

Northern Provincial Council - 2017

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

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 preparation and fair presentation of the financial statements of the Council 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 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 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 Northern 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 observations are made.

- (a) Forty eight (48) items of furniture and machineries to the total value of Rs. 704,000 received from a non-government organization during the year under review had not been brought to financial statements. Hence, the value of furniture and machineries shown in the financial statements had been understated by similar amount.
- (b) Interest income on fixed deposits aggregating Rs. 31.22 million had been omitted in the financial statements for the year under review. Hence, income for the year under review and interest receivable as at 31 December 2017 had been understated by that amount.

2.2.2 Un-reconciled Accounts

Differences of Rs. 186.21 million had been observed between the value of non-current assets shown in the Provincial Fund Account and Appropriation Account of the Council Secretariat during the year under review.

2.2.3 Accounts Receivables

Action had not been taken to recover the outstanding staff loan balances aggregating Rs. 5.34 million due from 72 officers who were retired, vacated their posts, interdicted, deceased and transferred out to other Ministries and Departments and during the period ranging from 01 to 09 years.

2.2.4 Imprest Accounts

An imprest aggregating Rs. 6 million had been released by the Department of Local Government for the payment of compensation to the traders in Mannar District who shops were destroyed by

fire during the year 2012. Out of that, a sum of Rs. 4.872 million had not been settled by relevant local authorities even up to 31 December 2018.

2.2.5 General Deposit Accounts

Retention money, individual deposits and unused project fund relating to a Provincial Ministry and 03 Provincial Departments aggregating to Rs. 9.07 million had been retained in the deposit account over 2 years without being taken action in terms of Provincial Financial Rule 571.

2.2.6 Lack of Evidences for Audit

The following evidence to the value of Rs. 866.96 million as indicated against each item shown below had not been rendered for audit.

Items -----	Value ----- Rs.million	Evidence not made available -----
Fixed deposits	500.00	Details such as individual fixed deposit certificates and amount of interest received during the year under review.
Miscellaneous income	160.61	Detailed schedule and source of income.
Expenditure made under Criteria Based Grant – Provincial Council Secretariat	198.12	Details of items purchased and distribution list.
Payment for purchases	8.23	Original bills, receipts, Mechanical Engineer’s certificates, goods received notes, participants list, receiver’s signatures, receipts, invoices, inventory certificates, work completion certificates etc.

2.3 Non-compliances with Laws, Rules, Regulations and Management Decisions etc.

Instances of non-compliances with following laws, rules, regulations and management decisions observed during the course of audit test checks are given below.

Reference to Laws, Rules, Regulations and Management Decisions, etc.

Non-compliances

- | | | |
|-----|---|---|
| (a) | Section 20 (1) of the Provincial Council Act No. 42 of 1987 | An Emergency Fund had not been established for over 03 years. |
|-----|---|---|

- (b) Employee's Provident Fund Act No. 15 of 1958 Contribution to the Employee's Provident Fund for the seasonal labours amounting to Rs. 40,000 had not been remitted during the year under review by the Department of Agriculture.
- (c) Northern Provincial Financial Rules
- (i) Rule 106 Payment of Rs. 2.31 million had been made without being obtained required approvals by the Provincial Department of Education and Department of Road Development.
 - (ii) Rule 107 Payments of Rs. 1.41 million had been made by a School and Department of Road Development without being certified.
 - (iii) Rule 159 17 cheques to the value of Rs. 10.62 million had been drawn and kept with Chief Engineering Office of Jaffna, Kilinochchi and Mannar Districts without being issued.
 - (iv) Rule 274.2 Actions had not been taken to maintain a fixed assets register by the Seeds Production Farm and Coconut Production Farm.
 - (v) Rule 407 Security bond had not been obtained from the officers who are administratively entrusted with custody of cash and stores by 03 Provincial Departments.
- (d) Financial Regulations of the Government of Democratic Socialist Republic of Sri Lanka
- (i) Financial Regulation 110 Register of losses and damages had not been maintained by the mechanical unit of the Department of Road Development.
 - (ii) Financial Regulation 510 The net profit generated from livestock farm amounting to Rs. 30,000 had not been credited to the revenue accounts by the Department of Animal Production and Health during the year under review.
- (e) Section 7.9 of the Ministry of Education Circular No. 42/2017 dated 16 November 2017
- (i) 412 uniform coupons had been directly given to 02 tailor shops to sew the uniforms to the students by a principal of the school.
 - (ii) 816 Coupons for shoes had been directly given to the supplier by the principal of two schools.

