed -----
Fully Completed	898	245	1,143
75% - 90% Completed	52	24	76
50% - 25% Completed	34	06	40
Less than 50% Completed	40	12	52
Not Commenced	262	-	262
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Total	1,286	287	1,573
	=====	=====	=====

### 2.13.3 Inadequate Fulfillment of Objectives

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The following observations are made.

- (a) There were 24 schools in the Hingurakgoda Educational Zone where the entire students who appeared for the year 5 Scholarship Examination during the past 5 years had failed. The percentage of success in G.C.E (O.L) Examination was 38 per cent. There were 18 schools where arts subjects had been taught to G.C.E (A.L) students. Meanwhile, commerce subjects 14 and science subjects 06 had been taught respectively. The percentage of success was Arts 60 per cent, Commerce 46 per cent and Science 26 per cent.
- (b) Sixteen examinations to be held directly by Department of Examinations of Sri Lanka and the North Central Provincial Public Service Commission for the year under review had not been held even as at 31 December 2011. The Provincial Public Service Commission of the North Central Province had conducted 8 examinations during the year under review without establishing an examination unit. As such, the confidentiality of preparation of question papers for the examinations had not been confirmed.

2.14 Deficiencies in Contract Administrations

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The Progress of 5 construction project expected to be completed by 31 December 2011 at an estimated value of Rs.6,527,759 ranged between 20 to 50 percent.

2.15 Under Utilization of Funds

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The following observations are made.

- (a) It is the responsibility of the Financial Administration Authorities to utilize the revenue collected by the Provincial Council and the capital grant received from the government with maximum efficiency and benefit for the development activities of the province economically without delay. But, during the year under review the capital grant of Rs.2,717,753,130 obtained by the Provincial Council and the grants obtained during the past so many years had not been utilized for the development activities concurred. As a result, the Provincial Council had taken action to invest the savings of Rs.820,738,488 in fixed deposits of various state banks. The amount was 30 per cent of the capital grant obtained during the year under review. It is noted that the under utilization of funds of the Provincial Council is a weakness in Financial Administration.
- (b) Out of the amount obtained for purchasing quality inputs and for the higher level of educational activities by the Hingurakgoda Educational Zone, a sum of Rs.5,937,355 was lying idle in the school bank accounts without being spent for the objective concerned.
- (c) A sum of Rs.5,762,000 had been released from 02 objects of Head 609 of the Chief Secretary's Office to landscape the garden of the Polonnaruwa sub office of the Ministry of Health and for air conditioning and purchase of office equipment and furniture. It was informed that this provision had been released as funds had not been provided for the above activities of the Ministry of Health in 2011. But,

a supplementary estimate could have been made for the expenditure Head 606 for fulfilling the said activities. Without doing so, the provision of the Chief Secretary's Office had been utilized for activities relating to the Expenditure Head 606 and therefore, their provision had been under utilized and the provision used by the Ministry of Health had become a surplus. Thus the accounts depict an over provision for Head 609 and an under provision for Head 606 due to inadequacy of provision made without proper forecast. It cannot be ruled out in audit that the additional provision of the Chief Secretary's office had been so utilized for other purposes to avoid showing the inadequacy of provision made for Head 606 in the accounts.

- (d) A supplementary provision of Rs.1,615,000,000 had been made for Expenditure Head 610-8-2-2501/23- others. But, the total expenditure was Rs.815,718,684 and the expenditure had been fully incurred by the Provincial Road Development Authority for the reconstruction of provincial roads affected by floods. Accordingly, it was observed that this supplementary estimate could have been allocated under Head 608 and the approval of the Provincial Treasury had been obtained without proper forecast and action had been taken contravening the objectives.

3. Accountability and Good Governance.

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3.1 Corporate Plan

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The Provincial Council and each of its Ministries, Departments and other institutions had not prepared corporate plans relating to their mission and duties as required by the Circular Letter of the Director General of Public Finance No. PF/R/2/2/3/5(4) dated 10 March 2010.

3.2 Action Plan

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The Provincial Council and each of its ministries, departments and other institutions had not prepared action plans for the year under review.

3.3 Internal Audit

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The main objectives and functions of the Internal Audit and the Department of Investigations of the North Central Provincial Council is to avoid errors and frauds in the Institutions of the Provincial Council and to examine the effectiveness of the internal control procedures introduced in order to confirm the security of assets and to give instructions to avoid such weaknesses But, it was not observed from the audit queries issued by them. Five vacancies in the department remaining unfilled for many years too had affected the fulfillment of its objectives and the maintenance of adequate performance.

3.4 Audit and Management Committees

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The Audit and Management Committee should meet at least once a quarter in terms of Paragraph 06 of the Management Audit Circular No.DMA/2009(1) dated 09 June 2009. However, during the year under review, each ministry/ Department of the Provincial Council had held only one meeting.

3.5 Procurement Plan

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The Ministries, Departments and Institutions of the Provincial Council had not prepared Procurement Plan for 2011 according to the National Budget Circular No.128 dated 24 March 2006.

4. Systems and Controls

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Special Attention is needed in respect of the following areas of systems and controls.

- (a) Accounting
- (b) Revenue Administration
- (c) Contract Administration
- (d) Fixed Assets
- (e) Fund Utilization
- (f) Human Resources Management
- (g) Planning and Implementation of Projects
- (h) Procurement Procedure
- (i) Control over Stores
- (j) Attendance and Control over Overtime