

Eastern Provincial Council - 2017

The audit of Financial Statements of the Eastern Provincial Council for the year ended 31 December 2017 comprising the Statement of Financial Position as at 31 December 2017 and Statement of Financial Performance and Statement of Cash Flows 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 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

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 judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Provincial Council's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Provincial Council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and 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 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 Eastern Provincial Council as at 31 December 2017 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

2.2.1 Accounting Deficiencies

The following accounting deficiencies were observed.

- (a) Stamp duties and court fines aggregating Rs. 460,280,477 collected by the Provincial Council during the year under review on behalf of Local Authorities had been shown in the financial statements as revenue instead of showing as

liabilities. As a result, the surplus for the year under review had been overstated by understating the liabilities in similar amount.

- (b) The Provincial Council had not disclosed the contingent liabilities in the financial statements in respect of 41 court cases instituted by third parties against the Provincial Council.
- (c) Sums aggregating Rs. 44,964,782 in respect of railway warrants payable by Zonal Education Office, Kalmunai to the Department of Railways for the period of 2004 to 2015 had not been shown under liabilities in the statements of financial position. Further, payables for the years 2016 and 2017 in this regard had also not been disclosed in the statements of financial position due to lack of information received from the Department of Railways.
- (d) Although the non-current assets of the Provincial Council as at the end of the year under review stood at Rs. 7,056,523,854, no proper records and subsidiary ledgers were maintained to support and verify the accounting figures in the financial statements.

2.3 Non-compliance with Provisions of Laws, Rules and Regulations

Instances of non-compliance with the following provisions in Laws, Rules and Regulations observed during the course of audit are given below.

Reference to Laws, Rules and Regulations	Non-compliance
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(a) Financial Regulations (FR) of the Government of the Democratic Socialist Republic of Sri Lanka

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| (i) FR – 138 | Payment for 86 vouchers totalling Rs. 1,905,703 for the year under review had been made by the Provincial Public Service Commission without the certifications of the Certifying Officer. |
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(ii) FR - 237(B) Regional Department of Health Services, Trincomalee and Department of Rural Development had paid a sum of Rs. 1,150,000 and Rs. 725,100 respectively to the suppliers without receiving items purchased.

(iii) FR – 396 Two cheques amounting to Rs. 3,532,986 drawn and issued by the Office of the Regional Director of Health Services, Trincomalee from August 2016 to May 2017 in favour of suppliers had not been encashed even up to 30 June 2018.

(iv) FR – 571 Action had not been taken in respect of lapsed deposits aggregating Rs. 16,052,213 relating to a Ministry and 06 Departments existed over 02 years.

(v) FR - 756 Board of Survey for the year under review in respect of 432 Provincial Schools had not been carried out even up to 30 June 2018.

(b) Provincial Financial Rules
(PFR) of the Eastern Province

(i) PFR 215 The unused balance of Imprest should be returned to the Provincial Treasury in the first working day of the next financial year. However, imprest balance of 02 Provincial Departments aggregating Rs. 18,907,219 had not been settled to the Provincial Treasury even up to 30 June 2018.

(ii) PFR 326.2

Consolidated Fixed Assets Utilization Statements of the Provincial Council as at the end of the year 2017 should have been presented to the Auditor General on or before 30 April 2018. However, this statement had not been prepared and presented by the Provincial Council even up to 30 June 2018.

(c) Sections 10(1) and (2) of Chapter - VII of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.

181 teachers in Kinniya, Batticaloa Central and Kalmunai Educational Zones had not been paid annual salary increments for a period ranging from 02 to 11 years.

3. Revenue Management

According to the information made available for audit, the total income collected during the year under review and previous 04 years are given below.

Particulars -----	For the year ended 31 December (Rs. Million)				
	2017 -----	2016 -----	2015 -----	2014 -----	2013 -----
Tax Income	3,178	2,896	2,347	2,181	1,860
Non- tax Income	446	421	358	320	288
Total	----- 3,624 =====	----- 3,317 =====	----- 2,705 =====	----- 2,501 =====	----- 2,148 =====

The following observations are made in this regard.

(a) According to the Revenue Estimate prepared by the Provincial Council for the year 2017, the estimated revenue from sundries amounted to Rs. 7,000,000. However, a sum of Rs. 281,437 representing 04 per cent of the estimated revenue had only been collected during the year under review.

