

Auditor General's Message

I am pleased to present my report for the year 2014 on the performance and discharge of the duties and functions devolved on the Auditor General in pursuance of the provisions in Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka for the direction of the independent examination on the effective and efficient maintenance of the Parliamentary control on the Public Finance devolved on Parliament in pursuance of provisions in Article 148 of the Constitution. The Annual Report is presented as the seventh Installment of my report presented to the Parliament and arrangements have already been taken to table the other reports under the following seven installments.

First Installment	Ministries and Departments
Second Installment	State Corporations, Authorities and Boards
Third Installment	Statutory and Other Funds
Fourth Installment	Foreign Funded Projects
Fifth Installment	Provincial Councils
Sixth Installment	Local Authorities
Eighth Installment	Performance Audits and other Special Investigations

This was a remarkable year for the Auditor General's Department as its performance and the statutory role has widely been discussed in the public arena. As a result it was accepted by the Government that the Auditor General and his staff should be given more powers and to secure his independence not only in the operational aspect but also in the context of financing and administration. This became a reality when the Nineteenth Amendment to the Constitution was passed in Parliament. The long awaited Audit Service Commission will be established in due course and the appointments, promotions, transfers disciplinary control and dismissal of staff of the Sri Lanka State Audit Service will be taken over by this Commission from the Public Service Commission. The other major change was that the Companies incorporated under the Companies Act with 50 per cent or more shareholding by the Government or a Corporation or a Local Authority was brought under the Auditor General's scrutiny.

The long awaited National Audit Bill was drafted in consultation with the Attorney General, the Legal Draftsman and number of other professionals in different fields. It is proposed to further expand the limited Surcharge powers at present devolved on the Auditor General encompassing the entire public sector.

It was also a great achievement of the Department that the Cabinet of Ministers have recognized the valuable contribution of the service performed by the members of the Sri Lanka Audit Service and the Audit Examiners Service and approved the establishment of a

new service called “the Sri Lanka State Audit Service” and to absorb the officers of the above two services to the new unified service.

To meet the above challenges in a constantly changing and more demanding environment, including pressures arising from being part of the accounting and auditing professions reorganizing the Department is vital. The restructuring of the organization has already been initiated and the audit and supportive services will be organized under 59 Divisions to enable the expansion of the audit scope and to ensure close supervision and review. The Auditor General’s Department has implemented a range of initiatives to ensure that the Department well understand the key issues facing the public sector as well as important concerns of the Parliament. The Department is also committed to continually reviewing and improving its operations which support the effective and efficient delivery of our audit reports. Finally the audit independence provided under the Constitution is recognized explicitly as the key of the Department’s effectiveness.

It’s a privilege for me to work with such a dedicated staff of the Auditor General’s Department and I thank them for their commitment to the efficient performance of their duties. I also take this opportunity to thank the Chairmen and Members of the COPA and COPE, the firms of Chartered Accountants in public practice which carried out the assisted audits, the Institute of Chartered Accountants of Sri Lanka, the Auditee Institutions, the Secretary to the President and his staff who assisted in the administrative matters of the Department, the Secretary to the Ministry of Finance and Planning and staff, the Public Service Commission, the Salaries and Cadre Commission and the other State Institutions which assisted in the administration, the International Development Association which contributed to the improvement of the physical and human resources of the Department.

I am very keen to ensure that my audits remain relevant to the needs of the Parliament and the General Public.



W.P.C. Wickramaratne
Auditor General (Acting)

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Our Organization

Our Vision

To be the flag bearer of the public sector towards public accountability and good governance.

Our Mission

Enhance good governance and public accountability through the conduct of audits to ensure better financial management and optimum use of public resources to maintain sustainable development.

Our Objective

1. To carry out an independent examination whether the managements of the institutions to which the custody of the resources are entrusted have discharged the public accountability devolved on them and report to Parliament.
2. Assist two oversight committees of the Parliament namely Committee on Public Accounts (COPA) and Committee on Public Enterprises (COPE) to examine the performance of the public entities.
3. Assist the auditee institutions to improve their accountability by making recommendations through issuing management reports.

Our Values

- Excellence
- Innovative
- Leadership
- Integrity

Our History

The beginning of the present Auditor General's Department of Sri Lanka then known as Ceylon, can be traced to early British times. From the records available it would appear that there had been an Accountant and Auditor General by the name of Cecil Smith as far back as the early 1799 just three years after the British occupation of the Island in 1776. Since then, the existence of the Auditor General's Department continued to function as an independent organization under thirty nine Auditors General as the Supreme Audit Institution of Sri Lanka.

