

Southern Provincial Council-2018

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the **Southern Provincial Council** for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 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(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 23 (1) of the Provincial Council Act, No.42 of 1987 and provisions of the National Audit Act No. 19 of 2018. The summary report in terms of Section 23(2) of the Provincial Council Act and provisions in Sub-section 11 (1) of the National Audit Act No. 19 of 2018 was issued on 30 May 2019 and the Detailed Management Audit Report in terms of Section 11 (2) of the National Audit Act No. 19 of 2018 was issued on 14 June 2019. This report will be tabled in Parliament in pursuance of provisions in Article 154 (6) of the Constitution to be read in conjunction with Sub-section 10 (1) of the National Audit Act.

In my opinion, except for the effects of the matters described in the Paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Southern Provincial Council as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibility of Management for the Financial Statements

The Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance of each institution including the Provincial Treasury are responsible for overseeing the Provincial Council's financial reporting process.

As per Sub-section 16(1) of the National Audit Act No. 19 of 2018, the Southern Provincial Council is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Management regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

1.5 Report on Other Legal and Regulatory Requirements

- The financial statements presented by the **Provincial Council** is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.

1.6 Comments on Financial Statements

1.6.1 Accounting Deficiencies

Audit Observations	Recommendation	Comments of the Chief Accounting Officer
(a) While net assets of the Poverty Alleviation Micro Financing Revolving Fund amounting to Rs.39,900,334 had been stated in the Statement of Financial position under the investments, the fixed deposits of Rs.2,610,720 of the above Fund had been stated again under the investment and as such, assets had been overstated by Rs.2,610,720.	Steps should be taken to prevent double counting.	The audit observation is accepted. Action will be taken to correct this error in future.
(b) Even though provisions had not been made under the Object No.1405 for the year under review, negative value of Rs.32,131,855 as annual expenditure and future payments of Rs.118,781 had been shown under the above Object.	Action should be taken to establish Objects accurately.	The audit observation is accepted. The Object No.1405 is an Object established in the year 2017 and it does not exist in the year 2018. Since there were accrued expenditure and future payments by the end of 2017, the annual expenditure of the year 2018 had become a negative value. Instructions were given to adjust the above expenditure to the Object No.1409 which had been introduced in this year in place of the Object No.1405.
(c) A sum of Rs.10,104,545 had been overstated in the account as a future payment as at 31 December in the preceding year and as such, expenditure of the year under review had been overstated by that amount.	The Provincial Treasury should obtain correct primary data from the relevant institution and expenditure should be brought to account accordingly.	The adjustments of future payments had been made according to the details obtained from the Head- 305, Provincial Department of Health Services. It is stated that the primary data relevant to the breakdown of that amount should be obtained from

the Provincial Department of Health Services.

- (d) A sum of Rs.80,811,033 had been overstated in the account as a future payment as at 31 December of the year under review and as such, expenditure of the year under review had been understated by that amount. The Provincial Treasury should have obtained correct primary data from the relevant institution and expenditure should be brought to account accordingly. For the preparation of Provincial Council Fund Account, the last future payments presented by the information obtained for the Head- 305, Provincial Department of Health Services according to the details on the future payments and accrued payments of the year under review have been used for the Provincial Council Fund Account. However, owing to a mistake, accrued payments had been stated as future payments. Therefore, action will be taken to correct this error in consultation with the Provincial Department of Health Services.
- (e) The revenue in arrears relating to the Revenue Code No.1003-01-01- Motor Vehicle Revenue Licence charges up to the previous year had not been brought to account and according to the relevant outstanding revenue reports, the revenue in arrears as at the end of the year under review amounted to Rs.1,538,171,385. Out of the relevant revenue in arrears, a sum of Rs.722,969,379 had been deducted without being adhered to any provisions in the Southern Provincial Financial Rule 62 and without formal ground, and Rs.815,202,006 had been brought to account as revenue in arrears as at 31 December of the year under review. Revenue in arrears should be correctly identified and brought to account. According to the Outstanding Revenue Report dated 31.12.2018 sent by the Provincial Department of Motor Traffic, this amount has been credited to the Provincial Council Fund. We have not been furnished the breakdown of this revenue in arrears or any analysis thereon and due to lack of adequate documentary information in order to write off or allocate provisions for revenue in arrears, either writing off or making provisions for revenue in arrears has not been carried out.

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| (f) | Even though stationery and other stocks totalling Rs.50,311,874 had been included as the closing stock of the Fund Account relating to 25 Heads, those stocks had not been included in the financial statements presented in respect of each Head. | Transactions between the inter accounts should be correctly accounted. | In the preparation of Provincial Council Fund Account, we have identified the stationery and other stocks based on the information brought from the 25 Heads in writing. |
| (g) | The debit balance totalling Rs.114,053,444 of 4 Commercial Bank Account as at the end of the year under review had been offset against the credit balance totalling Rs.52,594,135 of 6 Commercial Advance Accounts and Rs.61,459,309 had been stated under the current assets. | Action should be taken in accordance with Sri Lanka Public Sector Accounting Standard No.01. | The observation is accepted. Action will be taken to state the advance accounts with debit balances under the current assets and the advance accounts with credit balances under the current liabilities from the ensuing year. |

