

## **Central Provincial Council - 2014**

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The audit of financial statements of the Central Provincial Council for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and statement of financial performance and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 23(1) of the Provincial Councils Act, No. 42 of 1987. This report is issued in terms of Section 23(2) of the Provincial Councils Act.

### **1:2 Management's Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1:3 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Provincial Council's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Central Provincial Council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

**1:4 Basis for Qualified Audit Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

**2. Financial Statements**

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**2:1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph 2:2 of this report, the financial statements give a true and fair view of the financial position of the Central Provincial Council as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

## 2.2 Comments on Financial Statements

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### 2.2.1 Provincial Council Fund

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The Accounts of the Provincial Council Fund had been presented for audit on 30 March 2015.

### 2.2.2 Other Accounts

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The progress of furnishing other accounts of the Provincial Council for the year under review as at 31 March 2015 appear below.

Description of Accounts	Accounts for the year 2014		
	Total No. of Accounts	No. of Accounts Furnished	No. of Accounts not Furnished
i. Statements of Assets and Liabilities	01	01	-
ii. Appropriation Accounts	33	33	-
iii. Revenue Accounts	02	02	-
iv. Advance to Provincial Council Officers' Account,	65	65	-
v. Commercial Advance Accounts	08	06	02
vi. Fund Accounts	01	01	-
vii. Statute Accounts	03	01	02
viii. Provincial Council Members' Advance Accounts	01	01	-
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	114	110	04
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### 2.2.3 Accounting Policies

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The following matters were observed.

- (a) The annual accounts should be prepared on accrual basis in terms of the Circular No.SS/AS/AA of 24 January 2013 of the Director General of Public Accounts commencing from 2013. However, the Central Provincial Council had not acted in accordance with it while preparing the accounts for the year under review.
- (b) Although it has been stated under No.2 of the accounting policies that the accounts have been maintained on cash basis, it has been stated in the statement of financial position that certain financial assets and liabilities had been accounted for, on accrual basis.
- (c) The Central Government and the Provincial Council had incurred significant expenditure on fixed assets since the inception of the Provincial Council. An expenditure of Rs.53,265,256 had been incurred during the previous year and the year under review. However, the fixed assets had not been disclosed in the financial statements. It has not been disclosed with the accounting policies.
- (d) It has been stated in Accounting policies No.1 that the accounts of Authorities and other institutions established under the Provincial Council had not been revealed in the financial statements. However, the recurrent expenditure of Rs.423,333,000 and the capital expenditure of Rs.270,318,522 incurred on behalf of the Provincial Road Development Authority had been revealed under Head No.570.

#### 2.2.4 Accounting Deficiencies

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The following accounting deficiencies were observed in audit.

- (a) Action had not been taken to compute the value of balance of stationery and other consumable materials as at end of the year out of the purchases for the year under review and to show the value under current assets. Instead, the entire expenditure had been shown under the supplies and services expenditure in the financial performance statement.
- (b) The value of liabilities aggregating Rs.16,336,059 shown under the liabilities of Appropriation Accounts of Departments had not been disclosed in the financial statements.
- (c) The arrears of tax income of Rs.174,534,606 on production and expenditure and the arrears of income of Rs.1,607,951 on sales and fees for the year under review had not been accounted for.
- (d) The Chief Secretary's office had granted Rs.35,171,446 for the Advance Account of the Honorable Members of the Central Provincial Council. This had been shown under the Capital Contribution Account for the commercial advances in the financial position statement.
- (e) The expenditure of Rs.2,371,143 to be incurred under capital expenditure (d) in the financial performance statement of the year under review had been incurred from recurrent provision and as a result the expenditure concerned had been accounted for, under recurrent expenditure. Due to this, the total recurrent expenditure and the capital expenditure of the Financial Performance Statement had been understated and overstated respectively by similar accounts.

- (f) The accrued interest receivable for the year 2014 on behalf of investments in 2 fixed deposits of the Emergency Fund had not been accounted for. As a result, the income from interest for the year under review had been overstated by Rs.61,578.
  
- (g) Instalments amounting to Rs.83,213,394 had been paid during the year under review on behalf of 9 vans, 12 motor cars and 82 cabs purchased on hire purchase basis in 2012. However, the value of motor vehicles had not been accounted for, under fixed assets. A further sum of Rs.206,051,953 payable as instalments too had not been shown under liabilities.

### **2.2.5 Unreconciled Control Accounts**

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The variances observed between the balances of 7 items of accounts aggregating Rs.1,960,372,251 which had been shown in the financial statements presented for audit and the balances shown in the subsidiary registers and records confirming them aggregated Rs.297,717,763.

### **2.2.6 Accounts Receivable and Payable**

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The following matters were observed.

