

Southern Provincial Council-2019

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the **Southern 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 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 (2) 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 June 2020 and the Detailed Management Audit Report in terms of Section 11 (2) of the National Audit Act No. 19 of 2018 was issued on 07 July 2019. This report will be tabled in 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 effects of the matters described in the basis for Qualified Opinion section of my report, the accompanying financial statements give a true and fair view of the financial position of the Southern Provincial Council as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.2 Basis for Qualified Opinion

1.2.1 Accounting Deficiencies

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
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(i) According to the Note No.05 of the Provincial Funds Account, the remaining stock of stationery worth Rs.3,545,408 of the Office of the Director of Health Services, Galle district had not been included when accounting stock balance as at 31 December 2019, and as such, the balance of the current assets stated in the Provincial Funds Account had been understated by the similar amount.	Stock balance of all the institutions of the Provincial Council should be brought to account.	The stocks of stationery have been brought to account on source documents.

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| <p>(ii) Even though the stock value as per the Production Advance Account of the Department Industrial Development- Southern Province stood at Rs.174,299,925 as at 31 December 2019, it was Rs.161,931,286 according to the Note No.05 of the Provincial Fund Account and therefore, the balance of the current assets stated in the Provincial Funds Account had been understated by Rs.12,368,639 in the account.</p> | <p>Stock balance should be correctly brought to account.</p> | <p>Action will be taken to call for explanations from the Department of Industrial Development in respect of understating the stock value to the Provincial Treasury.</p> |
| <p>(iii) The accumulated depreciation of Rs.25,776,123 related to the property, plant and equipment disposed of during the year under review had not been eliminated from the Accumulated Depreciation Account and it had been deducted from the depreciation expenditure of the year. As such, the deficit of the year and the balance of property plant and equipment included in the Funds Account had been understated by the same amount.</p> | <p>The depreciation cost of the year should be accurately computed.</p> | <p>Audit observations are accepted. Action will be taken to make corrections and adjust the accounts.</p> |
| <p>(iv) Although the unsettled imprest balance of the Provincial Department of Health Services was Rs.354,996,842 as at 31 December of the year under review, it was Rs.359,400,552 according to the Note No.08 of the Provincial Fund Account and therefore, the balance of the current assets stated in the Provincial Funds Account had been overstated by Rs.4,403,710.</p> | <p>The unsettled imprest balance of the Provincial Department of Health Services should be tallied with the Provincial Fund Account.</p> | <p>Once the adjustments are made in accordance with the books maintained by 03 Health Services Offices in Galle, Matara and Hambantota districts and 02 base hospitals at Balapitiya and Tangalle, action will be taken to correct the balance of the Imprest Account.</p> |

- (v) Even though the balance payable to two Authorities as at 31 December 2019 stood at Rs.119,277,191 as per the Funds Account, according to the financial statements of those institutions, the receivable balance amounted to Rs.139,217,696 and as such, the current liability balance stated in the Provincial Funds Account had been understated by Rs.19,940,505. Payables should be correctly brought to account. Audit observations are accepted. Action will be taken to correct the payable balances in future.
- (vi) The balance of the property, plant and equipment stated in each financial statement relating to 25 Heads under the Provincial Council was Rs.10,653,262,621 as at 31 December 2019 and the balance stated in the Provincial Funds Account was Rs.11,166,824,576. Accordingly, an un-reconciled difference of Rs.513,561,955 was observed between those balances. Balances of the property, plant and equipment in the Funds Account and the Heads should be reconciled. It is stated that assets were brought to account based on the sources obtained from the 25 Heads.

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

As per the section 6 (1) (c) of the National Audit Act, No. 19 of 2018, I express the following matters

- (a) The financial statements presented is consistent with the preceding year.
- (b) The recommendations made by me relating to the financial statements of the preceding year had been implemented.

1.6 Non-compliance

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

<u>Audit Observation</u>			
Reference to Laws, Rules and Regulations	Non-compliance	Recommendation	Comments of the chief Accounting Officer
(a) Establishments Code of the Democratic Socialist Republic of Sri Lanka			
(i) Section 10 of Chapter VIII and the Public Administration Circular No.09/2009 of 16 April 2009.	Even though the officers of the Chief Ministry had used the finger scanner for reporting to the duty on week days, it had not been so done during the weekends and the public holidays, whereas they had been paid overtime allowances and holiday pays amounting to Rs.914,624.	Arrival and departure should be established by the finger scanner each day.	After being pointed out by the audit, the Secretary to the Ministry had instructed to operate the finger scanner every day.
(ii) Sub section 5.2.1 of Chapter XIX and the Public Administration Circular No.04/2016 of 26 August 2016.	As house rents at 12 ½ per cent had not been recovered from an officer who had resided in a government quarters situated at Chralymount Industrial Estate of the Southren Development Authority, the house rent that had not been recovered from the year 2007 up to July 2019 amounted to Rs.331,846.	Action should be taken in accordance with Sub section 5.2.1 of Chapter XIX and the Public Administration Circular No.04/2016 of 26 August 2016.	The decision of the Board of Directors with regard to the recovery of house rent in arrears from the year 2007 up to July 2019 is due to be received and 12.5 per cent of the salary will be recovered from August 2019.

