

Southern Provincial Council

1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the southern provincial council as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Comments on Financial Statements

1.2.1 Provincial Council Fund

The account of the Provincial Council Fund for the year under review had been submitted to audit on 25 March 2013. The Provincial Council Accumulated Fund as at 31 December 2012 amounted to Rs.373,144,340, whereas it was Rs.370,476,392 as at 31 December 2011. Even though the Provincial Council Fund had increased in the year 2012 as compared with the year 2011 the Liabilities over assets as at 31 December 2012 amounted to Rs.104,099,540 as per the statement of financial position.

1.2.2 Other Accounts

The progress of presentation of other accounts of the Provincial Council relating to the year under review as at 31 March 2013 is given below.

Type of Account	Total No of Accounts	No. of Accounts presented	No. of accounts not presented
(a) Appropriation Accounts	26	26	-
(b) Revenue Accounts	01	01	-
(c) Advances to Provincial Public Officers Accounts }	92	84	08
(d) Commercial Advance Accounts	12	08	04
(e) Fund Accounts	05	05	-
(f) Statute Accounts	05	02	03
(g) Statements of Assets and }	01	01	-

Liabilities

Total	----- 142 ===	----- 127 ===	----- 15 =====
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1.2.3 Unreconciled Control Accounts

According to the Control Accounts relating to 8 items of accounts, the total balance amounted to Rs.352,359,085 and according to the Provincial Council Fund Account the total balances amounted to Rs.373,153,655 thus showing a difference of Rs.20,794,570.

1.2.4 Unexplained differences

The following observations are made.

- (a) Although it was stated in the statement of financial performance that the capital provision received from the Central Government under the budget deficit financing amounting to Rs.1,084,830,000, according to the Southern Council Appropriation Account under Head 314 it was Rs.1,105,310,000, thus showing a difference of Rs.20,480,000.
- (b) Even though it was stated in the statement of financial performance that receipt and other funds under budget deficit financing amounting to Rs.55,301,598, according to the note given with the accounts it was Rs.50,700,297 by showing a difference of Rs.4,601,301.
- (c) Even though it was stated in the statement of financial performance that the net difference between deposit accounts and Liabilities under budget deficit financing amounting to Rs.334,935,533, according to the Note 14 of the accounts it was stated as Rs.399,176,018 thus showing a difference of Rs.64,240,485.
- (d) There were following differences between the cash balance shown in the cash flow statement and the statement of financial position.

	Cash balance as per cash flow statement	Cash balance as per statement of financial position	Difference
	----- Rs.	----- Rs.	----- Rs.
Balance as at 01 January 2012	151,559,813	104,721,978	46,837,835

Balance as at 31 December 2012 298,214,362 241,712,055 56,502,307

- (e) According to the financial statement of the Southern Province Ruhuna Tourist Beauru, the balance of the sundry deposit account amounted to Rs.1,854,816 whereas according to the sundry deposit Ledger it was Rs.1,627,618 thus showing a difference of Rs.227,199.

1.2.5 Accounts Receivable and Payable

The value of accounts receivable and payable remained for over 01 year amounted to Rs.40,555,059 and Rs.967,394 respectively.

1.2.6 Lack of Evidence for Audit

The following observations are made.

(a) Unanswered Audit Queries

Replies to 203 audit queries had not been presented by 31 December 2012 and the value of transactions involved on those queries can be computed at Rs.431,883,448.

(b) Non-rendition of information for audit

Evidence in respect of transactions totaling Rs.531,430,096 relating to 07 institutions was not made available for audit.

1.2.7 Non Compliance

The following non-compliances with Laws, rules, regulations and management decisions were observed in audit.

Reference to Laws, rules and regulations etc.

Non-compliance

- (a) Public Service Provident Fund Act
No. 18 of 1942

Provident Fund contributions had not been recovered from 5 employees working in 4

schools and a Teachers Centre who were not entitled for pension rights.

(b) Establishments code of the Democratic Socialist Republic of Sri Lanka

(i) Section 4.1, 4.3 and 4.4 of chapter XXIV

A loan balance of Rs.148,120 due from an officer retired in the year 2010 and a loan balance of Rs.114,600 due from an officer who vacated the service on 30 November 2009 had not been recovered even by 30 September 2013.

(ii) Section 13.6 of Chapter XXIV

Festival advance can be paid only once in 12 months period. Nevertheless festival advances of Rs.165,000 had been paid to 33 officers in the Deputy Chief Secretary`s (Planning) office before exceeding 12 months.

(c) Sub section 7(5) of the Establishments Code as amended by Public Administration Circular No. 07/2000 dated 02 March 2000 and Public Administration Circular No. 11/94 dated 11 February 1994.

Contrary to the Circular instruction, salary conversions had been carried out for the promotion of staff of Southern Provincial Road Development Authority since 15 June 2007 on a decision of the Board of Directors.

(d) Management Services Circular No. 30 dated 22 September 2006 and the Department of Management Services Letter No. DMS/B/01/03/01/SA dated 26 December 2006.

(i) In converting Salaries as at 01 January 2006, salaries had been converted by considering the salaries being obtained as at 01 January 2006 instead of being considered the salaries of 31 December 2005. (Salaries as at 01 January 2006 had been over the salaries as at 31 December 2005) As the salaries as at 01 January 2006 had included 50 per cent salary increase proposed to be increased by Management Services Circular No. 30 of 28 December 2001 or Rs.750. Salaries of all employees of the

Provincial Road Development Authority in the year 2006 had been imperfect.

- (ii) Even though it was stated that salaries of officers who recruited after 01 January 2006 should be placed at the initial step, salaries of officers who were recruited after 01 January 2006 had been placed above the initial step, contrary to that provision.
- (e) Management Services Circular No. 30(i) dated 01 June 2009 and 30(ii) dated 09 September 2009 According to the circular, salary conversion should be done in terms of sub-section (4) of chapter VII of the Establishments Code Contrary to that, the Provincial Road Development Authority had converted salaries on step by step basis.
- (f) Management Services Circular No.43(i) dated 13 September 2011 As the Provincial Road Development Authority had erroneously converted salaries contrary to the Management Services Circular 30 (i) and 30 (ii), provisions in these circulars could not be implemented.
- (g) Management Services Circular Nos. 28 dated 10 April 2006, 28(i) dated 26 May 2006, 28(ii), dated 31 August 2006, 36 dated 01 August 2007 and 36(i) dated 15 October 2007. Contrary to the provisions in those circulars, 60 employees had been newly recruited by the Provincial Road Development Authority during the period from 01 January 2006 to January 2012 without the approval of the Department of Management Services.
- (h) Management Services Circular No. 39 dated 26 May 2009 and the letter No. DMC/B/03/01/03/01/SA dated 26 December 2006 of the Department of Management Services. Despite it was informed that any salary increment should not be paid without the approval of the Department of Management Services, Contrary to that 4 salary increments had been paid to all non-executive employees of the Provincial Road Development Authority since 01 July 2008 on a decision of the Board of Directors.

