

## **Sabaragamuwa Provincial Council - 2016**

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The audit of financial Statements of the Sabaragamuwa Provincial Council for the year ended 31 December 2016, comprising the statement of financial position as at 31 December 2016 and the 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 the 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 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 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 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 Provincial's 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 the financial statements.

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

#### 1.4 Basis for Qualified 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 Sabaragamuwa Provincial Council as at 31 December 2016 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 Provincial Council Fund Account for the year under review had been presented to audit on 31 March 2017.

##### 2.2.2 Other Accounts

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The progress of presentation of other accounts of the Provincial Council for the year under review as at 25 July 2017 is given below.

Name of account	Total No. of accounts	No. of accounts presented	No. of accounts not presented
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(i) Appropriation Accounts	27	27	-
(ii) Revenue Accounts	01	01	-
(iii) Advances to Provincial Public Officers Accounts	24	24	-
(iv) Commercial Advance Accounts	10	09	01
(v) Fund Accounts	02	02	-
(vi) Statute Accounts	05	05	-
(vii) Councillers Advance Accounts	02	02	-
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Total	<u>71</u>	<u>70</u>	<u>01</u>

### **2.2.3 Accounting Deficiencies**

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The following matters were observed.

- (a) The approved advance balance of Rs.9,272,038 shown under financial assets in the statement of financial position as at 31 December 2016 had been stated as an adverse balance.
- (b) Direct grants of Rs.248,000,000 received from the Treasury had not been included in the Fund Account.
- (c) The balance of the Department of Animal Products and Health, included in the imprest balance receivable from Provincial Departments shown in the statement of Financial position as at 31 December 2016 amounted to Rs.2,303,535. However, according to the summary report in respect of the imprest accounts shown in the Appropriation Accounts of that Department, it was shown as Rs.9,686,937 and as such a difference of Rs.7,383,402 was observed.

### **2.2.4 Unreconciled Control Accounts**

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The total balance of the control accounts relating to 3 items of accounts amounted to Rs.1,277,367,735 whereas the total of such account balances according to the subsidiary books/ records amounted to Rs.1,264,720,291 and as such there was an imbalance of Rs.12,647,444.

### **2.2.5 Suspense Accounts**

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An unidentified balance of Provincial Council Officers advance accounts totalling Rs.2,371,255 relating to two Departments had existed as at 31 December 2016.

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

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The value of accounts receivable balances elapsed for more than 01 year amounted to Rs.46,204,305 and the value of accounts payable balances amounted to Rs.3,567,822.

### **2.2.7 Un-replied Audit Queries**

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Replies to 22 audit queries issued by 31 December 2016 had not been presented even by 25 July 2017 and the value of transactions subjected to those queries can be computed at Rs.369,338,668.

### **2.2.8 Lack of written evidence for audit**

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A sum of Rs.957,500 had been spent for a program with the objective of improving the Co-operative impression of the members of the Multi-purpose Co-operative Societies and this actively work with the Co-operative Society implemented under the Hundred Day Program. Of this expenditure, sums of Rs.412,300 and Rs.481,000 had been paid for foods and Transport

expenses. However, any documents to establish the works performed in this regard were not made available for audit.

## 2.2.9 Non-compliance with Laws, Rules, Regulations and Management Decisions

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The following non-compliances with Laws, Rules, Regulations and Management Decisions were observed.

<b>Reference to Laws, Rules and Regulations</b>	<b>Non-compliance</b>
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<p>(a) <b><u>Acts</u></b> Sub-Sections (5) and (6) of Section 226 of Municipal Councils Ordinance (Cap. 252), Sub-section (5) of Section 183 of Urban Councils Ordinance (Cap. 255) and Sub-sections (8) and (9) of Section 172 of Pradeshiya Sabha Act No.15 of 1987.</p>	<p>Within 14 days after the decision of the Auditor General has been communicated to such person on the surcharge, that sum shall be paid by that person to the Commissioner of Local Government. If any sum referred to above is not paid or any appeal against the decision is not made, the Commissioner of Local Government may make an application to the District Court, within whose jurisdiction such person resides for the recovery of such sum. As action had not been so taken, a sum totalling Rs.1,929,509 under 6 surcharge certificates issued by the Auditor General in several instances had not been recovered even up to 30 June 2017.</p>
<p>(b) <b>Establishments Code of the Democratic Socialist Republic of Sri Lanka.</b></p> <p>-----</p>	
<p>(i) Section 5 of Chapter xix</p>	<p>The Provincial Council had deprived of a revenue of Rs.2,577,548 due to recovery of house rent, contrary to the provisions referred from officers who had occupied 12 government quarters belonging to the Provincial Council from the year 2003 to 2016.</p>

(ii) Sub-section 7.2 of Chapter xix

The total of both 8 per cent of the salary and open market rent prevailed at that time, in addition to the house rent should be recovered from officers who reside in a government quarter, exceeding the lease period. However, only 8 per cent of the salary had been recovered since April 2014 as penalty rent.