- (b) A sum of Rs. 311,351,736 collected by the Provincial Council on fines imposed by the Courts in terms of Statutory Provisions and the Stamp Duties Imposed relating to transfer of properties had been retained in the saving accounts of the Provincial Council up to 30 June 2018 without being remitted to the relevant Local Authorities.
- (c) The arrears of revenue totalling Rs. 466,231,688 had not been collected by the forty-five Local Authorities functioning in the Eastern Province as at 30 June 2018 from the major sources of income such as rates, rents, licenses and leases.
- (d) Assessment tax arrears on Government properties in Trincomalee district amounting to Rs. 8,104,020 was outstanding for more than 7 years. However, no action had been taken to recover this by the Trincomalee Urban Council even up to 30 June 2018.
- (e) Lease income for Government lands relating to 09 Divisional Secretariats totalling Rs. 273,080,657 had remained in arrears since the year 1991. However, prompt actions had not been taken to recover those arrears of income up to 30 June 2018.
- (f) Revenue collected by any Institution belongs to the Eastern Provincial Council should be remitted to the Provincial Fund in terms of Finance Statute No.1 of 2008 of the Eastern Provincial Council. However, such revenue aggregating Rs. 5,640,753 collected by the Institutions coming under the purview of the Chief Secretary's Secretariat from the various sources of income during the period of 2010 to 2014 had been retained in the Miscellaneous Deposit Accounts of the Provincial Treasury without remitting to the Provincial Fund.
- (g) Even though it has been 30 years after the establishment of the Provincial Council, a Statute had not been enacted in order to register the pawning centres operating in the Eastern Province and issue annual license in this respect. As a result, a considerable amount of revenue had been lost to the Provincial Council.

4. Financial Review

4.1 Financial Results

According to the financial statements presented, the operations of the Provincial Council for the year under review had resulted in a surplus of Rs. 2,434,433,298 as compared with the corresponding surplus of Rs. 1,613,477,971 for the preceding year, thus indicating an improvement of Rs. 820,955,327 in the financial results. Increase in stamp duty collection by Rs. 440,508,699 during the year under review as compared with the preceding year had mainly attributed for the improvement.

4.2 Analytical Financial Review

Recurrent Expenditure Vs Total Expenditure

Total expenditure of the Provincial Council for the year under review was Rs. 23,209 million and out of this, a sum of Rs. 22,052 million had been incurred for recurrent expenditure and it represented 95 per cent of the total expenditure. Out of the total recurrent expenditure, a sum of Rs. 17,794 million had been incurred for personal emoluments and it represented 81 per cent of the total recurrent expenditure and the corresponding recurrent expenditure for the preceding year amounted to Rs. 16,292 million and it represented 80 per cent of total expenditure for that year.

4.3 Operating Review

4.3.1 Performance

The following observations are made.

- (a) According to the Action Plan of the Provincial Public Service Commission for the year 2017, the Commission should conduct 13 Efficiency Bar (EB) examinations during the year under review for the officers of the Institutions coming under the purview of the Eastern Provincial Council. However, only 05 EB examinations had been conducted during the year under review.

- (b) According to the Housing Development Plan prepared for the period of 2015-2019 by the Provincial Housing Authority, it was expected to construct 6,000 houses for houseless families at a total estimated cost of Rs. 2,937 million during the year under review. However, no houses had been constructed during the year except providing housing assistance of Rs. 7,380,000 to 66 beneficiaries under the Provincial Specific Development Grant and building materials valued at Rs. 5,300,956 under Criteria Based Grant to 118 beneficiaries during the year under review.

4.4 Management Inefficiencies

The following observations are made.

- (a) Seventy-four teachers in the Sri Lanka Teacher's Service had not been confirmed in their service for a period ranging from 04 to 30 years contrary to the Service Minute of the Sri Lanka Teacher's Service Published in the Extraordinary Gazette No: 1885/38 of the Democratic Socialist Republic of Sri Lanka dated 23 October 2014. However, actions had not been taken to confirm them by the relevant authorities.
- (b) A vehicle attached to the Provincial Public Service Commission without vehicle insurance and annual revenue license had met with an accident on 04 June 2017. However, no inquiries were conducted to fix the responsibilities for failing to obtain insurance and revenue license. As a result, the vehicle had remained idle in the private garage without taking any action to repair it even up to 30 June 2018.
- (c) According to the mobile service conducted during the year under review by the Provincial Department of Revenue relating to the collection of stamp duty from the registration of lands at the Land Registry in the Eastern Province, it was revealed that 93 land owners had declared less value for their lands in order to pay less amount as stamp duty. Therefore, additional stamp duty aggregating Rs. 5,877,568 had been imposed for those undervalued properties. However, the Provincial Department of Revenue had not taken actions even up to 30 June 2018 to recover the above mentioned additional stamp duties from the land owners to whom they were imposed.
- (d) Nine thousand eight hundred and eighteen deeds registered in the Eastern Province during the period from 2012 to 2017 had not been subjected to assessment in order to verify and impose additional stamp duty due to under-valuation of lands.