2. **Income Management**

Tax income and non-tax income for 6 years from 2007 to 2012 is given below.

Year	Tax income	Non tax income
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	Rs.Mn	Rs.Mn
2007	1,428.78	714.51
2008	2,129.38	581.34
2009	2,105.00	508.86
2010	2,532.16	520.49
2011	3,704.70	569.92
2012	3,889.51	619.26

The following observations are made in this regard.

- (a) The Provincial Council had failed to recover the arrears of revenue amounting to Rs.26,109,826 relating to the revenue to be collected by 8 Divisional Secretariats on behalf of the Provincial Council even up to the end of the year under review.
- (b) According to the statement of arrears of revenue as at 31 December 2012 in the Provincial Department of Revenue, the outstanding revenue relating to 4 categories of taxes amounted to Rs.223,827,294. It was failed to recover these arrears even by 30 September 2013.

3. **Financial Review**

3.1 **Financial Results**

According to the financial statements presented, there was a deficit of Rs.477,243,879 in the Provincial Council Fund as at 31 December 2012 as compared with the deficit of Rs.133,301,763 for the preceding year. Increase of expenditure by Rs.217,922,000 and

the decrease of Government grants by Rs.360,160,000 had been the main reason for the deterioration of financial results as compared with the previous year by Rs.343,942,116.

3.2 Analytical Financial Review

Item	2012	2011	Increase / (decrease) in financial results	Percentage of increase / (decrease) in financial results
	Rs.000'	Rs.000'	Rs.000'	%
Revenue	4,508,779	4,274,630	234,149	5.48
Expenditure	(18,030,535)	(17,812,613)	(217,922)	1.22
Deficit	(13,521,756)	(13,537,983)	16,227	(0.12)
Government Grants	13,044,512	13,404,681	(360,169)	(2.69)
(Deficit) after Government grants	(477,244)	(133,302)	(343,942)	258.02

3.3 Legal cases initiated against the Provincial Council or initiated by the council against other parties

The following observations are made.

- (a) A court case filed by an employee of the Provincial Road Development Authority challenging a disciplinary order and 6 complaints made in the Labour Office by employees of the Authority asking for promotions, gratuities, special allowances Employee Provident Fund salaries and legal fees were being under investigation.
- (b) The Authority had presented in the court of Law against a newspaper in respect of defamation of the Provincial Road Development Authority and against an employee of the Authority for the preparation of spurious documents and these cases were being inquired.

4. Operating Review

4.1 Performance

(a) Government Grants

Particulars of Central Government Provisions received for Provincial Council Development Programms and expenditure incurred thereof are given below.

Source	Total net provision	Actual Expenditure	Savings	Percentage
	Rs. Mn.	Rs. Mn.	Rs. Mn.	
Criteria based Provision	347.00	189.46	157.54	45.40
Provincial Specific Development grants	1,642.00	776.99	865.01	52.68
Health Sector Development Project - Foreign Loan	5.00	0	5.0	100.00
Education Sector Development Project - Foreign Loan	124.00	102.00	22.00	17.74
UNICEF Programme	2.00	0	2.00	100.00
1000 school programme (a)	25.00	20.48	4.52	18.08
Estate Sector School Development Programme	20.00	16.38	3.62	18.10

(b) Southern Province Department of Education

The following observations are made.

- (i) In the test examination of scholarship results it was revealed that out of 2,665 students sat for the examination in 20 schools attached to Galle, Elpitiya and Ambalangoda Zones, only 106 students had passed the examination. Even though 1,468 students sat for the examination in 27 schools out of 98 schools attached to Hambantota Zone during the period of 14 years from 1998 to 2012 non of the students had passed the examination.
- (ii) The results of subjects of Mathematic, English and Science of G.C.E.(O/L) Examination in the year 2011 relating to the Galle, Udugama, Elpitiya zones had been decreased by 9.51 per cent, 7.34 per cent and 8.41 per cent respectively as compared with those of the year 2010.
- (c) Out of a sum of Rs.3,367,000 provided for the schools of Morawaka Education Zone for the year 2012 under the Southern Province Sector Development

Programme only a sum of Rs.869,215 had been spent and the balance represented 74 per cent or Rs.2,397,185. Accordingly, the expected objective of the Sector Development Project for the qualitative improvement of subjects in the schools attached to the Zone had not been achieved.

4.2 Management Inefficiencies

The following observations are made.

- (a) A generator with the capacity of 200KVA had been installed by incurring an expenditure of Rs.3,875,500 for the provision of electricity to the Provincial Secretariat and a sum of Rs.75,000 had been spent annually for its maintenance. When the cooling system is being operated, the normal electricity had been consumed. If the generator had been used on the days the cooling system was operated without using the normal electricity a sum of Rs.75,000 could be saved from the monthly electricity bill of the Council.
- (b) According to the electricity bills of the Council Secretariat the monthly electricity consumption during the peak hours from 6.30 p.m. to 10.30 p.m. and non-peak hours from 10.30 p.m. to 5.30 a.m. in the year 2012 had been used between 300 to 400 units. The Management had not paid attention to use electricity economically.
- (c) According to an audit query issued in respect of vesting the two storied building belonging to the Neluwa Rural Hospital to the Neluwa Pradeshiya Sabha a committee had been appointed and it was reported that the value of expired drugs amounted to Rs.542,094. This value including the Departmental Charges had not been recovered from the responsible officers even up to 31 August 2013. Further stock registers had not been properly maintained by 3 Doctors who were in charge of drugs stores during the period from 27 January 1995 to the year 2013.
- (d) Two hundred and thirteen items of G.P.S. equipment had been purchased by the Ministry of Fisheries by incurring an expenditure of Rs.6.5 million for 213 fishermen and the following deficiencies were revealed in this regard.
 - (i) Although quotations had been called from 5 selected institutions for the purchase of 50 units of GARMIN 128, GPS by letter dated 17 May 2012, it was not confirmed by the register of Letters.

