

Eastern Provincial Council - 2019

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Eastern Provincial Council for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 Councils Act No 42 of 1987. A summary report on these financial statements in terms of Section 23(2) of the Provincial Councils Act and sub-section 11(2) of the National Audit Act No.19 of 2018 was issued on 19 August 2020. A detailed management report in terms of sub-section 11(1) was issued on 20 August 2020. This report is submitted to the Parliament in pursuance of provisions in Article 154(6) of the Constitution and sub-section 10(1) of the National Audit Act.

In my opinion, except for the effect of matters described in the basis for qualified opinion section of my report, the financial statements give a true and fair view of the financial position of the Eastern Provincial Council as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basic for Qualified Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuS). 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 opinion.

1.3 Responsibilities of Management and those charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles, 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.

The management of various Provincial Institutions including the Provincial Treasury are responsible for overseeing the Provincial Council’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Eastern 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 of the Eastern Provincial Council.

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 those charged with governance 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 Regulatory Requirements

The financial statements of the Eastern Provincial Council is in consistence with the preceding year in terms of Section 6(1)(d) (iii) of the National Audit Act No.19 of 2018.

1.6 Comments on the Statements

1.6.1 Accounting Deficiencies

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
The Provincial Council had not disclosed the contingent liabilities in the financial statements in respect of 47 court cases instituted by third parties against the Provincial Council.	Action should be taken to disclose in the financial statements.	Presently, the Provincial Council prepared the Financial Statement based on the cash base accounting system. Anyhow in future we will take action to disclosed contingent liabilities in the Financial Statement.

2. Revenue Administration

2.1 Assessment of Immovable Properties for the purpose of Imposing Stamp Duty in the Eastern Province

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
(a) The Department of Provincial Revenue had collected additional stamp duty aggregating Rs.42,136,021 on the value of property for declaring lease value of the property in Batticaloa and Ampara districts. However, the Department had not informed the Registrar of the Land Registry of the districts of Trincomalee, Batticaloa and Ampara to change the face value of the property in the Land Registry according to the new valuation done by the Assessor of the above Department since 2014. As a result, old face value of the assessed property remained unchanged for several years in the Land Registry.	Action should be taken to inform the Land Registry about the changes.	Department of Revenue collected additional Stamp duty and penalty of deed value, details of which have been informed to all the District land registrars.
(b) According to the mobile services conducted from 2015 to 31 May 2019 by the Provincial Department of Revenue relating to the collection of stamp duty from the lands at the Land Registry in the Eastern Province, it was revealed that land owners had declared less value for	Action should be taken to appoint Provincial Commissioner of Revenue to recover default stamp duty.	Default tax collection is a continuous process, and action in progress to collect the default tax.

their lands in order to pay less amount as stamp duty. Therefore, additional stamp duty with penalty aggregating Rs. 11,227,019 had been imposed for those undervalued properties. However, the Provincial Department of Revenue had not taken actions even up to 30 June 2020 to recover the additional stamp duties from the land owners to whom they were imposed due to non - appointment of Commissioner of Provincial Revenue on time.

2.2 Progress of the Collection of Stamp Duty and Court Fines

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
(a) According to the mobile service conducted during the year 2017 and 2018 by the Provincial Department of Revenue relating to the collection of stamp duty from the registration of lands at the Land Registry in the Eastern Province, it was revealed that 794 land owners had declared less value for their lands in order to pay less amount as stamp duty. Therefore, additional stamp duty aggregating Rs. 14,190,769 had been imposed for those undervalued properties.	Action should be taken to appoint Provincial Commissioner of Revenue to recover back duty.	Due to the reason of the Commissioner of Revenue post is still vacant, the Department not in a position to taken any legal action on the issues of additional stamp duties which needed to be collected by the Department.

However, the Provincial Department of Revenue had not taken legal actions even up to 31 December 2019 to recover the outstanding back duty of Rs. 535,450 from the land owners to whom they were imposed.

- (b) Six thousand and twenty-six (6,026) deeds registered in the Eastern Province during the period from 2012 to 2018 had not been subjected to assessment by the Department of Provincial Revenue in order to verify and impose additional stamp duty due to under-valuation of lands.
- Action should be taken to expedite assessment works on deeds.
- Department faced major obstacle is lack of human resource and regional officers Ampara and Batticaloa were closed since 2013 to assess the under-value deeds. Therefore assessing process conducted by mobile service.

2.3 Arrears of Revenue

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
(a) Lease income for Government lands relating to 09 Divisional Secretariats totalling Rs. 333,065,744 had remained as arrears since the year 1991. However, prompt actions had not been taken to recover those arrears of income up to 30 June 2020.	Action should be taken to recover lease income without further delay.	This accumulated arrears amount of Rs.333,065,744 includes the penalty amount calculated yearly on the carried over balance.
(b) Even though it has been 11 years after the establishment of the	Action should be taken to	A Statute for pawn broking has been drafted in all three

Department of Provincial Revenue, a Statute had not been enacted in order to register the pawning centres operating in the Eastern Province and issue annual license in this respect. As a result, a considerable amount of revenue had been lost to the Provincial Council.

enact Provincial Statute for pawning centres.