- (e) Only the Chairman of the Council is entitled to receive payments for his post even after the dissolution of the Provincial Council in terms of Section 7(2) (c) of the Provincial Councils Act No. 42 of 1987. However, the Provincial Council had paid a sum of Rs. 1,045,112 to the personal staffs of the Chairman for the months of October and November 2017 even after the Provincial Council was dissolved on 30 September 2017. As a result, a sum of Rs. 1,045,112 had been over paid by the Council.
- (f) In terms of Circular No. 2/2011 dated 24 February 2011 of the Director General of Pensions, contributions of the casual and temporary employees should be remitted to the Public Services Provident Fund. However, such contributions relating to 77 and 73 employees of Kattankudy and Eravur Urban Councils respectively appointed during the years 2015, 2016 and 2017 had not been deducted from their salaries.
- (g) Staff loan balances of 09 Provincial Departments aggregating Rs. 1,595,036 had remained unrecovered for a period ranging from 2 to 13 years. However, necessary actions had not been taken to recover these outstanding balances.
- (h) Out of an estimated cost of Rs. 195,000,000, a sum of Rs. 74,752,383 had been spent for the construction of the Public Library Building for the Batticaloa Municipal Council during the years from 2011 to 2013. However, the Council had not taken actions to complete the construction work for more than 4 years. As a result, no opportunities to use the library facilities and the estimated cost of completing the balance works had also been increased from Rs. 195,000,000 to Rs. 207,000,000 by 06 per cent.
- (i) A four-wheel tractor valued at Rs. 600,000 donated to the Kattankudy Urban Council in 1992 had been used up to 31 December 2014 and the Council had spent a total sum of Rs. 315,203 during the year 2012 to repair this tractor. However, it had been sold on auction only for Rs. 16,150 by the Secretary to the Council on 02 July 2016 without considering the conditions pointed out in the Public Finance Circular No. 02/2015 dated 10 May 2015.
- (j) The Kattankudy and Eravur Urban Councils had appointed 150 employees on contract basis during the years 2015, 2016 and 2017 based on the request made by the then Chief Minister, Eastern Province without obtaining prior approval from the Department of Management Services and the approval for allocation of funds in terms of Public Administration Circular No. 25/2014 dated 12 November 2014 even though

the approved cadre had already exceeded by 49 officers. Further, 58 employees including 28 casual employees had been assigned for five Libraries and four reading rooms maintained by the Councils even though the approved cadre for those libraries and reading rooms was 14.

- (k) A Computer Resource Centre at Zonal Education office, Akkaraipattu had not been functioning since 01 October 2015 due to outdated computers. As a result, the teachers and students had lost the opportunities to complete IT courses and training facilities from this Centre and the furniture and equipment had remained idle for more than 02 years due to the non-functioning the Centre.
- (l) Even though the Chairman has no authority to hand over the lands belonging to the Trincomalee Urban Council to the private sector, lands in extent of 3,212 perches belonging to the Council had been handed over to 576 persons by the then Chairman of the Council in the year 2008.
- (m) Out of forty-two computers provided by the Ministry of Education to the Technological Building of a School in Karaithivu of Kalmuani Zonal Education Office, 08 computers were fully damaged and rest of the computers had been partly damaged due to the exposure to sea breeze and the building is also located at 208 metres distance from the sea.
- (n) The Provincial Treasury had received an insurance claim of Rs. 1,500,000 in respect of a vehicle belonging to the Provincial Ministry of Road Development on 15 March 2016. However, this amount had been credited to the provincial revenue on 11 December 2017 without being utilized for the repair of the above vehicle. As a result, the vehicle had remained idle since 15 March 2016.
- (o) Out of 06 Commercial Advance Account Activities, 03 Commercial Advance Account Activities were not in operation for more than 08 years. However, actions in terms of Provincial Financial Rule No. 286 had not been taken to wind up those 03 Commercial Advance Account Activities.

4.5 Operating Inefficiencies

The following observations are made.

- (a) According to Section 7.2.4.1 of the Service Minute of the Sri Lanka Teachers' Service No. 1885/38 dated 23 October 2014, the candidate should obtain minimum 40 marks in both Aptitude Test and General Knowledge subjects in addition to other qualifications for the appointments in Class 3 Grade I(a) of the Sri Lanka Teachers' Service. However, the Provincial Public Service Commission (PPSC) had appointed 180 candidates who failed to obtain more than 40 marks in the written examination conducted by PPSC.
- (b) According to Section 7.2.4 of the Service Minute of the Sri Lanka Teachers' Service No. 1885/38 dated 23 October 2014, the recruitment to the Teachers' Service in Class 3 Grade I(c) of the Sri Lanka Teachers' Service should be made based on the written competitive examination and practical examination. However, 314 teachers had been appointed on 27 November 2017 and in the month of March 2018 based on viva voce examination to teach English at schools without conducting written competitive examinations contrary to the above Service Minute.
- (c) According to Section 02 of the Circular No. 16/2010 dated 23 April 2010 of the Ministry of Education, the question papers for a term examination should be prepared by the Schools. However, the Principals' Associations of Kinniya and Batticaloa Central Zones had prepared 2nd and 3rd term exam examination papers by collecting a sum of Rs. 4,017,700 from the students and earned a sum of Rs. 474,593 in excess over expenditure during the year under review contrary to the Ministry's instructions.
- (d) A Sewerage Treatment Plant had been constructed at a cost of Rs. 4,044,907 in the year 2014 with a view to purifying the dirty water and to releasing it to the environment. However, the essential work of the plant, which is laying coir had not been done. As a result, the dirty water had been released to the environment through the Plant without being purified. Therefore, the objective of preventing the environmental pollution by the dirty water had not been fulfilled by this Plant and the expenditure incurred therefor had become fruitless.