- (ii) Action had not been taken in calling for quotations in terms of section 3.4 of the Government Procurement Guidelines.
 - (iii) Although quotations were called for the purchase of 50 units of GARMIN 128 GPS equipment and 50 units of GARMIN 72 GPS it was stated in the order Letter as 115 items of GARMIN 128 GPS equipment and 93 units of GARMIN 72 GPS.
 - (iv) The date and the quantity of equipment to be purchased had not been mentioned in the Procurement Committee decision.
 - (v) In the examination of agreement entered into with Fisheries Societies there was a difference between the date of execution and the date of signing and accordingly the validity of the agreement was questionable. Although 2 types of GPS equipment had been purchased the relevant type had not been specifically indicated in the agreement.
 - (vi) Distribution registers to ensure that GPS equipment given to fisheries societies had been distributed among the registered fishermen members in the relevant societies had not been obtained up to the date of audit.
 - (vii) A file including the names of fishermen, addresses, National Identity Card numbers, names of fisheries Society, membership numbers date of receipt of equipment, signature etc. had not been maintained to ensure that those 213 units of equipment had been correctly given to the beneficiaries.
- (e) Boats had been issued to 43 fishermen by incurring an expenditure of Rs.2 million from the grants received under Provincial Specific Development grants in the year 2012 and the following observations are made in this regard.
- (i) In calling for quotations there was no evidence to ensure whether letters had been sent to 5 institutions selected.
 - (ii) The type and the quantity of boats had not been stated in the agreement relevant to 13 boats given to fisheries society.
 - (iii) A register indicating such important particulars as names of fishermen, addresses, signatures etc. of fishermen obtained those 43 boats had not been maintained.
- (f) Four teachers in 04 schools belonging to Galle Zone had gone on 1,339 days no pay leave during the period from 1990 to 2011 but a sum of Rs.332,096

recoverable as no pay leave had not been recovered even up to 31 August 2012. Further, no pay recoveries from 04 teachers in a Maha Vidyalaya who had gone on 31 days no pay leave during the years 2011 and 2012 had not been made even by December 2012.

- (g) Fourteen teachers in 13 schools in the Elpitiya Zone had obtained 1916 ½ days no pay leave during the period from 1999 to 2011 but no pay recoveries had not been made from their salaries.
- (h) A teacher in a Maha Vidyalaya in the Matara Zone had followed a degree course in the Sri Jayawardhanapura University without getting the Approval of the Director of Provincial Education and he had gone on 240 days no pay leave during the years 2011 and 2011.
- (i) An assistant teacher in a junior school in the Matara Zone had obtain 119 day leave without approval during the probation period and he was informed his inefficiency from time to time. His medical report was not available with the personal file, while the personal file was also not complete. Accordingly, action had not been taken in accordance with section II of Chapter II of the Establishments Code.
- (j) A female dancing teacher in a vidyalaya who had got a trainee uncertified teaching appointment since 1994 had gone on 958 ½ days no pay leave during the 14 years period from 1999 to 2012 (Leave records for the year 2007 were not available) As a result, the Provincial Director of Education had informed the Zonal Director of Education to issue the letter of vacation of post but the Zonal Director of Education had not taken any cause of action against that teacher even by April 2013.
- (k) The decrease percentage in passing mathematic subject within the Ambalangoda Zone in the year 2011 as compared with the year 2010 ranged from 02 to 66 per cent but there were no any vacancies of mathematic teachers within the Zone. Further, the percentage qualified for GCE (A/L) relating to 7 schools had decreased from 05 to 85 percent in the year 2011 as compared with the year 2010. However a sum of Rs.57,500 had been spent to conduct a series of special seminars to improve the knowledge of mathematic for weak students in the schools belonging to the Zone, but there was no evidence to ensure whether such seminars had provided effective results.

- (l) A sum of Rs.26,089,938 payable to the Department of Railways in respect of railway warrants obtained in the years 2008, 2009 and 2010 by the Provincial Department of Education had not been remitted to the Department of Railways.
- (m) Although 2,453 days no pay leave had been obtained by a teacher during the period from 1990 to 02 October 2010 on which he had retired in a Maha Vidyalaya belonging to Gale Zonal Office due to a mental decease, salaries of Rs.967,449 had been over paid irrespective of his no pay leave. Of this amount, a sum of Rs.276,875 had been deducted from his pensions Gratuity and the balance of Rs.690,574 to be further recovered had not been recovered even up to 30 November 2012.
- (n) A female teacher served as the principal in a junior school belonging to the Akuressa Zonal Office had been attached to the Zonal Office during the period from 11 August 2010 to 30 October 2013 and paid her salaries without assigning any duty.
- (o) 94,850 packets of uniform cloths to be distributed among school children for the year 2013 had been received by the Zonal Office and the quantity distributed according to the distribution register amounted to 94,061. Accordingly, the balance packets should have been 789 but it was 2,828 packets according to the physical verification carried out on 12 June 2013.
- (p) Bursary money relating to the years 2007, 2008 and 2009 to be given to the Southern Province School children had been sent to the Zonal Office in February, March and April 2012 but money relating to the years 2010, 2011,2012 and 2013 had not been sent to the Zonal offices even up to the date of audit on 23 April 2013. As giving scholarship benefits was so delayed, it was hindrance to the education of students.
- (q) The cheque valued at Rs.284,500 written to the Tissamaharama People`s Bank on 21 March 2013 in respect of 60 scholarship holders in 11 schools in the Hambanthota Zone for the period January to November 2012 had been dishonored. As such bursaries for the year 2012 were not received by scholarship holders even up to the date of audit on 12 June 2013.
- (r) A provision of Rs.1,650,000 had been made under the purchase of equipment expenditure item to conduct Vocational Training Courses and extra classes in the Department of Probation out of which a sum of Rs.1,634,836 had been spent for instructors. Nevertheless, syllabus of subjects to teach Vocational Training Courses and the results registers of the student`s term tests were not made available. The teaching Period of this courses had been 8 months per year.
- (s) According to the report given by the Evaluation Committee appointed for the purchase of Language translation equipment at Rs.1,337,441, it was recommended that the payment had to be made after the supply, installation and demonstration. However, a sum of Rs.1,000,000 had been paid without being

installed and tested the equipment. Even though equipment was received on 03 April 2012, they had not been installed but remained in the stores even up to the end of the year under review.