#### **(a) Accounts Receivable**

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- (i) Action had not been taken, even during the year under review, to settle the balances of approved advances aggregating Rs.80,527,173 remaining unsettled by 5 institutions, being continuously brought forward in the accounts for many years. Balances of Rs.949,748 ranging for a period of 3 to 11 years had been included in these balances.

- (ii) A sum of Rs.1,677,540 had been granted to the Road Passenger Services Authority under the Capital Contribution Account for Commercial Advances. Action had not been taken to settle this even by end of the year under review.
- (iii) The balances of Advances to Provincial Public officers' Account as at end of the year under review aggregated Rs.1,183,475,521. Loan balances of Rs.131,657,500 due from 5,941 officers had been included in it. Action had not been taken, even by end of the year under review, to settle these loan balances remaining as arrears for a long time.
- (iv) Action had not been taken to settle loan balances of Rs.4,773,730 receivable from the institutions concerned with reference to officers who had gone on transfer to the Provincial Council and 13 other institutions.

**(b) Accounts Payable**

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Action had not been taken to settle to those provinces the sum of Rs.4,783,323 payable on behalf of officers who had come on transfer from other provincial councils and 16 various institutions.

**(c) Limits of Advance Accounts**

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The maximum limits provided in the annual estimates for the Department of Animal Production and Health for Advance to Public Officers' Account had been exceeded by Rs.1,277,278 whereas the minimum limits of receipts of the Ministry of Agriculture and the Department of Local Government had decreased by Rs.174,520 and Rs.5,437 respectively.

### 2.2.7 Lack of Evidence for Audit

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The following matters were observed.

- (a) The balances of 18 assets aggregating Rs.86,540,638 and the balances of 16 liabilities aggregating Rs.4,783,324 could not be satisfactorily verified in audit due to non presentation of documentary evidence and information.
- (b) An expenditure of Rs.1,161,352 had been incurred on 25 instances for food and beverages to participants of conferences and workshops held at the official residence of the Chief Minister. But, the conference notes, the names of participants and officers had not been furnished to audit.

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

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The following instances of non-compliance were observed in audit.

Reference to Laws, Rules and Regulations etc.,	Value	Non-compliance
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	<b>Rs.</b>	
(a) Statutory Provisions		
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(i) Stamp Duty Act No.12 of 2006	1,074,005	The stamp duty recovered should be remitted to the Commissioner General of Inland Revenue. However, the stamp duty recovered by the office of the District Director of Health Services, Nuwara Eliya for the period 10 January 2010 to 31 December 2013 had been retained in the General Deposit Account and credited to government revenue without obtaining proper authority instead of being remitted to the Commissioner General of Inland Revenue.



(ii)	Sections 6(a), 8 and 12 of the Public Contracts Act. No.3 of 1987.	10,875,163	The second stage of the contract exceeding Rs.50 lakhs had been awarded by the Provincial office of the Director of Agriculture to a contractor who had not been registered under the Registrar of Public Contracts.
(b)	Financial Regulations of the Government of Sri Lanka – 571(2)	13,551,126	Action had not been taken in terms of the regulation with regard to balances of deposits of 6 institutions which had exceeded a period of 2 years since their deposits.
(c)	Provincial Financial Rules -----		
(i)	Rule 259.2	2,260,594	The imprest balances relating to a period of 5 years from 2003 to 2014 included in the Imprest Account balance of Rs.5,225,776 shown under current liabilities had not been settled as a result of not acting in accordance with the said provisions in the rules.
(ii)	Rule 283.4	492,523	Action had not been taken in terms of the financial rule with regard to 44 cheques issued by 7 institutions remaining unrepresented for payments for over 6 months.
(d)	Public Finance Circular No.437 of 18 September 2009	-	Revenue licences and insurance coverage had not been obtained for 11 vehicles belonging to the office of the Director of Health Services, Nuwara Eliya.
(e)	Circulars of the Secretary to the Ministry of Education -----		
(i)	Circular No.2007/20 of 13 December 2007	-	The maximum period of service in a school with more facilities is 6 years and the maximum period of service in a school with facilities is 8 years.

			<p>However, it was observed in audit that 427 teachers of the Thaldeniya and Denuwara Zone had not obtained change of station transfers and they continued to work for 10 to 27 years.</p>
(ii)	Paragraph 03 of the Circular No.2006/02 of 12 January 2006	-	<p>The number of students who should be in classes parallel to grades 2 to 5 is limited to 40. However, this limit had been exceeded in grade 2 to grade 5 of the Sithadevi Balika Vidyalaya and the number of students so admitted were 148, ranging from 31 to 42 students.</p>
(f)	Circular of the Finance Commission No.FC/PSDGCCBG/Circular/2011/1 of 26 July 2011	271,650	<p>Expenditure could only be incurred from the Criteria Based Grant for establishment of self-employment, development of economic and social infrastructures, irrigation, agriculture, religious, cultural and sports development. However, the Department of Ayurveda had incurred expenditure on other matters on 3 instances without complying with it.</p>
(g)	Others		
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(i)	Paragraph 21 of the undated circular of September 2009 of the Director of Education, Central Province bearing No.CP/Ed/☺/4	-	<p>Action had not been taken to settle the ownership of lands of 34 schools of the Yatinuwara area, as instructed. Regarding the ownership of lands.</p>
(ii)	146(i) of Chapter xii of the Gazette Extra Ordinary No.1589/30 dated 20 February 2009 of the Republic of Sri Lanka	2,814,412	<p>Eight teachers of 4 zonal education offices the Kotmale, Nuwara Eliya, Walapane and Hatton had been released for services in the Army and the Students' Forces on a long term basis. But, action had not been taken to get reimbursed from those institutions even by June 2015 the salaries paid to them from the funds of the Provincial Council.</p>