3. Revenue Management

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

Years	Tax Income		Non Tax Income	
	Budgeted	Actual	Budgeted	Actual
	Rs. million	Rs. million	Rs. million	Rs. million
2013	1,900.00	1,410.33	188.00	121.88
2014	1,809.00	1,754.66	140.00	111.80
2015	2,225.30	2,074.51	97.70	157.36
2016	2,273.00	2,744.99	157.00	370.20
2017	3,300.70	3,125.54	177.00	458.08

The following observation is made in this regard.

Arrears of revenue such as stamp duty, courts fine, rate and taxes, lease rentals, property tax, etc. aggregating Rs. 1,637.22 million as at 31 December 2017 pertaining to 34 Local Authorities had remained without being recovered during the period ranging from 01 to 05 years.

4. Financial Review

4.1 Financial Results

According to the financial statements presented, the operations of Provincial Council for the year under review had resulted in a surplus of Rs. 2,668.29 million as against with the deficit of Rs. 23.18 million for the preceding year, thus indicating an improvement of Rs. 2,691.47 million in the financial results due to increase in Government Grants by Rs. 2,734.15 million and tax revenue by Rs. 227.60 million as compared with the preceding year.

4.2 Analytical Financial Review

Total expenditure of the Provincial Council for the year under review was Rs. 24,044.82 million and out of this, a sum of Rs. 20,990 million had been incurred for recurrent expenditure and it presented 87 per cent of the total expenditure. Out of the total recurrent expenditure, a sum of Rs. 15,942 million had been incurred for personal emoluments and it represented 76 per cent of the total recurrent expenditure and the corresponding recurrent expenditure for the preceding year amounted to Rs. 19,312 million or 82 per cent of total expenditure. The details are given below.

December 31

Revenue	2017			2016		
	Estimate	Actual	Variance {favourable / (adverse)}	Estimate	Actual	Variance {favourable / (adverse)}
	Rs. million	Rs. million	Rs. million	Rs. million	Rs. million	Rs. million
Taxable and Non – Taxable Revenue	3,478	3,584	106	2,430	3,115	685
Government Grants	23,853	23,130	(723)	22,912	20,415	(2,497)
Total Revenue	27,331	26,714	(617)	25,342	23,530	(1,812)
Expenditure						
Recurrent expenditure						
Personal Emoluments	15,863	15,942	(79)	14,818	14,807	11
Others	4,712	5,048	(336)	4,548	4,505	43
Sub Total	20,575	20,990	(415)	19,366	19,312	54
Capital Expenditure	6,776	3,055	3,721	6,184	4,241	1,943
Total Expenditure	27,351	24,045	3,306	25,550	23,553	1,997

5. Comments on Commercial Advance Accounts

5.1 Livestock Farm

The following observations are made.

- (i) Value of 22 cattle as at 01 January 2017 and 41 cattle as at 31 December 2017 had not been assessed and brought to the financial statements, thus indicating the profit for the year under review had been understated.
- (ii) Value of 16 machineries and equipment utilized for activities of the Anichchankulam breeder farm, had not been valued and brought to financial statements. Hence, the value of machineries and equipment had not been shown in the financial statements for the year under review.
- (iii) The profit for the year under review had been understated by Rs. 168,745 due to not brought the value of closing stock of Atchuvvely Farm aggregating Rs. 168,745 to the financial statements.

5.2 Machinery Unit

The following observations are made.

- (i) The machineries acquired after 13 July 2011 had been depreciated by applying various method of depreciation without being depreciated by using straight line method.
- (ii) Even though 13 machineries valued aggregating Rs. 150.82 million was depreciated on the straight line basis at the rate of 5 per cent and 12.5 per cent for the years 2015 and 2016 respectively, the accumulated provision for depreciation as at 31 December 2016 amounting to Rs. 26.39 million had been adjusted to income statement for the year under review without being obtained proper approval. Further, these adjustments made in the accumulated provision for depreciation had not been disclosed in the financial statements for the year under review.

6. Operating Review

6.1 Performance

Utilization of Funds

Funds received from various sources for the development works of the Provincial Council and the actual expenditure incurred thereon are given below.

