

Southern Provincial Council - 2015

The audit of financial statements of the Southern Provincial Council for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards 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

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 Auditing 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 judgement, 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 Southern 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 Southern 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 Opinion

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

2. Financial Statements

2.1 Qualified Opinion

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 Southern Provincial Council as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Provincial Council Fund

The Provincial Council Fund Account for the year under review had been presented to audit on 01 April 2016. The balance of the Provincial Council Accumulated Fund amounting to Rs.742,171,657 as at December 2014 had improved up to Rs.2,765,001,880 by Rs.2,022,830,223 as at 31 December 2015.

2.2.2 Other Accounts

The progress of presentation of other accounts of the Provincial Council for the year under review as at 31 March 2016, is given below.

| | Total Number of Accounts | Number of Accounts Presented | Number of Accounts not Presented |
|---|---|---|---|
| | ----- | ----- | ----- |
| (i) Appropriation Accounts | 25 | 22 | 03 |
| (ii) Revenue Accounts | 25 | 20 | 05 |
| (iii) Advances to Provincial Public Officers Account | 91 | 76 | 15 |
| (iv) Commercial Advance Accounts | 11 | 06 | 05 |
| (v) Fund Accounts | 07 | 05 | 02 |
| (vi) Statute Accounts | 05 | 01 | 04 |
| (vii) Special Advance Accounts | 01 | - | 01 |
| | ----- | ----- | ----- |
| Total | 165 | 130 | 35 |
| | === | === | === |

2.2.3 Accounting Policies

The following matters were observed.

- (a) Even though it was shown that the Fund Account had been prepared in compliance with the Sri Lanka Public Sector Accounting Standards, the arrears of revenue totalling Rs.692,504,844 as at 31 December 2015 had not been brought to account under revenue receivable while it was not disclosed in the financial statements.
- (b) Revenue from vehicles registrations received in January and February 2016 amounting to Rs.57,482,884 in respect of the 2 months of November and December which had not reported as arrears of revenue in the year under review had not been brought to account under Provincial Council Revenue and as such it was observed that the accrual basis had not been followed in terms of the Public Sector Accounting Standards.
- (c) A sum of Rs. 102,093,420 had been paid in the year under review as installments of 100 vehicles purchased under leasing facilities. However, value of the motor vehicles had not been brought to account under fixed assets and the installments payable amounting to Rs. 199,159,592 had also not been included under liabilities.
- (d) The basis followed for accounting of Fixed Assets had not been disclosed by the accounting policies. Fixed Assets had been purchased by the Central Government and the Provincial Council since the commencement of the Provincial Council by incurring a significant expenditure and a sum of Rs. 78,583,111 had been incurred to purchase fixed assets during the year under review. According to the reports of the Movement of Non-current Assets in the Appropriation Accounts as at 31 December 2015, the balances of the fixed assets totalling Rs.1,599,436,856 had been shown. However, it was not shown in the Fund Account.
- (e) The liabilities shown under the Appropriation Accounts of the Departments and Ministries in the year under review, totalling Rs.106,436,440 had not been disclosed in the financial statements under expenditure and accrued expenses as well.

2.2.4 Accounting Deficiencies

The following accounting deficiencies were observed in audit.

- (a) Action had not been taken to compute the balance stock as at the end of the year under review out of the stocks of the stationery and other consumables purchased during the year under review and to include that value under financial assets in the statement of financial position. The entire expenditure incurred had been shown in the statement of financial performance as expenditure of the year.
- (b) The interest on fixed deposits totalling Rs.8,818,667 shown in the financial statements had not been brought to account under a revenue item.

(c) The interest revenue on investments amounting to Rs.87,148 received during the year under review and interest receivable from fixed deposits amounting to Rs.23,642 had been understated in the financial statements.

(d) Money in Transit

(i) The balance of the money-in-transit amounting to Rs.58,601,102 in the Provincial Fund Account as at 31 December 2015 and excess amount of Rs.13,769,149 received as at that date had not been shown separately under assets and liabilities in the statement of financial position and those balances had been set off vis-a-vis and the net difference of Rs.44,831,953 had been shown under other financial assets.

(ii) The particulars in respect of makeup of the amount of Rs.13,769,149 shown as excess receipts over the revenue in the year under review and how this excess amount had been settled as above were not made available for audit.

(iii) The money in transit amounting to Rs.56,358,512 included under 03 accounts as at 31 December of the year under review had not been received even by 30 April 2016. Accordingly it was observed that those amounts are not the money in transits.

(e) Despite that, a sum of Rs.286,134 received from the Ministry of Agriculture of the Central Government had been returned due to non-implementation of the respective project, that amount had been included again under other receipts of grants and under Government investments. As such the value of said 02 accounts had been overstated by the same amount.

2.2.5 Unreconciled Control Accounts

The differences observed between the balances of 4 items of accounts totalling Rs.2,818,968,388 included in the financial statements furnished to audit and the balances included in the respective subsidiary registers and the reports amounted to Rs.35,333,970.

2.2.6 Unexplained Differences

The following matters were observed

(a) As the inter-zonal debtor balances totalled Rs.26,673,492 and the creditor balances totalled Rs.5,211,813 were as at 31 December 2015, a difference of Rs'21,461,679 was observed between the balances of inter-zonal debtors and the creditors.

- (b) Even though the total of the List of the Individual Balances of the General Deposits of the Galle Zone as at 31 December 2015 amounted to Rs. 1,636,089, the balance according to the account amounted to Rs.28,276,994, thus a difference of Rs.26,640,905 was observed.

2.2.7 Suspense Accounts

Despite a debit balance amounting to Rs.33,513 remained in the suspense account as at the end of the year under review, action had not been taken to identify the differences affected thereon and to make relevant adjustments and settle the accounts.

2.2.8 Accounts Receivable and Payable

The following matters were observed.

- (a) The balance of the loan amounting to Rs.5,614,080 granted to Southern Development Authority under advances for Provincial Departments had been brought forward unchanged in the financial statements continuously since number of years without being recovered. Nevertheless, action had not been taken to settle the balance even during the year under review.

- (b) Advance Account of the Provincial Public Officers
-

The loan balances recoverable from 6518 officers as described below totalling Rs.102,394,948 had included in the balance of the Advance Account of Provincial Public Officers amounting to Rs.785,991,308 as at the end of the year under review under financial assets.

| Particulars | Number of Officers | Outstanding Loan Balances |
|----------------------|-----------------------|------------------------------|
| ----- | ----- | ----- |
| | | Rs. |
| On Station Transfers | 5,765 | 88,621,561 |
| Retired & Deceased | 387 | 9,115,789 |
| Interdicted | 201 | 3,195,106 |
| Vacated of Posts | 165 | 1,462,492 |
| | ----- | ----- |
| | 6,518 | 102,394,948 |
| | ===== | ===== |

- (c) Loan balances payable amounting to Rs.55,400,119 on behalf of 3434 officers came on station transfers from the institutions of the Southern Provincial Council and as well as from other Provincial Councils and Central Government Institutions had remained without being settled.

- (d) An outstanding interest of Rs. 2,028,939 and Rs. 205,883 had remained recoverable even by 31 August 2016 from the loans granted by the Southern Provincial Development Authority to two Farmer Organizations in Homagama and Hambanthota under the Programme of Publicize Traditional Medicinal Old Varieties of Paddy in the years 2008 and 2013 respectively.
- (e) A sum of Rs. 427,200 had remained recoverable by the end of the year under review from 14 Members of the Local Authorities who obtained motor cycle loans during the period from November 2011 to February 2012. A sum of Rs.412,390 out of that had been the loan balance recoverable from 10 members who vacated the council membership and who were deceased.