(iii) Sub section 1.1 of Chapter XXI	In order to procure uniforms, a sum of Rs.157,706,458 had been paid to the teachers who were not in the category of officers entitled to the uniform allowance.	Action should be taken in accordance with Sub section 1.1 of Chapter XXI of the Establishments Code.	It is informed that the said allowance had been paid in accordance with the Decision No.806 of the Southern Province Cabinet of Ministers.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka. F.R.571	Action had not been taken on 228 general deposit balances amounting to Rs. 28,682,581 elapsed for a period of two years relating to 05 institutions.	Action should be taken in accordance with F.R. 571 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Action will be taken to credit that amount to the government revenue.
(c) Public Administration Circular -----	In case of the use of express way by an officer for specific duties on prior approval of the Chief Accounting Officer or Accounting Officer, the charges paid for the tickets issued for the relevant vehicle can be reimbursed. Nevertheless, ticket charges of Rs.137,250 had been reimbursed in respect of using the express way by the Director of Education, Southern Province for reporting to normal routine duties from his residence.	Action should be taken in accordance with the Public Administration Circular No.02/2017 dated 17 February 2017	It is informed that the said charges had been reimbursed only in reporting to the urgent and essential duties and no payment whatsoever had been reimbursed in respect of using the express way during holidays and reporting to normal duty.
(ii) Public Administration Circular No.13/2008(v)	Although fuel allowances should be obtained in accordance with the circulars issued by the Secretary to the	Action should be taken in accordance the with Public	The fuel allowance was obtained under the relevant fuel limit in terms of the

dated 31 May 2019	Ministry of Public Administration and Disaster Management when supplying fuel to official vehicles of the Provincial Chief Secretaries of the Provinces, the amount of fuel required for official vehicles has been increased as per the Circular (Finance) No. 02-2019 dated 16 May 2019 of the Chief Secretary in the Southern Province.	Public Administration Circular No.13/2008(v) dated 31 May 2019.	Circular (Finance) No. 02-2019 of the Chief Secretary
(iii) Public Administration Circular No.10/2007 (1) dated 05 March 2009	It was revealed that the former Minister of Agriculture of the Southern Province had been paid Rs. 3,000,000 on 22 April 2019 as official quarters allowance for the period from 2004 to April 2019, whereas the Minister had been residing at his permanent residence in Galle during this period.	Action should be taken in accordance with the Public Administration Circular No.10/2007 (1) dated 05 March 2009	Payments were made as per the Provincial Financial Rules 64 on the receipt of formal approval of the Governor.
(d) Provincial Financial Rules	-----		
(i) 261.2	The amount that can be given at a time as an ad hoc sub imprest should not exceed Rs. 100,000 and in case of emergency, ad hoc sub imprest can be issued beyond this limit with the prior approval of the Chief Secretary. Nevertheless, without such approval, 16 officers of the Southern Provincial Development Authority and the Provincial Department of Education had been paid advances of over Rs.100,000 totalling Rs.7,685,925 on 30 occasions during the year 2019.	Action should be taken in accordance with the Provincial Financial Rules 261.2	Payments for the programs are made through Shroffl without giving direct advances to the officials of the Provincial Department of Education. The Southern Provincial Development Authority acts in accordance with Provincial Financial Rules 261.2.

(ii) 272.1	Although Rs.2,000 or more should not be paid in cash to an external party, total expenditure of Rs. 3,389,406 of the physical capital assets building and development project of the Hungama farmland was made by cheques drawn in favour of the Director General of the Southern Provincial Development Authority.	Action should be taken in accordance with the Provincial Financial Rules 272.1	Action will be taken in accordance with the Provincial Financial Rules 272.1
(iii) 283.4	No necessary action had been taken in respect of 34 cheques amounting to Rs. 3,103,680 relevant to 08 current bank account of 02 institutions that had not been submitted for payment for more than 06 months.	Action should be taken in accordance with the Provincial Financial Rules 283.4	Several cheques had been settled and explanations in respect of unsettled cheques will be made in due course.

1.7 Transactions not supported by an adequate authority

Non-compliance with the limits

Audit Observation	Recommendation	Comments of the Chief Accounting Officer
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(a) Commercial Advance Account -----		
(i) There were two instances in which the approved expenditure limit relating to the year under review had been exceeded.	Action should be taken in accordance with the limits of the commercial advance accounts.	It is acknowledged that the maximum limit of the cost of the Labuduwa Farm Advance Account has been exceeded. Necessary instructions were given to make sure transactions are carried out within the maximum cost limit. As a part of the depreciation amount due to be paid to the Depreciation Reserve Fund for the year 2018 by the Ruhuna Rasara

outlet in Hambantota has been paid in cash during the year 2019 and it is not an expenditure for the year 2019, limit has not been exceeded.