### **3. Revenue Management**

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#### **3,1 Revenue Heads No.M-10 and M-20 – Chief Secretary**

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The following matters were observed.

- (a) A decrease of Rs.5 million in the tax and the non-tax revenue, an increase of 5.85 per cent in the deficit of revenue compared to the previous year and an increase of 11.67 per cent in deficit in the overall budget were depicted.

The following observations are made in this connection.

- (i) An increase of Rs.744,888,129 was observed in the tax and non-tax revenue of the year under review compared with that of the previous year.
- (ii) An increase of Rs.906,451,710 in the deficit of the year under review compared to that of the previous year was observed.
- (b) The accumulated balance of the Provincial Council as at end of the previous year was Rs.1,514,217,234. It was observed that this value had increased to Rs.924,870,838 by Rs.2,439,088,072 as at end of the year under review.
- (c) The balances of arrears of revenue of motor vehicle licences aggregated Rs.79,420,230 as per final accounts. However, it was observed that vehicles transferred from 29 Divisional Secretariat Divisions too had been included in it.

**3.2** The revenue of Rs.80,453 obtained from sale of animal food in 2012 and 2013 had not been accounted for, under the relevant Provincial Council Revenue Account. Instead, it had been retained in the Deposit Account of the Department of Animal Production and Health.

#### **4. Financial Review**

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##### **4.1 Financial Results**

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According to the financial statements presented, the financial results of activities of the Provincial Council Fund for the year ended 31 December 2014 was a deficit of Rs.20,941,587,379 as compared with the previous year's deficit of Rs.18,751,665,970. A deterioration in financial results by Rs.2,189,921,409 is shown while comparing with the previous year.

##### **4.2 Analytical Financial Review**

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Certain important information regarding the financial position and financial performance of the Central Provincial Council appear below.

###### **(a) Deficit as Compared to the Total Revenue**

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The deficit had decreased by 17 per cent during the year under review. But, the overall deficit was a higher value of Rs.2,189,921,409 as compared with that of the previous year.

###### **(b) Ratio between the Total Revenue and the Total Expenditure**

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A trend of increase in the ratio between the total revenue and total expenditure was shown during the past 2 years. However, this ratio had decreased by 17 per cent during the year under review. The total expenditure had increased fivefold

against the total revenue and as such it was observed in audit that it was not a satisfactory situation.

**(c) Budgeted and Actual Revenue and Expenditure**

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The observations regarding the estimated and actual revenue and expenditure of the year under review appear below.

- (i) The estimated target of revenue from tax had increased by Rs.65.3 million or 1.41 per cent. However, decrease in revenue ranging from Rs.67,537 to Rs.359,652,610, that is, 5 to 84 per cent was shown between the estimated and actual revenue of 5 revenue items.
- (ii) The expected target under non-tax revenue and fees was less by Rs.4.9 million. The estimated and actual revenues of 3 revenue items had decreased in the range of 38 to 94 per cent amounting to Rs.499,500 and Rs.53,560,020 .
- (iii) The estimated and actual expenditure of 4 expenditure heads had decreased ranging from Rs.1,593,610 to Rs.695,938,259.
- (iv) Out of the expected provision under the Government Capital Grant, a sum of Rs.1,435,389,308 or 23 per cent had not been spent.
- (v) The estimates should be prepared with proper care as required by Financial Regulation 50(ii) and the Financial Rule 7.2.1. However, it had not been done accordingly and as such the above variances had occurred between the estimated and actual revenue and expenditure.

## **5. Authority Accounts/ Fund Accounts and Commercial Advance Accounts**

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### **5.1 Central Province Passenger Transport Services Authority**

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#### **(a) Audit Opinion**

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The opinion relating to the financial statements of the Central Province Passenger Transport Services Authority had been disclaimed.

#### **(b) Main Audit Observations**

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##### **(i) Accounting Deficiencies**

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The following accounting deficiencies were observed.