2.2.9 Lack of Evidence for Audit

Due to unavailability of evidence indicated against the each item described as follows included in the financial statements of the Southern Provincial Road Development Authority for the year under review, those items could not be satisfactorily vouched in audit.

| Description of Account | Amount Shown in the Financial Statements | Evidence not made Available |
|------------------------|---|---|
| | Rs. | |
| 1. Land and Buildings | 81,258,071 | Title deeds, documents for confirmation of ownership. |
| 2. Other Income | 22,400,000 | Schedules of computation. |
| 3. Project Creditors | 20,000,000 | Files, registers and balance confirmations. |
| 4. Project Income | 1,877,814,443 | Financial statements relating to the project for the years from 2011 to 2015. |

2.2.10 Non-compliance with Laws, Rules and Regulations

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

| Reference to Laws, Rules and Regulations etc. | Amount | Non-compliance |
|--|---------|---|
| | Rs. | |
| (a) Inland Revenue Act.No.10 of 2006 amended by Acts No.8 of 2014 and No.9 of 2015 (Amendment) and Inland Revenue Circular No. | 383,589 | The following institutions had not recovered Pay – as – you – Earn Tax in terms of the provisions of the Act. |

Sec/2013/07 of 01 September 2013.

| | | | | | |
|------|---|------------|--------|------|---|
| | | | | (i) | The tax from 4 officers of the Southern Provincial Public Service Commission and from 4 persons who were not employees had been recovered less than the amount. |
| | | | | (ii) | Southern Provincial Passenger Transport Authority, |
| | | | | ❖ | Tax had been deducted from 3 officers only for 4 months. |
| | | | 38,400 | ❖ | Allowances had been paid for Board of Directors without being deducted 10 per cent of tax. |
| | | | | ❖ | Tax had been deducted on allowances of the Chairman under Tax Table 1 instead of Tax Table 7 for 8 months of the year under review. |
| (b) | Financial Regulations of the Democratic Socialist Republic of Sri Lanka | | | | |
| | ----- | | | | |
| (i) | Financial Regulation 571 (2) | 47,927,592 | | | Action in terms of the Regulation had not been taken on 621 lapsed deposits which deposited for over 2 years relating to 10 institutions. |
| (ii) | Financial Regulation 1646 | | | - | Daily Running Charts and 116 Monthly Performance Summaries in respect of 12 vehicles belonging to the Ministry of Education, Land and Land Development for the year 2015 had not been furnished to audit. |
| (c) | Provincial Financial Rules | | | | |
| | ----- | | | | |
| (i) | Rule 54 .1 | 161,872 | | | The losses sustained in respect of the accidents caused to a vehicle belonging to the Southern Provincial Development Authority in 2 instances had not been reported to the police. |

| | | | |
|--------|---------------------|-----------|---|
| (ii) | Rules 54.5 and 54.6 | - | Action had not been taken in terms of the referred Financial Rules in respect of 2 accidents caused to a motor vehicle belonging to Southern Provincial Development Authority and 05 accidents caused to 05 motor vehicles belonging to Provincial Ministry of Agriculture. |
| (iii) | Rule 59 | - | Southern Provincial Ministry of Education and Southern Provincial Department of Education had not maintained the Registers of Losses and Damages. |
| (iv) | Rule 118 | 7,807,393 | Thirty eight deposits which had not been deposited in the bank account of the Southern Provincial Passenger Transport Authority as at 31 December 2015 were observed. |
| (v) | Rule 259.2 | - | Out of the unsettled imprest account balance amounting to Rs.253,590,031 shown under current liabilities in the financial statements, balances totalling Rs.89,159,032 relating to 02 institutions had not been settled even by 30 June 2016. |
| (vi) | Rule 261.2.2 | - | A sub-imprest amounting to Rs.183,000 had been issued to the Training Manager of the Labuduwa Farm for an exhibition on 27 July 2015 without obtaining prior approval of the Chief Secretary. |
| (vii) | Rule 270.1 | 387,388 | Sixty one unidentified deposit balances were observed according to the Bank Reconciliation Statement for the month of December 2015 of the Southern Provincial Passenger Transport Authority. |
| (viii) | Rule 283.4 | 3,494,438 | Action in terms of the referred Rule had not been taken on 159 cheques issued by 4 institutions but not presented for payments and exceeded 06 months. |

- (ix) Rules 560 and 561 and Treasury Circular No.842 of 19 December 1978. - Southern Provincial Ministry of Education, Provincial Department of Education and Southern Provincial Department of Revenue had not maintained the Registers of Fixed Assets.
- (d) Treasury Circulars

Treasury Circular No.IAI/2002/02 of 28 November 2002. - Seperate Registers of Fixed Assets on Computers, Accessories, and Software had not been maintained by the Southern Provincial Ministry of Education, Provincial Department of Education, Provincial Department of Land Commissioner and Provincial Department of Revenue.
- (e) Public Finance Circulars No.437 of 18 September 2009 and No.4/2015 of 14 July 2015. - Insurance covers in respect of 4 motor vehicles belonging to Provincial Department of Revenue and 2 motor vehicles belonging to Beliatta Drugs Production Factory had been obtained through a Marketing Agent.
- (f) Public Administration Circulars

- (i) Paragraph 2.11 of the Circular No.41/90 of 10 October 1990. - Even though the fuel consumption of the Government Vehicles should be checked once in 6 months, fuel consumption of 115 vehicles belonging to six Provincial Institutions had not been checked.
- (ii) Circular No.22/99 (iv) 2004 of 27 December 2004. - Commissioner of Co-operatives had used the official vehicle for private travelling from May 2015 up to August 2016 without paying monthly charges of Rs.350.
- (iii) Circulars No.289 of 10 May 1985 and No.26/92 of 19 August 1992 and Circular Letter No.01/2002 of 25 February 2002. - It was observed that the Government Emblem and the Name of the Institution had not been stenciled on 09 pool vehicles belonging to Southern Provincial Department of Land Commissioner.

- (g) Rule 43(i) of the Set of Rules of the Co-operatives published in the Gazzete of the Republic of Sri Lanka No.93/5 dated 10 January 1974. - Out of the Co-operative Fund sums of Rs.2,141,543 and Rs.47,000 had been incurred to purchase Fixed Assets and Stationery respectively for the Department of Co-operative Development and as well as a sum of Rs.434,303 had been incurred for training and education activities of the officers of the Department of Co-operatives.

2.2.11 Transactions without Adequate Authority

The following matters were observed.

- (a) Twelve instances of excesses of limits relating to 09 activities of Provincial Public Service Advance Accounts and Commercial Advance Accounts and 07 instances of shortfalls of limits relating to 07 activities of accounts were observed.
- (b) Value of the Computers, Accessories and Printers purchased for Rs.1,465,460 in the year under review by the office of the Deputy Chief Secretary (Engineering Services) had been brought to account under another Object, in which the provisions had been saved with a purpose to avoid the exceeding the estimated limit by Rs.1,342,786 under the respective Object.
- (c) As the limits of the provisions of 12 Objects of the Provincial Department of Health Services had been exceeded, the expenditure for the month of December had been surcharged to the respective Objects and added to other 08 Objects. If those expenditure had been brought to account under correct Objects, it was observed that an excess of expenditure totalling Rs. 54,734,861 would be arised.
- (d) Excess expenditure of Rs.12,655,201 arised due to incurring expenditure exceeding the limits of the provisions under 04 Objects of the Provincial Department of Education, had been transferred to other Objects.
- (e) (i) A sum of Rs.4,911,986 had been paid as salaries and allowances in the year under review for 14 employees recruited on casual basis and had been attached to the Subject Minister by the Southern Provincial Road Development Authority.
- (ii) Five permanent Drivers of the Authority had been attached to the staff of the Subject Minister during the period from December 2010 to June 2014 and salaries and allowances totalling Rs.4,095,465 had been paid to them by the Authority up to June 2016.

- (f) In terms of the Circular No 05/2015 dated 03 July 2015 of the Southern Provincial Chief Minister, the authorized limit of the Regional Procurement Committee under the Shopping Procedure should be Rs.500, 000. The Regional Procurement Committee had taken actions exceeding the authorized limit in respect of the work for construction of Dandeniya Sub-office which estimated value amounting to Rs.2,100,000.
- (g) The Board of Survey appointed for the years 2014 and 2015 had taken actions exceeding the authority assigned to them as follows.
- The land and buildings belonging to Labuduwa Farm amounting to Rs.9,077,424 had been valued up to Rs.445,500,000 and increased the value of the assets by Rs. 436,422,576 or 4808 per cent.
 - The value of the land belonging to Poddiwela Farm amounting to Rs.2,500,000 had been increased up to Rs. 20,000,000 by Rs. 17,500,000 or 700 per cent.
 - The value of the land and buildings belonging to Thelijjawila Farm amounting to Rs. 3,567,500 had been increased up to Rs.300,280,952 by Rs. 296,713,452 or 8317 per cent.
- (h) The Southern Provincial Road Development Authority had increased the employees salaries without complying the Management Services Circular No 30 of 22 September 2006 and the salaries over paid had not been rectified with making relevant adjustments. Despite that, action had been taken to retire and as well as remove from the service for 71 employees during the period from 01 January 2006 to 31 December 2015.