1.6.2 Accounts Receivable and Payable

Audit Observations	Recommendation	Comments of the Chief Accounting Officer
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(a) Although there was an uncertainty regarding the recovery of revenue in arrears amounting to Rs.1,486,024,261 shown in the Statement of Financial Position, writing off for bad debts or making provisions for doubtful debts had not been carried out thereon.	Action should be taken to identify the revenue receivable and recover the same.	The observation is accepted. Any Revenue Officer had not made a written acknowledgement to the effect that there was a severe uncertainty with regard to the recovery of revenue in arrears of Rs.1,486,024,261 presented in the Note No.12. Therefore, making allocation for bad debts of a writing off had not been carried out. Nevertheless, while paying attention on the matters pointed out by the audit, action will be taken to identify the revenue receivable based on the actual receipts of outstanding revenue in the preceding years.
(b) Out of unsettled imprest balance of Rs.319,062,138 as at 31 December of the year under review, a sum of Rs.306,482,670 had further	Action should be taken to settle the imprest balances.	Observations is accepted. The institutions which have not further settled the balances will be instructed to settle those imprest balances.

remained unsettled even by 31 March 2019.

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| (c) The debtor balance of Rs.37,186,633 of the Poverty Alleviation Micro Financing Revolving Fund that remained recoverable as at 31 December of the year under review, had continued to exist for more than a period of 25 years and any amount therefrom had not been recovered during the year under review. | Action should be taken to settle the debtor balances. | Observations is accepted. Action will be taken to write off the debtor balances of the revolving fund that remained unrecovered. |
| (d) The debtors balance of Rs. 60,226,914 of the Southern Provincial Council as at 31 December of the year under review included a balance of Rs. 9,519,974 and Rs. 2,760,717 that remained unrecovered for more than a period of 10 years and 03 years respectively | Action should be taken to settle the loan balances that remained outstanding over a longer period. | At present, legal actions are in progress against the relevant parties in connection with the matters relating to Local Seeds and Tea Plant Debtors. In order to take future steps on these debtos balances which are found in various projects, a special committee has been appointed to study information. |
| (e) Out of the loan granted by the Southern Development Authority under the Dasuna Loan Scheme, the loan instalments and interest remained outstanding relating to 20 loan balances as at 31 December of the year under review amounted to Rs. 1,092,984. | Expeditious measures should be taken to recover these loan instalments and interests. | Out of the loan balance of Rs. 1,092,984 remained as at 31.12.2018, a sum of Rs. 454,050 has been recovered by now and steps are being taken for the recovery of remaining balances. Legal actions have been already instituted against the debtors who had not properly settle their loan instalments. |

1.6.3 Lack of Documentary Evidence for Audit

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Chief Accounting Officer -----
The Southern Development Authority had not furnished the detailed schedules and balance confirmations regarding the debtors amounting to Rs. 12,280,690 and the creditors amounting to Rs. 283,555	Detailed schedules and balance confirmations regarding the debtors and creditors should be furnished.	In order to take future steps on these debtos balances, a special committee has been appinted to study informations.

1.6.4 Non-compliance

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

<u>Audit Observation</u>	Non-compliance	Recommendation	Comments of the chief Accounting Officer
Reference to Laws, Rules and Regulations			
(a) Inland Revenue Act No.24 of 2017.	(i) Pay As You Earn Tax of Rs. 137,478 based on monthly earnings of 10 officers of the Chief Secretary's Office and the Education Department had been short remitted to the Commissioner of Inland Revenue.	Action should be taken in accordance with the Inland Revenue Act No.24 of 2017.	The issues cropped up on the matters included in the Inland Revenue Act have resulted in this situation and outstanding amounts are being recovered in instalments.
	(ii) In the computation of income of the officers who use the official vehicles, fuel allowance had not been taken into account.		

- (b) Provincial Council Financial Rules No.283.4 Action in terms of the Provincial Council Financial Rules had not been taken on 113 cheques worth Rs. 4,788,520 which had not been presented for payments despite lapse of over a period of 6 months from their issuance relating to 14 bank current accounts of 04 institutions. Action should be taken in accordance with the Provincial Council Financial Rules 283.4 Action will be taken to correct this error in future.
- (c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka F. R. 571 Even though steps should be taken to credit the General Deposit balances older than 02 years to the Government Revenue, action had not been taken accordingly in respect of General Deposits of Rs. 22,644,417 relevant to 06 institutions. Action should be taken in accordance with the F.R. 571 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka. Action will be taken to correct this error in future.
- (d) Paragraph 02 (i) of the Public Administration Circular No.29/2017 dated 28 November 2017. A school Watcher who had saved under the Habaraduwa Zonal Education Office had engaged in the service less than the number of days he should serve during a week and as such, salary of Rs. 645,836 had been paid in excess for his service period of 22 years and 09 months. Action should be taken in accordance with Public Administration Circular No.29/2017 dated 28 November 2017. Action will be taken to recover this misappropriated amount from his salary from January 2019.
- (e) State Finance Circular No. 03/2014(1) dated 10 March 2015. An officer of the Southern Provincial Education Department who was appointed to the Sri Lanka Education Administration Service on Supernumerarybasis had been appointed to a Class I post of the said Grade (As Zonal Director of Education, Elpitiya) on duty assignment basis and as such, duty allowance and telephone allowance of Rs. 445,726 had been paid from Action should be taken in accordance with the provisions in circulars. Since the Secretary of the Southern Provincial Department of Education has approved this duty allowance, that amount has been paid to the relevant officer.

September 2014 to September 2018.