**(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.**

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(i) Financial Regulation 571 (3)

Action had not been taken in respect of deposits totaling Rs.39,851,331 as at 31 December 2016 relating to 5 institutions.

**(d) Circulars of the Presidential Secretariat**

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Public Expenditure Circular No.CSA/P1/40 dated 04 January 2006.

Based on the Circular No. ආ. කා10/4/3/73(II) dated 17 June 2009 of the Provincial Governor, issued contrary to the above mentioned circular instructions, a sum of Rs.1,125,000 as telephone allowances to Provincial Ministers including the Chief Minister for the period from 01 January 2015 to 31 March 2016 and a sum of Rs.1,323,385 as telephone allowances to the Chairman and the Deputy Chairman based on the above circular and the decision of the Board of Ministers of the Sabaragamuwa Provincial Council bearing No. S – 205 dated 10 June 2009 had been paid. Further, only on the basis of the above Board of Ministers decision, an overpayments totalling Rs.8,289,290 had been made to 45 Provincial Councillors as telephone allowances and a total sum of Rs.35,860,447 had been paid to 55 Sabaragamuwa Provincial Council representatives as drivers and fuel allowances for the period from 01 January 2015 to 31 March 2016.

**(e) Public Finance Circulars**

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- (i) Paragraph 3 of circular No.431 of 24 April 2008. A sum of Rs.2,875,936 had been paid to a Private Company for the purchase of air tickets at 5 foreign tours. At a test check revealed that the financial loss incurred as a result of purchasing air tickets from that company only for 2 tours amounted to Rs.1,007,200.
- (ii) Circular No.☉.☐./1/2015/1 dated 15 May 2015.
- Paragraph 4 (a) Combined allowances totalling Rs.4,009,789 had been paid to the Chief Minister his Private Secretary, Minister of Education and 4 officers for 3 foreign tours for which it was stated that the Doner Agency would supply accommodations food and other facilities. An over payment of combined allowance of Rs.810,776 had been made to only the Chief Minister and his Private Secretary at one tour.
  - Paragraph 3(b) An over payment of Rs.1,001,183 as incidental expenses had been made to 3 Provincial Ministers and 19 officers at 2 foreign tours.
  - Paragraph 05 A sum up to US\$ 750 can be paid as the entertainment allowance, on a request made by the Minister or the Secretary to the Ministry who leads the tour at an official visit. Nevertheless, the total amount of US\$ 1500 had been paid to the Chief Minister and the Secretary of the Ministry of Education at US\$ 750 per officer for the Thailand Tour made from 14 to 20 August 2016. Accordingly, an over payment of Rs.111,352 (US\$ 750) had been made.

**(f) Other Circulars**

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- Paragraph 02 II (a) of Circular No.SEC/2015/02 dated 25 March 2015 of the Commissioner General of Inland Action had not been taken to get back the withholding tax totalling Rs.117,045 charged by the bank for the year 2015 and 2016 to

Revenue.

the account of the Department of Animal Products and Health.

**(g) Co-operative Societies Statute No.03 of 2007.**

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(i) Section 61 (1)

Although rules in respect of Co-operative Development Fund should be formulated approved and gazetted, it had not been carried out up to September 2016.

(ii) Section 43 (b)

Every registered society should prepare the annual final account and a balance sheet including the accounts and statistics relating to the affairs of the Society and presented to the Registrar within 3 months after the financial year. Nevertheless, out of 300 registered Co-operative lending societies in the Ratnapura District, 295 societies had not presented such accounts relating to the year 2015.

**2.2.10 Transactions not supported by adequate authority**

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The following matters were observed.

- (a) Without the approval of the Finance Commission, a sum of Rs.8,464,950 had been spent for the construction of a building in the land belonged to the Kegalle Ranwala Textile Industrialists' Co-operative Society from the year 2011 to 2015.
- (b) Contrary to the instructions of the President Secretary's Circular No.CSA/1/1/83 dated 05 June 2015 and subject to the approval of the President, approval of the Governor's Secretary by his letter No.අප කො 8/1 dated 02 March 2016 had been granted to 33 persons comprising 2 Ministers and 24 Councillers of the Sabaragamuwa Provincial Council and 7 selected officer to proceed to a Italy Tour and a sum of Rs.20,645,477 had been spent from the Provincial Council Fund for this tour.

### 3. Revenue Management

#### Revenue Trend for the past 5 years

Tax revenue and non-tax revenue collected by the Provincial Council during the past 5 years had been as follows.