Our Authority to Audit

The authority for the Auditor General to audit of accounts of Public Sector Institutions is primarily derived from Article 154 of the Constitution. Under the Nineteenth Amendment to the Constitution the authority has been further extended to cover Companies incorporated under the Companies Act in which the Government or

a Public Corporation or Local Authority holds fifty per centum or more of the shares of that company as quoted below.

“ The Auditor General shall audit all Departments of Government, the Office of the Secretary to the President, the Office of the Secretary to the Prime Minister,, the Offices of the Cabinet of Ministers, the Judicial Service Commission, the Constitutional Council, the Commissions referred to in the schedule to Article 41B, the Parliamentary Commissioner for Administration, the Secretary General of Parliament, Local Authorities, Public Corporations, business and other undertakings vested in the Government under any written law and Companies registered or deemed to be registered under the Companies Act, No, 7 of 2007 in which the Government or a public corporation or local authority holds fifty per centum or more of the shares of that company including the accounts thereof.”

The authority conferred on the Auditor General in the Constitution had been either amplified or expanded by the following Statutes.

- Part II of the Finance Act, No. 38 of 1971 which provides for audit of Public Corporations.
- Provincial Councils Act, No. 42 of 1987 – (Section 23) which provides for Audit of Provincial Councils.
- Section 219 of the Municipal Councils Ordinance – (Cap. 252) which provides for Audit of Municipal Councils.
- Section 181 of the Urban Council Ordinance – (Cap. 255) which provides for Audit of Urban Councils.
- Pradeshiya Sabhas Act, No. 15 of 1987 – (Section 172) which provides for Audit of Pradeshiya Sabhas.
- Agrarian Development Act, No. 46 of 2000 – (Section 58) which provides for Audit of Agrarian Development Councils.
- Sports Act, No. 47 of 1993 - (Section 9) which provides for Audit of Sports Associations.

The Constitution also empowers the Auditor General to carry out any other duties as specified in any law passed by the Parliament as required. In the performance and discharge of his duties and functions, the Auditor General has been given powers under the Constitution to engage the services of qualified auditors to assist him in his work. He has also the power to obtain the assistance of specialists in the examination of any technical, professional or scientific problems relevant to the audit.

Article 154(5) of the Constitution empowers the Auditor General to have access to all books and records, to stores and other property of Public Institutions or Entities as stated above, conduct audits and furnish with information and explanations as may be necessary, for the performance and discharge of his duties and functions.

Our Clients

The scope of the Auditor General is defined in the Constitution itself which is further expanded by the Nineteenth Amendment to the Constitution by inclusion of Companies. The following is our Client base at present.

- 59 Ministries
- 93 Departments
- 25 District Secretariats
- 127 Corporations
- 73 Universities, Research and other Training Institutions
- 07 State Banks
- 69 Statutory and other Funds
- 121 Foreign Funded Projects
- 22 Other Independent Institutions
- 09 Provincial Councils
- 335 Local Authorities
- 559 Agrarian Service Centers
- 46 Sport Associations

Our Scope

The Auditor General, at his discretion, decides on the scope of audit, and in this regard, he is guided by the prevailing Standards as introduced in terms of the provisions in the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995 and conventions and best practices relating to audit as adopted by the Institute of Chartered Accountants of Sri Lanka (ICASL), the International Organization of Supreme

Audit Institutions (INTOSAI), the Asian Organization of Supreme Audit Institutions (ASOSAI), and the guidance provided by the Committee on Public Accounts and the Committee on Public Enterprises of Parliament.

Further to that as regards Public Corporations, the Finance Act, No. 38 of 1971 defines the scope of audit to be considered by the Auditor General in relation to Public Corporations in more specific terms and it requires the Auditor General to render three distinct statutory reports, viz. a detailed report to management of the Corporation, a report for publication together with the Annual Reports of the Corporations and another separate report to Parliament. The scope of the audit as defined in the Finance Act requires the Auditor General to examine as far as possible, and as far as necessary the following

- (a) Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the corporation, and whether such systems, procedures, books, records and other documents are in effective operation;
- (b) Whether the conduct of the corporation has been in accordance with the laws, rules and regulations relevant to the corporation and whether there

has been fairness in the administration of the corporation;

- (c) Whether there has been economy and efficiency in the commitment of funds and utilization of such funds;
- (d) Whether systems of keeping moneys and the safeguarding of property are satisfactory;
- (e) Whether the accounts audited have been so designed as to present a true and fair view of the affairs of the corporation in respect of the period under consideration with due regard being given to principles of accountancy, financing and valuations; and
- (f) Any such other matters as the Auditor General may deem necessary.