(f) From Paragraph 3 to 8 of the Procurement Guidelines	Two schools of the Gall Education Zone had made purchasing worth Rs. 4,072,212 contrary to the Government Procurement Guidelines.	Action should be taken in accordance with the Procurement Guidelines	It is stated that all the relevant purchases have been made according to a formal procedure
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1.6.5 Non-compliance with Tax Requirements

----- Audit Observations -----	----- Recommendation -----	----- Comments of the Chief Accounting Officer -----
Although the Parliamentary Committee on Public Accounts held on 07 October 2017 had directed to recover, forthwith, a VAT amounting to Rs. 1,343,393 paid by the Southern Provincial Education, Land and Land Development, Hiways and Media to 03 contractors whose registrarion for Value Added Tax had been cancelled and credit it to the Government Revenue and report to the Committee, action had not been taken to recover the relevant money even by 30 April 2019.	Action should be taken in accordance with the directive of the Committee on Public Accounts. Committee on Public Account	No response has been made in connection with Rs. 706,231 which remains as an non-payment up to date. As such, future steps will be taken on obtaining legal advise.

2. Financial Review

Financial Results

According to the financial statements presented, the operations of the Provincial Council Fund for the year ended 31 December of the year under review had resulted in a surplus of Rs.585,671,505 as compared with the corresponding re-adjusted surplus of Rs.422,079,412 for the preceding year. The above excess was mainly attributed to the accounting a sum of Rs.658,135,478 as revenue in arrears and overstating Rs.80,811,033 in the accounts as future payments, during the year under review.

3. Assets Management

	Audit Observations	Recommendation	Comments of the Chief Accounting Officer
(a)	A description on the tax and non-tax revenue earned by the Provincial Council during the year under review and 04 preceding years is given below	Non-tax income should be increased.	The people's knowledge on the collected tax has mainly attributed to increase in the tax revenue collected by the Provincial Revenue Department as compared with the preceding year.

Category of revenue	2018	2017	2016	2015	2014
	Rs.m.	Rs.m.	Rs.m.	Rs.m.	Rs.m.
Tax Revenue	8,184	7,724	6,440	5,654	4,864
Non-tax Revenue	988	1,068	789	650	546
Total	<u>9,172</u>	<u>8,792</u>	<u>7,229</u>	<u>6,304</u>	<u>5,410</u>

As compared with the preceding year, the tax revenue had increased by Rs.460 million or 6 per cent during the year under review and non-tax revenue had decreased by Rs.80 million or 7 per cent.

(b)	Revenue in Arrears		
(i)	The Stamp Duty in arrears amounting to Rs.595.07 million upon transfer of properties as at 31 December 2018 had been accounted to the Southern Provincial Council Fund Account. Nevertheless, in the recovery of 12.01 per cent from the relevant revenue in arrears during the year under review, 25.12 per cent had been exempted.	Action should be taken to recover the revenue in arrears.	As a whole, there observed an increase in the percentage of the collection of revenue during the year 2018 as compared with the year 2017. Nevertheless, the Provincial revenue Commissioner has informed that a decrease is observed relating to the percentage of collecting Drugs and Chemical Tax.

- (ii) The percentage of the recovery of revenue in arrears remained at a very lower level from 3 per cent to 24 per cent during the year under review. Action should be taken to recover the revenue in arrears.
- (iii) As compared with the preceding year, the registration charges of Druggists and revenue in arrears relating to the tax on mineral rights of the year under review had increased by 53 per cent and 26 per cent respectively. Action should be taken to recover the revenue in arrears.

4. **Operating Review**

4.1 **Performance**

4.1.1 **Government Grants**

The Government Grants received for the development activities of the Province during the year under review and their utilization are as follows.

<u>Source</u>	<u>Amount Approved</u> (Rs. Millions)	<u>Amount Spent</u> (Rs. Millions)	<u>Underutilization</u> (Rs. Millions)
Provincial Specific Development Grants (PSDG)	2,130.22	1,544.52	585.70
Criteria Based Grants (CBG)	983.71	822.37	161.34
Education Sector Development Plan (TSEP)	214.28	212.92	1.36
Health Second Development Plan (HSDP)	558.80	299.40	259.40

4.1.2 **Provincial Development Plan**

Provincial Development Plan

Under the Provincial Development Plan, 2064 proposals at the estimated value of Rs. 3,117.78 million had been approved in respect of new works and continuous works for the year under review. According to the Progress Report of the Provincial Council, the progress of the work proposals was as follows.

Projects implemented within the Southern Province should be monitored by the Southern Provincial Planning Office.

The Deputy Chief Secretary (Planning and Operations) has informed that, the Ministry had notified the above projects could not be implemented due to

the reasons such as failure in parpairing estimates within due period and not receiving the provisions in time.

Description	No. of New work Proposals	No. of Continuous work Proposals	Total No. of Proposals	Estimated Value of Total works
				(Rs. Millions)
Totally Completed	1544	302	1846	2,244.37
Completed more than 50 per cent	86	9	95	562.73
Completed less than 50 per cent	70	3	73	173.11
Not commenced	50	0	50	137.57

The projects implemented within the Province relating to the Education Sector Development Plan (TSEP), Health Second Development Plan (HSDP), and the Nearest School is the Best School project had not been monitored by the Provincial Planning Secretary Office and information on the projects implemented under those programmes had not been included in the above table.