- (e) Sixty-three teachers had been appointed as ISAs and ADEs in the Zonal Education Offices, Kinniya and Batticaloa Central in excess of the approved cadre without considering the shortage of teachers in the Schools.
- (f) According to Section 13.3 of Chapter II of the Establishments Code of the Government of the Democratic Socialist Republic of Sri Lanka, an acting appointment should be made as a temporary measure and until a substantive appointment is made. However, twenty-two officers belonging to All Island Services had been appointed on acting basis to cover the vacancies in those posts without taking action for more than six months to appoint permanent officers to fill such vacancies.

4.6 Identified Losses

Even though the Department of Valuation had valued the monthly rental of the library building as Rs. 125,000, the Kattankudy Urban Council had rented out this building to a private educational Institution on a monthly rental of Rs. 5,000 for a period of 04 years. As a result, the Council had lost the rent income of Rs. 4,755,000.

4.7 Transactions of Contentious Nature

The following observations are made.

- (a) Eastern Provincial Council is liable to pay a sum of Rs. 87,422,148 to a private contractor as a compensation for the construction of Provincial roads in the Eastern Province under the World Bank Funded Project. Further, the Provincial Council had incurred an additional sum of Rs. 6,680,171 out of the Provincial Funds to pay legal fees for several lawyers for the arbitration process without settling the matters during the Project period.
- (b) According to 13th Amendment to the Constitution and the Provincial Councils Act No. 42 of 1987, there were no provisions for the post of Leader of the House and Leader of the Opposition in the Provincial Council. However, the Council had created such posts and paid allowances aggregating Rs. 1,172,525 for the year under review.

- (c) A sum of Rs. 4,201,942 had been over paid to the contractors for the works not performed by the contractors in respect of construction of a two storeyed class room building and two storeyed Laboratory and Library building at Karuvapenkerny Vipulananda Vidyalaya of Batticaloa Zonal Education Office.

4.8 Utilization of Funds

The following observations are made.

- (a) Stamp duties collected by the Provincial Council on behalf of the Local Authorities had been kept in the Bank Account for over 08 years without remitting to the relevant Local Authorities. As a result, funds at the range of Rs. 12 million to Rs. 62 million had remained idle at the Bank Account during the period from the year 2010 to 2017.
- (b) The entire net provisions aggregating Rs. 38,231,216 made through Annual Estimates for the year 2017 under 24 Items of Capital Expenditure of 09 Heads of Ministries and Departments had remained as unspent without utilizing for the development activities of the Province.

4.9 Idle and Underutilized Assets

The following observations are made.

- (a) A ferry used for passenger transport services between Kinniya and Trincomalee had been brought to Kattankudy in 2012 by incurring a cost of Rs. 323,550 to use for transport service from Kattankudy to Kokkadicholai and the Divisional Secretariat, Kattankudy had also spent a sum of Rs. 489,500 to repair this ferry. However, it had remained idle up to 30 June 2018.
- (b) The Eastern Provincial Road Passengers Transport Authority had purchased 13 Point of Sales (POS) connected with General Packet Radio Service (GPRS) system and 2000 ticket rolls on 08 June 2015 at a cost of Rs. 1,142,000 in order to record the arrivals and departures of private buses to the bus terminals. However, those items had not been used for 03 years for the intended purposes due to the lack of proper software system to operate the machines.

- (c) Out of 299 trade stalls belonging to the Trincomalee Urban Council, 90 stalls were remained idle since the year 2011 without being rented out. As a result, a revenue approximately Rs. 2,000,000 had been deprived to the Council.
- (d) According to the Circular No.01/08 dated 12 January 2018 of the Ministry of Healthcare and Nutrition, the unused vehicles of a Department should not be remained in the official premises of the Department. However, 15 vehicles of Provincial Department of Health Services had remained in the premises of Regional Medical Supply Division of Trincomalee for the period ranging from 02 to 84 months without taking actions to repair or auction these vehicles.
- (e) There were no Dialysis Units at Base Hospitals of Nintavur and Valaichenai due to lack of reported Chronic Kidney Disease (CKD) patients. However, the Provincial Department of Health had procured equipment for dialysis treatment at a cost of Rs.18,555,000 and the medical drugs amounting to Rs. 6,147,426 for those hospitals without considering the needs. As a result, such equipment were remained idle from 22 March 2017 up to date. Furthermore, 02 x-ray machines issued to the Base Hospitals, Pottuvil and Thirukovil at a cost of Rs. 4,899,000 had remained idle for a period ranging from 01 to 05 years due to lack of suitable Technicians.
- (f) Four hundred and twenty-four solid waste disposal containers purchased by Trincomalee Urban Council at a cost of Rs. 1,859,500 had remained idle for a period ranging from 01 to 02 years without being utilized for the intended purposes. In this regard, the Chief Secretary informed that 182 containers were already been distributed and rest of 242 containers will be distributed in the future.
- (g) Installation of an Incinerator with a view to burning the hazardous waste disposed from hospitals at the Weeranagar area of the Trincomalee Urban Council had been commenced in the year 2015 and completed in the year 2017. The expenditure incurred thereof was amounted to Rs. 4,230,155. However, this Incinerator remains idle at present due to failure in obtaining electricity to operate it. As a result, the hazardous waste of hospitals is being disposed to the open land of Kanniya in Trincomalee district.
- (h) Furniture and equipment purchased at a cost of Rs. 3,542,364 million for the use of Tourism Bureau of the Eastern Province had remained idle for a period ranging from 01 to 03 years due to non-operation of the Bureau.