Year	Tax Revenue	Non-Tax Revenue
	Rs.	Rs.
2011	1,943,637,444	416,079,145
2012	2,007,749,583	496,404,402
2013	2,163,127,948	496,200,284
2014	2,394,497,366	676,362,034
2015	2,832,257,548	725,367,341

The following matters were observed.

- (a) Action had not been taken to recover annual taxes, long terms taxes, yield taxes and demurrage charges totalling Rs.4,814,632 by 9 Divisional Secretariats in Kegalle District during the year under review.
- (b) The land bearing lot No.01 of the plan No.2852 at Yatanwala Village in the Divisional Secretariat Division of Ruwanwella had been leased out to the Sri Lanka Telecom on long term lease, since the year 1983 and a lease rent of Rs.1,755,040 was due since 2002. Furthermore, even though Sri Lanka Telecom had stated legal points that the ownership of that land belonged to Telecom, that issue had not been resolved as yet.
- (c) As the actual revenue of the previous year had not been considered in the preparation of revenue estimates for the year under review, a sum of Rs.760,338,155 relating to the 9 revenue heads had been under estimated.
- (d) The balance of arrears of revenue relating to 29 Local Authorities in the Sabaragamuwa Province as at 31 December 2016 totalled Rs.267,131,080 and it had been an increase of 28.5 per cent than the previous year.

### 4. Financial Review

#### 4.1 Financial Results

According to the financial statements presented, the financial result of the Provincial Council Fund for the year ended 31 December 2016 had been a deficit of Rs.1,816,974,306 as against the surplus of Rs.238,561,212 for the preceding year thus indicating a deterioration of Rs.2,055,535,518 in the year under review. Incurring expenditure, being realised the financial assets belonged to the Council had mainly attributed thereto.



#### **4.2 Legal Cases Initiated against or by the Provincial Council**

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Two hundred and twenty one legal cases filed against the 11 Ministries/ Departments of the Provincial Council by external parties and 100 legal cases filed against the external parties by 5 Ministries/ Departments of the Provincial Council were being inquired by December 2016.

#### **4.3 Abnormal Increase in Expenditure**

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The actual expenditure of the year under review relating 05 recurrent expenditure objects had increased ranging from 37 per cent to 208 per cent as compared with the expenditure of the year 2015.

### **5. Accounts of Authorities**

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#### **Development Construction and Plant and Machinery Authority**

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The following matters were observed.

- (i) The Value Added Tax (VAT) amounting to Rs.2,020,898 allocated for contractor who should not pay Value Added Tax (VAT) had been shown as payable taxes to the Provincial Council under the liabilities, but it had not been settled to the Provincial Council.
- (ii) Even though a parabolic stage purchased in the year 2012 by incurring an expenditure of Rs.1,370,000 had belonged to the Authority, any income whatsoever had not been earned therefrom in the year 2015.

### **6. Operating Review**

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#### **6.1 Management Inefficiencies**

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The following matters were observed.

- (a) A systematic procedure had not been implemented for the reservation of rooms of the circuit bungalow at Provincial Council Secretariat. There were instances where rooms were reserved for the councillors within the province and outside the province and group of persons named by them for official as well as private purposes without charging any fee. A cost of Rs.1,000,000 approximately had been incurred annually to operate and maintain the circuit bungalow and as such it had not been operated for effective objects with a proper management and an extensive expenditure had to be incurred annually by the Provincial Council thereon.

- (b) According to the paragraph 3.2 of the Circular No.2007/20 dated 13 December 2007 of the Ministry of Education it had been decided that the maximum service periods had been determined as 06 years in a most facilitated school and 08 years in a facilitated school. Nevertheless, there were 3,274 teachers served in the same school for periods ranging from 08 years to 34 years by exceeding those limits, in 644 schools within the Sabaragamuwa Province.
- (c) It was failed to recover tax revenue of Rs.8,741,879 due prior to the year under review in the Land Commissioner's Department.
- (d) Fixed deposits totalling Rs.6,000,000 deposited in the years 2005 and 2006 by the Department of Animal Products and Health had existed without being utilised for a useful purpose during the period ranging from 10 to 11 years.
- (e) In terms of decision No.01 of the minutes of Sabaragamuwa Province special anti-dengue program meeting held on 27 July 2016 headed by the Sabaragamuwa Chief Minister, with the participation of top management of the Local Government and Health sectors, it was decided to construct, building for stores facilities to local authorities where there were no stores facilities to store non-mouldered garbage. Nevertheless, action had not been taken to provide stores facilities to 12 local authorities where no stores facilities were available in the Sabaragamuwa Province even by 30 June 2017.

## 6.2 Operating Inefficiencies

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The following matters were observed.