4.2 Management Inefficiencies

	Audit Observation	Recommendation	Comments of the Chief Accounting Officer
(a)	Out of the financial provision of Rs. 155,000,000 received by the Southern Provincial Department of Education under the programme of the development of sanitary facilities of the schools in the Southern Province, a sum of Rs. 15,898,361 had not been received even by 18 January 2019. Although the project should have been completed by 30 October of the year under	The projects which are not completed despite the grant of funds should be promptly completed and made available for the use of students.	Out of 23 schools of which works are yet to be completed, funds are further remained receivable by 14 schools and a request for that purpose has been made to the Chief Accountant the Ministry of Education. Immediately after the receipt of those funds, action will be taken to disburse the relevant funds among those schools. The number of schools the works of which have not been completed and funds are due to be received is 14

review, there were 24 incomplete projects as at that date.

and the number of schools which had received the total amount of funds and the progress of completion of the works remains between 60 per cent to 90 per cent is 09.

- (b) A huge rock with a soil bund had toppled close to the building situated near the main gate of the Ga/Rathanasiri Rajakeys school in which the Grade one classes are maintained and the National Building Research Organization had recommended that the abandoned building situated above the soil bund was in a high risky condition. Nevertheless, teaching activities of the Grade one classes were carried out within that building.
- Action should be taken in accordance with the recommendations made by the National Building Research Organization
- The Southern Provincial Director of Education has informed that steps will be taken to grant relevant funds to the schools soon after the release of such funds by the Ministry of Education.
- (c) As action had not been taken in terms of Sections 7 (1), (2) and (3) of Part II of the Southern Development Authority Ordinance No.01 of 1995 of the Southern Provincial Council, 06 members had not been appointed as the members of the Board of Directors over a number of years. Accordingly, out of the total number of 15 members, 06 members had not represented the Director Board and only five members had participated in 14 Board of Directors meetings held during the year under review.
- Action should be taken in terms of the provisions included in the Ordinance by which the Authority was established.
- Although the Southern Provincial Development Authority had made attempt to appoint all these officers to the Director Board, attendance of all the officers remained at a poor level.

4.3 Operating Inefficiencies

	Audit Observation	Recommendation	Comments of the Chief Accounting Officer
(a)	<p>The Three-wheeler Passenger Transport Service Regulation No.01 of 2012 and the School Students Transport Service Regulation No.02 of 2012 published in the Gazette (Extraordinary) No. 1777/39 dated 26 September 2012 of the Democratic Socialist Republic of Sri Lanka under Section 11 of the Southern Provincial Passenger Transport Authority (Amendment) Ordinance No.01 of 2009 of the Southern Provincial Council, had not been implemented even by the end of the year under review.</p>	<p>Action should be taken in accordance with the Three-wheeler Passenger Transport Service Regulation No.01 of 2012 and the School Students Transport Service Regulation No.02 of 2012</p>	<p>Without formulating national policies relevant thereto, this situation cannot be corrected.</p>
(b)	<p>In the excavations carried out under 3 industrial excavation licences within the Divisional Secretary's Division, Angunukolapelessa, there were vast differences between the Geographical Position System (GPS) Code Numbers indicated in the excavation licence and the GPS Code Numbers taken at the field inspection. Exceeding the extent of 1.5 acres limit permitted by the Divisional Secretary for a quarry, stone had been quarried over a land area of 3.2 acres without permissions. According to the confirmation obtained from Audit, the quantity of stone thus quarried without permission stood at 31,772 Cubes and the</p>	<p>Legal action should be instituted in respect of surpassing the provisions in the permit.</p>	<p>A letter has been sent to the Geographical Survey and Mines Bureau requesting to send a detailed report to the Divisional Secretary, Angunukolapelessa. Once a reply is received therefor, a full report will be submitted.</p>

market value thereof amounted to Rs. 47,658,000. Similarly, according to the conditions stipulated in the licence, a strip of land of 5 meters should be set apart from excavations around the boundary of the land, whereas it had not been so done. The depth of one quarry had been pierced up to 14.5 metres, thus breaching conditions of the permit and that area remained at a highly risk condition with a shape of steep slope. Further, after the removal of granite, those quarries remained insecure filled with water due to failure in carrying out proper conservations.

4.4. Irregular Transactions

Audit Observations	Recommendation	Comments of the Chief Accounting Officer
<p>(a) The Supervision and the coordination of training activities of the Management Training Institute, Wakwella are the substantial duties of the post of Deputy Chief Secretary (Personnel and Training) and the Director respectively. Nevertheless, in respect of discharging the above duties, an additional allowance at Rs. 567, 000 and Rs. 1,134,000 had been paid to the Deputy Chief Secretary (Personnel and Training) and the Director</p>	<p>Since the additional allowances paid in respect of substantial duties being unlawful, those should be recovered.</p>	<p>Although supervision of training activities is a duty assigned to the post of Deputy Chief Secretary (Personnel and Training), since the Southern Provincial Management Development and Training Institute is an institute generating income, this allowance for supervision is paid according to the Letters of the Secretary to the Governor dated 06.07.2011 and 29.05.2017 as per the approval of the Governor. Further, those allowances are paid by the other Provincial Councils and the training institutes, as well, from the year 1991.</p>

respectively during the year under review. Further, without being complied with the conditions specified in the Letter No. G/SP/6/8-4 dated 29 May 2017 of the Secretary to the Governor of Southern Province, allowances and holiday pays amounting to Rs.424,687 and Rs.149,857 had been paid to the Deputy Chief Secretary (Personnel and Training) and the Director respectively.