3. Revenue Management

A summary of the details of the tax revenue and non-tax revenue from the year 2011 to the year 2015 is given below.

| Category of Revenue | Year | | | | |
|---------------------|--------------|--------------|--------------|--------------|--------------|
| | 2011 | 2012 | 2013 | 2014 | 2015 |
| | Rs.Million | Rs.Million | Rs.Million | Rs.Million | Rs.Million |
| Tax Revenue | 3,705 | 3,890 | 4,039 | 4,864 | 5,654 |
| Non-tax Revenue | 570 | 619 | 717 | 546 | 650 |
| Total | 4,275 | 4,509 | 4,756 | 5,410 | 6,304 |

- (a) The position of the arrears of stamp duty, tax on drugs and chemicals, tax on minerals, and turnover tax revenue as at the end of the year under review is given below.

| Particulars of Revenue | Balance as at 01.01.2015 | Assessment for the year | Recoveries during the year | Exemptions during the year | Balance as at 31.12.2015 | Percentage of Recovery | Percentage of Exemption |
|----------------------------|--------------------------|-------------------------|----------------------------|----------------------------|--------------------------|------------------------|-------------------------|
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| | Rs. | Rs. | Rs. | Rs. | Rs. | | |
| Stamp Duty | 500,009,779 | 673,076,785 | 110,502,556 | 405,480,297 | 657,103,711 | 9.42 | 34.56 |
| Tax on Drugs and Chemicals | 1,780,940 | 1,383,046 | 669,365 | 282,750 | 2,211,871 | 21.15 | 8.93 |
| Tax on Minerals | 11,785,475 | 4,086,560 | 4,973,774 | 980,593 | 9,917,668 | 31.33 | 6.17 |
| Turnover Tax | 55,364,524 | - | 2,101,716 | 6,029,911 | 47,232,897 | 3.79 | 10.89 |
| Total | 568,940,718 | 678,546,391 | 118,247,411 | 412,773,551 | 716,466,147 | 9.47 | 3.30 |
| | ===== | ===== | ===== | ===== | ===== | | |

The following observations are made in this connection.

- (i) According to the above information, the arrears of revenue amounting to Rs.568,940,718 as at the beginning of the year had been increased up to Rs.716,466,147 as at the end of the year under review and as such it was established that the progress of the recovery of arrears of revenue had not been at the satisfactory level.
- (ii) The percentage of tax exempted had been more than the percentage of tax recovered relating to the 02 Revenue items during the year.
- (b) The recoverable arrears of rent for 03 buildings rented out in the premises of the “Bentota Janakala Kendraya” totalled Rs.286,200, while action had not been taken to recover that amount during the year.
- (c) Recovery of Lease

- (i) Long term lease rental and penalty should have been recovered from 22 lease holders in respect of 06 Divisional Secretariats, in Galle District and 13 lease holders in respect of 02 Divisional Secretariats, Tangalla and Thissamaharamaya for the state lands given on long term lease basis, amounting to Rs.2,487,257 and Rs.7,566,776 respectively as at the end of the year under review.

(ii) Arrears of lease rental and penalty amounting to Rs.905,831 should have been recovered from 466 annual license holders of 03 Divisional Secretariats in Galle District as at the end of the year under review.

(d) Issuing Excise Licenses

The business activities had been carried out without paying the revised license fees, delayed charges and license fees for the year under review totalling Rs.12,136,250 and Rs.253,334 recoverable for 41 excise licenses given to 27 license holders in 05 areas of Divisional Secretariats in Galle District and given to 02 institutions by the Divisional Secretariat, Tissamaharamaya respectively.

(e) (i) It was informed that the charges recovered under the Scale and Measurement Ordinance through Section 10 of the Chapter V of the Statute No. 02 of 1994 of the Southern Provincial Council (Supplementary Provisions) should be remitted to the Provincial Commissioner of Revenue.

(ii) An Act named Measurement Units Standards and Services Act No 35 of 1995 instead of Scale and Measurement Ordinance had been enacted by the Sri Lanka Parliament. Nevertheless, the above Statute had not been revised in complying with that while a separate Statute for this subject had not been formulated. Under this circumstances the revenue to be recovered under the respective Act had been deprived by the Provincial Council.

(iii) According to the Sections 2.2 (b) and 5 of the Chapter 1 of the above Statute, it was stated that the Minister should inquire the Provincial Deputy Inspector General of Police in respect of the rewards competition tax and should make directives. Nevertheless, those directives had not been formulated even by the end of the year under review.

(iv) Even though it was stated in the Statute that the tax, license fees, and other fees recovered under the following Ordinances should be receivable to the Provincial Council, action had not been taken to formulate separate Statutes to make proper recovery of the charges under said Ordinances. Under this circumstances a considerable income receivable to the Provincial Council had been deprived.

- Land Development Ordinance and State Land Ordinance
- Medical Ordinance
- Fauna and Flora Protection Ordinance

(f) Southern Provincial Office of Land Commissioner had identified 2,170 land plots to lease out on long term lease basis as at the end of the year under review. But,

(i) There were 957 files with deficiencies in the particulars given by the Divisional Secretariats.

- (ii) There were 392 files without the agreement of the Divisional Secretariats relating to the applicants.
 - (iii) The long term lease rental of 575 lands could not be recovered due to not receiving the approval of the Commissioner General of Lands.
 - (iv) According to these particulars, the number of land plots of which the rental could be recovered properly out of the lands identified, had been a low percentage of 11.33 per cent.
- (g) It was observed that tax had not been recovered from 65 lands out of the 1115 lands identified to recover Yield Tax and 1,300 lands out of 12,556 lands identified to recover Annual Tax as at the end of the year under review.
- (h) Number of plots of land identified to recover purchase price as at the end of the year under review amounted to 501 and the purchase price from 341 plots of land out of that had not been recovered. Under this circumstances, the opportunities to collect considerable amount of income had been deprived.
- (i) According to the paragraph 6 of the Pawning Statute No. 01 of 2013 of the Southern Provincial Council the license fees should be changed from time to time through a Notification published in the Government Gazette by the Subject Minister of Finance. Nevertheless, license fees and the registration fees had been recovered without taking action accordingly and it was observed that the problems will be arised through recovery of charges without a legal basis.

4. Financial Review

4.1 Financial Results

According to the financial statements presented, the working of the Provincial Council Fund for the year ended 31 December 2015 had resulted in a deficit of Rs.21,934,172,245 as compared with the corresponding deficit of Rs. 17,104,601,590 for the preceding year thus indicating a deterioration of Rs.4,829,570,655 in the financial results of the year under review as compared with the preceding year.

4.2 Analytical Financial Review

4.2.1 Statement of Financial Performance

The following matters were observed.

- (a) Certain significant data relating to the financial position and the financial performance of the Southern Provincial Council are given below.

(i) Deficit to Total Income

Increasing trend of the Ratio between the total revenue and total deficit had shown in two preceding years and that Ratio had increased in the year under review by 32 per cent over the preceding year.

(ii) Ratio between Total Revenue and Total Expenditure

An increase was shown in the Ratio between total revenue and total expenditure in 2 preceding years and that ratio had increased in the year under review by 32 per cent over the preceding year. Similarly the total expenditure as against the total revenue had increased by five times approximately

(b) Even though an improvement of Rs.894,016,813 was shown in the total revenue of the year under review as compared with the preceding year , the revenue of 03 Items of Revenue amounting to Rs.2,042,951,279 of the preceding year had decreased up to Rs.1,918,704,308 by Rs.124,246,971 in the year under review.

(c) The recurrent expenditure of the year under review had increased by Rs.5,478,863,427 as compared with the preceding year and the following reasons had affected thereto.

(i) The expenditure of the Personal Emoluments for the year under review amounted to Rs.20,394,361,473 and that the expenditure for the preceding year amounted to Rs.15,826,778,890. Accordingly, that expenditure had increased by Rs.4,567,582,583 or 28.86 per cent.

(ii) The expenditure of other Supplies and Services for the year under review amounted to Rs.1,636,994,677 and that expenditure for the preceding year amounted to Rs.1,536,171,921 Accordingly, the expenditure had increased by Rs.100,822,756 or 6.56 per cent.

(iii) The Expenditure under Grants and Transfers in the year under review amounted to Rs.3,512,009,327 and that expenditure for the preceding year amounted to Rs.2,708,146,987 thus, the expenditure had increased by Rs. 803,862,340 or 29.68 per cent.

(d) The deficit of the Revenue in the year under review had been Rs.19,321,513,838 and that value had been Rs.14,736,667,223 in the preceding year, thus the deficit had increased by Rs.4,584,846,615 or 31.11 per cent.

(e) The Government investments for the year under review amounted to Rs. 2,612,658,407 and that value in the preceding year amounted to Rs.2,367,934,367 thus it had increased by Rs.244,724,040, or 10.33 per cent.

- (f) The entire Budget deficit for the year under review amounted Rs. 21,934,172,245 and the corresponding deficit for the preceding year amounted to Rs. 17,104,601,590 thus the deficit had increased by Rs. 4,829,570,655 or 28.23 per cent.

5. Authority Accounts / Fund Accounts and Commercial Advance Accounts

5.1 Authority Accounts / Fund Accounts

Five Authority Accounts and 07 Funds had been in operation under the Statues within the Southern Provincial Council and the particulars of presentation of the financial statements of those for audit for the year 2015 are given below.