Language and action will be taken to submit the statute to the council after commencement

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Provincial Council for the year under review had resulted in a surplus of Rs. 1,152,988,235 as compared with the corresponding surplus of Rs. 1,708,421,018 for the preceding year, thus indicating a deterioration of Rs. 555,432,783 in the financial results. Increase in salaries and wages by Rs. 1,429,917,032 during the year under review had mainly attributed for the deterioration.

4. Statute Accounts

4.1 Eastern Province Road Passengers Transport Authority

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
(a) The Eastern Province Road Passengers Transport Authority had constructed a building in a land allocated by the Kalmunai Municipal Council for bus stand in Kalmunai at a cost of Rs. 2,405,942 during the year 2011	Action should be taken to get back the property.	Several time we have requested from the Kalmunai Municipal Council to handing over the building to our Authority. Unfortunately still they did not take the action to handing over to our Authority.

from the Fund of the Authority in order to accommodate the office of the Authority. However, the Kalmunai Municipal Council had claimed the ownership of the building and rented out it to a private bank. As a result, the Authority had not made use of this building.

- (b) The Eastern Provincial Road Passengers Transport Authority had purchased 13 Point of Sales (POS) connected with General Packet Radio Service (GPRS) system and 2000 ticket rolls on 08 June 2015 at a cost of Rs. 1,142,000 in order to record the arrivals and departures of private buses to the bus terminals. However, those items had not been used for 05 years for the intended purposes due to the lack of proper software system to operate.
- Action should be taken to install software system to operate point of sales without further delay.
- Now System is working under testing period. After completing the testing period, if the software is functioning properly, we can implement these 13 Nos. of POS machines in all three districts.
- (c) Even though the route permits for 13 A/C buses from Ampara, Akkaraipattu to Trincomalee had been issued, the timetables had been set by the Authority only for 09 buses. Out of 13 buses which were issued route permits, only 06 buses had provided the transport services to the public during the year under review.
- Action should be taken to operate buses in compliance with the permit condition.
- It is true that the Authority had been issued timetables for 13 A/C buses from Ampara, Akkaraipattu to Trincomalee. But some permit owners of the A/C buses had not deployed buses during the year under review.

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| <p>(d) The Authority had made an agreement with a private company on 16 September 2016 to install an Effective Quality Management System based on ISO 9001:2015 standard at a cost of Rs. 1,000,000. Out of this, a sum of Rs. 326,000 had been spent even up to 31 December 2019. However, the Authority had not obtained ISO certification as envisaged even up to 30 June 2020. As a result, the money spent on the Project had become fruitless.</p> | <p>Action should be taken to obtain certifications without further delays.</p> <p>The Sri Lanka Standard Institute has informed the Authority that they have accepted the application and will visit to the Authority for the first audit.</p> |
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4.2 Eastern Province Provincial Housing Authority

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
<p>(a) According to the letter No. G/EPC/B/14/R/H. A dated 20 June 2014 issued by the Secretary to the Governor of the Eastern Province, the funds had been made available during the year 2014 for salaries and other expenditure subject to condition that the Provincial Housing Authority must generate its own funds without depending on the Consolidated Funds. However, the Authority had failed to start any business activities in order to generate its own funds to meet</p>	<p>Action should be taken to generate its own funds.</p>	<p>Because of lack of capital to invest in this business, these proposed sales centers were not established until now even though the board of Directors of this Authority taken decision. In addition, this Authority also not in a position to engage in such activity due to lack of manpower.</p>

expenditure even after the lapse of 05 years from the establishment of

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| <p>(b) According to Section 03 (3) of Part I (1) of the Eastern Provincial Housing Authority Act No. 2 of 2013, if a person becomes a member of Local Authority, he is not qualified to be appointed as a Chairman of the Authority. However, a person who was an elected member of the Eravur Urban Council during that period and participated in the Council meetings was appointed as the Chairman of the Eastern Provincial Housing Authority on 30 January 2019 contrary to the above Statute.</p> | <p>Action should be taken to comply with the Statute.</p> | <p>The appointment was given by the Hon. Governor, Eastern Province. The Authority duly informed to the Hon. Governor through the Secretary, Chief Ministry by illustrating that this appointment is contrary to the Eastern Provincial Housing Authority Statute.</p> |
| <p>(c) According to the Housing Development Plan (2015-2019) prepared by the Provincial Housing Authority, it was expected to construct 29,700 houses for houseless families at the total estimated cost of Rs. 14,525 million during the years from 2015 to 2019. However, no houses had been constructed during this period except providing housing assistance beneficiaries under the Provincial Specific Development Grant.</p> | <p>Action should be taken to implement Housing Development Plan by generating its own funds.</p> | <p>Eastern Province Housing Authority (EPHA) prepared the plan and submitted to Finance Commission through Provincial Planning Secretariat for approval. However, EPHA only received Rs. 48.61 million imprest under PSDG and Rs.48.43 million was effectively utilized for provision of assistance to low income families to construct a house. If the imprest is fully given, the authority would</p> |

have carried out more construction.