- (b) The net loss of Rs. 25,677,041 of the preceding year after the adjustment of predicted charges in the Labuduwa Farm Advance Account had been erroneously stated as a net profit of Rs. 14,259,304 in the Cabinet Memorandum and a sum of Rs. 1,425,861 of the said profit had been paid to 108 officers and employees. The allowances paid to 7 officers and employees had been settled as a lump sum and it had been decided to recover the payments relating to 62 officers and employees in instalments. A sum of Rs. 396,741 relevant to other 39 employees remained unrecovered.

All amounts not recovered should be recovered.

Out of the questioned amount of Rs. 396,741, allowances of Rs. 220,246 have been recovered at present and reminders and the relevant letters for the recovery of balance of Rs. 176,495 in instalments have been referred.

- (c) In auctioning a land called Welipitiya Natural Park belonging to a private owner, although the auctioneer should supply water and electricity to the relevant land, the Ministry of Fisheries had paid Rs. 1,674,654 on 21 June of the year under review in respect of supplying electricity to the above auctioned land.
- The payments made by the Ministry should be recovered from the relevant parties.
- These beneficiaries had been identified at the field inspection conducted prior to implementation of the relevant proposal by the Ministry in identifying several families in the area who had not been supplied electricity. At the time of inspection, the persons who purchased the above lands had resided therein and by identifying them as the beneficiaries through a request made to the Hon. Minister, the project had been implemented.
- (d) For the Provincial Development Plan, the Provincial Ministry of Education had spent Rs. 7,693,534 under the Councillors' provisions during the year under review. In the implementation of relevant projects, activities had been irregularly carried out while deviating from the legal requirements such as non-compliance with the Guidelines of the Government Procurement Guidelines, purchase of school items without identifying requirements under a supervision of a teacher in charge of the subject, failure to enter the items purchased in the inventory, non-inclusion of the distribution registers/participants' registers in the files.
- Action should be taken in accordance with the Procurement Guidelines and inventoring of items, identification of requirements and the supervisions should be carried out.
- Since this situation can be minimized by decentralizing these programmes among the institutions enriched in human resources and capable of releasing provisions, it is expected to take steps in that respect in future.

4.5 Apparent Irregularities

Audit Observations	Recommendation	Comments of the Chief Accounting Officer
<p>(a) A female officer who had served as a Musium Assistant of the National Musium Department had, without leaving from that service or temporarily release from the service, obtained a sums totalling Rs.760,368 as salary and allowances from the Governor's Secretariat while stating false infromtion to the ecffect that she had served in the personal staff of the former Governor from 24 April 2012 to January 2015 and sums totalling Rs. 733,267 had alose been obtained from the National Musium Department relating to the above period as salary and allowances.</p>	<p>The irregular payments should be reocvered forthwith and necessary steps should be taken regarding the officers who had not adhered to the Provincial Funancial Rules.</p>	<p>Observation is accepted. A sum of Rs.50,000 has been recovered from this officer by now and action will be taken expeditiously to recover the balance amount.</p>
<p>(b) A Cab belonging to the Aurvedic Department had collided on a private van on 03 May in the preceding year and the driver of the Cab had paid Rs. 100,000 of his personal money for the damages caused to the van. Nevertheless, while indicating false information to the effect that relevant accident caused by colliding the Cab with a Jack tree stood in the Aparekka Hospital premises, an insurance claim of Rs. 108,975 had been obtained from the Sri Lanka Insurance Corporation. Similarly, action in terms of Provincial Council Financial Rules 54 had not been taken in connection with the above accident.</p>	<p>Action should be taken in terms of Financial Rules 54.</p>	<p>Having conducted the priliminary inquiry and prepared charge sheets by founding the relevant driver a guilty, disciplinary orders have been issued. Further, the driver expressed his consent to settle the amount obtained from the Insurance Corporation and accordingly, action has been taken to recover that amount of Rs. 108,975 in 06 installments.</p>

4.6 Uneconomic Transactions

Audit Observations	Recommendation	Comments of the Chief Accounting Officer
<p>(a) The Southern Provincial Department of Education had printed additional 4691 certificates exceeding the required number of certificates for the All Island School Dancing and Ballet Competitions and Southern Provincial Music and Dancing Competitions from the year 2008 up to the year 2016 and the value thereof amounted to Rs.122,742.</p>	<p>Certificates should be printed in required quantities up on proper planning.</p>	<p>Due to failure in making proper plans, certificates had been so printed in excess.</p>
<p>(b) The Ministry of Fisheries, Animal Productions and Development, Environmental Affairs, Rural Industries, Power and Rural Estate Infrastructure Facility Development, had granted Rs. 1,388,159 to the Beliatta Divisional Secretary on 08 October in the year under review to provide electricity to the palyround of the Ha/ Ihala Beligalla Maha Vidyalaya. Although this provisions had been provided for the relevant school to supply electricity with the objective of involving school students in sport activities during nights to prevent them from afflicting with non-communicable diseases, the playground had not been used for the relevant purpose.</p>	<p>Action should be taken in a manner able to obtain the maximum benefits from the projects implemented by Government fund.</p>	<p>In the implementation of this project, this Ministry had not carried out activities relevant to the physical progress and physical development of the play ground and the necessary activities for the installation of electricity have been initiated under the subject of lectricity.</p>
<p>(c) In order to establish a modal dairy farm at Thalunna, the Department of Animal Production and Health had continuously spent Rs. 9,568,924 from the year 2015 and action had not been taken to use the farm in more productive purpose. Nevertheless, despite the</p>	<p>Before incurring expenditure, attention should be paid on the receivable outcome and it should be ensured not to incur expenditure on fruitless activities.</p>	<p>Expected objectives cannot be achieved by handing over the task to a private entrepreneur without making an appropriate arrangement.</p>

recommendation made to carry away the 05 cows available in the farm to another farm due to maintenance difficulties, 05 cows worth Rs.500,000 had been purchased for the farm on 31 December 2018.