- (a) Although 8 government houses belonged to the office of the Deputy Chief Secretary (Engineering Services) had been encroached by a private party for a long period, any action had not been taken to remove those encroachers from those houses.
- (b) A balance totalling Rs.24,318,986 was available in 7 bank accounts belonging to various funds of the Department of Co-operative Development as at 31 December 2016 and a balance of Rs.145,650,343 had existed in 36 fixed deposits. Those funds had not prepared accounts up to now from the inception and any balance of those funds had not been included in the Provincial Council fund account.
- (c) Winding up activities of 48 Co-operative Lending Societies, the registration of which had been cancelled since the year 2009 had not been completed even by 25 August 2016. According to the general meeting report, dated 03 August 2016, it was decided to wind up 74 societies belonging to the Assistant Co-operative Commissioner's Office, Kegalle. The winding up activities had been at a very slow level and the number of Co-operative Societies existed at a winding up position amounted to 425.

- (d) Although a part of the land in which government quarters belonging to the Provincial Department of Ayurveda were located had been encroached by 4 dwellers nearby, action had not been taken to settle that land.
- (e) The Provincial Ministry of Education had constructed Mahindodaya Technological Laboratories in 15 selected schools within the province by incurring an expenditure of Rs.133,287,704. Five Technological Laboratories which had been completed and elapsed for more than 2 years had not been officially handed over to the use of students even by March 2017.
- (f) Twenty five types of equipment, including computers and accessories, chairs and tables, planned to be purchased in the year 2015 for Mahindodaya Laboratories at an estimated cost of Rs.83,500,000 had not been purchased even by 31 December 2016. As a result, Technological Laboratories of those schools by which equipment had not been received had remained under utilised.

### **6.3 Transactions of Contentious Nature**

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The following matters were observed.

- (a) It was revealed in the examination of information of the registration of a jeep at the Department of Motor Traffic said to be handed over to the Sabaragamuwa Provincial Council by the Department of Commissioner General of Lands that another motor vehicle with the same vehicle number under the private ownership to whom the vehicle had been transferred by the Department of Commissioner General of Lands. Even though this matter had been informed the Commissioner General of lands and the Commissioner General of Motor Traffic, a formal inquiry in respect of the transfer of a motor vehicle belonging to the government and still physically existed in the Sabaragamuwa Provincial Council to a private party in writing and the use of a spurious motor vehicle under that number by that party had not been conducted. Due to problematic situation about the ownership of the vehicle, it had been parked in the premises of the Development Construction and Machinery Authority since 26 December 2014 while in running condition.
- (b) Matters observed in respect of performance of the Provincial Department of Revenue and the incentive scheme are given below.
  - (i) Since the turnover tax revenue had been deprived of by the Provincial Councils from the year 2011, the other Provincial Councils had taken steps to suspend or to revise the incentive scheme of the Provincial Revenue Officers, temporary. According to the letter No.FC/BE/REV/2011 dated 09 February 2011 of the Chairman of the Finance Commission and as decided at the discussion held on 07 March 2011, chaired by the Secretary to the Treasury, it was instructed to formulate a more appropriate methodology to pay incentives to Provincial

Revenue Officers. However, the Sabaragamuwa Provincial Council had continuously implemented the old scheme, contrary to those instructions.

- (ii) Additional stamp fees revenue and drugs, chemicals and mineral tax revenue collected on the re-assessment made in the 2 years of 2014 and 2015 by direct contribution of the officers of the Provincial Department of Revenue totalled Rs.18,754,862 and Rs.30,843,651 respectively and the incentives paid to the officers of the Department in these 2 years totalled Rs.10,198,484 and Rs.11,757,295 respectively. In paying this incentive, it had been paid on the aggregate revenue earned, disregarding the tax revenue earned on the direct contribution of the officers.
- (iii) A special permanent committee had been appointed for the recovery of various types of taxes and revenue legally due to the Provincial Council and to take action to recover taxes and revenue receivable and non-receivable due to various reasons in order to remedy the decrease of revenue of the Provincial Council. Even though it was elapsed for more than 4 years, after setting up of that committee no performance was achieved in respect of Provincial Revenue Generation and Promotion and as such the incentives totalling Rs.1,248,656 paid to these committee members from the second half year of 2013 to the first half year of 2016 under the incentive scheme of the Provincial Department of Revenue had become a fruitless expenditure.
- (c) Two thousand two hundred and forty five spectacles had been purchased by incurring an expenditure of Rs.1,683,750 during the year under review to be given to the selected persons suffering from eye weaknesses at the eye clinics conducted by the Provincial Department of Probation and Child Care Services. Although the Technical Evaluation Committee reports were filed, ensuring that those spectacles had been supplied in accordance with specifications, it was established in audit that the officer with proficiency in the subject who was in the committee had not examined them. Accordingly, the sincerity of Technical Evaluation Committee report was contentious in audit.
- (d) Two motor vehicle allocated to the staff of the Minister of Education had met with accident and referred for repairs. Based on the Public Administration Circular No.23/2007 dated 23 October 2007, a total sum of Rs.420,000 as monthly transport allowance had been paid to the Minister of Education on 31 December 2015 for the period during which the vehicle was in the garage. However, replies had been given to audit stating that the aforesaid allowance had been paid to the Minister on his request without being paid to the relevant officers.