- (i) Sixty-four computers had been provided to a Mahindodaya Technology Laboratory of a school in Zonal Education Office, Kalmunai, which having only 92 students. As a result, 32 computers with accessories had remained idle without being utilized for the intended purposes since 13 November 2014.
- (j) A two storeyed Teachers Quarters constructed and donated by an NGO on 24 August 2007 to a School in Karaithivu of Kalmuani Zonal Education Office had remained idle without being utilized for the intended purposes since the date of construction.
- (k) Twenty-four computers and accessories and 10 computer chairs received by two Schools in Kinniya Zonal Education Office had remained idle for more than 07 years.
- (l) A three storied building had been constructed at a cost of Rs. 9,539,091 for Road Development Department to establish their Executive Engineering Office at Muthur in 2015. However, this building had remained idle up to now without utilizing it for the intended purposes.

4.10 Contract Administration

The following observations are made.

- (a) North East Local Services Improvement Project (NELSIP) had provided a sum of Rs. 40 million in 2013 to construct a two storied office building for the Eravur Urban Council. However, the original design and estimate prepared and approved by the NELSIP for this building had been rejected by the Council and prepared another design and a structural plan to construct a three storeyed building at a total cost of Rs.110 million and entire funds allocated by the NELSIP had been used to award a separate contract for the construction of ground floor. In this regard, the following matters were also observed.
 - (i) The Ministry of Local Government and Provincial Councils had agreed to provide a sum of Rs. 70 million for this construction and released a total sum of Rs. 35 million in 03 instances from 2013 to 2016. However, the Council had prepared three separate estimates for each instance and awarded three contracts without awarding one contract in order to avoid obtaining approval from the Cabinet Appointed Procurement Committee.

- (ii) The above Ministry released a further sum of Rs. 21 million in 2017 to carry out the balance works of this building. The Council had prepared another estimate and BOQ for this purpose and selected a contractor without following the procurement procedure. However, the contractor had not claimed even a single amount up to 13 September 2017 even though the relevant construction works had been completed on 19 August 2017.
- (iii) The Council had to award another contract to complete the entire construction works even though a total sum of Rs. 89,465,726 had been spent up to now for the total floor area of 1,683 square meters of this building.
- (iv) This building had been considered as an unauthorized building due to not obtaining prior approval from Urban Development Authority, Road Development Authority and Central Environmental Authority. As a result, the Council would have to pay penalty when the relevant authorities take legal action in this regard. The Deputy Chief Secretary (Engineering Services) is the authorized officer for supervision of this construction works and certifying the bills. However, an Engineer attached to the Zonal Education Office, Batticaloa had been assigned for this purpose with the instruction of the then Chief Minister of Eastern Province.
- (b) The Eastern Provincial Council had given approval for the construction of four storeyed office building complex for Council Secretariat at the premises of Chief Secretary's Secretariat, Varothayanagar at a total cost of Rs. 250.8 million without obtaining approval from the Cabinet Appointed Procurement Committee in terms of Supplement-33 of the Procurement Guidelines – 2006 issued on 15 March 2017.
- (c) A construction of a three storeyed building for technical and counselling unit of a School in Eravur awarded at a cost of Rs. 18 million had been carried out without obtaining prior approval from the Urban Development Authority (UDA) and Road Development Authority (RDA) due to location of this building comes within 12 metres from the Centre line road of RDA and within 4.9 metres from the Centre line of the road of the Eravur Urban Council. As a result, this building would be considered as an unauthorized building due to non-obtaining the prior approval from the above authorities and the Provincial Council would have to pay penalty when the relevant authorities take legal action in this regard.

- (d) Even though the construction works of the Provincial Council Secretariat with a total cost of Rs. 149,880,000 should have been completed on or before 30 May 2016 as per the extension granted, the contractor had failed to complete the construction works within this period. However, the Provincial Council had not taken action to encash the performance bond amounting to Rs. 2,808,000 on or before 04 November 2016 due to the delays in the construction. Further, Liquidated Damages (LD) amounting to Rs. 1,305,491 for the delays of 93 days in completion of the works had not been recovered.
- (e) The Provincial Ministry of Education had awarded a contract at a cost of Rs. 23.6 million for the construction of a Technological Faculty building at a school in Kinniya Zonal Education Office for the use of 66 students. However, the contractor had failed to complete the construction works even up to 23 March 2018. As a result, the Technological Faculty students had completed only 10 study practicals out of 66 compulsory practical trainings. As a result, the equipment such as 01 Tissue Culture Rack, 04 Inoculating Needle, 01 Seri Bead Sterilizer and 01 Distillation Unit issued to the above Technological Faculty had remained idle in the School without being utilized by the students.
- (f) A two storeyed building had been constructed at a cost of Rs. 11,145,438 across the Canal in a School in Kattankudy of Batticaloa Central Zone to accommodate 459 primary education students based on a deed executed bogusly for a canal in the name of the School without considering the environmental impacts of blocking of water in the Canal and without obtaining prior approval from Urban Development Authority and Central Environmental Authority. As a result, water flow in the Canal had been clogged and stagnated and it had become a breeding place for mosquitos.
- (g) The Ministry of City Planning and Water Supply had agreed to provide funding to construct a three storeyed market complex at a total cost of Rs. 193 million for Eravur Urban Council and the Chief Secretary, Eastern Province had entered into an agreement with a construction company during the year 2016 to construct this market complex at a contract value of Rs. 99,939,468. This complex is being constructed on a land obtained by the Council on lease basis for a period of 33 years from two mosques in Eravur for a total lease payment of Rs. 22.28 million. However, the Council had obtained funds from the above Ministry for this construction by stating that the Urban Council Eravur is the owner of the land on which this building is being constructed.