- Expenditure aggregating Rs.1,133,402 had been understated in the accounts by the Authority.
- The Central Province Passenger Transport Services Authority had not made provision in the financial statements to settle liabilities caused on behalf of payment of gratuities to employees in terms of the Provision for Gratuities Act No.12 of 1983. The accumulated gratuity provision as at end of the year under review aggregated Rs.38,686,696. However, this had not been disclosed in the financial statements.

##### **(ii) Non-compliance with Laws, Rules, Regulations and Management Decisions**

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A sum of Rs.697,100 had been paid as legal fees without entering into a service agreement in terms Section 4.1 of Chapter xxxiii of the Establishments Code.

**(iii) Legal Matters Against the Authority**

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External parties had filed 9 cases against the Passenger Transport Services Authority claiming compensations amounting to Rs.1,500,000.

**(iv) Identified Losses**

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Compensation amounting to Rs.208,800 had to be paid with regard to a case filed in the Labour Tribunal against the Authority by an officer who had been dismissed from service.

**5.2 Central Province Road Development Authority**

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**(a) Audit Opinion**

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The opinion regarding the financial statements of the Central Province Road Development Authority had been disclaimed.

**(b) Main Audit Observations**

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**(i) Accounting Deficiencies**

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The following accounting deficiencies were observed.

- The income from Asphalt Project had been understated in the accounts by Rs.558,376.
- Action had not been taken to identify and rectify direct credits of Rs.14,682,795 and debits amounting to Rs.87,428 made to a bank current account.
- The values of 6 land and buildings had not been computed and accounted for.

- The Central Province Road Development Authority had not made provision to settle liabilities caused by payment of gratuities to employees in the financial statements in terms of provisions in Payment of Gratuities Act No.12 of 1983. The accumulated gratuity provision as at end of the year under review was Rs.6,210,441. However, this had not been disclosed in the financial statements.

**(ii) Non-compliance with Laws, Rules, Regulations and Management Decisions**

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The following instances of non-compliance were observed in audit.

- The Provincial Road Development Authority had made purchases valued at Rs.1,067,340 and Rs.1,263,984 respectively contravening Sections 3.4.3(c) and 2.5.1 of the Procurement guidelines.
- Purchases for Rs.1,299,526 had been made in contravention of provisions in Financial Rule No.84.7
- The Chairman had entered into agreements valued at Rs.214,745,384 with 27 contractors who had not been registered under the Public Contracts Act No.03 of 1987

**(iii) Legal Matters Against the Authority**

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External parties had filed 7 cases against the Provincial Road Development Authority claiming compensations amounting to Rs.2,625,649.



### **5.3 Commercial Advance Accounts**

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#### **5.3.1 Hatton Sampath Centre Advance Account**

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**(a) Audit Opinion**

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Opinion disclaimed

**(b) Main Audit Observations**

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(i) The minimum limit of receipts authorized by Appropriation statute for the year under review was Rs.1,760,000. However, the limits achieved were Rs.1,480,130. As such, a decrease in estimated limits by Rs.279,870 representing 16 per cent was observed.

(ii) With the objective of developing the knowledge, attitude and merits of the children of the Central Province, the Institution's main objective was to implement training programmes for uplifting the performance of children and educational managers of those schools. However, no such a programme had been conducted in this connection during the year under review.

**(c) Item No.590202 – Agri Crop Materials Advance Account**

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(i) The decision of the Cabinet of Ministers to commence the Advance Account Activity had not been furnished to audit.

- (ii) The project report for the year under review had been prepared after September 2014. The project report had not been prepared in such a manner so as to separately show the districtwise purchase and sale of seeds and tree planting materials and the varietywise seeds and tree planting materials.

**(d) Item No. 591202 – Galpalama Farm Advance Account**

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- (i) A difference of Rs.150,052 was observed between the balances of the Treasury books and the Departmental books as at 31 December 2014 as per reconciliation statement furnished with the acconuts.
- (ii) Leekhs had been cultivated in 2 sectors during the final half year of 2014. A loss of Rs.25,032 occurred in one sector due to failure of crops and the other sector faced a loss of Rs.24,402 resulting in a total loss of Rs.49,434.

**(e) Item No.592202 - Purchase and Sale of Pharmaceuticals Advance Account**

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- (i) A provision with a limit of Rs.7,500,000 had been made during the year under review by Appropriation Acts in order to fulfil the objectives of the Advance Account Activities. But, an expenditure of 48 per cent only had been incurred from the provision.
- (ii) The Appropriation Act had directed minimum earnings upto a limit of Rs.15,000,000 from the Advance Account Activity during the year under review. But, the amount earned was Rs.4,706,640 only representing 31 per cent.