Our Independence

The independence of the Auditor General is preserved to a great extent by the Constitution itself. This has further been expanded to match with the INTOSAI fundamental principles on independence of a Supreme Audit Institution (SAI) by the Nineteenth Amendment to the Constitution. The Article 153 states that;

“There shall be an Auditor General who shall be a qualified auditor and subject to

the approval of the Constitutional Council, be appointed by the President and shall hold office during good behavior”

He can be removed from office by the President only on the grounds of ill health or infirmity or upon an address of Parliament.

Article 153 of the Constitution further states that the salary of the Auditor General shall be determined by the Parliament, and shall be charged on the Consolidated Fund and shall not be diminished during his term of office.

The Auditor General does not come under the supervision of any Minister or officer of the Government.

Legal Reforms

The requirement for Legal Reforms

Though the functional independence of the Auditor General has been hitherto safeguarded by the Constitution, financial and administrative independence of the Auditor General was constrained by the Executive due to Constitutional and legislative provisions on the subject. It is also of the view that the dependence of the Auditor General on the Executive for his resources in terms of both manpower and finance would harm the truly independent nature of the audit performed on behalf of the Parliament as he must be completely free from all obligations to any individual or institution and must be free from arbitrary retaliation.

Elaborate safeguards have to be provided by the Parliament through legislation to ensure

the Auditor General's independence, including functional and financial. At present the Auditor General depends on the General Treasury for his budget, and the resource allocation for his department is not linked to fiduciary risks. Unlike in other advanced Commonwealth Countries, the budget of the Auditor General in Sri Lanka is not subject to scrutiny or approval by a legislative committee, nor are there any safeguards against executive control over his budget.

The administrative independence of the Auditor General and his staff also needs to be secured. Control over administrative matters relating to the appointment, promotion, transfer, disciplinary issues, salaries and other administrative matters of staff of the Auditor General's Department rested earlier with the Secretary to the President and later on with the adoption of the Seventeenth Amendment to the Constitution those powers have been vested in the Public Service Commission (PSC). Even under the present arrangement the Auditor General faces difficulties with regard to the filling of vacancies in his cadre, where he has not been delegated with the authority by the PSC. The Audit Service is a special service from the point of view of the independence it should enjoy, as in the case of the Judicial Service which comes under the purview of a specialized body, the Judicial Service Commission.

Further, as the Constitution was included the Auditor General in the 'Public Officers' Exception List, all administrative regulations of the Government, as described in the Establishments Code, are applicable to the Auditor General himself and to his staff. This further constrains the administrative independence of the Auditor General. There have been many instances where this lack of

administrative control over his officers had significantly hampered the audit work.

In the year 1977, the "Lima Declaration" of the International Organization of Supreme Audit Institutions (INTOSAI) also determined the principle of independence of the Government Auditing in methodological and professional terms. In the "Mexico Declaration" after 30 years, the XIX Congress of INTOSAI (2007 in Mexico) defined these requirements in more concrete terms and identified following eight major requirements for the independence of the Supreme Audit Institutions which has already been recognized by the United Nations on 22 December 2011 at their 66th General Assembly by adopting a resolution A/RES/66/209, "promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening Supreme Audit Institutions (SAIs)".

1. In order to guarantee the appropriate and effective legal position of SAIs within the state, independence of Supreme Audit Institution (SAIs) has to be defined clearly in the Constitution and the legislation, including provisions for its de facto application

2. SAI should have available necessary and reasonable Human, Material and Monetary resources and should manage their own budgets without interference or control from Government and its authorities

3. The condition for appointment of SAI Heads and the members of collegial institutions should be specified in legislation. The independence of Heads of the SAI and members of collegial institutions can only be ensured if they are given appointments with

sufficiently long and fixed terms with removal only by a process independent from the executive. This allows them to carry out their mandates without fear of retaliation

4. In order to fulfill their Mandate effectively, SAI have to be independent in the choice of audit issues, in their audit planning and in the implemented audit methods, as well as in the conduct of their audits and in the Organization and management of their officers. Therefore SAIs should be free from direction or interference from the legislature or the Executive while fulfilling their audit tasks.

5. Auditors are entitled to be granted free, timely and unrestricted access to all documents and information they might need for the proper discharge of their responsibilities.

6. SAIs should report on the results of their audit work at least once a year, however they are free to report more often, if considered necessary.

7. SAIs should be free to decide the content of their audit reports and to publish and disseminate their reports, once they have been formally tabled to deliver to the appropriate authority.

8. SAIs should have independent procedures for follow-up audits to ensure that audited entities properly address their observations and recommendations and that corrective actions are taken.