## **6.4 Irregular Transactions**

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The following matters were observed.

- (a) The cheque valued at Rs.1,936,225 written for the expenditure incurred on Public Meetings held by the Minister without intervening the Ministry of Roads had not been issued in the name of payee and issued in the name of the Minister. An another cheque valued at Rs.856,594 had been issued to the name of the Co-ordinating Secretary.
- (b) Two workshops had been conducted by the Provincial Ministry of Education during the year under review by incurring an expenditure of Rs.1,897,607. In selecting institutions to supply necessary facilities therefor, deviation from procurement process, preparation of fake documents, payments contrary to circular instructions were observed.
- (c) A sum of Rs.4,074,115 had been spent for various goods distributed by the Governor as gifts among various parties in the year 2015.
- (d) Although a sum of Rs.299,250 had been spent for the distribution of 171 spectacles among the school students in the Ratnapura zone. In appointing the technical evaluation committee relating to that supply, an officer with expertise knowledge on the subject had not been appointed in terms of guideline 2.8.1 (b) of the Procurement Guidelines of 2006. That committee had not made recommendations by comparing spectacles with the diagnostic tests and basic specifications. Furthermore, the selection of students had been assigned to the supplier of spectacles himself without the guidance and concurrence of a medical officer.
- (e) As pre-planning had not been carried out in purchasing 300 sets of sports cloths to be given to sportsmen/ women who had participated in the all Island Sports Tournament in the year 2015, cloths had to be purchased by deviating procurement procedure and 30 sportsmen had not received set of cloths. Before awarding the procurement and making payments, Technical Evaluation Committee reports had not been obtained, ensuring that sports cloths had been in compliance with specifications. Without such a certificate a sum of Rs.252,000 had been paid to a private entity.

## **6.5 Uneconomic Transactions**

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The following matters were observed.

- (a) The Provincial Chief Minister and his Private Secretary had made two foreign tours in 2 years of 2015 and 2016 with the objective of gaining knowledge required for the commencement of various projects within the province and to get opportunities for projects and the Provincial Minister of Social Welfare and Industries Development had made one foreign tour during the year 2015 and a sum of Rs.4,335,078 had been spent

on these tours from the Provincial Council Fund. However, any benefits whatsoever gained by the Sabaragamuwa Province had not been identified even by 30 June 2017.

- (b) According to an invitation made by a private hospital in the United Kingdom for a training program conducted for the medical officers engaged in the Medical Administration field the Chief Minister and his Private Secretary had made a foreign tour from 27 March 2016 to 03 April 2016 without being participated any officer engaged in the medical field and a sum of Rs.1,669,884 had been spent out of the Council's Fund.
- (c) At a site inspection carried out on 07 July 2016 in the Provincial Councillors circuit bungalow of the Provincial Secretariat, it observed that 2,092 unused diaries relating to the year 2014 and 2015 valued at Rs.369,338 had been retained.
- (d) Two council members represented the Sabaragamuwa Provincial Council had been imprisoned during the period February 2014 to February 2016. During that period they had not participated in any meetings held by the Provincial Council. Although they had not served in the Provincial Council during their imprisoned period, a total sum of Rs.1,191,507 had been paid to them as drivers allowances, fuel allowances, telephone allowances and entertainment allowances, in addition to their salaries.

## **6.6 Apparent fraudulent Transactions**

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The following matters were observed.

- (a) A sum of Rs.4,921,776 had been spent in the year 2015 for the repair and modification of the councillors official quarters of the Sabaragamuwa Provincial Council. Due to discrepancies in the preparation of estimates, approval and making payments, a loss of Rs.1,975,627 had been sustained by the Provincial Council Fund. Even though it was decided and informed in writing to the contractor to recover the relevant loss, disciplinary action had not been taken against the responsible officers.
- (b) A sum of Rs.239,277 had been paid as advances for the construction of a toilet system under the "Nearest School Best School" (ළඹම පාසල හොඳම පාසල) and it had been credited to the School Development Society of R/Em/Panawala School. Of that money a sum of Rs.200,000 had been withdrawn by the Principal on 29 November 2016. Construction works had not been commenced even by the date of site inspection carried out on 26 January 2017. Even though the Zonal Director had informed the principal to return the money immediately, action had not been taken to credit that money to the school account even by 25 July 2017.