Details of the grant / project	Allocation	Expenditure	Savings
-----	-----	-----	-----
	Rs. Million	Rs. Million	Rs. Million
Provincial Specific Development Grants	4,147.28	3,620.50	526.78
Criteria Based Grants	589.20	589.20	-
Transforming School Education at the foundation of a knowledge Hub	315.00	252.00	63.00
Health Sector Development Project	360.00	360.00	-
Construction of Kaithady Building	16.50	16.50	-
Northern Road Connectivity Project	212.31	207.16	5.15
Northern Road Connectivity Project (additional financing)	536.42	174.01	362.41
Iranamadu Irrigation Development Project	1,077.00	685.37	391.63
Jaffna Kilinochchi Water Supply and Sanitation Project	909.00	809.00	100.00
Total	<u>8,162.71</u>	<u>6,713.74</u>	<u>1,448.97</u>

The following observations are made.

- (a) Budget proposal had been prepared without being considered Budget Guidelines, Provincial Financial Rules and needs of province as mentioned in the Guidelines of Finance Commission. As such the provision aggregating Rs. 1,448.97 million made under 23 heads of expenditure in the budgeted financial statements for the year under review had not been utilized for the intended purposes.

- (b) Capital expenditure aggregating Rs. 132.22 million was spent by 04 Departments without provisions in the budgeted estimate. Subsequently this expenditure had been regularized at the end of the year through surcharge account.
- (c) Financial provisions aggregating Rs. 1,212.37 million made under 163 of Object Codes had not been utilized by 02 Ministries and 10 Departments due to prepared the expenditure estimates on an ad-hoc basis.

6.2 Transactions in Contentious Nature

According to the cheque counterfoils, 27 cheques valued at Rs. 718,000 were written for the name of various suppliers. However, these cheques had been en-cashed by two teachers and a husband of a teacher of two schools.

6.3 Apparent Irregularities

A canteen of a school had been rented out by the principal without being followed the proper procurement procedures and rent received aggregating Rs. 43,100 for the period of January 2014 to June 2018 had not been brought to the accounts of School Development Society.

6.4 Management Weaknesses

Although 266 Teachers of Mannar Zonal Education had been assigned to the North Western Province (Puttalam District), the Provincial Department of Education of Northern Province had been paid salaries and other allowances amounting to Rs. 82.86 million during the year under review and no action had been taken to reimburse those from respective parties even as at 29 October 2018.

6.5 Over Payments

A sum of Rs. 1,053,000 had been overpaid with regard to 14 constructions works by a Ministry, 04 Departments and 04 Schools as compared to the actual works done with the value of works mentioned in the payment bills.

6.6 Assets Management

6.6.1 Idle and Underutilized assets

The following observations are made.

- (a) Physical resources worth Rs. 477.877 million belonging to a Ministry, 07 Departments and 15 Local Authorities were allowed to be idled or underutilized during the period ranging from 10 months to 09 years.
- (a) Even though 56 schools in the Northern Province had been closedown due to various reasons, the assets such as lands, buildings, furniture and other assets etc. of those schools had been idled over last 05 years.

6.6.2 Annual Verification of Stores Items

The following observations are made.

- (a) Value of 22 assets aggregating Rs. 212.35 million had not been physically verified by the annual board of survey for the year under review.
- (b) The value of 396 shortage handloom items had been written off from the books of accounts during the year under review without taking proper actions.
- (c) Equipment valued at Rs. 16.25 million distributed in the years 2015 and 2016 to the Members of Northern Provincial Council for their personal use had not been physically verified.

6.6.3 Properties not belongs to Handloom Centres

Even though 17 properties had been utilized by handloom centers, ownership of those properties had not been vested to those centers during last five years.

6.7 Identified Losses

The following observations are made.

- (a) Action had not been taken on loss of 19 items worth Rs. 39.316 million shown in the appropriation accounts of the Provincial Ministries and Departments of the for over 10 years.
- (b) Expired drug items value at Rs. 16.48 million had been stored at regional medical supply divisions in Jaffna without being taken proper action.
- (c) A driver who did not have heavy vehicle driving license had met an accident on 28 march 2017. As a result, a loss of Rs. 1.54 million had been incurred to the Regional Department of Health Service, Killinochchi.
- (d) A vehicle met with an accident was repaired by spending Rs. 4.29 million by Regional Director of Health Services, Kilinochchi during the year under review. However prompt actions in this regard had not been taken for over 18 months.
- (e) Loss of live stocks valued at Rs. 184,000 had been written off from the books of accounts without being obtained approval from Chief Secretary of the Province.
- (f) Although the value of loss on 07 inventory items had been identified and brought to the financial statements, meaningful action on this loss had not been taken by the Department of Road Development for over 10 years.
- (g) A loss of Rs. 2.23 million had been sustained due to re-calling of bids in order to complete the incomplete two schools building works by the earlier contractor.