- (t) As the land acquisitions for the government development programmes had not been carried out efficiently, overpayment of compensation had to be made as follows.
 - (i) Initial step of the acquisition of land for the government Lalpe tank had been taken in the year 2001 and the assessment value at that time amounted to Rs.389,675. As the acquisition had delayed, that property had been revalued at Rs.943,500 on 06 May 2011 and an over payment of Rs.553,825 had been made in the year 2012 as a compensation.
 - (ii) By-Law 38(a) had been published on 03 October in the Gazette No. 67 dated 14 December 1979 for the acquisition of 05 acres, 02 roods and 1.06 purchase assessed at Rs.28,000,000 on 20 June 2007 for the development of Beliatta Maternity and children hospital. As the acquisition had not been carried out efficiently, a provision of Rs.46,645,000 was required for the payment of compensation as per the new assessment by 03 February 2011 and interest had also to be paid in addition to that from the date of publication of by-laws.
 - (iii) Although by law 38(a) had been published on 14 December 1979 for the acquisition of land for the construction of a children's ward in Godagama Rural Hospital, Compensation of Rs.940,000 had been paid on 30 May 2007. As a result of this delay an interest of Rs.1,843,120 had to be paid as delayed payment for the period from the date of issue of by laws to the date of payment of compensation.
- (u) In terms of paragraph 3 of the letter No. EC/G/R/L/2011 dated 12 October 2011 of the Commissioner General of Excise, tax clearance certificates obtained from the Commissioner General of Inland Revenue and the Provincial Commissioner of Revenue in issuing and renewal of annual excise licenses should be presented. Tax clearance certificates had not been obtained from the Provincial Commissioner of Revenue for the 5 Licences and one licence issued by the Ambalantota Divisional Secretariat and Suriyawewa Divisional Secretariat for the year 2012 respectively.
- (v) A lease agreement had been entered into with a private Company at an annual rental of Rs.72,000 in respect of a land, 4 Acres and 37.06 purchase in extent situated at Wathuregama in the Balapitiya Division Secretarial Division on 28 January 1993 by the Secretary to the Ministry of Food and Co-operatives. The

relevant Company had evaded the payment of rent since 2000 but his industry had been operated its activities. According to the court decision, the amount recoverable was Rs.1,501,131 but the Industries Deputy Secretary's office had failed to recover this money even up to 31 December 2012. This Property had been over grown with weeds and remained unprotected without being used for any purpose even by 30 September 2013.

- (w) A Memorandum of Understanding (MOU) had been signed with the Central Cultural Fund by the Ruhunu Tourist Beaurau on 20 March 2013 for the implementation of a pilot project namely as Ocean Archaeological Project. Provisions of Rs.1,700,000 in the year 2011 and Rs.3,500,000 in the year 2012 had been made on this under Southern Province Development Programmme. Of this diving equipment had been purchased by incurring an expenditure of Rs.1,672,836 in the year 2011 and a sum of Rs.3,130,305 had been paid in the year under review for the creation of a Boat. A feasibility study had not been carried out before the implementation of this project.
- (x) A vehicle of the Office of the Hambantota Provincial Director of Agriculture had been released to the Provincial Minister of Agriculture on 18 March 2010 by his letter dated 17 March 2010 and it had been returned on 27 April 2010. However, this vehicle had met with an accident on 09 April 2010. But it had not been reported to the police in terms of Southern Province Financial Rule 54.1.2. A preliminary inquiry had not been carried out as per the Southern Province Financial Rule 54.3.1. within the specific period. No any insurance cover had been obtained for the vehicle by the time of occurring the accident and any action had not been taken even to recover the total repair cost of Rs.168,500.
- (y) A Provision of Rs.798,200 had been made to set up a layer unit within the Thelijjawila farm and an estimate prepared by the District Engineer (Irrigation), Matara for Rs.775,000 had been approved.
 - (i) In the examination of that estimate and the actual expenditure an over estimation of Rs.88,930 for 5 expenditure items had been made.

- (ii) Although it was stated that the hen – coop should cover with a net, apply paint twice round the coop and use 2nd class timber beedings as per expenditure items No. 13, specification of nets and applying paints which was necessitated had not been estimated. Net made had become corroded and action had been taken to lay an additional net as the existing net was not strong enough.

- (z) According to an estimate approved by the Matara District Engineer (Irrigation) valued at Rs.437,000 for the construction of cattle shed at Tellijawila farm the provision had been made by the Director of Agriculture, Southern Province.
 - (i) According to the agreement entered into with a farmers society on 27 July 2011 in respect of this construction work, it should have been completed within 2 months. It was reported to the Deputy Director of Agriculture on 31 December 2011 with an undated letter stating that the work had been completed. However, action had not been taken to recover the demurrage Charges of Rs.305,900 in terms of section 04 of the agreement.
 - (ii) According to the work item 10, a sum of Rs.135,648 had been paid in respect of roof using coconut timber and asbestos sheets, but it was observed in audit that the timber used had been inferior quality and it was not strong enough to lay asbestos sheets.

- (aa) A sum of Rs.1,351,800 had been spent for the purchase of 11,900 bags of polysack under the provincial specific provision and 48,100 bags of polisack under the central government provision by the office of the Labuduwa Deputy Director of Agriculture in the year 2010. The following observations are made in this regard.
 - (i) The quantity to be purchased had not been determined by the Procurement Committee dated 11 August 2010.
 - (ii) 12,170 bags of poly sack valued at Rs.272,608 had remained undistributed in the stores even by 12 February 2013. Attention had not been paid in respect of the reduction of their quality due to a lapse of about 3 years.
 - (iii) According to the information made available for audit, 47,830 bags of poly sack had been issued to 54 officers to be distributed to the farmers during the period 2010 – 2012. Receipts for Rs.338,352 in respect of 28,196 bags of poly sack had been obtained by 12 February 2013 as the

farmers contribution. A sum of Rs.235,608 for poly sack bags issued had been outstanding as at 31 December 2012 as the farmers contribution.