- (a) Financial statements relating to one Authority and 4 Funds only had been presented to audit as at 31 March 2016.
- (b) Financial statements relating to 3 Authorities and a Fund and relating to one Authority had been presented to audit with a delay of nearly 3 months and with a delay of about 4 months respectively.
- (c) The Co-operative Development Fund had not presented the financial statements with following the accrual basis accounting from the year 2006 up to the year under review.
- (d) The financial statements relating to the Rural Development Fund as stated in the paragraphs 15 (iii) and 18 of the Southern Provincial Rural Development Statute No. 01 of 1996 had not been presented to audit from the year 1996 up to the year 2015.

5.2 Commercial Advance Accounts

Eleven Commercial Advance Accounts Activities had been in operation within the institutions of the Southern Provincial Council and the financial results of those activities are as follows.

- (a) Ten advance accounts had been maintained with a profit prior to adjust hypothetical charges in the year under review and that had been 08 accounts in the preceding year.
- (b) The number of Advance Account Activities which shown profits after adjusting the hypothetical charges in the year under review and the preceding year amounted to 03, and the number of Advance Account Activities which shown losses after adjusting the hypothetical charges in both years amounted to 07.
- (c) The hypothetical charges relating to the Guaranteed Seeds and Plantation Material Advance Account, under Item No. 31502 had not been adjusted in the preceding year. The financial statements relating to the Advance Account of Item No 32049 for the year under review had not been presented to audit even by 20 September 2016.

6. Operating Review

6.1 Performance

- (a) A summary of the particulars on the progress of the projects implemented under the Capital Investment Programmes in the year under review is given below.

| Source of Funds | | Number of Projects Proposed | Fully Completed | More than 50 per cent Completed | Less than 50 per cent Completed | Not Commenced |
|---|----------|-----------------------------------|--------------------|---------------------------------------|---------------------------------------|------------------|
| Provincial Development Grants | Specific | 1,010 | 674 | 82 | 153 | 101 |
| Criteria Based Grants | | 370 | 234 | 30 | 65 | 41 |
| Criteria Based Grants – Members Provisions | | 2,655 | 1,880 | 246 | 245 | 284 |
| | | 4,035 | 2,788 | 358 | 463 | 426 |

The following matters were observed in this connection.

- (i) The activities of the 426 proposed projects had not been commenced even by the end of the year under review.
- (ii) The progress of the 463 projects already commenced was not in a satisfactory level.
- (iii) The number of completed projects had been 2,788, out of the 4,035 proposed projects and it represented 69 per cent.

(b) Examination Results

The overall expenditure incurred by the Department of Education during the year under review amounted to Rs. 13,438,495,788 and that expenditure in the preceding year amounted to Rs. 10,559,429,572. A summary of the particulars relating to the examination results achieved by the Department during the year under review and the preceding year (including the details of the 66 National Schools in the Province) is given below.

(i) Year 5 Scholarship Results

A summary of the particulars of the year 5 Scholarship Results in respect of the year under review and the preceding year is given below.

| Year | Number of Students Sat for Examination | Number of Students Passed | Percentage | Number of Students Failed | Number of Students Obtained Marks Over 70 | Number of Students Obtained Marks Below 70 |
|-------------|---|----------------------------------|-------------------|----------------------------------|--|---|
| 2015 | 41,638 | 4,337 | 10.4 | 37,301 | 33,960 | 3,341 |
| 2014 | 40,913 | 7,042 | 17.2 | 33,871 | 29,039 | 4,832 |

The following matters were observed.

- Even though 725 students had sat for the examination in the year under review more than the preceding year, the number of students passed the examination had decreased by 2,705.
- It was observed that number of students failed had increased by 3,430 and the number of students obtained marks less than 70 had decreased by 1,491 in the year under review as compared with the preceding year.

(ii) General Certificate of Education (Ordinary Level) Examination

A summary of the particulars relating the General Certificate of Education (Ordinary Level) Examination in the year under review and the preceding year is given below.

| Year | Number of Students Sat for the Examination | Number of Students Qualified for Advanced Level | Percentage | Number of Students Obtained 'A' Passes for all Subjects | Number of Students Failed all Subjects |
|-------------|---|--|-------------------|--|---|
| 2015 | 34,801 | 26,173 | 75.2 | 730 | 722 |
| 2014 | 33,145 | 24,223 | 73.1 | 594 | 793 |

An improvement had indicated in the Ordinary Level results in the year under review as compared with the preceding year, while 722 students out of the students sat for the examination had failed all subjects.

(iii) General Certificate of Education (Advanced Level) Examination

A summary of the particulars relating to the General Certificate of Education (Advanced Level) Examination in the year under review and the preceding year is given below.

| Year | Number of Students Sat for the Examination | Number of Students Qualified for University Entrance | Percentage | Number of Students Failed all Subjects |
|-------------|---|---|-------------------|---|
| 2015 | 28,512 | 17,276 | 60.5 | 2,779 |
| 2014 | 29,506 | 18,345 | 62.1 | 3,224 |

The following matters were observed.

- The number of students sat for the examination in the year under review had decreased by 994 as compared with the preceding year.
- The number of students qualified for the University entrance in the year under review had decreased by 1,069 as compared with the preceding year.
- Out of the students sat for the examination, 2,779 students had failed all subjects and number of students had failed all subjects in the preceding year amounted to 3224.

6.2 Management Inefficiencies

The following matters were observed.

- (a) The interest earned from the investing excess money existed in the current account maintained in the People's Bank, in short term investments had been transferred to a savings account of the same bank. The balance of that account as at 31 December 2015 had been Rs.87,395,876 but it was not clear in audit the purpose that non-utilizing of said money for the activities of the Southern Provincial Council.
- (b) Even though the balance of the Depreciation Reserve Fund Account brought forward since number of years had been Rs.1,944,009, action had not been taken to allocate respective provisions thereon, and invest.
- (c) A sum of Rs. 5,489,479 only had been invested out of the balance existed in the Depreciation Sinking Fund Account amounting to Rs.60,243,372.
- (d) The training needs of the staff of the Southern Provincial Council had not been properly identified and the estimated provisions had not been obtained accordingly, and as such the provisions of Rs.22,466,949 out of the provisions of Rs. 31,000,000 made for the year under review had been saved.

- (e) A programme had not been prepared and implemented enable to credit money daily to the Southern Provincial Fund from the revenue collection accounts, and as such it was observed that the balances of money had been unnecessarily collected in the bank current accounts. It was observed that the opportunities to earn possible extra income to the Provincial Council had been deprived and it was not a favourable position to the financial control.
- (f) According to the Pensions Circular No 01/2001 dated 15 January 2001, the contributions to the Widows and Orphans Pension Fund for every month should be sent to the Department of Pensions before the 15th day of the month following. Nevertheless, the remittances of contributions totalling Rs.15,781,883 to the Department of Pensions for the last 04 months of the year under review relating to the Local Government Institutions had been delayed up to January 2016.
- (g) Even though the losses amounting to Rs.10,292,861 relating to the accidents caused in 74 instances to the vehicles and the losses amounting to Rs.37,326,417 caused in 119 instances to the properties belonging to the Southern Provincial Ministries and Departments had remained unsettled for number of years action had not been taken to settle these losses caused to the vehicles and properties even in the year under review.
- (h) The total value of the losses and damage relating to 17 instances including 12 vehicle accidents and 5 damages to the properties revealed during the course of audit test check which were not shown in the Appropriation Accounts, amounted to Rs.52,534,686 while the value of the losses relating to 05 instances including another 3 vehicle accidents and 2 damages to the properties had not been computed.
- (i) The fixed deposit amounting to Rs.41,236,000 which has to be matured on 30 October 2015 and to be automatically renewed at an annual interest rate of 6 per cent had been encashed before maturity by the Southern Provincial Road Development Authority and as such the interest income could have been earned amounting to Rs. 135,570 had been deprived.
- (j) (i) The Deposit Certificates relating to 102 minor accounts which opened in the Savings Bank during the period from the year 1966 to 1992 on behalf of the minor children of the employees who deceased while in service of the Southern Provincial Department of Education and the institutions under the Department, had not been handed over to them even though a considerable period had elapsed after completion of the age of beneficiaries.
- (ii) Action had not been taken to hand over 85 Deposit Certificates even by 30 June 2016 and the balance relating to 06 accounts out of those as at that date totalled Rs.332,278. The particulars relating to the balances of 79 savings accounts had not been furnished to audit while the opening balances of deposits of those accounts totalled Rs.52,591.