- (ii) There were 2 instances where the minimum limit of approved receipts for the year under review had not been reached. Action should be taken in accordance with the limits of the commercial advance accounts. According to the Telijjawila Farm Advance Account, as the minimum limit of actual receipts being equal to the maximum limit of expenditure, the minimum limit of the credit balance has been exceeded.

As it is possible for the Hambantota Ruhuna Rasara outlet to reach the limit at the time of revision, limits were not revised.

- (b) In the year under review, there observed an occasion where the maximum limit of the debit balance approved in an Advance to Provincial Public Officers Account had been exceeded. Action should be taken within the limit. The exceeding of maximum limit of the debit balance is accepted.

2. Revenue 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		

Category of revenue	2019	2018	2017	2016	2015
	Rs.m.	Rs.m.	Rs.m.	Rs.m.	Rs.m.
Tax Revenue	7,497	8,184	7,724	6,440	5,654
Non-tax Revenue	1,298	988	1,068	789	650
Total	<u>8,795</u>	<u>9,172</u>	<u>8,792</u>	<u>7,229</u>	<u>6,304</u>

As compared with the preceding year, the tax revenue had decreased by Rs.687 million or 8 per cent during the year under review and non-tax revenue had increased by Rs.310 million or 31 per cent.

Management information

Audit observations are accepted.

(b) Revenue in Arrears

The Stamp Duty that remained in arrears as at 31 December 2018 upon transfer of properties amounted to Rs.451.01 million and the percentage of the recovery of arrears stood at 21.05 per cent in the year 2019 while the percentage of the exemption stood at 25.24 per cent.

The percentage of the recovery of arrears should be higher than the percentage of exemption.

The opening balance of stamp duty includes the appraisals, a penalty of 300 per cent of the consented appraisal value. According to the Internal Circular 2017-01, this fine has been reduced to 10 per cent and the remaining 25 per cent for court cases. The exemption rate is higher than the collection percentage as the 300 per cent fine content assessment is higher at the exemption.

3. 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 deficit of Rs.1,279,965,187 as against the surplus of Rs.585,671,505 for the preceding year. The above deficit was mainly attributed to the increase in the salaries and wages by Rs.3, 057,114,089 and overtime allowances and holiday pays by Rs.493,149,099, during the year under review.

4. Operating Review

4.1 Performance

4.1.1 Government Grants

<u>Source</u>	<u>Amount Approved</u>	<u>Amount Spent</u>	<u>Underutilization</u>	<u>Underutilization as a percentage of the approved amount</u>
	(Rs. Millions)	(Rs. Millions)	(Rs. Millions)	%
Provincial Specific Development Grants (PSDG)	2,233	1,040	1,193	53
Criteria Based Grants (CBG)	935	481	454	49
Health Second Development Plan (HSDP)	234	157	77	33
Total	3,402	1,678	1,724	51

As explained above, a very high percentage of the approved grants for the year under review had not been utilized for provincial development activities.

4.1.2 Provincial Development Plan

According to the progress reports of the Provincial Council, the estimated amount approved for 1815 new works and continuous work proposals under the Provincial Development Plan for the year under review and the progress of those proposals are as follows.

<u>Description</u>	<u>No. of New work Proposals</u>	<u>No. of Continuous work Proposals</u>	<u>Total No. of Proposals</u>	<u>Estimated Value of Total works</u>
				(Rs. Millions)
Totally	1242	111	1353	1,333.48
Completed				
Completed more	160	4	164	538.13

than 50 per cent				
Completed less	252	4	256	437.23
than 50 per cent				
Not commenced	40	2	42	53.63
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	1694	121	1815	2362.47
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According to the above analysis, the progress of nearly 16 per cent of the projects planned to be completed during the year was at a very low level.

4.2 Transactions Without Formal Authority

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
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(a) The following matters were observed regarding the Southern Development Authority.		
(i) No formal criteria and guidelines had been formulated for the implementation of project items in relation to the allocations made in the year 2018 and 31 work proposals amounting to Rs.87,238,285 had been implemented at least without complying with the provisions of the Finance Commission Circular No. 2016/01 (1). Although allocations and imprests amounting to Rs. 42,400,000 for 11 other work proposals had been released on 31 December 2018, the relevant proposals had not been approved by the Chief Secretary as at 31 July 2019. Nevertheless, the Authority had incurred expenditure totaling Rs. 15,403,835.	Projects should be implemented in accordance with the formal criteria and guidelines and in accordance with the circular.	Approved work proposals have been carried out within the approved limits of provisions.