- (h) The Provincial Department of Buildings had prepared a design to construct a Cultural Hall with Library building complex for Eravur Urban Council on a land not legally owned to the Council. However, the Council had rejected this design and prepared another design at the total cost of Rs. 117 million. In this regard, the following matters were observed.
- (i) The Ministry of City Planning and Water Supply had agreed to provide funding for the above works. However, the Council had failed to prepare a single estimate for the entire building to award a contract to a particular contractor.
 - (ii) The above Ministry had released a sum of Rs.20 million during the year 2016. However, this amount had been used to award a separate contract for the construction of a portion of ground floor of this building.
 - (iii) Even though the ground floor had not been completed up to 04 September 2017, the Council had prepared forged documents such as BOQ, measurement sheet and works completion report and certified by the Engineer of the Zonal Education office, Batticaloa stating that the entire works had been completed before 31 December 2016.
 - (iv) The Council had made payment to the contractor for supplying and filling of 988.80 cubic meter of earth even though the contractor had actually supplied and filled 400.42 cubic meter of earth. As a result, a sum of Rs. 1,176,760 had been overpaid to the contractor.
 - (v) The contractor had carried out 66.04 cubic meter of thick flooring. However, payment had been made for 93.75 cubic meter of thick flooring. As a result, a sum of Rs. 387,980 had been over paid to the contractor.
 - (vi) This construction is being carried out without obtaining prior approval from the Road Development Authority, Urban Development Authority and Central Environmental Authority.
- (i) The Road Development Department of the Eastern Provincial Council had awarded contract for the construction of Linganager road in the year 2017 at a contract value of Rs. 4,756,024. The following observations are made in this regard.
- (i) Even though National Competitive Bidding or Limited National Competitive Bidding procurement method should have been followed for this type of

construction works, the Department had followed Shopping method for this procurement. As a result, the Department had to award the above contract based on only one substantially responsive bidder instead of lowest evaluated substantive responsive bidder.

- (ii) According to Section 1.4 of the Bill of Quantities (BOQ), 130 mm concrete layer to the value of Rs. 3,267,641 should be constructed by the contractor. However, average of 101.5 mm concrete layer was used in the Core Drilling test. As a result, Department had overpaid a sum of Rs. 614,498 to the contractor.
 - (iii) According to the completion report, construction of the above road had been completed except the item No. 02 of the BOQ at the value of Rs. 102,065. However, the Department had failed to encash the performance bond amounting to 217,140 to cover any losses on works not done by the contractor.
- (j) According to the Clause 2.3.2 of the Procurement Guidelines, Technical Evaluation Committee (TEC) should be formed as soon as Procurement Committee (PC) formed by the Department and TEC should support to prepare the Bid documents to the PC. However, TEC had not been formed by the Department of Rural Industries for the procurement of yarn and dye at the value of Rs. 4,162,808 during the year under review.
- (k) The Road Development Department had awarded contract for the construction of Amaravayal Thennamaravady Road in the year 2012 at the contract value of Rs.219,937,500. The following observations are made in this regard.
- (i) According to the final Bill, 150mm ABC layer at a value of Rs.39,142,740 (6,523.79 cubic meters ABC) and 150 mm concrete layer at a value of Rs. 4,500,000 should be constructed by the contractor. However, average of 93.33 mm ABC layer (3,461.58 cubic meters of ABC) and average of 118.75mm concrete layer had been observed in the Core Drilling test. As a result, the Department had overpaid a sum of Rs. 19,149,240 to the contractors.
 - (ii) The Provincial Department of Road Development had paid a sum of Rs.73,059,981 to a contractor to construct 50 millimeter Asphalt Concrete Layer at Amaravayal Thennamavaradi road in Trincomalee district. However, a sum of Rs. 64,611,197 had to be paid to the contractor for the construction of only 41.67 millimeter layer. As a result, a sum of Rs. 8,448,784 had been over paid to the contractor in this regard.