- (ab) A sum of Rs.2,155,416 had been spent for the training of 161 destitute and handicapped persons and providing self-employment during the period 2006 to 2011. At an site inspection carried out by using 9 persons out of 21 persons who obtained training in the year 2011, it was observed that non of them had engaged in agriculture crops effectively. It was observed in audit that despite the social service officers had paid attention about the weaknesses in the progress and the productivity of project, those had not been taken into consideration.
- (ac) A sum of Rs.2,419,200 had been spent on 68 vouchers during the year 2012 for purposes directly irrelevant to the objectives stated in the Religious, Literary and Art Development Affairs Statute No.02 of 2001 of the Southern Province.
- (ad) One private firm had presented a bid for Rs.1,543,493 at Rs. 220,499 per machine for 07 machines and another firm had presented a bid for Rs.1,880,000 at Rs.188,000 per machine for 10 machines in purchasing Air conditioned machines for the Southern Province Sports Ministry. Nine machines had been purchased from the firm by paying a sum of Rs. 1,984,491 by which quotations had been presented for 7 machines. As purchases had not been made from the firm by which the minimum quotation was submitted the Council had sustained a loss of Rs. 292,491.

4.3 Operating inefficiencies

The following observations are made.

- (a) As action had not been taken to build the incubator with the capacity of 4,200 eggs belongings to the Kekanadura Animal farm at an accepted standard, the wastage quantity of eggs had been at a high level. Accordingly, out of the quantity of eggs input to the incubator during the years 2011 and 2012 amounting to 32,396 and 105,806 respectively, output of fertile chicks amounted to 21,606 and 66,275 respectively. As such, the wastages during the 2 years were 34 percent and 37 per cent. Similarly, as there was no proper system of marketing chicks reproduced, some of reproduced chicks had to be retained in the farm by incurring an additional cost. Further a register in order to ascertain the value of eggs input to the incubator had not been maintained in the Farm.
- (b) According to the guidelines 5.4.11 of the Government Procurement Guidelines 2006, if works, goods or services are not exempted from Value Added Tax a tax

invoice should be obtained from VAT registered contractors /suppliers and then VAT on goods supplied or works done should be paid. Nevertheless, VAT invoices for bills valued at Rs. 2,494,695 in the test check were not made available for audit.

(c) The following observations are made in respect of expenditure amounting to Rs.3,151,600 incurred in December 2012 by the Chief Ministry for the printing of Dakshina alimanac, envelopes and timetables.

- (i) There was no evidence to ensure whether bids had been accepted in terms of guideline 6.3.1(a) of the procurement guidelines 2006 and bids had been opened after 15 days of the closure of bids, contrary to the guideline 6.3.3(b).
- (ii) According to the guideline 2.14.1 of the Procurement Guidelines, bids should be called from not less than 5 institutions for values between Rs. 1 million and Rs. 2 million at a date of prior notice. However bids had been called for from only 04 institutions.

(d) Maintenance of Labuduwa Farm

The following observations are made.

- (i) A sum of Rs. 7,664,986 had been spent for supplies required for the productions of Labuduwa Farm food processing unit in the years 2012 and these supplies had been obtained from two institutions. Suppliers had not been registered for the year 2012. Although bids should be called for supplies in terms of guideline 3.3 or 3.4 of the Government Procurement Guidelines, bids had not been so called in selecting suppliers. Purchases had been made only from 2 institutions since 2007 according to a letter of the Secretary to the Ministry of Land and Agriculture dated 31 July 2007.
- (ii) Although there were several main production divisions such as agricultural crop plantation, milk and veterinary and food processing etc, a proper documentation system to record farm crops and a cost accounting system had not been introduced. Evidence to ensure the daily production quantity and the productivity of each product was not made available for audit.
- (iii) The method of valuation of products in the farm product and food processing division was not made available for audit.

- (iv) Despite stock of raw-material valued at Rs.16,541,078 was available at the beginning of the year under review, stock of raw-materials valued at Rs.23,642,436 had been purchased and the annual consumption of raw-materials amounted to Rs.13,389,003. The balance stock at the end of the year stated as Rs.26,794,510 and the raw-material consumed represented 33 per cent of the total stock. Accordingly, it was observed in audit that stock had been purchased and stored without proper management.
- (v) According to the Profit and Loss Account of the previous year the stock of finished goods valued at Rs. 16,171,937 whereas that value in the year under review amounted to Rs. 26,794,510. Accordingly, the stock of unsold finished goods had increased by 48 per cent as compared with that of the previous year.

4.4 Transactions of contentious nature

Quotations had been called for from 3 institutions on 28 August 2012 for the purchase of equipment during the year 2012 to the construction material laboratories affiliated to the Department of Local Government. Of these quotations, one entity related to another entity had sent its quotations and the Technical Evaluation Committee had compared the prices of such 2 companies and recommended. Accordingly, equipment had been purchased on 03 October 2012 at Rs. 1,703,744. The related company by which a quotation was presented was not an entity which sales equipment, but it supplies services to survey activities. Accordingly, it cannot be satisfied in audit in respect of the recommendation given by the Technical Valuation Committee for the above purchase.

4.5 Apparent Irregularities

The Southern Development Authority had entered 22 agreements with a contactor during the period from 30 June 2006 to 24 January 2011 for the supply of 25 lakhs of tea plants totaling Rs.30,270,000. In the examination of payments made and the supply of plants during the period from 30 June 2006 to 27 May 2013 the following matters were observed.

- (a) Before signing the agreement, 01 per cent performance bond had not been obtained in terms of guidelines 5.4.8 of the Government Procurement Guidelines.
- (b) Although an advance not more than 20 per cent could be paid by obtaining a mobilization advance bond in terms of Government Procurement Guideline 5.4.4, without obtaining such a bond, advance totaling Rs. 22,638,000 had been paid to the supplier in 17 instances.