4.7 Identified Losses

Audit Observations	Recommendation	Comments of the Chief Accounting Officer
(a) In incurring an expenditure of Rs. 2,998,372 by the Southern Provincial Ministry of Education, Land and Land Development, Hiways and Media for the purchase of sports equipment for 659 schools, action had not been taken according to the provisions in the Government Procurement Guidelines and the officers of the Procurement Committee and the Technical Evaluation Committee had not given due regards to the prudency and economical usage of the Government assets and as such, a loss of Rs.1,057,572 had been incurred.	Steps in terms of the Establishments Code should be taken in respect of the officers who acted without giving due regards to the prudency.	The check had not been handed over to the suppliers and that money had been transferred to the General Deposit Account and thereafter, credited to the Government Revenue.

- (b) The Secretary to the Ministry of Education had informed on 22 March 2019. that the total loss of Rs. 1,629,359 comprising repair charges, carriage cahrges and 25 per cent Departmental charges relating to an accident caused to a Cab belonging to the Southern Provincial Ministry of Education on 24 March in the year under review should be recoverd from the responsible parties, action had not been taken to recover the aforesaid loss.
- Loss should be recoverd from the officers responsible.
- A decision has been reached to recover the loss in instalments from the salary from May 2019.
- (c) The value of total damages including damages on vehicle accidents worth Rs. 16,985,578 remained relating to unresolved 100 instances, property damages worth Rs. 1,381,468 relating to 06 instances and a financial fraud of Rs. 1,837,095 applicable to Southern Provincial Ministries/ Departments and offices totalled Rs. 20,204,141.
- Action should be taken in terms of Financial Regulations.
- Action will be taken to correct this matter in future.

- (d) In the purchase of 04 water bowsers for the Local Authorities by the Chief Ministry under the implementation of poverty minimization and special national programmes, relevant purchase had been made by the Procurement Committee irrespective of the recommendations of the Technical Evaluation Committee. Action should be taken in accordance with the recommendations of the Technical Evaluation Committee. As one recommendation made by the Technical Evaluation Committee was for an item made of Indian Technology and the other recommendation had exceeded the limit of provision, Procurement Committee had decided to reject them. The Procurement Committee had decided purchase the 04 bowsers from an institutie not recommended by the Technical Evaluation Committee. As such, a sum of Rs. 9,632,000 had to be paid in excess.

4.8 Deficiencies in the Contract Administration

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
<p>(a) The project for the renovation of Sandaliya Cultural Centre managed by the Southern Provincial Ministry of Sports and Youth Affairs, Rural Development, Cultural and Easthetic Affairs, Social Welfare, Probation and Child Protection Services, Women Affairs and Home Economic Promotion, Housing and Costructions and Manpower and Employments had been awarded to a private contractor on 19 November 2018 according to the estimate of Rs. 2,598,802 prepared by the Technical Officer of the District Secretariat, Galle with the recommendation, without date, of the District Engineer. Since the Quantity Taking Off Sheets had not been prepared for this estimates, it was not a formal estimate. The contractor had</p>	<p>The Contractor should be blacklisted and overpayments should be recovered.</p>	<p>Quantity Taking Off Sheets have been prepared for the estimate. The contractor had accepted his submission of fake Guarantee and as such recommendations have been made to blacklist the contractor. Action has been taken to recover the sum of Rs. 240,548 which had been overpaid owing to deficiencies in the Bills of Quantity.</p>

presented a fake Bid Guarantee as well as a fake performance bond and a sum of Rs. 240,548 had been overpaid for 05 items of works during this construction activities.

(b) The following matters were observed in connection with the construction of Elpitiya Public Playground

(i) According to the Work Item B-2, soil in approved quality should be supplied and filled and the maximum size of stones that may be contained in soil supplied to the playground should be 37.5m.m. Nevertheless, stones of 1 ½ feet in size could be found in the soil supplied and filled. Accordingly, despite the supply of substandard soil, a sum of Rs. 3,354,000 had been paid to the supplier. Although payments had been made while disregarding 75 cubic meters of soil in lieu of stones found in the soil supplied subsequently, it was not a correct measure.

Materials in due standard should be obtained as per the estimate.

Action will be taken to obtain final laboratory report on soil.

(ii) Despite the availability of low prices for laying soil using machines, payments had been made by including higher prices for laying soil using labourers and as such, the Provincial Council had been incurred a loss of Rs. 956,535

Quotations should be prepared in realistic and economical manner and the loss suffered by the Provincial Council should be recovered.

Since it had not been included in the work description of the estimate as to whether soil should be laid by machines or labourers, it is the recognized procedure to make payment when the work is completed according to the quotation presented by the contractor.

(iii) Instead of river sand, sea sand had been used without formal approval. Accordingly, a sum of Rs. 799,600 had

The payments made in respect of constructions carried out without doing testing and without approval

Due to the scarcity of river sand, contractor

been overpaid for 200 cubic meter of sand at Rs. 3,998 per 01 cubic meter. According to the test report issued by the Engineering Faculty of the University of Ruhuna on 03 December 2018 in this connection, no test whatsoever had been done before the use of sea sand and it had reported that use of such mild sand will result in disfunctioning the water drainage system.

should be recovered. Disciplinary measures should be taken to minimize the irregularities in this nature.

had used sea sand.