- (ii) Without being complied with the provisions in the circular No. 03/2015 dated 26 June 2015 of the Chief Secretary in connection with the regularization of capital expenditure, a sum of Rs. 136,237,163 out of the funds released to the Authority by the Southern Chief Ministry from the year 2011 to the year under review had not been settled and it been retained in the bank accounts of the Authority without authority. That bank account had been opened without being adhered to the Provincial Financial Rules 268.2.1 and the interest income received from the deposits in the account amounting to Rs. 9,950,045 had been used by the Authority without formal approval for various loan schemes without being complied with Provisions 25 (2) of the Southern Provincial Development Authority Charter No. 01 of 1995
- Action should be taken in accordance with the Chief Secretary's Circulars, Provincial Financial Rules, and the Charter of the Southern Development Authority.
- No Revenue Heads have been introduced for transfer of income and instructions have been sought.
- (iii) Without being complied with the Circulars of the Finance Commission No. FC / 3/3/2014 dated 31 December 2014 and despite being provided a total of Rs. 6,661,619 to bear the administrative expenses for the years 2016, 2017, and 2018 by the Chief Secretary, a sum of Rs. 3,420,000 out of the capital provisions of Rs. 38,000,000 received by the Authority had been paid for administrative expenses.
- Action should be taken in accordance with the Circular of the Finance Commission.
- Upon receipt of the administrative expenditure advances, the imprest has been transferred back to the Project Account with the approval of the Director-General of the Southern Development Authority on the basis of executing surcharges.

- (b) During the year 2019, a sum of Rs. 571,458 had been paid under the Expenditure Head of the Line Ministry on behalf of three officers, the Provincial Director of Education, the Additional Provincial Director of Education, and the Accountant, for supervising the construction of national schools for 11 months without submitting any report on the construction supervision. Reports should be submitted regarding the supervision of constructions. Construction and renovation of schools, colleges of education and teacher training centers in the Southern Province had been within the purview of the Accounts Division since before 2015. In other provinces this work is carried out by a separate staff under an engineer attached to the department. With the approval of the Ministry, only physical repairs and constructions were carried out for 04 weekend days, but not the technical problems.
- (c) Once the Executive Officers of the Island-wide Services had been attached to the Southern Provincial Council with the approval of the Public Service Commission, the Governor had appointed them to the posts of Secretary to the Governor, Deputy Chief Secretary, Secretary to the Provincial Public Service Commission, Secretary to the Council and Secretary to the Provincial Ministries. Whilst not being fulfilled the requirements of the relevant service minutes to be promoted to special grades and without the recommendation of the Appointing Authority, the Governor had given promotions to those services. It was also observed that other allowances and privileges had been given in parallel to the salary levels applicable to those posts. Promotions should be granted in accordance with the service minutes. The Hon. Governor has appointed officers within his authority to act in the relevant posts to continuously maintain the public service.

4.3 Management Inefficiencies

- (a) The three fingerprint scanners installed at Thasim Chest Clinic on 13 January 2012 had become dysfunctional in June, less than elapse of six months. From that day until June 2019, fingerprint scanners had not been used and no action had been taken to repair the machine.
- Fingerprint scanners installed to confirm staff arrival and departure should be used.
- A new fingerprint scanner has been installed.
- (b) The stock of stationery in the Hambantota District Health Services Director's Office as of 01 January 2019 was Rs.407,180, the purchases during the year were Rs.7,640,145 and the consumption during the year under review were Rs. 1,585,307. and therefore, the stock balance as of 31 December 2019 was Rs. 6,462,018. Thus, stocks of stationery had been purchased without taking into account the annual consumption requirements.
- Stocks of stationery should be properly classified.
- Action has been taken to correct the stock classification error in stationery.
- (c) The balance of the Advances to Provincial Public Officers Account as at 31 December of the year under review was Rs.1,415,557,677 and that balance included a loan balance of Rs. 24,165,058 further remained outstanding from 427 officers. Further, no action had been taken to settle the debt balance of Rs. 6,205,632 payable in respect of 115 officers who had arrived on transfers from other provincial councils and the central government institutions.
- Action should be taken to settle the debt balances.
- Some debt balances are very old and difficult to identify. Action will be taken to correct them in the future.

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| (d) According to Section 317 of the Municipal Councils Ordinance (Chapter 252), the Annual Reports to be prepared and submitted to the Municipal Council by the Commissioner of Local Government regarding the activities of the Municipal Councils in the Southern Province for the year 2018 and 2019 had not been submitted. | Action should be taken in accordance with Section 317 of the Municipal Councils Ordinance | Action will be taken accordingly in the future. |
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4.4 Operating Inefficiencies

Audit Observation -----	Recommendation -----	Comment of the Chief Accounting Officer -----
Necessary action had not been taken until 29 November 2019 for disposal of 154 types of drugs valued at Rs.17,755,890 that had been identified as to be disposed of according to the store verification report 2019 of the Galle District Drug Store	According to the store verification reports, action should be taken for the disposal of drugs.	Necessary steps will be taken to dispose of them expeditiously.