The Constitution refers only the Auditor General and not his staff and therefore it is required that the authority and function of the staff of the Auditor General be amplified

through a separate Audit Act like other countries.

The Auditor-General can only examine the affairs of public entities. However wholly or partly owned Government companies incorporated under the Companies Act were not coming under Auditor General's purview. There are over 200 such companies with a capital infusion either by the General Treasury or by a Public Enterprise which held more than 50 per cent of the share capital. There were also considerable number of companies formed by public enterprises. Further the Auditor General cannot inquire into private organisations, including organisations that may have received funding from a public entity.

Amendments made to Article 153 and 154 of the Constitution through the Nineteenth Amendment to the Constitution

The following amendments were made to the Constitutional provisions by the Nineteenth Amendment to the Constitution in order to remedy the shortcomings in the administrative and financial independence faced by the Auditor General. Further reforms are included in the Draft Audit Bill for further streamlining State Audit.

- *Auditor General shall be a qualified auditor and subject to the approval of the Constitutional Council, appointed by the President and shall hold office during good behavior.*
- *To form an Audit Service Commission which will be chaired by the Auditor General. The other members are two*

retired officers of the Auditor General's Department who have held office as a Deputy Auditor General or above and a Judge of the Supreme Court, Court of Appeal or the High Court of Sri Lanka and a retired Class I officer of the Sri Lanka Administrative Service. The members of the Commission will be appointed by the President to a fixed term of 3 years on the recommendation of the Constitutional Council.

- *The power of appointment, promotion, transfer, disciplinary control and dismissal of the members belonging to the Sri Lanka State Audit Service is vested with the Commission with a view to secure the administrative independence of the Auditor General.*
- *Audit of all the public institutions including public resources provided wholly or partly and whether directly or indirectly by the Government is brought under the Auditor General's purview.*
- *The Auditor General is excluded from the definition of "Public Officer" to secure his independence.*
- *The annual budget estimates of the National Audit Office to be prepared by the Commission, reviewed by the Parliament and submit to the Minister in charge of the subject of Finance to incorporate in the National Budget to make sure that adequate funds are provided to carry out the Auditor General's functions*

without any interference from the Executive.

Proposed National Audit Bill

It is proposed to introduce an Audit Act elaborating the authority and to provide for the strengthening of Parliamentary control over public finance, to ensure accountability in the use of public resources, to enhance the powers, functions and independence of the Auditor General and to promote economy, efficiency and effectiveness in the use of public resources. The National Audit Bill has already been drafted after having number of consultations with the Attorney General and the Legal Draftsman. This has already been approved by the Cabinet of Ministers and will be published in the Gazette for public comments.

The major features appearing in the above mentioned draft Audit Bill are as follows.

- *The scope of an audit carried out by the Auditor General is proposed to be expanded by inclusion of examining the accounts, finances, financial position and financial control of public finance and properties of audited entities and their accountability relating to the same to enable him to carry out Value For Money (Performance) audits, technical audits, environmental audits and any other special audits of audited entities, programmes, projects and any other activities.*
- *The Auditor General will be given the discretion to inquire into any matter relating to an audited entity brought to his notice by any member of the public, and report thereon to Parliament.*

- *The Sri Lanka Auditing Standards determined by the Auditing Standards Committee established under the Sri Lanka Accounting and Auditing Standards Act, No.15 of 1995 will be made applicable to all audits undertaken by the National Audit Office.*
- *It is provided in the Act that failure to assist the Auditor General or his authorized officer be an offence.*
- *Powers of the Auditor General have been expanded to allow access to written or electronic records, books, documents or information irrespective of secrecy.*
- *The Auditor General will be given the authority to charge a fee for auditing the accounts of any person or body for the purpose of recovery of the cost of Audit.*
- *Authority will be given to the Auditor General to disallow the value of the deficiency or loss in every transaction of an audited entity, where the Auditor General is of the opinion that such transaction has been made contrary to any written law, and has caused any deficiency or loss due to the fraud, negligence, wastage of public resources or misconduct of those involved in that transaction or that any transaction which ought to have been included has been omitted in the accounts of such audited entity and given powers to impose on these transactions , a sum not exceeding the value of such deficiency or loss, (surcharge), against any defrauder, either jointly or severally.*
- *Any person, who is aggrieved by a decision made to impose a surcharge, has the right to make an appeal against the surcharge to the Audit Service Commission and the final decision will be made by the Commission.*
- *Time frames will be fixed to submit audit reports to the Parliament.*
- *A National Audit Office will be established as the Supreme Audit Institution of the Country, and all the audit staff in the Auditor General’s Department will be absorbed to the National Audit Office.*
- *The Commission will appoint an independent qualified auditor to audit the National Audit Office and the report will be tabled in Parliament.*
- *Responsibilities of the Chief Accounting Officers will be fixed by this Act.*
- *The existence of internal audits and their functions are defined in this Act.*
- *Submission of annual financial statements of the Republic is emphasized.*
- *Existence and effective functioning of the Audit and Management Committees emphasized.*
- *Protection of persons giving information to the Auditor General is emphasized.*
- *Immunity from legal action is given to the Auditor General or any member of his staff for any act which is in good faith is done or is purported to be done by him in the performance of his duties or in the discharge of full lawful functions under the Constitution*