- (c) Despite the supply of 900,000 plants as per 6 agreements entered in to during the period from 30 June 2006 to 12 November 2007 had delayed for 01 to 13 months, another 10 agreements had been entered into on 29 December 2008 for the supply of another 10 Lakhs of plants and an advance of Rs.9,000,000 had been paid. Despite the plants had not been supplied according to those agreements, 06 agreements had been entered into for the supply of another 6 Laksh of plants on 24 January 2011 and paid an advance of Rs.3,600,000 on the same date and another advance of Rs.3,600,000 on 26 January 2011.
- (d) Only 915,700 had been supplied during the period from 30 May 2007 to 27 July 2011 and the payment to be made on these plants amounted to Rs.9,732,374 only. However, a sum of Rs.27,766,881 had been paid as advances and as the final payments during the period from 04 July 2006 to 15 February 2011 to the contractor. Accordingly, the direct loss incurred by the Authority at the date of audit on 27 May 2013 amounted to Rs.18,034,507.
- (e) The loss of interest to the government income on this money as a result of keeping a sum of Rs.18,034,507 by an external person for the periods ranging from 2 ½ - 4 ½ years amounted to Rs.5,687,260 approximately. It was observed in audit that a sum of Rs.29,652,209 was due from the supplier comprising the total amount of Rs.23,721,767 and an additional amount of Rs.5,930,442 chargeable as Departmental charges.
- (f) Of this amount of Rs.29,652,209, a sum of Rs.9,450,000 had been paid by the supplier to the Authority and the balance of Rs.20,202,209 had not been recovered even by 25 October 2013.
- (g) The Authority had taken action to pay a sum of Rs.18,034,507 to an external party without transparency and any course of action whatsoever had not been taken against the responsible persons who authorized, certified and approved the payment even up to 25 October 2013.

4.6 Underutilization of Funds

It was observed that a sum of Rs.2,336,543 received by the Ministry of Cultural Affairs from the Chief Minister's office for the implementation of objectives of the Religious Literature and Arts Development Fund had remained in the Fund as at 31 December 2012 without implementing the proposals of each member.

4.7 Idle and under utilised Assets

The following observations are made.

- (a) A stock of equipment, valued at Rs.1,501,041 purchased in the previous year for the strengthening of Health system project up to 12 April 2013, chemicals and chemical equipment of 54 types, 4,538 of microscope slides and 33 equipment of 9 types up to 02 November 2012 had remained idle.
- (b) Although 61 numbers of operation theatre equipment had been received by the Baddegama District Hospital in the year 1988, such equipment had been idle up to the date of audit on 23 November 2012 as the theatre had not been opened.
- (c) Although a two storied building had been constructed in the Hambantota District Director of Health Services office premises to operate the chest clinic under the financial assistance of the National HIV/AIDS prevention project (NHAQPP) DA Grand AOH/013/-CE in the years 2005 and 2006, it had not been utilized for the intended purpose even up to the date of audit on 26 July 2012 and the equipment fixed to the building had been removed by external parties. It was planned to establish malaria officers office in this building and an estimate for Rs.2,000,000 had been prepared to repair it by replacing stolen equipment.
- (d) Although the official bungalow of the registered Medical Officer in Habaraduwa terminus hospital had been repaired at a cost of Rs.593,761 and handed over on 15 August 2012 to the Medical Officer in charge, any medical officer had not occupied the bungalow even up to 26 August 2013. At present this bungalow premises had overgrown with weeds.
- (e) Even though equipment valued at Rs.110,355 had been purchased in the year 2011 by the Department of Local Government for the proposed Hambantota Quality Laboratory, such equipment had been retained in the Galle Laboratory unprotected even up to the date of audit on 04 June 2013.
- (f) Even though 1 ½ years had elapsed after setting up of Presidential Initiative Unit denominotively in the Southern Province Department of Education, computers and office equipment valued at Rs.9,438,311 had been idle from December 2011 to 30 September 2013.

- (g) As there was no music teacher to teach music, a piano valued at Rs.500,000 given to a school in Galle in March 2011 by the Paththalgedara stores of the Ministry of Education had become idle.
- (h) 21 schools in the Southern Province had been closed down due to various reasons but lands and buildings of those schools had not been used for any purpose.
- (i) In the examination of few rooms in the planning secretarial building where offices of the Rural Economic Promotion Project implemented within the Southern Province were operated, filling cabinets and almirahas, filling racks and computers and accessories including 111 goods of 21 types had been kept idle without being used for any fruitful purpose. While this office equipment remained idle, office equipment valued at Rs.169,436 had been purchased during the year 2012.
- (j) It was observed in audit that teachers` quarters in 18 schools belonging to the Galle Zone had become dilapidated position and as such, non of the teachers had resided in those quarters. Further , no any steps had been taken by the Southern Province Department of Education to repair them.
- (k) The key objective of the Poddiwela District Agriculture Training Center which is one and only Agricultural Training Center in Galle District is to train Agriculture officers and farmers in the District. However, the lecture hall had been used for 21 days for 16 training programs and the Hostel building had been used only for 05 days for 71 trainees during the year 2012. Accordingly, it was observed that utilization of assets in the training center had been at a very minimum level.

4.8 Uneconomic Transactions

The Following observations are made.

- (a) In renting members hostels, the government valuer had assessed only upstairs of a building and without assessing the entire building the entire building had been obtained in the year 2012 on monthly rental of Rs.40,000 and Rs.400,000 had been paid by 31 December 2012 .
- (b) The vehicle in which the insured value in 2011 was Rs.675,000 had been repaired by incurring a sum of Rs.1,473,950 on 03 May 2012 but a proper certificate to ensure that it had been repaired at a standard had not been obtained. Repairs had

been carried out by incurring an additional expenditure of Rs.605,023 in November 2011 and a sum of Rs.2,078,973 had been spent thereon by 28 December 2012.

- (c) A bus had been purchased in December 2011 for Rs.2,772,000 by the Director of Health Services Office, Matara, and it had been handed over to a garage to convert into a Mobile Laboratory on 10 July 2012. Without doing the necessary conversion it had been handed back on 17 May 2013. Before being converted the bus into a Mobile Laboratory drugs valued at Rs.1,894,432 had been purchased in the year 2011 and stored. Accordingly, a sum of Rs. 4,666,432 had been spent on this purpose, but no benefit whatsoever had been received up to 30 September 2012. The stock of drugs suddenly purchased without proper planning had deteriorated the use of period.