- (k) The wood work equipment amounting to Rs. 500,000 had been purchased for the Poddala, Carpenter Service Centre in which only one Carpenter employed and a small amount of services carried out and had been retained at the Head Office even by 05 July 2016. It was further observed that, 02 wood work machines valued at Rs.260,000 had been retained under the custody of the supplier without being takeover.
- (l) Even though the Department of Co- operative Development had incurred a sum of Rs.877,777 for the awareness programme relating to the identification of a Pensions Scheme for the employees of the Co-operative Societies, that programme had been limited only to several set of commencement meetings of awareness. Accordingly, it was observed that the expenditure incurred for the programme had become a fruitless expenditure.

6.3 Operating Inefficiencies

The following matters were observed .

- (a) Despite, the actual cadre of the Development officers who directly connected to collect tax revenue of the Southern Provincial Department of Land Commissioner had increased by 127 per cent and the entire expenditure had increased by 78 per cent from the year 2011 up to the year 2015, the collection of revenue had decreased by 20 per cent.
- (b) The revenue uncollected in the 07 Divisional Secretariats 06 Divisional Secretariats and 07 Divisional Secretariats in 03 Districts of Galle, Matara and Hambantota District, respectively totalled Rs.29,429,750 and that value amounted to 66 per cent of the expected revenue and as such it was established that the proper supervision had not been carried out at Divisional Secretariat level to collect revenue from the Government Lands.
- (c) The surveys of 132 land blocks, out of 240 land blocks which should be surveyed in Galle, Matara and Hambantota Districts during the period of 03 years from the year 2013 to 2015 had not been completed . As a percentage that amount was about 55 per cent.
- (d) It was revealed that the expected objectives of the POS Computer System established by the Department of Industrial Development at an expenditure of Rs. 1,775,000 for 10 sales outlets of “Ruhunu Ransalu” had not been achieved and the POS Computer System had been only limited to the selected sales outlets.
- (e) Nine purchases amounting to Rs.3,491,480 which not included in the Procurement Plan of the Provincial Department of Revenue for the year 2015 had been made in December in the year under review. The Commissioner of Provincial Revenue had informed to audit on 20 April 2016, that those purchases had been made by transferring the savings of the Recurrent Provisions at the end of the year through Financial Rule 30.

6.4 Transactions of Contentious Nature

The following matters were observed.

- (a) The vehicle taken by the Mechanical Engineer of the Southern Provincial Road Development Authority, to travel for a duty on 30 June 2015 had met with an accident on 01 July 2015 in a public holiday when he was travelling with an outside person. Despite the vehicle had been left in place of the accident the Engineer had moved from that place. The investigations relating to the incident had not been finalised even up to 15 September 2016.
- (b)
 - (i) A vehicle belonging to the Southern Provincial Road Development Authority had been released to the Public Relations Officer of the Subject Minister on 02 December 2014 and it was taken back on 12 May 2015. After repairing it at an expenditure of Rs.95,708 it was handed over again to that officer on 24 July 2015.
 - (ii) However, it was established by the letter referred to the General Manager No. දප/මාසංඅදියාල/වෘත්ත dated 28 April 2015 by the Mechanical Engineer, that the vehicle had been handed over to the Vice - Chairman of the Kamburupitiya Pradeshiya Sabha.
- (c) The cab vehicle No 51-0674 given to the office of the Assistant Land Commissioner, Matara had been sent to a garage for repairs. The date of which the vehicle had been handed over to the garage could not be identified specifically and a bill amounting to Rs.88,899 had been furnished on 10 April 2010. But this vehicle had remained decaying in a private land of the owner of the garage even by 01 February 2016. Similarly, it was observed that most of the spare parts of the vehicle had been removed and the particulars relating to the vehicle had not furnished to the annual Boards of Survey of the vehicles. Accordingly, the Government resources were allowed to destroying purposely was observed in audit.
- (d) It was observed that the salaries had been paid on the 12th step of the salary scale for 42 watchers who were newly recruited without being placed them on the initial step of the salary scale by the Southern Provincial Department of Industrial Development and as such a sum of Rs. 5,155,293 had been over paid as salaries and allowances as at 31 December 2015.
- (e) Even though 06 private telecommunication companies had established 19 telecommunication towers in 19 blocks of lands situated in 03 Divisional Secretariat Divisions in Galle District and the transmissions had been commenced, the relevant tax thereon had not been paid to the Government.

- (f) Four hundred and fifty five fuel litres valued at Rs. 53,235 had been given excessively for an official vehicle belonging to the Chief Secretary's office for 3640 kilometers without being run from January to November in the year under review.
- (g) Even though a sum of Rs.7,920,000 had been incurred to provide 55 Laptop Computers for Provincial Ministers and the Members in the year 2011, no written evidence whatsoever had been made available that the said computers had been handed over to them or taken over or returned by them. Despite that, the Laptop computers and Tabs had been purchased again by incurring a sum of Rs.8,132,350 in the year 2015 and provided to Members including Ministers of the Provincial Council.
- (h) (i) Contributions for Employees Provident Fund and the Employees Trust Fund amounting to Rs.189,000 had been paid by the Ruhunu Tourist Bureau on behalf of the Chairman who was not an employee of the Bureau for the period from May 2014 to August 2016.
- (ii) Contributions for Employees Provident Fund and the Employees Trust Fund amounting to Rs.1,032,960 had been paid by the Southern Provincial Passenger Transport Authority on behalf of the five Chairmen who were not the employees of the Authority for the period from 01 January 1994 to 31 December 2015.
- (i) As the 78 Fixed Deposit Certificates of which face value amounting to Rs.159,313,647 belonging to the Department of Co-operative Development had not been kept in the security safe, it could not be established in audit whether any other fixed deposit certificates made available in addition to the above Fixed Deposit Certificates.
- (j) (i) It is mentioned in the Section 104 (a) (i) of the Finance Statute No 07 of 1990 of the Southern Provincial Council as amended by the Finance Statute (Amendment) No 02 of 1992 of the Southern Provincial Council, a Fund should be established in the name of Provincial Incentive Fund. Similarly, according to the Section 104 (4)(2), it was shown an amount of the Provincial Council should be allocated as a Supplementary grant in the year 1991 and subsequently, the amounts which appropriated annually by the Provincial Council should be credited to this Fund.
- (ii) The Provincial Incentive Fund had not been established by the Provincial Council up to the year under review. However, the Southern Provincial Department of Revenue is paying the incentive allowances without a proper approval and a sum of Rs.16,763,488 had been paid as incentive allowances in the year under review.

- (k) Expenditure amounting to Rs.4,842,413 had been incurred in the preceding year and during the year under review for the constructions of Tourist Information Centre Building, Deniyaya. Even though the constructions of that building had not been completed even by 31 August 2016, provision for depreciation at the rate of 5 per cent per annum had been made on the above expenditure from the year 2015 in the financial statements. Even though the constructions had remained at the final stage, action had not been taken to vesting the ownership of the land even by 31 August 2016.

6.5 Apparent Irregularities

The following matters were observed.

- (a) Three officers of the private staff of the Southern Provincial Minister of Education, Land and Land Development had obtained 6,586 liters of fuel valued at Rs.632,698 in the year 2015, and despite that, 4594 fuel liters had been provided to those officers by fuel orders as well without complying the Circular No. CSA/1/40 dated 23 April 2008 of the Secretary to the President.
- (b) Even though it was proved in the disciplinary inquiry, that two teachers of the Ambalangoda Zone who obtained appointments by producing forged educational certificates accused as guilty, one teacher only had been dismissed and the other teacher deployed in the service further. Accordingly, actions had been implemented under two systems for the same offence and action had not been taken by the officers responsible to take legal actions against the teachers for producing forged certificates.
- (c) (i) It was identified at the beginning of the year under review that there were 76 persons employed within the Southern Province by obtaining appointments for the Principal's Service, Teachers Services and other services by producing forged certificates (fraudulent documents).
- (ii) According to the disciplinary actions conducted thereon, 05 persons acquitted from the said charges and the service of the other 12 persons had been terminated. Disciplinary actions relating to 59 persons had not been completed and a sum of Rs.16,290,518 had been paid during the year under review as salaries and allowances for 39 persons out of that.
- (d) (i) A land, given on an opinion certificate by the Southern Provincial Department of Revenue to the value of Rs.7,076,250 on 16 October 2014, had been exchanged by the same lawyer by two sales agreements to the value of Rs.600,000 and Rs.7,076,250 with adjacent numbers after 8 days from that date on 24 October 2014.
- (ii) Stamp Duty amounting to Rs.259,050 had been deprived by the Government due to certifying the sales agreement less than the value of the opinion certificate and Provincial Commissioner of Revenue had exempted the related Stamp Duty of the sales agreement without a proper approval.