- (d) According to the decision No. 2014/03/03 of the Board of Directors of the Authority, it was decided to purchase cement from Tokyo Cement Company in order to distribute cement to the contractor who carry out development works in the Eastern Province. However, contrary to the above decision, the Authority had purchased cement from the above Company and sold them to the sub agents in order to earn profit. Therefore, the Company had stopped issuing cement to the Authority. As a result, the Authority was unable to provide cement to the contractors to carry out development works within the Province.
- Action should be taken to start constructions works by the Authority itself.
- EPHA supplied the required cement to the contractors through Tokyo Cement Company for its housing projects implemented in three districts. Subsequently, Tokyo Cement Company agreed to supply cements to works which are directly implemented by EPHA and not to contractors. This is the only reason that led the Tokyo cement company to stop the supply of cement
- (e) According to the decision No. 2014/03/05 of the Board of Directors of the Authority, it was decided to establish 10 production centres within the Province for producing cement bricks for the development works undertaken by the Authority and it was expected to earn a profit of Rs. 4,322,510 per year by producing 1,200,000 cement bricks. However, no action
- Action should be taken to start productions centres.
- It was not carried out because the required initial capital to establish such units and purchase of necessary machineries to produce cement blocks is not provided by the Provincial Council.

had been taken to implement this Project even up to 31 December 2019.

4.3 Eastern Province Pre-school Education Bureau

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
According to the Policy Guidance issued by the Provincial Ministry of Education with the collaboration of UNICEF as minimum standards for Pre-school teachers, teachers should have completed an approved Diploma Course in Pre-school education compulsorily. However, 1515 Pre-school teachers had not completed Diploma Courses even up to 30 June 2020.	Action should be taken to promote the teachers to complete Diploma Courses.	Even though it was insisted in statute that preschool teachers should have completed approved Diploma Course, financial constrain is the barrier to the teachers to complete the Diploma course and also teachers facing difficulties in finding funding for their studies as it cost about Rs. 75,000 in Universities.

4.4 Eastern Province Tourism Bureau

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
According to Section 11(A) of the Eastern Province Tourism Bureau Statute No. 1 of 2016, if a person becomes a member of Local Authority, he is not qualified to be appointed as a Chairman of the Bureau. However, a person who was elected a member of the Ampara Urban Council during that period and	Action should be taken to comply with the Statute.	According to the appointment which was given by the Hon. Governor for appointing Chairman to the Bureau, EPTB have informed, in writing about it.

participated in the Council meetings was appointed as the Chairman of the Eastern Province Tourism Bureau on 30 January 2019 contrary to the above Statute.

5. Operating Review

5.1 Performance

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
<p>(a) According to the Ministry of Education Circular No.2008/12 dated 21 April 2008, there should not be a separate class for the students who learn in Bi-medium and they also should be mixed in Sinhala or Tamil medium students. Further, they should be separated when they learn the relevant subject in English. However, 20 separate classes had been established in 06 schools in Kinniya Education Zone for bilingual education contrary to the above Circular. In this regard, Bilingual Co-ordinator had not taken actions to supervise the classes.</p>	<p>Action should be taken in terms of Ministry of Education Circular No. 2008/12.</p>	<p>Presently Bi – lingual Education activities are being carried out according to the circular No.2008/12 of Ministry of Education, it is hereby confirmed that action will be taken to pay highest attention in this regard, and also Deputy Director of Education – Development Visit directly to relevant schools</p>
<p>(b) 17 Schools in Kalmunai Education Zone had not allowed students who have not</p>	<p>Action should be taken to allow students to sit</p>	<p>According to the Zonal Director of Education, Kalmunai, the Principals of these 17 schools</p>

performed well, to sit for the G.C.E O/L Examination in order to maintain the standard of the schools and Provincial ranking. As a result, students had to leave the schools without any educational qualification and also this practice will badly affect the higher education of the relevant students.

examinations without denying the admission.

were not allowed some students to sit G/C.E. (O/L) in 2018. As long absent to the school, some students were early married and some students withdrew themselves from the exam.