- (d) A sum of Rs.1,001,575 had been spent for the awareness training workshop for Southern Province and Local government new members held on 29, 30 January and 19, 20 in February 2012 in a Hotel at Nuwara Eliya by the Local Government Department. According to the President Secretary's circular No. C.S.A./P1/40 issued on 28 February 2007 on Public Expenditure Management, hotels should not be selected to conduct their meetings seminars workshops etc. by Ministries Departments and Public Institutions and the hotel charges in respect of food and lodging in local tours should not be settled from public money. Contrary to that expenditure had been incurred.

- (e) Out of the schools in Elpitiya Zonal Education areas number of students in 09 schools amounted to 106 and the number of teachers in those schools amounted to 30. Salaries amounting to Rs.5,182,385 had been paid to these 30 teachers during the year under review up to September from the Provincial Council Fund. Even a single student had not studied in one of these 9 schools but salaries of Rs.175,545 had been paid to one teacher for the period January to 30 September 2012.

- (f) Out of the quotations received for the supply of 04 air conditioners for the Deputy Chief Secretary's (planning) Office, the entity which had rendered the lowest quotation had not been selected. Instead, the Technical Evaluation Committee had recommended to select the second Lowest Quotation without adducing any reasons and as such an overpayment of Rs.109,625 had to be paid.

- (g) Southern Province poverty Alleviation Fund

The following observations are made.

- (i) The Poverty Alleviation scrolling fund had been established in the year 1989 in order to make provision to alleviate poverty by creating self employment and other development objectives in the Southern Province under the Southern Province Statute No. 02 of 1989. Loans of Rs.57,300,750 had been given to 12,178 persons during the period from 1989 to 1993. However, no loans whatsoever had been given subsequently from this Fund since 1993 to June 2013.
 - (ii) There was an outstanding balance of Rs.38,029,609 even as at 31 December 2012 and out of 41 co-operative societies established for giving loans, registration of 37 societies had been cancelled by now. A sum of Rs.30,322,937 was outstanding from loans given to 7,712 persons through those co-operative societies and a sum of Rs.7,655,765 had been outstanding from loans given to 1,774 persons through 04 societies of which the registration was not cancelled. Although about 21 years had elapsed after granting loans, action had not been taken to recover them and as such it was observed in audit that those debts could not be recovered.
 - (iii) A sum of Rs.73,040,113 given to this Fund for granting loans but it had been invested in fixed deposits without being utilized for the purpose. In the meantime this money had been withdrawn by the Chief Secretariat in 2009 and re-invested in fixed deposits. The balance of this deposit as at 31 December 2012, including the interest amounted to Rs.95,848,919. According to the letter No. SPC/CS/9/9/12 dated 24 May 2008 of the Chief Secretary, it was informed to the Deputy Chief Secretary (Planning) to prepare a suitable project report in order to invest this fixed deposits of scrolling fund in an effective project. However such a report had not been prepared and presented ever by the date of audit in March 2013.
- (h) Construction of the Ambalangoda Tourist Inn and practical Training school

This construction work had been commenced at an estimated value of Rs. 994 million without fulfilling the primary requirements to be considered before the commencement of a project. After spending a sum of Rs.5,329,069 from the Council Fund, the construction work had been completely abandoned. According to the Decision No. 608.5 dated 15 August 2012 of the Cabinet of Ministers, it was decided that this premises should be vested to the previously owned Ambalangoda Municipal Council and the expenditure incurred upto now by the Bureau amounting to Rs.5,046,025 should be recovered from the Municipal Council. However it was informed by the Municipal Council that this money could not be paid as this expenditure of Rs.5,046,025 had not been incurred in

agreement with the municipal council from its letter No. AM/MC/02/03/05(1) dated 10 October 2012. Accordingly the entire amount of Rs.5,329,069 spent on this project had become fruitless expenditure.

4.9 Identified Losses

The following observations are made.

- (a) As the 'c' form to be filled in paying Employees Provident Fund in respect of female technicians of Southern Province Industrial Development Board from August to December 2011 was incomplete, 01 percent surcharge of Rs.786 and a surcharge of Rs.44,411 due to non remittance of arrears of Employees Trust Fund contribution amounting to Rs.96,167 of substitute officers in the Authority for the period 2007 to September 2012 had been paid in the year 2012.
- (b) In purchasing chicken foods in the years 2010 and 2011 for the chicken farm of the Ridiyagama tropical dwelling, the procurement procedure had not been followed and as such a loss of Rs.938,315 had incurred .

4.10 Deficiencies in contract Administration

Deficiencies observed at a test examination of construction works done by various Ministries / Departments and other institutions are given below.

Name of construction work	Executing Agency	Expenditure up to 31 December 2012	Deficiencies Observed
(a) G/ Batuwahena Ratsiri Royal College Building	Provincial Building Engineers Office	Rs. 622,998	Non-installation of iron grill doors and locks at a standard level.
(b) G/ Anguluganga Maha Vidyalaya Bilding 80 x 20	- do -	1,029,506	Constructions cracked and exploded, removed door frames, door board, door keys not up to the standard use of lesser electric circuits.

(c)	G / Saralankara Maha Vidyalaya 90 x 25 Stage II of the Buildings	- do -	372,085	Constructions not up to the standard, plastering not done properly, windows could not be closed, space between walls and grills.	
(d)	G / Batuwanhena Royal College Building	Ratnasiri 3 storied	- do -	6,622,998	Tiles not layed properly, 15A, 13A socket outlet of grills and doors not fixed properly.
(e)	Neluwa, kosmulla, Duwiliella road	Provincial Road Development Authority	7,180,372	Road seriously damaged and dilapidated	
(f)	Meegahajadura Ihalakubukwewa Road development	- do -	19,829,257	No minimum thickness in asphalt concrete areas	
(g)	Borala, Addarawela Road	- do -	20,753,022	According to cutting sample non-availability of standard thickness in ABC measurements.	
(h)	Covering Concrete on Neluwakanda road	Divisional Secretariat, Niyagama	971,922	Cracked and detached gravels in 10 places on concrete road.	

4.11 Personnel Administration

The following observations are made.