- (c) The Engineer of the Local Government Assistant Commissioner's Office in Matara district and the Technical Officer of the Divisional Secretariat, Dickwella had carried out supervision of the renovation activities of 03 canals implemented by the District Secretariat, Matara in Beruwala area in the year 2014 upon financial provision of Rs. 35,381,059 of the Matara -Kataragama New Railway Line Project implemented under the Ministry of Transport and Civil Aviation. At the audit test check carried out on this construction in the year 2017, a large number of shortcomings such as making recommendation for works undone, works not completed in prescribed standard, works on erroneous measurements, external and additional works carried out without proper approval, were observed. According to the audit query issued in this connection, in order to take necessary steps after conducting an inquiry on the officers who carried out supervision of the project ,the Secretary to the Ministry of Transport and Civil Aviation had sent a copy of the relevant audit query to the Southern Provincial Local

Having conducted an inquiry on the officers who carried out supervision of this project activities, necessary steps should be taken

After the receipt of priliminary inquiry report, recommendations contained therein will be implemented.

Government Commissioner on 27 March 2018 .Nevertheless, the preliminary inquiry on the relevant officers had not been completed even up to 31 March 2019.

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| <p>(d) Relating to the renovation of Kirama bus stand belonging to the Katuwana Divisional Secretariat which had been commenced in the year 2014 and completed in 2016 under the financial provision of the Local Authority Development Sector Project, instead of laying concrete paving blocks of 200x75x80mm stated under work item U-02 in the estimate, concrete paving blocks of 222x111x80mm had been laid. Nevertheless, irrespective of that matter, a sum of Rs.2,452,808 had been paid without obtaining test report on the strength of the relevant paving blocks. Although an audit query had been issued in this connection, retention money ,too, had been issued to the contractor. It was established according to the laboratory test conducted on 22 January 2018 that the above concrete paving blocks were not in the prescribed standard.</p> | <p>Materials in the prescribed standard should be used according to the estimate.</p> | <p>After 02 years from the completion of the work, relevant samples were tested. The paving blocks at the bus stand had not been damaged up to date.</p> |
| <p>(e) Since the Provincial Education authorities had denied the acceptance of buildings which had been constructed for the Primary School, Deiyandara by spending Rs. 35,721,029 out of the provisions granted to the District Secretary, Matara by the Ministry of Economic Development in the year 2014 and the Ministry of Home Affairs in the years 2015 and 2017, these constructions remained idle up to 10 April 2019.</p> | <p>Action should be taken to carry out constructions in due standard.</p> | <p>Comments have not been made.</p> |

4.9 Implementation of Projects

4.9.1 Projects Delayed

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
<p>For the purpose of carrying out renovations or constructions in schools in the Southern Provincial Council, the Southern Provincial Ministry of Education had released Rs.160 million to the school development societies in 80 schools at Rs.2 million each on 31 December during the year under review. Although it had been informed that renovations and constructions should be completed by March 2019, according to the physical progress as at 07 May 2019, there observed 14 schools in which works had not been initiated and 28 schools in which the progress of the completion of works remained less than 50 per cent. Accordingly, implementation of the projects remained at a very poor position</p>	<p>Necessary arrangements should be made to commence the projects which have not been initiated and expeditiously complete the projects the progress of which remains at low position.</p>	<p>Calling for progress report in this connection is constantly carried out. Action will be taken to take necessary steps by summoning the Principals who had not submit the progress reports.</p>

4.9.2 Abandoned Projects

Audit Observations	Recommendation	Comments of the Chief Accounting Officer
<p>(a) For the construction of Ambalangoda Thilakapura Water Scheme under the Provincial Specific Grants of the year 2016, the Chief Ministry had entered into an agreement at Rs. 2,743,937 on 07 June in the preceding year and the scheduled date for the completion of the work was on 30 June 2018.</p>	<p>Action should be taken to ascertain the reasons attributed to abandon the work half way and to carry out remaining works of the project expeditiously.</p>	<p>Action will be taken to recover the liquidated damages pertaining to that period from the retention money.</p>

Nevertheless, the project had been extended only up to 31 December of the preceding year and Rs. 411,552 had been paid on 13 March of the year under review. Herein, liquidated damages had not been recovered and the project had been discontinued.

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| (b) The Multi-Purpose Training Centre, at Ruvinigama constructed by the Ministry of Fisheries at a cost of Rs. 1,732,993 had been vested in the Industrial Development Authority on 07 July 2016 and the Authority had spent Rs. 1,499,857 for its renovations. Nevertheless, the Training Centre had not been utilized for any purpose up to 31 December of the year under review. | Action should be taken to use the Multi-Purpose Training Centre for the relevant purpose. | A bag manufacturing factory is scheduled to be established in this centre in order to convert it into a productive institute in 2019. |
| (c) For the implementation of 03 projects worth Rs. 3,059,485 included in the Development Plan of the Department of Animal Production and Health of the year under review, agreements had been entered into with the registered societies. The societies had not carried out the works within the relevant period. The societies had not informed their negligence of performing works to the authorities of the Divisional Secretariats who recommended those societies and steps against those societies action had not been taken. | Action should be taken according to the agreement. | The relevant parties have been informed on the failure of the registered societies selected for the said projects to carry out relevant works. |