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

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Ten items of plant and machinery valued at Rs.112,400 since 06 years, 146 items of plant and machinery, the value of which was not recognised since the period ranging from 9 months to 12

years, 4 buildings since the periods ranging from 1 to 5 years, 12 buildings, the value and the idle period of which could not be recognised and 2 motor vehicles in various institutions of the Provincial Council had been idle.

## **6.8 Identified Losses**

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The following matters were observed.

- (a) Although the official vehicle assigned to the Provincial Minister of Education had met with an accident on 05 October 2012, it had not been repaired even by 25 July 2016. The reimbursement of indemnity had been rejected by the Insurance Company on the ground that it was not established that such an accidents could not happen at that time in that place as reported by the driver who had driven the vehicle, how the accident had happened and the damage caused to the vehicle was not complied with the accident. However, the insurance company had agreed to pay an indemnity of Rs.250,000 on 13 October 2015 by considering several requests made during the period of 3 years and the Provincial Council was a good customer institution of the insurance company, though they had no commitment. Nevertheless, the first repair estimate of Rs.566,426 had increased to Rs.1,149,681 by October 2015.
- (b) In terms of Provincial Rules 54.1.3, inquiries should be conducted immediately in respect of losses and damages and to determine the persons responsible. The Secretary to the Ministry of Education had appointed officers to investigate the accident on 18 August 2014, 21 months after happening the accident in respect of the accident stated in the paragraph (a) above. The investigating officers had taken 15 month thereon. Although the preliminary inquiring committee had recommended to recover the loss from the driver, the loss had not been recovered up to 12 June 2017. Furthermore, instead of allocating an another official vehicle to the Minister within the relevant period, transport allowance totalling Rs.1,080,000 had been paid for the period October 2012 to 31 December 2015, based on the Public Administration Circular No.23/2007 of 23 October 2007. The aggregate financial loss sustained by the Provincial Council amounted to Rs.1,979,681 as a result of not taking remedial action to get the vehicle repaired by determining the responsible persons in terms of financial rules and the misinterpretation of circular instructions and not taking action more economically to the government.
- (c) A specialist physician who had proceeded abroad for a period from 01 March 2013 to 29 February 2016 had not reported for duty after the agreed period and as such he had been treated as vacated his post. However, action had not been taken to recover a sum of Rs.984,353 due to the government in view of breaching the agreement.
- (d) A Jeep belonging to the Department of Agriculture had met with an accident and handed over to the private entity to get it repaired at an estimate of Rs.522,000 in May 2014. As follow up action had not been carried out, it had not been repaired up to January 2016. Subsequently, that entity had rejected to repair it and as such it had been repaired by

another institution by incurring a sum of Rs.987,500 and the financial loss incurred thereon amounted to Rs.465,500.

## **6.9 Weaknesses in Contract Administration**

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The following observations are made.

- (a) The fifth interim bill, the work done value of which amounted to Rs.26,029,799, prepared by the Technical Officer of the Balangoda Executive Engineers Office along with the contractor based on the dual measurement sheets, in the work of construction of 2 storied building in the Zonal Education Office, Balangoda had been recommended and submitted by the Executive Engineer, Balangoda to the Deputy Director (School Buildings), Department of Provincial Engineering Services for approval. Without the sanction of the officers of the Balangoda Executive Engineers Office, unit prices of 12 work items (BOQ rates) in that bill had been altered as to increase and revised the work done value as Rs.27,467,263 and made an over payment of Rs.1,442,944. Furthermore, the unit prices of 15 work items (BOQ rates) in the final bill, the work done value of which amounted to Rs.26,493,071 had been altered as to increase and revised the value of work done as Rs.28,437,379 and certified and approved for making an overpayment of Rs.1,007,589.
- (b) Although the Penikola ara Security Bond at Hingura Paddy Field had been build by the Ministry of Land and Agriculture by incurring an expenditure of Rs.1,032,307, the expected objectives thereon had not been achieved. According to the feasibility report, it was stated that after the construction of this bond, the damage caused to 10 acres of paddy field could be prevented. Nevertheless, the damage caused to the field before being constructed the bond remained unchanged as water flows to the field from the edge of the bond flowing along with the bond.

## **6.10 Delayed Projects**

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One hundred and seventy one construction contracts implemented by 3 Ministries/ Departments had been delayed due to various reasons and 310 construction contracts in 6 Ministries/ Departments had been completely abandoned without being commenced.

## **6.11 Personnel Administration**

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### **6.11.1 Excesses and Shortages in the Cadre of Education Sector**

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- (a) As compared with the eligible number of teachers, prepared in considering the present teachers requirement of the schools in Sabaragamuwa Province by the Provincial Department of Education, there were shortages and excesses of teachers in respect of main subjects. Particulars appear below.