- (e) (i) In view of the payments made for 4 Community Halls constructed in Baddegama, Divisional Secretariat Division by the Southern Provincial Development Authority it was observed that financial irregularities had been made and the constructions had been done unsatisfactorily. The report of the Professional Technical Committee had confirmed that an irregularity of Rs.1,944,878 had been made in this over payment as compared with the actual amount to be paid for the rectification of the respective work.
- (ii) This matter had been pointed out by an audit query on 15 May 2009 and thereafter, on 09 October 2009 the Technical Report had been furnished. Even though seven years had elapsed from the date of the Technical Report made available, action had not been taken to recover the loss incurred for the Provincial Council Fund as well as to take disciplinary actions against the officers responsible.

6.6 Under-utilization of Funds

The following matters were observed.

- (a) A summary of the particulars relating to total net provision, expenditure and the savings of the under mentioned Objects in the year under review is given below.

| Details of Expenditure | Number of Objects | Net Provision | Actual Expenditure | Savings | Savings as a Percentage of Net Provision |
|--|--------------------------|----------------------|---------------------------|----------------|---|
| ----- | ----- | ----- | ----- | ----- | ----- |
| | | Rs. | Rs. | Rs. | % |
| Recurrent Expenditure | 122 | 132,123,800 | 34,550,146 | 97,573,654 | 73.85 |
| Rehabilitation and Improvement of Capital Assets | 17 | 140,000,000 | 46,035,286 | 93,964,714 | 67.12 |
| Acquisition of fixed Assets | 7 | 78,127,000 | 7,790,441 | 70,336,559 | 90.03 |
| Capital Transfers | 4 | 85,080,000 | 25,862,117 | 59,217,883 | 69.60 |
| Human Resources Development | 1 | 31,000,000 | 8,533,051 | 22,466,949 | 72.47 |
| Provincial Specific Development Grants | 8 | 2,546,300,000 | 580,429,002 | 1,965,870,998 | 77.21 |
| Investments by the Line Ministries | 1 | 3,107,800 | 978,216 | 2,129,584 | 68.52 |

The following observations are made in this connection.

- (i) Provincial Recurrent Expenditure
-

- The entire net provisions of Rs.6,035,000 made for 15 Objects under 06 Heads had been saved.

- Out of the net provisions made for 107 Objects under 14 Heads, provisions ranged from 50 per cent to 99.62 per cent had been saved.

(ii) Rehabilitation and Improvement of Capital Assets

- The entire net provisions of Rs.3,000,000 made for 02 Objects under 02 Heads had been saved.
- Out of the net provisions made for 15 Objects under 06 Heads, provisions ranged from 53 per cent to 98 per cent had been saved.

(iii) Acquisition of Fixed Assets

- The entire net provisions amounting to Rs.3,227,000 made for 02 Objects under 02 Heads had been saved.
- Out of the net provisions made for 05 Objects under Head No 320, provisions ranged from 69 per cent to 96 per cent had been saved.

(iv) Out of the provisions made for Transfers of the Capital Provisions under 4 Objects of 03 Heads, provisions ranged from 53 per cent to 92 per cent had been saved.

(v) Provincial Specific Development Grants

- Entire net provisions of Rs.9,000,000 made for one Object had been saved.
- Out of the net provisions made for 07 Objects under 03 Heads, Provisions ranged from 40 per cent to 93 per cent had been saved.

(vi) Out of the provisions made for one Object under Investments made by the Line Ministry, provisions more than 68 per cent had been saved.

According to the particulars shown in above paragraphs No (i) to (vi), it was observed that the Budget had not been made use of as an effective instrument of management control.

(b) According to the particulars of 119 bank current accounts, out of 192 bank current accounts of all institutions of the Southern Provincial Council including the Southern Provincial Chief Secretary's Office, it was revealed that an average monthly cash balance of about Rs.462 million had been retained in the bank accounts. It was observed that, this is not a satisfactory position in the financial management.

6.7 Idle and Under-utilized Assets

The following matters were observed.

(a) Eighteen Tabs had been purchased by the Ministry of Education, Land and Land Development incurring a sum of Rs.927,000 on 31 December 2014 to distribute among the Media Officers as an urgent purchase without following a proper procurement

procedure. These equipment with the guarantee period of 02 years, had been retained in the stores of the Ministry without utilizing in any fruitful purpose even by 30 June 2016.

- (b)
 - (i) A stadium with an extent of 5200 square feet constructed in a school of the Galle Zone by incurring more than Rs.14 million had remained idle from the year 2014.
 - (ii) The building constructed in a Maha Vidyalaya of Galle Zone under Secondary Education Modernization Project and 20 Computers had remained idle.
- (c) It was observed that equipment valued at Rs.353,493, raw material valued at Rs.21,442 and finished material stock valued at Rs.51,600 had remained idle without being utilized due to closure of the Kithalagama Carpentry School due to lack of a Training Instructor.
- (d) Seven dental medical equipment amounting to Rs.660,000 purchased on 29 December 2015 by the office of the District Director of Health Services , Matara had been kept in the stores without being utilized for patient care services even by 29 July 2016.
- (e) Expenditure totalling Rs.15,544,078 comprising Rs.14,311,586 for constructions of Tourist Holiday Park, Denuwala and for purchases of related equipment and Rs.1,232,492 for maintenance, administration and security services had been incurred during the period from the year 2010 to 2015. No contribution whatsoever had been made available from that for the Tourist Industry even by 31 December 2015 and as such the expected objective had not been achieved.
- (f) Expenditure amounting to Rs.6,335,326 had been incurred from the year 2011 to 2014 for the activities of purchasing equipment, advertising and payment of salaries under the Ocean Archaeological Tourist Pilot Project. However, these equipment had not been utilized in any fruitful activity even by the end of the year 2015 and as such no income whatsoever had been earned. Therefore, the expected results from the expenditure incurred had not been obtained.
- (g)
 - (i) Expenditure of Rs.5,098,639 had been incurred by the Ruhunu Tourist Bureau for the constructions of a Tourist Holiday Resort in a land belonging to Ambalangoda Urban Council from the year 2008 to 2012. These constructions had been abandoned by the year under review and as such the expenditure incurred had become fruitless.
 - (ii) Provision for depreciation had been made in the financial statements on the expenditure incurred for the preparation of the plans at the rate of 5 per cent per annum, from the year 2009.

- (h) (i) A building for the Tourist Information Centre, Hikkaduwa, had been constructed in a land not vested with the Ruhunu Tourist Bureau by incurring an expenditure of Rs.48,301,192 during the period from the year 2010 to 2014. This building had not been utilized even up to 31 August 2016.
- (ii) Even though this building had not been utilized, provision for depreciation had been made in the financial statements at the rate of 5 per cent per annum on the expenditure incurred.
- (i) The current account maintained in the People's Bank, Galle Fort for the "Dasuna" loan project by the Southern Provincial Development Authority had been dormant for a period of 2 years with a balance of Rs.473,418.
- (j) Under the Southern Provincial Criteria Based Development Plan, (Members Provisions), 10 liquid sprayer machines and 303 mammoties of 9"x9" size purchased at an expenditure of Rs.349,270 in the year 2014 and 36 liquid sprayer machines purchased at an expenditure of Rs.395,640 in the year 2015 had been kept in the stores of the office of the Deputy District Director of Agriculture, Matara without being utilized for the respective works even by 29 July 2016.
- (k) An advance of 25 per cent amounting to Rs.123,370 had been paid on 31 December 2014 without obtaining any Security bond for purchasing of Cake Mixture to the Sales Outlet of Labuduwa Farm and the cheque drawn on the same day for the balance amount of Rs.370,110 had been retained for 47 days and subsequently handed over to the supplier. Even though the cake mixture was received on 10 September 2015, that machine had remained idle even by 21 July 2016 due non-availability of three phase capacity of electricity.
- (l) The Toyota Prado Jeep purchased at Rs.3,700,000 by the Ministry of Sports and Rural Development in the year 1997 had been parked unsecurely in the premises of the institution in an idle condition, due to non-making necessary repairs.

6.8 Uneconomic Transactions

The following matters were observed.

- (a) Even though any apprentice had not been enrolled by the 03 Technical schools established with an objective of providing vocational training in Galle, Matara and Hambantota Districts during the year 2015, expenditure amounting to Rs.3,294,672 had been incurred for payments of salaries and allowances for the instructors in charge of that institutions and other staff.
- (b) Even though the Jeep belonging to the Veterinary Medical Office, Baddegama had been repaired at an expenditure of Rs.106,680, it had not been deployed for running after 01 October 2015.

- (c) Even though the Government quarters belonging to the Veterinary Medical Office, Elpitiya had been repaired by incurring a sum of Rs.1,319,058 in 2 instances in the year 2014, it had been closed without utilizing for occupancy even by 31 December 2015.

6.9 Identified Losses

The following matters were observed.