4.5 Transactions of Contentious Nature

Audit Observation -----	Recommendation -----	Comment of the Chief Accounting Officer -----
(a) In addition to the allowance approved on 24 May 2019 for the Grama Niladharees of the Southern Province as the stationery allowances under the capital expenditure of the capacity	In the payment of unapproved additional allowances, approval should be obtained	Although payments were made according to the Cabinet approval, it is acknowledged that the approval of the Governor was not obtained. It has been

development programme, 2019 of the Granma Niladharees, the Chief Ministry had paid another Rs.1,500 for them. As a result, a sum of Rs. 3,142,500 had been paid to 2095 Grama Niladharees without approval. In addition, two functions had been held to award the relevant cheque for Rs. 1,259,163.

informed that action will be taken to obtain approval in the future.

- (b) The Hikkaduwa Abhimansala building constructed by the Ruhuna Tourist Bureau at a cost of Rs. 46,042,006 on government land had been vested in another party without following the Procurement Guidelines and it remains unused and closed down at present and further, tax amounting to Rs. 6,800,000 due for the year 2019 had not been received.
- It should be properly vested in a third party.
- Hikkaduwa Divisional Secretary has been informed in writing to file a case to recover the possession.
- (c) Without being complied with the Election Commission Circular No. 01 EC / EDR / PRE-2019 of 18 September 2019 and the Budget Circular No. 4/2019 of 17 June 2019, the Southern Development Authority had distributed mobile phones to 30 journalists at a cost of Rs. 500,000.
- Action should be taken in accordance with the Election Commission Circular.
- It was done in accordance with the revised work proposals as per the circulars.
- (d) Under the 2019 Development Plan of the Southern Development Authority, a sum of Rs. 15,880,200 had been spent on the purchase of 16056 plastic chairs for voluntary organizations. The following matters were observed in this connection.

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| (i) | Procurements had been carried out separately for the 03 Districts of the Southern Province without being complied with the guidelines 4.1 and 4.4 of the Government Procurement Guidelines and in excess of the limit approved by the Departmental Procurement Committee, this procurement at an estimated value of Rs.16.5 million had been carried out under the Shopping Method without being complied with the Circular No. 3/2016 dated 24 August 2016 of the Chief Secretary | Action should be taken in accordance with the Procurement Guidelines and circulars | Action will be taken correctly in terms of the Procurement Guidelines. |
| (ii) | In calling for bids for the purchase of plastic chairs from suppliers under the Shopping Method, prices had been quoted from a plastic chair manufacturer and a shop selling plastic chairs, without specifying the specifications. Accordingly, a sum of Rs. 2,819,085 had been overpaid for the purchase of chairs at a high price regardless of the minimum price received by the procurement committee. | Bids should be invited stating the specific specifications. | Institutions were selected by the Procurement Committee by taking into account the provision of free transportation within the district. |
| (iii) | Without being called for bids directly from the manufacturers, the Procurement Committee had decided to purchase chairs by comparing the prices quoted by a single manufacturer with the prices of the wholesale and retail suppliers, and as such, the Government had incurred a loss of Rs.4,300,988. | The loss to the government should be recovered by the responsible officials | After the preliminary investigation, the next steps will be taken. |

- (e) The following matters were observed regarding the official vehicle allowances and fuel allowances of the staff officers of the Southern Development Authority.
- (i) Without being complied with paragraphs 3.1 and 3.2 of the Circular No. PED 1 / 015 of the Secretary to the Treasury dated 25 May 2015, 17092 liters of fuel totaling Rs. 1,999,984 had been obtained exceeding the monthly approved fuel limit for the official vehicle used by the Chairman of the Authority from January 2016 to June 2019 and a total of 7256 liters of fuel worth Rs. 714,672 had been obtained exceeding the approved fuel limit for the official vehicle used by the Director General of the Authority from January 2016 to September 2018.
- Action should be taken in accordance with the Circular No. PED 1 / 2015 of the Secretary to the Treasury dated 25 May 2015
- Legal action has been taken to recover the amount of Rs.1,999,984 due to the Government.
- (ii) Although a total of Rs. 750,000 had been paid to the Director-General of the Authority from October 2018 to June 2019 as transport allowance and fuel allowance, a reserve vehicle of the Authority had also been used without being adhered to the paragraphs 3.3 of the aforesaid circular. In addition to the fuel allowance and transport allowance, the Authority had spent a total of Rs. 619,826 on driver's salaries and allowances and Rs. 400,199 on fuel.
- Action should be taken in accordance with the Circular No. PED 1 / 2015 of the Secretary to the Treasury dated 25 May 2015
- Action is being taken in accordance with the circular at present and measures have been taken to obtain the approval of the Secretary to the Ministry in cases where the maximum limit is exceeded. Legal action has been taken to recover the amount due.