## **6. Operating Review**

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### **6.1 Performance**

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The following matters were observed

- (a) The performance of the Ministry of Road Development, Transport, Power and Energy were as follows.
  - (i) Two electrical lines amounting to Rs.184,000 and Rs.299,950 for which payments had been made in 2003 and 2008 had not been inaugurated and the expenditure had become fruitless.
  - (ii) A sum of Rs.15,410,448 had been paid to the Ceylon Electricity Board during 2009 to 2011 to implement 62 electricity projects. However, those projects had not been completed even by end of the year under review. The progress of 55 projects ranged from 5 to 50 per cent for which a payment of Rs.14,597,729 had been made.
  - (ii) The International Co-operation Institute of Japan had allocated Rs.1,725 million to implement 15 projects. However, 7 of those projects only had been completed by end of the year. The progress of 8 remaining projects ranged from 75 to 95 per cent.
  - (iv) A sum of Rs.111.44 million had been allocated to implement 16 projects under the programme named “One work per village”. However, 6 of those projects only had been completed by end of the year. The progress of 10 remaining projects ranged from 25 to 90 per cent.

- (b) One hundred and twenty four out of 166 complaints received by the Rent Board operating under the Department of Housing of Central Province as at 31 December 2014 had not been solved.
- (c) The main functions of the Departments of Transport such as implementation of a smoke emission workshop, increase the prices of fitness certificates and books, providing 36 UV lamps to 36 Divisional Secretariats, evaluating the garage with a higher output and to get approval for the transport statute, had not been fulfilled.
- (d) According to the Pharmaceuticals Production Plan of the Department of Ayurveda for the year 2014, the estimated production of 36 varieties of pharmaceuticals had not been actually achieved by 30 to 94 per cent.
- (e) Proper legal action had not been taken with regard to recovery of Turnover Tax of Rs.14,406,365 due from 3 persons who carry out business activities within the Central Province and were not residents of the Central Province.
- (f) A sum of Rs.7,262,485 had spent to purchase 10 items of office equipment including 30 computers and 10 photocopiers for 216 units of 10 Eeenena Piyasa Information Technology Centres, and 2000 home compost containers. the progress of which had been shown as 100 per cent in the physical performance report of the Chief Ministry. However, these had not been utilized for the said purpose even by 13 February 2015, the date of audit.
- (g) It has been directed by the circular No.2013/11 of 13 March 2013 issued by the Secretary to the Ministry of Education that cash should not be collected in schools on various occasions. In spite of this, contravening this circular, a school had collected Rs.13,938,390 made up of Rs.6,067,400 and Rs.7,870,990 respectively while admitting 481 students of other grades including Grade I during 2013 to 7 November 2014 and credited it to the School Development Account and the School Upliftment Account.

- (h) A comparison of the estimated tax and the tax collected during the year under review and the previous year showed an increase in revenue by Rs.65 million.

## 6.2 Inadequate Fulfilment of Main Objectives

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- (a) In order to fulfil its initial objectives, the Department of Education of the Central Province had spent a sum of Rs.12,108,412,466 under the departmental Expenditure Heads in 2014. Of this, a sum of Rs.116,583,127 had spent under 7 Expenditure Heads for the primary and secondary educational inputs. However, necessary case study to review results so as to uplift the examination results had not been carried out. Evidence had not been furnished, at least, to show that necessary action had been taken to uplift the results. An information showing the summary of examination results of the year 2014 appear below.

<b>Examination</b>	<b>No. Appeared</b>	<b>No. Passed</b>	<b>Total No. of Failures</b>	<b>Failures in all Subjects</b>
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Scholarship – Grade 5	43,595	4,891	38,704	-
G.C.E (O/L)	34,085	22,481	11,604	1,255
G.C.E (A/L)	25,975	15,547	10,428	1,862

- \* According to the overall provincial results, the Central Province was in the 6<sup>th</sup> and 7<sup>th</sup> places with reference to G.C.E (O/L) and G.C.E(A/L) respectively.

- (b) The overall level of the islandwide districts with regard to the Zonal Grade 5 Scholarships and G.C.E (O/L) appear below.

<b>Examination</b> -----	<b>Placement as per Overall Results</b> -----		
	<b>Kandy</b> -----	<b>Matale</b> -----	<b>Nuwara Eliya</b> -----
Scholarship	11	12	20
Ordinary Level	10	19	23

### **6.3 Management Inefficiencies** -----

The following matters were observed.

- (a) A sum of Rs.20,000,000 had been paid on 31 December 2010 to purchase properties belonging to a private institution to open the Udadumbara Siddhartha Primary Vidyalaya. This amount had been kept in the General Deposit Account of the office of the Divisional Secretariat, Udadumbara. The Director of Education, Teldeniya had taken over this land on 26 June 2012. But, the land concerned had not been purchased even by 31 December 2014.
- (b) The number of projects proposed to be implemented under the Capital Investments Programme, 2014 was 6,865. Of those, 1392 projects were continuous.
- (c) The Provincial Council had not acted in accordance with the provisions of the Public Administration Circular No.24/94 of 01 July 1994 and the Pensions Circular No.01/2001 of 15 January 2001 with regard to the contributions of the Widows' and Orphans' pension. As such, the sum Rs.87,518,868 of had not been remitted to the Department of Pensions even by end of the year under review.