- (l) The Department of Buildings had awarded a contract to a private contractor to construct District Agriculture Extension Delivery Center at Mahaoya under the Provincial Specific Development Grants in 2017 at a contract value of Rs. 10,405,053. According to the payment bills, a sum of Rs. 402,470 had been paid to the contractor for 1,749.872 kg of 10 mm Tor steel bar. However, the contractor had used only 1,629.979 kg of Tor steel bars. Therefore, the Department had overpaid a sum of Rs. 27,575 to the contractor.

4.11 Human Resources Management

The following observations are made in this regard.

(a) School Staff

- (i) There were 518 excess teachers at the Zonal Education Offices of Kalmunai, Sammanthurai, Batticaloa and Paddirupu whereas, there were 1394 vacancies in the Zonal Education Offices of Akkaraipattu, Batticaloa Central, Batticaloa West, Kalkudah, Kinniya, Muthur and Trincomalee within the Eastern Province. However, actions had not been taken to implement a proper scheme of transfers to address shortages and excesses within the Province.
- (ii) According to Section 06 of the Ministry of Education Circular No. 1998/23 dated 06 July 1998, Performing Principals may be appointed for until qualified Principals are appointed. However, 255 teachers in the Sri Lanka Teachers' Service had been deployed as Performing Principals in the Schools of Eastern Province without considering the newly recruited 215 officers for the Principals' Service.
- (iii) According to the Ministry of Education Circular No. 2007/20 dated 13 December 2007, transfers should be given to the teachers who had continuously served for more than 08 years in a particular school. However, 523 teachers in the Sri Lanka Teachers Service, 24 Principals had remained in the same school for a period ranging from 10 to 18 years without being transferred to suitable schools even up to 15 April 2018.

- (iv) Even though the Provincial Director of Education could transfer teachers from National to Provincial Schools and vice versa on a temporary basis up to 03 months, 22 teacher attached to the National Schools and 06 teachers attached to the Provincial Schools had been deployed in Provincial Schools and Central Schools respectively for a period of more than 02 years.
- (v) Twenty-nine primary teachers appointed to the Schools in Kalmunai Educational Zone had been engaged in teaching for secondary level without considering the shortages for 98 primary teachers in Kalmunai Zone.
- (vi) Eleven teachers who had obtained training for teaching special education subjects in Kalmunai and Batticaloa Central Educational Zones had been deployed in non-special education without deploying them in the relevant schools even though there were shortages for 19 special education teachers in Kalmunai Educational Zone.

(b) Staff in the Health Sector

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- (i) Number of excess Nursing Officers and Public Health Midwife as at 31 December 2017 stood at 32 and 23 respectively in the Kalmunai and Trincomalee Region whereas shortages of Nursing Officers and Public Health Midwife stood at 08 and 31 respectively in the Batticaloa and Ampara Region. However, proper action had not been taken to transfer the excess staff to fill the vacancies prevailed in the Batticaloa Region.
 - (ii) Even though there were 10 vacancies for officers such as Dental Doctor, Nursing Officers, Attendant and Public Health Midwife at Sampur Divisional Hospital in Trincomalee district, 03 officers had only been appointed to those vacancies.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of Section 258(3) of the Provincial Financial Rules (PFR), the Financial Statements of the Provincial Council Fund for a financial year should be rendered to audit on or before 31 March of the following year. However, the financial statements of the Provincial Council Fund for the year under review were presented to audit only on 01 May 2018 after the delay of 30 days.

5.2 Presentation of other Financial Statements

The following observations are made in this regard.

- (a) Progress relating to the presentation of other Financial Statements of the Provincial Council for the year under review as at 18 April 2018 is given below.

Type of Account	Total number of accounts	Number of accounts presented	Number of accounts not presented as at 18 April 2018
(i) Appropriation Accounts	34	32	02
(ii) Revenue Account	01	01	-
(iii) Advances to Provincial Public Officers Accounts	34	32	02
(iv) Commercial Advance Accounts	06	01	05
(v) Fund Account	02	01	01
(vi) Statute Accounts	03	01	02
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Total	<u>80</u>	<u>68</u>	<u>12</u>

- (b) The Financial Statements of the Pre-school Education Bureau of the Eastern Provincial Council for the year 2017 had not been submitted to audit even up to 30 June 2018 in terms of Section 9 (2) of the Bureau of Pre-school Education of Eastern Province Statute No. 1 of 2010. Further, the Financial Statements of the Bureau for the year 2016 had been submitted for audit only on 07 June 2018 after a delaying fifteen months.

(c) The Financial Statements of the Governor's Trust Fund of the Eastern Province for the years 2013 - 2017 had not been submitted for audit in terms of PFR 258.3 as a result of failure to amend the Governor's Memorandum as to enable to furnish the financial statements for audit.

(d) In terms of Provincial Treasury Circular No. PT/01/2018 dated 08 January 2018, Appropriation Accounts should be submitted for audit before 31 March 2018. However, the Provincial Department of Education had submitted the Appropriation Accounts for audit only on 04 June 2018 after a delaying two months.