- (f) Despite the committee appointed to examine a petition received by the Committee on Public Petitions regarding a vehicle repair had concluded that it was not possible to make a definite confirmation regarding the repairs as there was no follow up of circulars, rules, regulations and tender procedures for the repairs, and the Secretary to the Ministry of Education had pointed out that the cost of repairs would be Rs. 285,000, an amount of Rs. 1,285,000 had been paid as per the approval given by the Governor after accepting an appeal made in this regard.
- Repairs should be made in accordance with the rules and regulations.
- The relevant payment has been made with the approval of the Governor.

4.6 Apparent Irregularities

----- Audit Observation -----	----- Recommendation -----	----- Comment of the Chief Accounting Officer -----
<p>Under the Entrepreneurship Incentive Development Loan Scheme, the Southern Development Authority had granted a total of Rs. 5,000,000 as Speed Draft loan to two outsiders in the year 2019 with the use of underutilized funds. The following matters were observed in this regard.</p>		
<p>(a) The approval of the Chief Secretary, Deputy Chief Secretary (Planning) or the Secretary to the Chief Ministry had not been received for the implementation of this loan scheme and the loan had been released by securing the private land of the Director-General of the Authority as security without obtaining security from the creditors.</p>	<p>Loans should be granted with proper approval and securities.</p>	<p>This loan scheme has not been approved for implementation and a preliminary investigation into the irregularities is underway.</p>

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| <p>(b) Without being adhered to the Financial Powers Circular of the Secretary to the Chief Ministry issued under Provincial Finance Rules 83, approval, certification, and payment of loan vouchers had been done by the Director-General of the Authority himself. The crossings of both cheques amounting to Rs. 5,000,000 issued in the name of the creditors had been cancelled and the Director-General himself had withdrawn the money from the bank counter. Also, the loan instalments of Rs. 1,557,610 of a borrower had been paid by the Director-General of the Authority. Six blank cheques without stating the value and date relating to the Director General's personal current account had been handed over for future loan instalments.</p> | <p>Action should be taken in accordance with Provincial Finance Rules 83.</p> | <p>Based on the preliminary investigation report, the next steps will be taken.</p> |
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4.7 Identified Losses

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
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<p>(a) The damages belonging to Ministries / Departments and Offices comprising vehicle accident damages related to 39 unresolved cases worth Rs.8,251,133, property damages related to 14 cases worth Rs. 1,153,277 and a cash fraud of Rs.1,837,094 totalled Rs. 11,241,504.</p>	<p>Action should be taken to recover damages and losses.</p>	<p>A sum of Rs. 7,705,819 relating to vehicle accidents in 36 cases, Rs. 774,457 relating to property damages in 12 cases and the financial fraud of Rs. 1,837,094 further remain recoverable.</p>

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| <p>(b) The Department of Probation had purchased 744 mattresses in 2018 at a cost of Rs. 2,725,300. The company had incurred a loss of Rs. 251,500 due to non-transparency in the procurement process. There was no written evidence that these mattresses were properly distributed among the institutions under the Department and a large number of distributed mattresses had been stored in children's homes without being used.</p> | <p>The procurement process should be transparent and materials purchased should be properly utilized.</p> | <p>Before purchasing mattresses, enquires were made about the needs of the children's homes, and the procurement was made transparently.</p> |
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4.8 Deficiencies in the Contract Administration

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
<p>(a) The contract for the construction of the stone wall and wall of the Halpathota Tropical House with an estimated value of Rs. 3,746,000 had been awarded to a Rural Development Society in excess of the relevant financial limit without carrying out a qualification test and a sum of Rs. 987,568 had been overpaid for the construction work.</p>	<p>This matter should be investigated and the action should be taken to recover the overpaid amount.</p>	<p>The Technical Officer's report states that no overpayment has been made. However, steps have been taken to obtain a technical expert report on the damage.</p>
<p>(b) For the construction of a new four-storied building to the Mahamodara Ruhuna Ransalu Institute, an agreement had been entered into with a contractor institute at a contract value of Rs. 8,398,478 for a period from 05 November 2018 to 31 December 2018 and Rs. 7,209,100 had been paid in the year 2019. Since changes in the plan had not been taken into account in the above</p>	<p>This should be investigated and the action should be taken to recover the overpayment.</p>	<p>There is no overpayment due to making payment at the agreed price.</p>

amount, a sum of Rs.259,974 had been overpaid and Rs. 593,244 had been overpaid relating to 02 work items, thus aggregating the total overpayments of Rs.853,218.