4.9.3 Activities Outside the Objectives

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Chief Accounting Officer -----
(a) For the establishment of sales promotion centre by renovating the Bogahapelessa Textile Centre implemented under the Industrial Development Authority, a sum of Rs.13,184,083 had been spent from the year 2014 up to the year under review. Subsequently, this constructions have been used for a circuit bungalow which was not coming under the objectives and functions of the Authority.	Action should be taken in accordance with the objectives of the establishment of the Authority.	The approval has been received in the year 2014 for the renovation of the Bogahapelessa Centre as a circuit bungalow.
(b) It was observed that out of Rs. 8,800,000 granted to the Local Authorities by the Southern Provincial Development Authority in the preceding year under the Balance Development Initiative Project for the Road Development Project, a sum of Rs. 4,302,225 had been spent on the activities outside the objectives of the project.	Action should be taken in keeping with the objectives of the project.	Out of these provisions, the amount granted for the road development activities of the Local Authorities has been used for the said purpose and the balance have been used for the other approved work proposals.

4.10 Assets Management

----- Idle / Underutilized Assets -----

----- Audit Observation -----	----- Recommendation -----	----- Comments of the Chief Accounting Officer -----
(a) The Public Address System worth Rs. 72,675 received on 29 July 2016. by the Zonal Education Office, Habaraduwa from the Southern Provincial Ministry of Education had remained idle in the stores without	Action should be taken to obtain maximum benefits from the assets.	Comments have not been made.

being used.

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| <p>(b) A land area of 11 acres located within the premises of Integrated Farm, Hungama of 55 Acres in extent belonging to the Southern Provincial Development Authority had not been used for any purpose. A cattle pen capable of retaining 20 cattles had also remained idle.</p> | <p>Action should be taken to obtain maximum benefits from the assets.</p> | <p>Action will be taken make use of the same in future.</p> |
| <p>(c) Although main hall of the building in which the office of the Charley Mount Industrial Zone of the Southern Provincial Development Authority is located and the adjoining 03 rooms had been renovated at a cost of Rs. 2,899,471, it had not been used.</p> | <p>Action should be taken to obtain maximum benefits from the assets.</p> | <p>The building in which the office of the Charley Mount Industrial Zone is located is used for the office activities as well as meetings of the Industrial Zone and plans have been drawn to use the aforesaid building for future development activities after the water problem of the Industrial Zone is solved and the building is converted into the usable condition.</p> |

4.11 Staff Administration

Audit Observations	Recommendation	Comments of the Chief Accounting Officer
<p>(a) Action had not been taken to fill the vacancies of 4392 officers of the Provincial Council and regularize the posts of 59 officers in excess.</p>	<p>Action should be taken to fill the vacancies and regularize the excesses</p>	<p>The Cadre Report approved for the Southern Provincial Council is implemented from 01.01.2013. Accordingly, recruitments have been made upon a service tendency emerge in the education field of the province within a period of nearly 06 years by the year 2019.</p>
<p>(b) Eight hundred and ninety two officers and employees have been employed on casual/substitute/contract basis within the Provincial Council.</p>	<p>Recruitments should be made according to the approved cadre.</p>	<p>As the relevant activities for granting permanent appointments under the Public Administration Circular 25/2014 has not been finalized up to date, the officers</p>

under the above bases have been recruited.

4.12 Procurement

Audit Observations	Recommendation	Comments of the Chief Accounting Officer
<p>The Ministry of Fisheries had purchased 21,355 fruit plants at a cost of Rs. 1,554,490 deviating from the Procurement Procedure and a sum of Rs. 695,120 had been overpaid for the plants supplied instead of the plants ordered. Similarly, in the purchase of plants during the year under review, a sum of Rs. 861,730 had been paid in excess without being adhered to the Procurement decisions.</p>	<p>Action should be taken in accordance with the Government Procurement Guidelines.</p>	<p>Action has been taken to purchase additional fruit plants under the approval of the Secretary to the Ministry</p>

5. Accountability and Good Governance

5.1 Budgetary Control

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
<p>Out of the net provisions of 25 Heads of Expenditure, provisions totalling Rs. 3,494,775,957 had been saved.</p>	<p>Provisions should be utilized.</p>	<p>Steps were taken to educate the Ministries and the Departments of which savings had exceeded 5 per cent and it was notified to demand provisions while paying attention on the requirement in allocating provisions and to take measures so as to minimize the savings.</p>

5.2 Achievement of Sustainable Development

Although the Southern Provincial Council was aware of as to how it should act with regard to the functions coming under its scope in terms of the “Agenda 2030” on the Sustainable Development Goals adopted by the United Nations Organization, the following matters were observed relating to the Southern Provincial Chief Ministry and Ministry of Fisheries, Animal Production and Development, Environmental Activities, Rural Industries, Power and Estate Infrastructure Facilities Development, in that connection.

Audit Observations	Recommendation	Comments of the Chief Accounting Officer
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(a) The functions recognized by the institutions to achieve the sustainable development goals had not been included in the Annual Plan and the financial provisions required for the discharge of such functions had not been included in the Annual Budget.	Action should be taken to achieve the sustainable development goals.	The functions relevant to the achievement of sustainable development goals have been included in the Development Plan. It is expected to improve the current position by way of maintaining a better coordination and conducting monthly progress review meetings.
(b) Due to lack of sound coordination in getting ready to reach the sustainable development goals, the preparation of plans for reaching the expected targets and preparation process remained at a poor condition.		