- (a) Even though the Ambulance belonging to the office of the District Director of Health Services, Galle which met with an accident in November 2008 had been offered to 02 private institutions for repairs, the vehicle had remained decaying due to non-repairing the vehicle for the period of 07 years. Action had not been taken to recover the loss incurred to the vehicle from the accident amounting to Rs.775,699 either from the insurance claim or from the respective party by ascertaining and fixing the responsibility even by the end of the year under review.
- (b) (i) A sum of Rs.3,000,000 had been invested by the Southern Provincial Passenger Transport Authority to purchase 30,000 shares of the Southern Transport Development and Training (PVT) Company in the year 2003 while 2 buses had been sold by the company and a sum of Rs.1,000,000 out of that had been given to the Authority.
- (ii) As this company is not in operation at present, there is an uncertainty for the recovery of the balance amount of Rs.2,000,000. No return whatsoever had been obtained by the Authority from this investment since the year 2003 up to the end of the year under review.

6.10 Deficiencies in Contract Administration

The following matters were observed.

- (a) Without calling competitive quotations, 149 projects which value less than Rs.2 million comprising 75 projects which contract value amounting to Rs.91,650,782 in the year 2015, 74 projects which contract value amounting to Rs.98,930,822 up to June 2016, and 06 projects which value more than Rs.02 million and the contract value amounting to Rs.19,677,463 had been executed by the Southern Provincial Road Development Authority through Registered Societies under Direct contract method without complying the provisions of the Guideline 1.2.1 (a) of the Government Procurement Guidelines and as such the economic benefits which could have been obtained by the Government had been deprived.
- (b) A contract had been entered into with a private institution to construct the Clinic Complex Building of the Deiyandara Hospital under Special Projects on an estimate amounting Rs.8,497,820 in the year 2012 and a sum of Rs.1,876,975 had been paid to the contractor up to 31 December 2013. However, no construction work had been carried out there after.

- (c) The Divisional Secretariat, Suriyawewa had paid a sum of Rs.181,695 to the contractor exceeding the value of the material used for the project for construction of a mobile stage.
- (d) (i) Provisions of Rs.142,397,350 had been made from the year 2001 upto the year 2016 for the project of construction of Southern Provincial Sports Centre and the playground situated in Makurugoda, Baddegama and out of that a sum of Rs.59,960,884 had been incurred. Out of the provisions of Rs.40,000,000 made in the year 2012 a sum of Rs.26,430,235 had been transferred to General Deposit Account as at the end of the year. It was observed that a sum of Rs.22,290,235 had been retained further in the General Deposit Account out of that even by 30 June 2016.
- (ii) The construction work had been at a very weak level since the commencement of the project and no bills whatsoever had been furnished in the years 2015 and 2016. Even though 15 years had elapsed since the commencement of the project, the expected objectives from the said project could not be achieved and the return from the expenditure incurred could not be obtained as well.
- (iii) A sum of Rs.800,000 deposited in the Divisional Secretariat, Baddegama in the year 2001 to acquire the land in extent of 16 acres belonging to the Land Reform Commission had been retained in that account even by the year 2016.
- (iv) The activities of the land acquisition by paying money relating to the assessment of Rs.31,500,000 given for the land by the Chief Valuer of the Government in the year 2008 had been delayed up to 30 June 2016.
- (e) Despite that, 100 mm metal had not been used in the reconstructions work of the road sections under stage 5 and 6 of the improvement work of internal roads of Weligama, Charlie Mount Industrial City carried out by the Southern Provincial Development Authority, a sum of Rs.409,349 had been overpaid by certifying that metal had been used. As the constructions had been done only utilizing 37.5 mm metal and 19 mm metal and laying bitumen without laying 100 mm metal layer on the road and without a proper standard, the expenditure incurred amounting to Rs.1,690,560 for the improvement of those 2 road sections had become a fruitless expenditure.

6.11 Delayed Projects

The following matters were observed.

- (a) Even though the Chief Secretary had approved the Procurement Plan of the year 2015 relating to the World Bank Project on 13 July 2015, twenty three school buildings constructions, 24 school buildings repairs and activities of 06 supplies planned for the

year 2015 could not be completed. Due to this reason 77 per cent of projects out of the planned projects had to be continued.

- (b) Seven works relating to the provisions amounting to Rs.1,266,300 approved for patient care service within the health sector for the year 2015 under the Health Centres Development Programme in Matara District had not been executed during the year under review.
- (c) The work of the project of Reconstruction of Polkandawella Anicut contracted on an estimate amounting to Rs.786,433 by the Irrigation Engineer's Office of the Matara District had not been commenced during the year under review.
- (d) Action had not been taken to remit the balance amount of Rs.17,116,595 to the Provincial Treasury after incurring expenditure of the year, out of the funds amounting to Rs.23,000,000 received by the Southern Provincial Development Authority under Criteria Based Grants in the year 2014. Expenditure totalling Rs.2,058,350 had been incurred without continuing the projects during the year 2015 while the balance amount of Rs.15,058,245 had been retained in the Authority even by 31 December 2015.

6.12 Resources given to Other Government Institutions

The following matters were observed.

- (a)
 - (i) Even though six teachers attached to the schools of the Ambalangoda Educational Zone had been employed in other services, the salaries had been obtained through the salary sheets of the respective schools. A sum of Rs.2,421,518 had been paid as salaries and allowances for those six teachers during the year 2015.
 - (ii) Action had not been taken to get reimburse salaries and allowances amounting to Rs.7,054,297 paid to four teachers attached to the service of other institutions from the Zonal Education Office, Walasmulla even by 31 December 2015 from the institutions of they were attached.
 - (iii) A teacher of a Junior School in Matara Zone had been temporarily attached to the office of the President's Co-ordinating Secretary for a period of 03 months from 26 July 2009 and she had reported for work again on 01 January 2015. Accordingly, the respective teacher had obtained a sum of Rs.1,774,112 as salaries and allowances without extending the period and without giving any service to the respective school.
- (b) The evidence had not been furnished to audit to establish the Authority's ownership of a land situated in Koggala area amounting to Rs.2,425,660 as at the end of the year under review included in the financial statements of Ruhunu Tourist Bureau for the year 2015 and a hotel school had been constructed at an expenditure amounting to Rs.36,826,881

during the period from the year 2007 to 2010 in this land. Even though a hotel school is being maintained in these buildings by Sri Lanka Tourist Hotel Management Institute, no income whatsoever had been received to the Bureau. However, the provision for depreciation at the rate of 5 per cent per annum on the cost incurred had been made in the financial statements from the year 2008.

- (c) The ownership of the land in which the Benthota Restaurant situated had not been transferred to the Ruhunu Tourist Bureau while capital expenditure amounting to Rs.2,511,299 had been incurred for the renovations of the buildings situated on that land. However, no return whatsoever had been received by the Bureau for the expenditure incurred thereon. But the provision for depreciation had been made on the expenditure incurred at the rate of 5 per cent per annum in the financial statements from the year 2008.

6.13 Staff Administration

6.13.1 Deployment of Teachers, Excesses and Shortages

(a) Approved Cadre and Actual Cadre

The position of the cadre relating to the Southern Provincial Education Service as at 31 December 2015 had been as follows.

| Category of Employees | Approved Cadre | Actual Cadre | Number of Vacancies | Excess |
|---|----------------|---------------|---------------------|--------------|
| Senior Level | 250 | 176 | 99 | 25 |
| Tertiary Level | 1542 | 917 | 625 | - |
| Secondary Level | 22,610 | 23,478 | 69 | 937 |
| Primary Level | 1892 | 1744 | 153 | 05 |
| Others (Casual/ Temporary/ Contract basis) | - | 39 | - | 39 |
| Total | 26,294 | 26,354 | 946 | 1,006 |

The following matters were observed in this connection.

- (i) Action had not been taken to fill 946 vacancies comprising 99 officers of 07 posts of Senior level, 625 officers of 04 posts of Tertiary level, 69 officers of 02 posts of Secondary level and 153 officers of 04 posts of Primary level by the end of the year under review.

- (ii) Proper approval had not been obtained for 1006 officers deployed in the service excessively such as 25 officers of 1 post of Senior Level, 937 officers of 02 posts of Secondary Level and 05 officers of 02 posts of Primary Level as at the end of the year under review.
- (iii) Even though 39 persons had been recruited and deployed in the service of the posts not included in the approved cadre, action had not been taken to formulate their posts even by the end of the year under review.
- (b) The principals and teachers staff belonging to the Southern Provincial Education Service had not been balanced and as such an excess of teachers and a shortage of principals in 1050 provincial schools within the province were observed.