- (c) Within a period less than a year after the completion of the construction of the medical quarters complex at the Balapitiya Base Hospital, the aluminium powder coated window coverings and powder coating of the bars used for the building had detached. Accordingly, a sum of Rs. 7,010,091 had been paid for substandard construction.
- Construction should be get done according to the proper standard
- If the contractor fails to rectify the deficiencies, those deficiencies will be rectified by another contractor with the use of retained payment.
- (d) The following matters were observed regarding the construction work of the four-storied ward complex of the Polwatta Ayurveda Hospital.
- (i) The contract had been awarded to a contractor in C7 Grade registered with the Construction Development Institute under 5 phases through the engineering estimates of less than Rs. 10 million without preparing plans, structural plans and total cost estimates and without calling for competitive biddings. Therefore, it could not be carried out more favourably and efficiently by a contractor with qualifications such as C 1,2 or 3.
- Works must be get done more favourably to the government.
- Estimates have been prepared on the provisions allocated in the development plan.

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| (ii) | A sum of Rs. 32,427,838 had been paid for substandard concrete and steel works. | The standardized material should be used. | Concrete works, steel bar works and shaping works have been carried out to the standard under the supervision of the Technical Officers of the District Engineering Office. |
| (iii) | Liquidated damages of Rs.1,566,633 had not been charged for the extraordinary delay. | Liquidated damages should be levied as the reasons given could not be accepted | The period has been extended considering whether the reasons given by the contractor are reasonable. |
| (iv) | Without being gradually recovered the 30 per cent advance within the first 4 stages, a sum of Rs. 6,083,029 had been retained with the contractor, thus acting in favour of the contractor. | Advances must be charged in the correct proportions. | Not commented |
| (v) | The bills of quantity submitted by the contractor had been erased and changed using a liquid eraser and the duplicate was also opened. The Technical Evaluation Committee and the Procurement Board had not complied with the relevant Procurement Guidelines. | Procurement guidelines should be complied with. | Not commented |
| (e) | For the construction of an information center for the Yashorapura Sadarsha Village, an agreement had been entered into with a private contractor on 23 December 2016 to complete the work by 31 December 2016 at a cost of Rs. 26,924,982. According to the agreement, the two-storied building was to be completed in eight days, which was practically unworkable, and the construction works had not been completed even by the end of 2019. The term of the work had been extended by 842 days without extending the | The performance bond should be extended with the extension of the contract period and construction should be carried out in accordance with the proper standards and contractual values. Overpayments should be recovered. | Action is being taken to recover the overpayment made for tempered glass. |

term of the performance bond. Sums totaling Rs. 8,234,907 had been paid comprising Rs. 7,144,677 paid for a forged bill relating to the installation of laminate tempered glass, Rs. 732,664 for variation of prices due to extending the period of contract and Rs. 357,566 under the additional works.

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| <p>(f) The Southern Development Authority had spent Rs. 3,389,406 on the project to build and develop physical capital assets on the Hungama farmland. Herein, sums totaling Rs. 1,914,480 comprising Rs.1,138,680 for unused building materials and other items, Rs. 332,050 for goods and services not provided by the supplier and Rs. 443,750 in excess of the approved wage rates for skilled and unskilled labour and in excess of the actual number of days worked, had been irregularly overpaid.</p> | <p>Overpayments should be recovered.</p> | <p>The matter has been referred for preliminary inquiries through the Deputy Chief Secretary (Engineering Services) future steps will precede with its recommendations.</p> |
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4.9 Implementation of Projects

4.9.1 Activities outside the objectives

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
<p>The Provincial Ministry of Education had printed 535,000 pamphlets containing data on Jaya Sankha and Sisutharana projects using funds allocated for other essential activities outside the 2019 Annual Plan and distributed them among provincial school students and teachers spending Rs. 3,353,212.</p>	<p>Action should not be taken by deviating from the intended purposes.</p>	<p>This programme was implemented to develop attitudes through awareness of the continuous progress of the 5 years, GCE Ordinary Level and Advanced Level examinations.</p>

4.9.2 Failure to obtain the expected outcome

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
(a) Although a restaurant worth 46 million had been under construction by the Ruhunu Tourism Bureau since 2017 for the development of tourism facilities in association with Madunagala natural hot springs, since the construction work had not been completed, the public could not receive the advantage of it.	Construction should be carried out efficiently.	The Bureau expects to commence operations by the end of 2020.
(b) Without being complied with Procurement Guidelines 2.8.4, the Department of Social Services had purchased 375 low quality and undurable steel cupboards for Rs. 3,786,375.	Action should be taken in accordance with Guidelines 2.8.4 of the Government Procurement Guidelines.	Taking into account the quality and price of the product, the purchase was made from the Sri Lanka State Trading (General) Corporation.
(c) Although the Department of Agriculture had purchased and distributed plants worth Rs. 4,216,195 for fruit cultivation development and organic vegetable development projects implemented in 2018, about 80 per cent of the plants had been destroyed and the desired objectives could not be achieved.	Measures should be taken to minimize damages beyond natural causes.	Part of the plant species has been destroyed due to natural causes, animal damage, and flooding.