- (d) The sum of Rs.10,157,005 recovered by the office of the Director of Health Services, Nuwara Eliya for the Public Service Provident Fund from 86 officers had been retained in the General Deposit Account from 2003. Of this, a sum of Rs.8,113,312 had been credited to the State Revenue.
- (e) The ownership of 76 land of Institutions belonging to the office of the Director of Health Services, Matale had not been properly acquired by the government. The office of the Director of Health Services, Matale had not taken proper action in this regard.
- (f) The sum of Rs.11,250,000 deposited by the Department of Housing at the Divisional Development Bank in 2009 had not been used for granting loans and continued to be under utilized. The department had been deprived of an interest income of Rs.3,150,000 which could have been earned if it had been deposited in a fixed deposit.
- (g) A further balance of Rs.2,696,231 remained as arrears recoverable from the housing loans from the loans granted by the Department of Housing during 18 years by end of the year under review. Further, recovery of the loan balances of Rs.2,873,572 granted to 664 persons through the Multi Purpose Co-operative Societies and the Co-operative Loan Societies and the interest thereon amounting to Rs.1,148,090 had been delayed for over 20 years.
- (h) It was observed that there was a delay of 1 to 8 years in settling loan balances of Rs.1,496,446 recoverable from 15 Provincial Council Members whose membership had ceased in terms of paragraph 06 of the Circular No.01/2001 dated 28 March 2001 issued by the Ministry of Provincial Councils and Local Government relating to establishing a loan scheme for Members of Provincial Council.

- (i) The activities relating to audit report discussions of Ministries and Departments belonging to the Central Provincial Council had been entrusted to the Provincial Committee on Public Accounts. However, plan had not been made to conduct discussions covering all institutions pertaining to audit reports of 2008 and 2009, even by end of 2014.

#### **6.4 Operating Inefficiencies**

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The following matters were observed.

- (a) According to the provisions referred to in Rules 85, 86 and 87 of the Provincial Financial Rules Code, services, work or supplies completed should be approved, certified and payments made. However, the Ministry of Agriculture had paid Rs.2,195,350 on 2 occasions without complying with those requirements and without obtaining supply of goods.
- (b) The Department of Health Services of the Central Province had called for quotations for Length Measuring Boards. Purchases had not been made from the institution which had furnished the lowest quotation of Rs.4,745 each as per required specifications with a guarantee period of 2 years whereas 78 equipment had been purchased from the institution which had furnished the highest quotation of Rs.25,837 with a guarantee period of 1 year resulting in an overpayment of Rs.1,645,176.
- (c) A sum of Rs.703,946 had been spent for retention walls during the year under review under the sub project planned for preservation of Yatinuwara Deldeniya Ela and the Amumupura Polandeniya, Kahawathugoda and Delgaha Kumbura paddy fields. But, it was observed at a field inspection carried out in February 2015 that those retention walls were not protecting the paddy fields.



- (d) The following matters were observed regarding the road development and improvement executed by the Provincial Road Development Authority.
- (i) The payment for Despot Meraya Road Construction work had been suspended due to matters such as, not carrying out any inspections regarding the accepted standards of constructions, not showing the composition of mixtures, lack of required thickness of roads, failure of inspection reports and submission of erroneous survey reports. It was observed at a physical verification carried out on 30 January 2014 that over 80 per cent of the surface of the road had been broken. In spite of this, the full amount of Rs.5,019,951 had been paid to the contractor on a recommendation of a incompleted committee without considering it.
  - (ii) The work of portion of road upto 0.00-370 kilometres of the Kundasale Mahawatta Road had been fully completed. Subsequently, another institution had carpetted the road resulting in a fruitless expenditure aggregating Rs.1,879,053 incurred by the Authority.
  - (iii) The payment for final bills had been made without recovering the mobilization advance of Rs.116,025 given for the Birindiwela Mathapapitiya Road. The road had not been constructed according to the required standards and as such 40 per cent of the entire road reconstructed had been severely damaged creating pot holes before lapse of 3 month from the period of completion. Accordingly, it was observed in audit that the entire expenditure of Rs.3,020,234 incurred had become fruitless.
  - (iv) ABC and 37.5 mm stones valued at Rs.2,417,409 which had resulted in failure while testing on 2 occasions had been issued for the improvements made to the Nugagahamula Ilukwatta Road.

- (v) ABC and 37.5 mm stones valued at Rs.1,360,175 which had resulted in failure while testing on 2 occasions had been supplied to the worksite without the approval or permission of the Executive Engineer while improving the Baranagala Peniland Road. The Technical Officer had fraudulently given 19 cubes of 37.5 MM stones and 6 barrels of tar in the lorry No.42-5175 belonging to the Authority to the contractor to repair the damaged portion of this road.