- (a) Although the cadre of the Provincial Ministry of Education, Land and Land Development, Highways, Information and Rural Infrastructure Facilities was 11 the excess permanent and casual employees of drivers, KKSs, Watchers, Labourers, Bangalow Keeper etc. amounted to 12. Salaries of 5 of them had been paid by the Southern Road Development Authority and the salaries of another employee had been paid by the Deputy Director of Health Services Office. However, it was not stated the places where they had been attached for duties.

- (b) Contrary to the paragraph 2.2.2 of Teachers data determination circular No. 2003/38 of the Education Secretary, teachers who were not in the principals grade had been deployed in the school principals posts in 43 schools in the Akuressa Education Zone. However, few principal grade teachers had been served in another 6 schools as Deputy Principals and Assistant Principles in addition to the Principal.
- (c) Out of 3 Regional Education Office in Tangalle Directors of 2 Regional Education Offices had been vacant. Duties of those 2 Regions had to be looked after by the Zonal Director of Education and as such, much duties to be performed by the Zonal Director of Education could not be efficiently fulfilled.
- (d) Although there was no opportunity to study Advance Level under Mathematics and Science stream in about 20 schools within the Udugama Zone, 37 teachers who have the relevant qualifications teach in O/L classes and Primary Units and a sum of Rs.6,530,240 had been paid as salaries of these teachers in the year 2012.
- (e) Information available in the Zonal office revealed that 4 graduate Mathematics and Science teachers were teaching those subjects in 2 maha Vidyalayas in Gall in the 12th and 13th grades, but according to the school information, any students whatsoever had not learnt Mathematics and Science Stream in the years 2011 and 2012.
- (f) Tangalle Zonal Education Office

 - (i) While principals service, holding high grades in 3 schools had been holding in the posts of Deputy and Assistant Principles officers in lower grades in the principals service and officers in the teachers service had been appointed as principals.
 - (ii) While 21 officers in the principal's Service had been appointed as principals in junior and primary schools, 13 officers in teachers service had been appointed as principals in the National Schools and Maha Vidyalayas.
 - (iii) Out of 107 schools belonging to the Zone, officers in the Teachers Service had been appointed as principals of 60 schools and according to a test check, except the principal in a schools which had total students of 1,208, 3 teachers in the principals service had been appointed as a Deputy Principals.
 - (iv) House rent amounting to Rs.183,175 recoverable from 06 teachers who had come to reside in teachers quarters during the period May 1991 to

October 2012 in the Tangalle Zone had not been recovered even up to 05 July 2013.

- (g) As action had not been taken to attach teachers from schools which had excess teachers to schools which had shortage of teachers within the Walasmulla Zone, a proper human resource management had not been carried out. Particulars are given below.

Subject Area	Shortage of teachers in the schools within the zone	Excess of teachers in the schools within the zone
Primary	05	06
Mathematics	01	01
History	01	02
Physical Education	02	01

4.12 Human Resources released to other parties

The following observations are made.

- (a) Five teachers who obtained salaries from a Maha Vidyalaya in Galle had been released to the Armed Service, Field Laboratory, Balapitiya English Training centre, numeracy activities and to a Provincial Councilor's Staff and the salaries totaling Rs.1,378,213 had been paid to them from January to October 2012.
- (b) Two teachers in a Maha Vidyalaya in Galle had been attached to the Zonal Education office from September 2008 to 14 September 2012 and the salaries of Rs.1,582,425 had been paid from the school pay sheet up to 14 September 2012.

4.13 Vehicles Utilization

The following observations are made.

- (a) The following observations are made in respect of vehicles belonging to the Chief Secretary's office and other Ministries, Departments and other institutions of the Southern Provincial Council.

- (i) A register of Fixed Assets had not been maintained including all the motor vehicles registered in the name of Chief Secretary in terms of Treasury Circular No. 842 of 19 December 1978.
 - (ii) Although about 89 motor vehicles in the name of Chief Secretary had been identified at the audit examination, only 36 motor vehicles had been entered in the Register of Motor Vehicles.
 - (iii) Action had not been taken to transfer the ownership of 36 motor vehicles purchased by the Ministry of Finance in 1995 and given to Local Authorities of the Southern Provincial Council to the Chief Secretary.
- (b) Although the fuel consumption of motor vehicles should be tested every 6 month in terms of Public Administration Circular No. 41/90 dated 10 October 1990, such tests had not been carried out in respect of motor vehicles belonging to the Council even up to the date of audit on 12 March 2013.
 - (c) The vehicle given to the Assistant Commissioner of Elections for official duties had met with an accident on 02 December 2011. Although a full insurance cover had been obtained, action had not been taken to reimburse the repair expenditure during the year under review.
 - (d) At a test examination carried out in respect of vehicle repair expenditure it was observed that the expenditure incurred on 06 motor vehicles in the chief Ministers office during the period 2010 to 2012 amounted to Rs.9,574,144. Such vehicle had been old for periods ranging from 17 to 25 years.
 - (e) Although full insurance coverage had been obtained for 57 motor vehicles attached to the office of the Galle District Director of Health Services by paying a sum of Rs.1,702,373 on 10 October 2012, six motor vehicles met with accidents during the year 2012 had not been repaired even by 31 January 2013. Loss caused by accidents had not been assessed for 5 vehicles out of 6 vehicles.

4.14 Overpayments

The following overpayments had been made.

- (a) Overpayments amounting to Rs.177,196 and Rs.1,890,970 had been made in the year under review in 2 instances of purchases and 07 instances of constructions respectively.
- (b) Salaries amounting to Rs.79,438 had been overpaid to a Health Service Officer in the Urugasmannaru Government Hospital for the period during which she had not reported for duties. Action had not been taken to recover the overpayment even up to the date of 26 October 2012.

5. Accountability and Good Governance

5.1 Corporate Plan

Corporate Plan had not been prepared by 15 institutions relating to the year 2012.

5.2 Action Plan

Action Plan had not been prepared by 13 institutions relating to the year 2012.

5.3 Internal Audit

Eight institutions had not established internal audit units.

5.4 Meetings of Audit and Management Committees

Audit and Management Committees had not been established by 09 Ministries / Departments in the year 2012.

5.5 Procurement Plan

20 Institutions had not prepared procurement plans for the year 2012.

6. Systems and Controls

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

- (a) Accounting
- (b) Assets and Human Resources Management
- (c) Contract Administration
- (d) Project Implementation
- (e) School Management
- (f) Control of Procurement