4.10 Assets Management

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
(a) Disposal of vehicle		
Eight vehicles belonging to the Office of the Director of District	Action should be taken in accordance with the	Two out of 06 vehicles have been referred to the Ministry of

Health Services had been parked unused at the Local Drug Store premises, out of which 06 vehicles were recommended for disposal. No action had been taken to hand over the vehicles to another institution or to dispose of them as per the provisions of State Finance Circular 02/2015.

State Finance Circular 02/2015.

Health and steps relating to the remaining 04 vehicles have been initiated in accordance with Public Finance Circular 02/2015.

(b) Idle/Underutilized Assets

 Out of the children's parks where equipment was installed at a cost of Rs. 5,052,295 by the Department of Social Services, the equipment of the Halpathota Tropical Home and the play area set up at the Ruhuna Children's Home remained idle without being used.

Action should be taken to use the assets.

Garden equipment kits are being used.

4.11 Staff Administration

----- Audit Observation -----	----- Recommendation -----	----- Comment of the Chief Accounting Officer -----
(a) Six employees of the Galle District Director of Health Services Office had been attached to the Chief Ministry and the Chief Minister's Office for a long period. During the period from 2013 to 2019, the District Health Services Office had paid a total of Rs. 7,585,234 as salary of these employees without verifying their reporting to the service by the fingerprint scanners.	The salary should be paid after confirming the report to the service.	These officers have been attached to the Chief Ministry and the staff of the Chief Minister's Office on the instructions of the Secretary to the Chief Ministry. Salary payment has been included in the annual estimate of the Galle District Office.

- (b) During the last 05 years, 279 transfers out of 672 Grade Medical Officers transferred to Hospitals and other Health Institutions belonging to the Southern Provincial Council and 228 transfers out of 636 Grade Medical Officers transferred out of the Hospitals and other Health Institutions belonging to the Southern Provincial Council had not taken effect even by 30 June 2019. Of the 111 medical officers transferred to the provincial council during the year under review, 100 officers had not arrived and 97 of 114 officers had not left on transfers.
- Follow-up on the activation of transfers should be done.
- Not commented

4.12 Procurement

Audit Observation	Recommendation	Comment of the Chief Accounting Officer
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<p>(a) Between 31 March and 4th April 2019, the Southern Development Authority had distributed a set of question papers to the students appearing for the Grade 5 Scholarship Examination 2019. However, although the printing order for the printing of the question papers had not been placed to the supplier till 20 September 2019, question papers had been printed and the undated bills amounting to Rs. 1,462,000 had been submitted.</p>	<p>Printing orders must be delivered to the supplier on the due date.</p>	<p>As there was an irregularity in the bidding process, Procurement Board members have not made the relevant procurement decision. Accordingly, the printing order for this purpose has not been issued to any institution by the Authority and these sets of question papers have not been provided to this office by the Chief Ministry or any printers.</p>
<p>(b) In the purchase of gifts under the Sisuv Tharana Teachers Tributing Program by the Provincial Ministry of Education, the Provincial Ministry of Education had purchased 7969 gift vouchers amounting to</p>	<p>Action should be taken in accordance with the Procurement Guidelines.</p>	<p>A decision was reached to hold this ceremony before the dissolution of the Provincial Councils and as the relevant work had to be completed within a short period of time, the</p>

Rs. .8,566,600 in two formats without being complied with the provisions of the Procurement Guidelines. This purchase had resulted in a financial loss of Rs. 2,569,980.

suppliers who had involved in previous years were summoned, explained the need and proceeded with the procurement accordingly.

(c) When purchasing student medals for the Jaya Sanka Student Appraisal Program conducted by the Provincial Ministry of Education to evaluate the students who have passed Year 05 Scholarship in the Southern Province, a financial loss of Rs. 1,336,120 had been incurred in 2017 and 2018 due to the selection of suppliers without being complied with the formal procurement guidelines and rules.

Action should be taken in accordance with the Procurement Guidelines.

As the payment was finalized based on the procurement decision made in 2017, there is no possibility of making recoveries during this year.

5. Accountability and Good Governance

5.1 Budgetary Control

Audit Observation

Recommendation

Comment of the Chief Accounting Officer

Out of net provisions of the 25 Expenditure Heads, provisions totaling Rs.3,722,820,243 had been saved and in taking into account each heading, the values had ranged from Rs.757,903 to Rs.716,517,769.

Provision savings should be reached to a minimum level.

Not commented

5.2 Unresolved Audit Paragraph

----- Audit Observation -----	Recommendation -----	Comment of the Chief Accounting Officer -----
<p>In accordance with the directives of the Parliamentary Committee on State Accounts held on 07 November 2017, the value added tax paid by the Ministry of Education, Lands and Land Development of the Southern Province to the suppliers with invalid registration should be immediately recovered and credited to the state revenue, no action had been taken to recover the total amount of Rs.921,535 to be recovered from two contractors.</p>	<p>Action should be taken to recover the money.</p>	<p>Action will be taken to clarify and recover this amount from the relevant parties and to take legal action, if necessary.</p>