5.2 Management Inefficiencies

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
<p>A incinerator at Muthur Base Hospital had been installed at a cost of Rs. 5,283,600 in June 2016 by a private company. However, after the installation of incinerator, it was observed that more repairs had been done at the total cost of Rs. 2,429,890 which mean that 46 per cent of cost of the machine had been incurred on installation cost up to May 2020.</p>	<p>Action should be taken to install it early.</p>	<p>The place was identified to install incinerator at Base Hospital, Muthur by the Environmental Authority in July 2016. Height of incinerator was 23 feet. But the quarter's height at Base Hospital, Muthur is 41 feet. Hence the fume come out of the incinerator which was affected the environment.</p>

5.3 Operating Inefficiencies

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
<p>According to the Action Plan of the Provincial Public Service Commission for the year under</p>	<p>Action should be taken to conduct</p>	<p>Even though the provincial public service commission had not conducted 09 efficiency bar</p>

review, the Commission should conduct 36 Efficiency Bar (EB) examinations during the year under review for the officers of the Institutions coming under the purview of the Eastern Provincial Council. However, 10 EB examinations had not been conducted during the year under review.

Efficiency Bar examinations on time.

examinations which were planned for 2019, it has conducted 08 unplanned efficiency bar examination and 07 recruitment examinations; that is 16 additional examination.

5.4 Staff Administration

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
<p>According to Section 2 of the Finance Statute No. 01 of 2008, a Provincial Commissioner of Revenue shall be appointed. However, the Provincial Council had not taken actions to fill this post in terms of Section 3.2 of an approved Service Minute and Scheme of Recruitment of the Provincial Department of Revenue of the Eastern Province even though the post of Provincial Commissioner of Revenue was vacant from 18 December 2011.</p>	<p>Action should be taken to appoint Provincial Commissioner of Revenue permanently.</p>	<p>Action will be taken to recruit to suitable Provincial Commissioner of Revenue according to approved service minutes and service of recruitment of the department of revenue.</p>

5.5 Observations on Education Sector

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
(a) According to the Circular No. 1998/23 dated 06 July 1998 of the Ministry of Education, performing principals could be appointment only until qualified principals are appointed. However, 27 teachers of Sri Lanka Teachers' Service (SLTS) had been employed as performing principals at Kinniya Education Zone contrary to the above Circular.	Action should be taken in terms of Ministry of Education Circular No. 1998/23	Provincial Director of Education has been given proper instruction to the Zonal Director of Education, Kinniya
(b) According to information made available for audit, 08 officers of the Sri Lanka Principals' Service (SLPS) had been attached to Schools without any school responsibility. However, the Kinniya Zonal Education Office had not taken actions to fill 27 vacancies for Principals in the Zone. As a result, educational standards in the Zone had been reduced to very low standards in terms of rank for education Zones in the Island.	Action should be taken to transfer those principals to vacant schools.	Provincial Director of Education has been given proper instruction to the Zonal Director of Education, Kinniya

- (c) All teachers who have completed over 08 years should be transferred in terms of Circular No.2007/20 of the Ministry of Education. However, 27 teachers who works temporarily as Performing Principals in Kinniya Education Zone had not been subject to annual transfer for period ranging from 08 years to 10 years.
- Action should be taken in terms of Ministry of Education Circular No.2007/20.
- Provincial Director of Education has been given proper instruction to the Zonal Director of Education, Kinniya
- (d) Even though teachers should be attached to schools for temporary basis on an exceptional circumstance, 21 teachers of Kalmunai Education Zone had been attached from National Schools to Provincial Schools for a period ranging from 02 to 07 years. Further, salaries had been paid out of National Schools payrolls. However, actions had not been taken to cancel temporary attachments and place them in suitable Schools.
- Action should be taken to stop temporary attachment of teachers.
- These Teachers are primary subject teachers. Their permanent schools come under 1000 schools project, so these teachers are unable to transfer again to 1000 schools projects implemented schools. In addition to that, not available suitable schools in the Kalmunai Zone.
- (e) According to the information made available, 472 teachers were reported excess for main subjects such as primary level,
- Action should be taken to balance teacher cadre permanently.
- The ministry of Education, Eastern province and Provincial Department of Education, Eastern province being taken some steps

Science and English subjects. However, Kalmunai Education Zone had not taken actions to balance the cadre among the schools where shortages of 272 were reported or transfer them to outside Zones.

continuously to balance the cadre among the Zones

- (f) According to the Circular No.20/2007 of the Ministry of Education, teachers who have completed over 08 years should be transferred. However, 311 teachers of the Sri Lanka Teachers' Service attached to the Kalmunai Education Zone had been deployed in a school for period ranging from 08 to 15 years at same school without any transfers. In this regard, it was observed that proper transfer policy had not been followed by the Zone.
- Action should be taken in terms of Ministry of Education Circular No.20/2007.
- The Ministry of Education, Eastern Province and Provincial Department of Education, Eastern Province being taken some steps continuously to balance the cadre among the Zones.