<b>Secondary Division 6 – 11</b>			<b>Advance Level Division 12 – 13</b>		
<b>Subject</b>	<b>Shortage</b>	<b>Excess</b>	<b>Subject</b>	<b>Shortage</b>	<b>Excess</b>
		-			
English	161	79	Science and additional subjects	41	24
Technology Subject	633	52	Commerce subjects	33	43
Science	171	65	Arts Subjects	37	163
Mathematics	186	67	Technology Subjects	35	3
Other Subjects	1433	334			

- (b) The aggregate Teachers shortage and teachers excess in terms of each subject within the province amounted to 4,152 and 1,174 respectively.
- (c) In the Mawanella Education Zone, 484 teachers 9 Laboratory Assistants and 9 school Labourer and Sanitary Labourers had been employed in excess of the approved cadre.

#### 6.11.2 Excesses and Shortages in the cadre of the Health Sector

Excesses and Shortages in each service in the Health sector at institutional level appear below.

		<b>Provincial Office of the Director of Health Services</b>		<b>Ratnapura Regional Director of Health Services Office and Provincial Hospitals in Ratnapura District</b>		<b>Kegalle Regional Director of Health Services Office and Provincial Hospitals in Kegalle District</b>		<b>Embilipitiya Hospital</b>	
		<b>Excess</b>	<b>Shortage</b>	<b>Excess</b>	<b>Shortage</b>	<b>Excess</b>	<b>Shortage</b>	<b>Excess</b>	<b>Shortage</b>
Medical Officers		-	4	-	92	-	35	-	8
Nursing Staff		-	1	-	117	20	19	-	56
Pharmacists		-	-	-	-	-	7	-	5
Public Health		-	-	-	29	-	4	-	-
Inspectors									
Family Health Officer		-	-	-	150	-	104	-	9
Dispensers		-	-	-	31	-	10	-	1
Attendant		-	-	-	25	-	39	-	26
Medical Laboratory Technicians	}	-	-	-	18	-	6	-	2
Entomology Assistant		-	-	-	14	-	7	-	-
Drivers		-	-	-	19	-	14	-	2
Public Health Field		1	-	-	13	10	-	-	-

Officer									
School	Dental	-	-	-	17	-	4	-	-
Therapists									
Watchers		-	-	-	51	-	20	-	-
Accountants		-	1	-	-	-	2	-	1
Development Officer		-	5	-	38	40	-	7	-
Health KKS		-	4	102	-	322	-	24	-
Labourers		-	-	-	77	-	14	-	11
Karyala	Karya	-	1	-	8	-	5	-	3
Sahayaka									
Others		-	8	-	26	-	35	-	6
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Total		1	24	102	725	392	325	31	130
		=====	=====	=====	=====	=====	=====	=====	=====

## 6.12 Drugs Management

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The following matters were observed.

- (a) At the physical verification carried out in the Office of the Medical Officer of Health at Ratnapura Municipal Council on 09 January 2017, a shortage of 624 and an excess of 287 vacancies between the balance of vaccine register and the physical balance had existed.
- (b) As the stock receipts and issues of the drugs movement register, surgical consumable articles register, family planning equipment register and the vaccine register maintained in the Pelmadulla Office of the Medical Officer of Health had not been updated even up to 05 November 2016, 705,745 units of drugs received from the Regional Medical Supplies Division had not been taken to the stock books.
- (c) According to the receipts and issues posted to the stock books last time as at 05 November 2016 maintained in the Pelmadulla Office of the Medical Officer of Health, a shortage of 1,476,661 units of 14 items and an excess of 15,449 units of 3 items were observed as compared the stock computed by audit with the physical stock.
- (d) Although two Thripasha Packets should be distributed monthly among the registered pregnant mothers and breast-feeding mothers according to the Thripasha monthly beneficiary and stock report (M.B.1) of the office of the Medical Officer of Health of the Ratnapura Municipal Council, Thripasha had not been distributed among the registered pregnant mothers ranging from 3 per cent to 89 per cent and the breast-feeding mothers ranging from 29 per cent to 85 per cent relating to the examination of 11 months. However, according to the MB1 report, 83 packets had been disposed in the month of November 2016 due to expiration.

### 6.13 Provincial Road Development and Improvement

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Audit test checks carried out in respect of Provincial Roads constructed during the year under review under the Provisions of the Provincial Ministry of Road Development, Rural Infrastructure, Tourism and Sports and Youth Affairs observed the following weaknesses.