## **6.5 Transactions of a Contentious Nature**

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The following matters were observed.

- (a) A sum of Rs.2,200,000 had been provided by supplementary estimates to provide furniture to 3 quarters allocated to the Honourable Members of the Central Provincial Council as per Cabinet Memorandum No. CPC/CM/CB/2014/32 of 23 April 2014. A sum of Rs.2,196,341 had been spent from this provision on 10 occasions to supply furniture. But, it was observed that the quarters remained under utilized.
- (b) A sum of Rs.10,000,0000 had been provided for the expenditure item “maintenance of assets acquired from the Mahaweli” under the Chief Ministry. Of this, a sum of Rs.4,433,427 had been spent to renovate the Pallekella Janasavigama Playground and to construct a walking passage. The total estimate of the said project was Rs.4,077,911. However, an expenditure of Rs.4,433,427 had been incurred to complete over 60 per cent of the project by 31 December 2014. Accordingly, it was observed that a sum of Rs.355,516 had been paid in excess of the total estimated value.
- (c) The Chief Ministry had spent Rs.2,376,635 from the General Deposit Account and Rs.328,000 from the provision under objects on 6 occasions for objectives other than that of the Ministry.

- (d) A sum of Rs.625,000 had been granted as loans to 6 Societies as at 30 November 2014 to uplift the Co-operative Societies. None of these instalments had been recovered. The total of the balances of arrears due from 7 co-operative societies amounted to Rs.3,356,995. Further, action had not been taken even during the year under review to recover any instalments relating to the loan of Rs.1,500,000 paid from the Winding Up Fund to the Investments Development Co-operative Societies Limited established by the Co-operative Development Officers.

## **6.6 Apparent Malpractices**

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A person who served as the Principal of a school in the Kotmale Educational Zone had prepared and submitted forged documents which comes under Chapter XLVIII of part 2 of the Establishments Code and sub Section 12 of the first schedule and had extended his period of retirement by 6 years. He had misappropriated the government funds by obtaining Rs.2,157,895 as salaries.

## **6.7 Idle and Under-utilized Assets**

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The following matters were observed.

- (a) According to the decision made at the meeting of Cabinet of Ministers of the Central Province on 29 August 2012, 34 laptop computers had been purchased for Rs.3,278,960 to be distributed among new members who had been elected to the 5<sup>th</sup> Council during 04 March 2009 to 05 July 2013. There was no procedure to distribute those and as such they were remained stacked at the stores of the Chief Ministry even by 13 February 2015.
- (b) A further balance of Rs.5,844,208 and the interest received from investments amounting to Rs.697,594 remained idle in the Co-operative Developments Fund by 28 November 2014 after investing a sum of Rs.26.32 million in 3 banks.

## 6.8 Uneconomic Transactions

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The following matters were observed.

- (a) A stock of concrete stones to use for laying on the floor had been purchased in 2013 by incurring an expenditure of Rs.464,000. These could not be used as they were lack of the required friction capacity and were lying in the premises of the office of the District Director of Health Services even by June 2015.
- (b) Cervical Traction Unit (CTU) medical equipment purchased on 30 July 2014 for Rs.725,000 and parts of the Short Wave Diathermy Machine valued at Rs.810,000 purchased for the Digana hospital on 13 June 2011 by the District Department of Health were as short of certain parts and kept remained unused at the Physical Clinical Unit even by 21 July 2015.
- (c) The maximum number of vehicles that could be allocated to a Chief Minister and his staff is 7 as per circular No.CSA/PI/40 of 04 January 2006 issued by the Secretary to the President. However, 12 vehicles and to 2 vehicles from the pool had been allocated to the office of the Chief Ministry, Central Province.
- (d) Five hundred and ninety three officers of the departments under the Chief Ministry, Central Province had gone abroad for private jobs, academic and apprenticeship activities by obtaining allowances from the Ministry and without obtaining the permission of the Governor, Central Province.

## 6.9 Identified Losses

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The following matters were observed.

- (a) The Department of Health Services had purchased “DEFIBRILOTOR” medical equipment of same specification on 2 occasions. A sum of Rs.710,000 had been overpaid for the equipment purchased on the first occasion.
- (b) An additional cost of Rs.92,850 had to be incurred on purchasing 3 varieties of pharmaceuticals from the Ayurvedic Corporation which could have been produced at a lesser cost at the manufactory of the Department of Ayurveda.
- (c) Two vehicles which had met with accidents had been insured on a complete coverage basis instead of being insured on the correct assessed value. As a result, a loss of Rs.102,311 had been caused due to lack of insurance coverage. The Secretary to the Ministry of Agriculture had recommended to write off the loss.
- (d) Damages remaining unsettled with regard to vehicles of the Ministries and Departments of the Central Provincial Council on 108 occasions amounted to Rs.14,537,137 whereas the damages caused to properties on 166 occasions amounted to Rs.19,247,237 thus making a total of Rs.33,784,374. Action had not been taken even during the year under review to settle the damages to these vehicles and properties which remained unsettled for many years.