5.3 Sustainable Development Goals

According to the Sustainable Development Goals Act No. 19 of 2017, all state Institutions endeavoring to achieve the Sustainable Development Goals should identify the targets to be achieved, the gaps in achieving those goals and the indicators suitable for measuring the programme. However, 34 Provincial Institutions coming under the purview of Eastern Provincial Council had not identified relevant goals and targets during the year under review. Furthermore, it was observed that level of knowledge acquired by those Institutions regarding the Sustainable Development Goals to be achieved by 2030 were not in satisfactory level.

5.4 Environmental Protection

According to the Environmental Act, No.47 of 1980, Environmental Protection Licenses should be obtained by enterprises such as Filling Stations, Cement Manufacturing Industries, Carpentry Shops, Garages and Rice Mills. However, Trincomalee Urban Council had issued licenses to 109 such enterprises without obtaining Environmental Protection Licenses.

5.5 Action Plan

Two Provincial Ministries, Nine Provincial Departments and three Statutory Institutions functioning under the Provincial Council had not prepared Action Plans for the year under review.

5.6 Audit and Management Committee

The Audit and Management Committee should meet at least once in a quarter in terms of paragraph 06 of the Management Audit Circular No.DMA/2009(1) dated 09 June 2009. However, 10 Provincial Departments had not conducted 04 meetings of the Audit and Management Committee during the year under review.

5.7 Procurement Plan

Eight Departments and three Statutory Institutions coming under the purview of the Provincial Council had not prepared Procurement Plan for the year 2017 in terms of Section 4.2 of Government Procurement Guidelines- 2006.

5.8 Internal Audit

According to the Action Plan of the Department of Provincial Audit for the year under review, the Department should have carried out 429 audit inspections in 34 Institutions during the year under review. However, 278 audit inspections had only been carried out during the year under review even though a sum of Rs. 20,237,323 had been spent by the Department during the year under review. Further, the Department had failed to carry out audit inspections with regard to the activities of 18 Institutions of the Eastern Provincial Council.

5.9 Un-resolved matters pointed out in the Previous Audit Reports

- (a) Providing consultancy services to the Provincial and Central Government institutions in the Eastern Province is one of the key functions of the Provincial Department of Buildings. However, a sum of Rs. 6.3 million received as consultancy fees from the District Secretariat, Batticaloa during the years 2016 and 2017 on behalf of providing consultancy services for the construction of office building had been appropriated among twenty-one officers of the Eastern Provincial Council including Chief Secretary, Deputy Chief Secretary, Engineering Services and Director, Department of Buildings without remitting to the Provincial Treasury. Subsequently, the District Secretariat, Batticaloa had terminated the contract awarded to the Department of Buildings due to lack of specialists in the Department to carry out this kind of consultancy works and as such the construction of office building had delayed for more than two years
- (b) Sixty-eight paid vouchers to the value of Rs. 2,106,258 relating to the financial year 2013 and forty-four paid vouchers to the value of Rs. 3,253,657 relating to the financial year 2014 had been lost at Kinniya Pradeshiya Sabha. However, no action had been taken even up to the date of this report to notify the loss of paid vouchers to the Provincial Treasury through the Chief Accounting Officer with a copy to the Auditor General.
- (c) The Provincial Council had granted loans aggregating Rs. 4,600,000 to the Members of the Provincial Council during the years 2010 and 2011 without obtaining adequate sureties and a sum of Rs. 1,219,157 had to be recovered from them as at 30 June 2018. However, legal actions thereon had not been taken to recover the loans.
- (d) Ex-members of the Provincial Council had obtained 37 laptops and 37 fax machines during the period from 2008 to 2011 and out of them 12 laptops and 12 fax machines had been returned back to the Provincial Council after the dissolution of Council on 27 June 2012. However, the balance 25 laptops and 25 fax machines valued at Rs. 4,524,250 had not been returned back even up to 30 June 2018. However, no actions had been taken even up to 30 June 2018 in this regard.
- (e) A sum of Rs. 2,000,000 had been paid as an advance to the former Secretary to the Chief Minister to conduct Korean language classes for unemployed youths during the year 2008. However, the above mentioned classes had not been conducted as envisaged and the advance paid had not been settled even up to 30 June 2018.

- (f) The Pradeshiya Sabha, Thambalagamam had issued receipt books to the Revenue Collection Officers in order to collect Rates and Taxes. However, cash collected by those officers during the years 2013 and 2014 relating to nine receipt books had not been handed over to the Sabha. Subsequently, only a sum of Rs. 160,900 relating to two receipt books out of nine receipt books, had been handed over to the Sabha by the above mentioned officers. However, the Sabha had not taken disciplinary action against the officers involved in the fraudulent activities.

6. Systems and Controls

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

Areas of Control -----	Observations -----
(a) Accounting	Failed to make required disclosure in the financial statements.
(b) Utilization of Assets	(i) Failed to conduct the Boards of Survey on time and implement the recommendations made by the Boards of Survey (ii) Actions to be taken to utilize the idle assets for the intended purposes.
(c) Revenue Administration	Fruitful recovery actions on arrears of stamp duty and rates and taxes to be needed.
(d) Contract Administration	Contracts works to be completed without delay and actions to be taken to recover the liquidated damages and rectification of defects.
(e) Human Resources Management	Proper transfer scheme to be implemented with regard to school teachers and health staff.