A summary of the particulars thereon is given below.

| Zone | Excesses and Shortages of Principals | | | Excesses and Shortages of Teachers | | |
|-------------|--------------------------------------|--------|-----------------------|------------------------------------|--------|-----------------------|
| | Approved | Actual | Excess/ (Shortage) | Approved | Actual | Excess/ (Shortage) |
| Galle | 205 | 168 | (37) | 2,841 | 2,967 | 126 |
| Ambalangoda | 124 | 66 | (58) | 1,649 | 1,486 | (163) |
| Elpitiya | 173 | 99 | (74) | 2,114 | 2,043 | (71) |
| Udugama | 100 | 55 | (45) | 1,241 | 1,290 | 49 |
| Matara | 165 | 133 | (32) | 2,078 | 2,472 | 394 |
| Akuressa | 107 | 58 | (49) | 1,432 | 1,469 | 37 |
| Mulatiyana | 116 | 73 | (43) | 1,531 | 1,955 | 424 |
| Morawaka | 111 | 46 | (65) | 1,333 | 1,496 | 163 |
| Hambanthota | 159 | 82 | (77) | 2,272 | 2,406 | 134 |
| Tangalle | 140 | 43 | (97) | 1,786 | 1,936 | 150 |
| Walasmulla | 125 | 81 | (44) | 1,687 | 1,956 | 269 |
| | 1,525 | 904 | 621 | 19,964 | 21,476 | 1,512 |

The following observations are made in this connection.

- (i) There was a shortage of Principals within the all 11 zones and the entire shortage amounted to 621.
- (ii) Despite excesses of 1746 teachers had been in 9 zones, a shortage of 234 teachers had remained in the balance 2 zones.
- (iii) It was observed that a significant excesses of teachers existed in Mulatiyana, Matara and Walasmulla zones.
- (iv) The officers in Teachers Service had been deployed in the Posts of Principals in 35 schools of the Udugama Educational Zone. The principals in upper grades over the approved grade had been

deployed in 03 schools and the principals in lower grades below the approved grade had been deployed in 04 schools out of 44 schools in which the graded principals are deployed and as such it was observed that the principals had not been deployed, according to a proper plan.

- (v) The posts of the principals in 33 schools out of 78 schools in the Morawaka Zonal Education area had been vacant during the year 2015.
- (vi) Due to non-execution of staff management properly the principals posts of the 22 schools in Matara Education Zone had been covered by Acting Principals and it was observed that 45 graded principals who promoted to the Sri Lanka Principals Service had been deployed in the service of Deputy Principals and Assistant Principals as they were not appointed to the respective posts properly.
- (c) Action had not been taken to obtain personal files of 07 teachers and 30 teachers who came on station transfers to the Elpitiya and Galle Educational Zones in 2015 and prior years respectively. Therefore, it could not be established the accuracy, in respect of the appointments of those officers, station transfers, educational qualifications and the payments of salaries.

6.13.2 Southern Provincial Health Service

The position of the cadre as at 31 December 2015 had been as follows.

| Category of Employees | Approved Cadre | Actual Cadre | Number of Vacancies | Excess Cadre |
|-----------------------|----------------|--------------|---------------------|--------------|
| Senior Level | 1069 | 803 | 266 | - |
| Tertiary Level | 240 | 158 | 82 | - |
| Secondary Level | 4681 | 3871 | 824 | 14 |
| Primary Level | 3068 | 2591 | 484 | 07 |
| Total | 9058 | 7423 | 1656 | 21 |

The following observations are made in this connection.

- (a) Action had not been to fill 1656 vacancies comprising 266 vacancies in 12 posts of Senior Level, 82 vacancies in 22 posts of Tertiary Level, 824 vacancies in 29 posts of Secondary Level and 484 vacancies in 18 posts of Primary Level existed as at the end of the year under review.
- (b) Even though excesses of 21 employees had existed in 14 posts of Secondary Level and 07 posts of Primary Level as at the end of the year under review, approval had not been obtained to formulate that excess posts.
- (c) Eleven employees including a Development Assistant Officer, 2 Drivers, 1 Office Assistant and 07 Health Assistants attached to the office of the District Director of Health Service, Galle had

been released to the service of other institutions and a sum of Rs.8,961,494 had been paid them by the Southern Provincial Department of Health Services as salaries and allowances from the date of release upto 31 December 2015.

- (d) (i) An employee who obtained an appointment as a Health Assistant on 01 June 2011 had been attached to the staff of the Deputy Chairman of the Southern Provincial Council from 01 December that year to 12 January 2014. Despite any query or information relating to his service station not made available after dissolution of the Southern Provincial Council on 12 January 2014, a sum of Rs.746,811 had been paid him as salaries and allowances for the period from that date up to February 2016.
- (ii) A sum of Rs.42,712 also had been paid him as uniform allowances for the period from 01 December 2011 to February 2016.

7. Accountability and Good Governance

7.1 Audit and Management Committee

In terms of the Treasury Circular No.1A1/2000/1 of 12 June 2000 and the Southern Provincial Council (Finance) Circular No.5/2007 of 26 January 2007, 04 meetings should be conducted per year at least one meeting per quarter. Nevertheless, action in accordance with that had not been taken by 20 institutions. A summary of the details thereon is given below.

| Year | Number of Institutions | Number of Meetings Conducted |
|--------|------------------------|------------------------------|
| 2015 | 07 | No meetings conducted. |
| - do - | 03 | One meeting conducted. |
| - do - | 05 | Two meetings conducted. |
| - do - | 05 | Three meetings conducted. |

7.2 Procurement Plan

Ten institutions including One Ministry, 02 Departments, 02 Offices, 01 Commission and 4 Authorities had not furnished the Procurement Plan to audit for the year under review in terms of the National Budget Circular No.128 of 24 March 2006.

7.3 Unreplied Audit Queries

The following matters were observed.

- (a) Replies to 16 audit queries out the audit queries issued to the Southern Provincial Road Development Authority had not been furnished by 31 August 2016. The value of quantifiable transactions relating to those audit queries amounted to Rs.159,875,637.

- (b) The requirement of the settlement of lapsed deposit balances of the retention money payable totalling Rs.56,678,016 shown in the financial statements of the Southern Provincial Road Development Authority for the year under review had been pointed out by the reports of the Auditor General for preceding years and by the decisions of the Provincial Committees of Public Accounts. Nevertheless, action had not been taken in accordance with that even in the year under review.

8. Systems and Controls

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

(a) Fixed Assets Control

The following matters were observed.

- (i) A Register of Fixed Assets had not been maintained.
- (ii) Inordinate delays were observed in respect of actions taken on losses and damages.
- (iii) The basis followed on Accounting of Fixed Assets had not been disclosed under accounting policies in the financial statements.
- (iv) Delays in conduct of Board of Survey were observed.
- (iv) The value of vehicles obtained on lease basis had not been capitalized.

(b) Preparation of Revenue Estimates and Collection of Revenue

The following matters were observed.

- (i) Revenue Estimates had not been prepared with due study and attention.
- (ii) The attention had not been paid for the achievement of the targets of the estimated revenue.
- (iii) Action had not been taken to carry out follow up actions and to make relevant revisions on Revenue Estimates.
- (iv) Actual revenue of certain items of Revenue had exceeded the estimated revenue.
- (v) The recovery of arrears of revenue had remained delaying continuously.

(c) Expenditure Estimates and Utilization of Provisions

The following matters were observed.

- (i) The entire net provisions totalling Rs.12,262,000 made for 19 Objects under 10 Heads had been saved.
- (ii) The savings ranging from 50 per cent to 99 per cent had remained between the net provisions and actual expenditure of 127 Objects of 21 Heads.

- (iii) The entire provisions of Rs.9,000,000 of an Object under Provincial Specific Development Grant had been saved and the savings ranging from 40 per cent to 93 per cent had remained in 07 Objects of 3 Heads.
- (iv) Savings of 68 per cent had remained out of the provisions made for one Object by the Line Ministries.

(d) Settlement of Debtors and Creditors Balances

The following matters were observed.

- (i) Action had not been taken to obtain balance confirmations for Debtors and Creditors balances.
- (ii) The settlement of Debtors and Creditors balances had remained delaying continuously.

(e) Accounting

The following matters were observed.

- (i) It was stated under Accounting Policies, that the Sri Lanka Public Sector Accounting Standards are being followed. Nevertheless, the accrual basis had not been followed in accounting of revenue, expenditure, assets and liabilities.
- (ii) Action had not been taken to settle the balances of General Deposit Accounts.
- (iii) The differences were observed between the Departmental accounts and the Provincial Treasury accounts in respect of Deposit Account Balances and Provincial Public Service Advance Account Balances.
- (iv) Excess of Maximum limits and Shortfall of Minimum Receipts in the Provincial Public Officers Advance Accounts and the Commercial Advance Accounts were observed.
- (v) The particulars relating to the Fixed Assets, Arrears of Revenue and Liabilities had not been disclosed by the financial statements.