6.8 Delays in Completion of Projects

The liquidated damages aggregating Rs. 53.13 million for the delay in completion of 34 construction works had not been deducted from the contractor by the Provincial Department of Education during the year under review.

6.9 Abandoned Project

During the year under review three capital works aggregating Rs. 32.66 million relating to three schools had been abandoned due to the various reasons.

6.10 Delays in execution of Capital Works

Even though extension had been granted for 37 capital works to the total value of Rs. 394.09 million, those works had not been completed even after expression of extended period as at 21 June 2018.

6.11 Human Resources Management

Information relating to approved and actual cadre of the Provincial Council as at 31 December 2017 are shown below.

6.11.1 School Staff

Districts	Approved Cadre		Actual Cadre		Vacancies	
	Principa l	Teachers	Principa l	Teacher s	Principal	Teachers
Jaffna	551	8,839	524	7,881	27	958
Kilinochchi	147	2,294	92	1,871	55	423
Mannar	158	2,258	92	1,778	66	480
Vavuniya	215	2,770	194	2,330	21	440
Mullaitivu	<u>149</u>	<u>2,277</u>	<u>90</u>	<u>1,820</u>	<u>59</u>	<u>457</u>
Total	<u>1,220</u>	<u>18,438</u>	<u>992</u>	<u>15,680</u>	<u>228</u>	<u>2,758</u>

The following observations are made in this regard.

No action had been taken to fill 2,758 teacher vacancies of teacher and 228 vacancies of principal in five Districts.

6.11.2 Staff of the Health Sector

Excess and shortage of health officers were found at the Office of Provincial Director of Health Services (PDHS) and Regional Director of the Health Services (RDHS). However, action had not been taken to fill the shortage cadre by using the excess cadre within the province.

The following observations were made.

- (a) Out of 119 approved cadre for consultant, at present only 63 consultants are in service within the Province and vacancies for consultants are available in several hospitals of Jaffna and Mullaithivu Districts.
- (b) Out of 723 approved Cadre for Medical Officers, only 600 Medical Officers are working at present. As a result several Peripheral Hospitals are functioning without Medical Officer.
- (c) Several shortages of Nursing Officers are observed in major hospitals. Out of 826 approved cadre, only 716 Nursing Officers are working in the Province.
- (d) Out of 92 approved cadre for Dental Surgeons, only 65 Dental Surgeons are working at present. As a result, 17 vacancies in the Province still not filled.

6.12 Accountability and Good Governance

6.12.1 Presentation of Financial Statements

- (a) Financial Statements of the Provincial Council's Fund
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Financial statements of the Provincial Council's Fund Account had been submitted to audit on 27 April 2018.

- (b) Presentation of Other Accounts to the Audit
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Progress relating to the presentation of other accounts of the Provincial Council for the year under review are given below.

Type of Accounts

For the year 2017

	Total Number of accounts to be Submitted for Audit	Total Number of Accounts Submitted
	-----	-----
Appropriation Account	33	33
Revenue Account	01	01
Advance to Public Officers Account	32	32
Commercial Advance Account	04	04
Fund Account	<u>01</u>	<u>01</u>
	<u>71</u>	<u>71</u>

6.12.2 Un answered Audit Queries

Replies for 03 audit queries issued to the Chief Secretary's Secretariat and Ministry of Education, Cultural Affairs, Sports and Youth Affairs had not been submitted for over 2 years.

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

Year	Paragraph No.	Audit Observation
2016	6.1(b)	Establishment of Electric Power Generating Plant by Fixing Wind Turbines
2016	6.4	Although Department of Co-operative Development has an own building facility at Poonthodam, Vavuniya, a sum of Rs. 2.7 million had been spent as rent over 7 years.
2016	6.5 (v)	Meaningful action had not been taken by the Provincial Council to obtain the ownership of several vehicles donated by the line Ministry and Non - Governmental Organization.
2016	6.10.2(iv)	Value Added Tax Rs. 3.16 million had been paid by Pradeshiya Sabha for civil works without confirm the validity of VAT registration numbers of the contractors, Subsequently it was revealed those numbers were inactive.

7. Systems and Controls

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

System	Weaknesses
(a) Contract Administration	Non completion on targeted periods.
(b) Human Resource Management	Action had not been taken to recruit the personnel.
(c) Assets Utilization	Several buildings and equipment had not been used for the intended purpose.
(d) Budget	Poor finance control.