## 6.10 Staff Administration

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The following matters were observed.

### (a) Approved Cadre and the Actual Cadre

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The cadre of the Central Provincial Council as at 31 December 2014 appear below, except principals and teachers.

Category of Staff	Approved Cadre	Actual Cadre	No. of Vacancies	Surplus
Senior Level	1,983	1,429	554	-
Tertiary Level	657	489	168	-
Secondary Level	8,956	6,411	2,545	-
Primary Level	4,372	3,813	559	-
Other (Casual, Temporary)	14	74	-	60
Total	15,982	12,216	3,826	60

### (b) Details of Cadre – Schools

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The details of cadre of principals and teachers as at 31 December 2014 appear below.

Category of Staff	Approved Cadre	Actual Cadre	No. of Vacancies	Surplus
Principals	1,687	1,572	115	-
Teachers	24,818	27,115	-	2,297
Secondary Level	2,044	1,340	704	-
Primary Level	245	7	238	-
Total	28,794	30,034	1,057	2,297

- (c) The approved cadre of 43 local government Institutions of the Central Provincial Council as at 31 December 2014 aggregated 6,060 and the actual cadre was 5,765. Thus, it was observed that there were 295 vacancies. However, it was observed that there were 989 vacancies in certain posts of the 43 local government institutions and there were 517 surpluses in certain posts of 35 local government institutions.

## **6.11 Utilization of Estimated Provision**

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The following matters were observed.

- (a) Out of the provision made for provincial administration, 14.72 to 64.81 per cent had been saved.
- (b) Out of the provision made under 4 Objects for acquiring fixed assets, a range of 17.05 to 73.24 per cent had been saved.
- (c) Out of the provision made under the Criteria Based Grant for 05 Objects of 10 Heads, 23.79 to 82.60 per cent had been saved.
- (d) Savings ranging from 15.80 to 96.05 were observed in the net provision made for 7 Objects of 5 Heads under the Provincial Activities Specific Development Grant.
- (e) Savings ranging from 20 to 100 per cent were observed in the net provision made for 8 Objects of 4 Heads under the Special Projects. The entire provision of Rs.180,000,000 made for the “Development Project for Roads Damaged by Rain” under the Expenditure Heads of the Chief Secretary had been saved.

## **7. Accountability and Good Governance**

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### **7.1 Action Plan**

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An Annual Action Plan should be prepared according to Section 1.4.1 of the letter of the Director General of Public Finance No. PF/R/12/2/3/5(4) of 10 March 2010. However, the Provincial Road Development Authority and 8 Ministries/ Departments had not prepared action plans for the year under review.

### **7.2 Budgetary Control**

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The following matters were observed.

- (a) No income had been earned from 3 items of revenue budgeted at Rs.7,000,000 of the Road Development Authority and targets not been achieved from 7 other budgeted items of revenue ranged from 10 to 80 per cent. An expenditure of Rs.2,512,479 had been incurred exceeding the estimated expenditure limits.
- (b) Out of the estimated revenue of 27 revenue items of the Road Passenger Services Authority, a sum of Rs.21,597,440 could not be earned.
- (c) An expenditure of Rs.1,134,380 had been incurred in excess of the provision of Rs.500,000 for the expenditure on maintenance of Vehicles of the Provincial Passenger Transport Services Authority.



### 7.3 Observations on Unsettled Audit Paragraphs

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The following matters were observed.

- (a) Thirty eight audit paragraphs of the Auditor General's reports of 2008 and 2009 of the Provincial Passenger Transport Services Authority were discussed at the Provincial Committee on Public Accounts on 24 July 2014. The orders given therein had not been attended to and as such 12 of those audit paragraphs remained further unsettled.
- (b) Thirty eight audit paragraphs of the Auditor General's reports of 2007 and 2008 of the Provincial Road Development Authority were discussed at the Provincial Committee on Public Accounts on 14 February 2012. The orders given therein had not been attended to and as such 23 of those audit paragraphs remained further unsettled.
- (c) Replies for sixty one audit queries issued during the year under review and 19 audit queries issued during the previous years to 15 Ministries, Departments and offices had not been furnished by 30 June 2015. The computable values of transactions relating to those audit queries were Rs.993,613,982 and Rs.16,658,765 respectively.

## **8. Systems and Controls**

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Deficiencies observed during the course of audit were brought to the notice of the Chief Secretary from time to time. Special attention is needed in respect of the following areas of systems and controls.

- (a) Accounting
- (b) Fixed Assets Control
- (c) Preparation of Estimates
- (d) Settlement of Debtors and Creditors
- (e) Provincial Council Development Plan
- (f) Staff Management
- (g) Internal Audit