- (a) In the construction of Handagiriya Second access road of the Udawalawa National Park, 15 Km in length, the face and besides of the road should be arranged so as to flow down water beside the road by cleaning the jungle under direct labour basis, and the bills relating to the value of work done amounting to Rs.2,654,740 had been recommended by the Executive Engineer, Balangoda by 30 December 2016. However, according to the physical verification carried out on 05 January 2017 by auditors observed that the work of 2 km had been completed and only the jungle had been cleared partly besides the road, 6.9 Km in length. However, according to the recommended bills, a sum of Rs.1,332,780 for 349.08 machine hours had been paid for work not performed, in considering the machine hours performed as per bills and the machine hours to be used for the work actually completed.
- (b) Under the supervision of Embilipitiya Pradeshiya Sabha and under the covering besides the Komarika Concrete Road with gravels project with a view to protect and improve the space facilities, instead of pressing the road by using gravels, it had been filled with unapproved kind of earth. Further, a sum of Rs.1,941,490 had been paid for 1421.4 cubic meters of earth. At the physical verification observed that the earth actually used had been 1229.63 cubic meters and as such an over payment of Rs.261,939 had been made for 191.77 cubic meters of earth not used.
- (c) A total sum of Rs.424,778 had been paid for pressing besides the road by using approved type of earth in the projects for the development of Ihala Ardoluwa road and Pahala Ardoluwa road and the Miriswelpatha Pasal road by embedding with asphalt, constructed under the supervision of the Pradeshiya Sabha, Embilipitiya. At the site inspection carried out in respect of this work which had been completed observed that such work items had not been done. Furthermore, although the payment had been made for 400 m. of length in the above Miriswelpatha Pasal Road, the actual length of that road had been only 375 meters, as per physical verification. Accordingly, a sum of Rs.121,142 had been paid for 25 meters not performed.
- (d) In the Project for the improvement of Mulediyawala Jayaweera road, Malapalawa Dangahayaya road and Nindagampalassa road across the Buruthakanda tank under the supervision of Embilipitiya Pradeshiya Sabha, a sum of Rs.163,937 had been paid for making roads by pressing besides the concrete slab using approved type of earth. At the physical verification of this work which had been completed observed that such work item had not been performed. Further, the physical verification observed that the construction standard could not be satisfied in audit although a sum of Rs.1,893,002 for

the Malapalawa Dangahayaya road and a sum of Rs.1,447,763 for the Development of Nidagampelassa road across the Burutha Kanda Tank had been spent.

- (e) In the Gangeyaya Ela addara road 206.4 meters in length belonging to the Embilipitiya Pradeshiya Sabha which had been improved by concreting by the Provincial Ministry of Road Development, Rural Infrastructure, Tourism, Sports and Youth Affairs, 34.1 meters in length had been constructed within a private land with only one house by incurring a sum of Rs.286,508.

#### **6.14 Bank Reconciliations**

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The following matters were observed.

- (a) Action in terms of Sabaragamuwa Provincial Financial Rule 283.4 in respect of 134 cheques totalling Rs.7,176,904 issued by bank accounts of various institutions under the Provincial Council but not presented for payments and lapsed for more than 6 months had not been taken. The follow up action had also not been taken in respect of 33 deposits totalling Rs.185,664 unrealised and lapsed for more than 6 months.
- (b) The unidentified debits relating to 3 bank accounts and the unidentified credits relating to 6 bank accounts totalled Rs.98,270 and Rs.770,004 respectively.

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

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#### **7.1 Audit and Management Committees**

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One Ministry and one Department had held 2 meetings each and 25 Ministries/ Departments had held 3 Audit and Management Committee Meetings each during the year under review.

#### **7.2 Procurement Plan**

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A Procurement Plan had not been prepared for the year by the Chief Ministry.

#### **7.3 Observations on Unresolved Audit Paragraphs**

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The following matters were observed.

- (a) After the examination of incurring a loss of Rs.7,961,213 to the Council Fund as a result of discrepancies taken place in the purchase of computers to the Mahindodaya Technology Laboratories included in the Auditor General's 2014 report by the Committee on Public Accounts held on 04 October 2016, it was emphasized that in addition to the enquiries carried out by external institutions a formal internal inquiry

should also be conducted. Nevertheless, action had not been taken in accordance with that directive even by 15 June 2017.

- (b) Action had not been taken to rectify the errors stated in 100 audit paragraphs relating to 8 Ministries/ Departments included in the reports of the Auditor General for 12 years from 2001 to 2012, discussed at the Provincial Committee on Public Accounts.

## **8. Systems and Controls**

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Weaknesses in Systems and Controls observed in audit had been brought to the attention of the Chief Secretary and the Heads of Institutions of the Sabaragamuwa Provincial Council from time to time. Special attention is needed in respect of the following areas of systems and control.

- (a) Accounting and Financial Control
- (b) Revenue Administration
- (c) Assets Management
- (d) Human Resources Management
- (e) Contract Administration
- (f) Execution of Projects
- (g) Schools Management
- (h) Hospitals Management