Our Organization Structure

The Auditor General is the Head of the Department and for all the remunerative and administrative purposes he is on par with a Secretary to a Ministry. The present organizational structure of the Department comprises four levels in its hierarchy with specified numbers of officials in each level, in conformity with the cadre as approved by the Department of Management Services of the General Treasury.

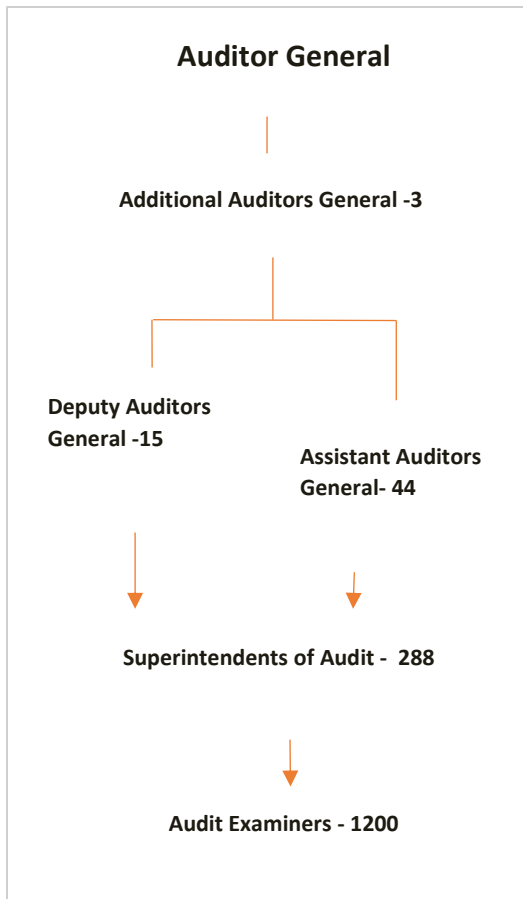
The first layer comprises of three Additional Auditors General who supervises the audit functions of the Central Government, Provinces and Development and administrative functions of the Department.

The second level comprises thirty two main Divisions, each headed by a Deputy Auditor General or an Assistant Auditor General. These Divisional Heads are assigned with full responsibility to manage and supervise the functioning of a specified number of “Branches” assigned to them with a specified number of auditee institutions in a specified sector under the charge of a “Branch Head” who is a Superintendent of Audit or a senior officer of the Audit Examiners’ Service represent third level. They are charged with

the responsibility for execution of the audits of Public Institutions assigned to them by deploying the supportive field officers of the Audit Examiners’ Service assigned to them, efficiently and effectively.

Accordingly the fourth level comprises those field officers who assists Branch Heads by conducting audit of the affairs of Public Institutions assigned to them through carrying out examinations, making field visits, etc., in conformity with Sri Lanka Auditing Standards, statutory and other regulatory requirements and best practices as programmed. The above mentioned second level comprises thirty two main Divisions and twelve of them are functioning at Regional levels, namely in the Western, Southern, Uva, Sabaragamuwa, Northern, Eastern, North Central, North Western and Central Regional Offices.

The majority of our staff are located in Colombo and rest of the staff are located in regional sub-offices all over the island. The organization and senior management structure of the AGDSL along with the approved number of positions of each category as at 30 September 2015 is shown below.



According to the cadre approved on 14 November 2011 by the Department of Management Services after an evaluation on the responsibilities and role of the Auditor General's Department, the total number of officers in the Sri Lanka Audit Service stood at 350 and the officers in the Audit Examiners' Service stood at 1200. According to the approved cadre, a special Grade had been created for the Sri Lanka Audit Service and that Grade consists of three posts of

Additional Auditor General. Including these three posts of Additional Auditor General, the new cadre had been increased by 08 posts of Deputy Auditor General, 30 posts of Assistant Auditor General, 70 posts of Superintendent of Audit and 121 posts of Audit Examiner.

At this stage, the Service Minute of the Sri Lanka Audit Service was being formulated in terms of Public Administration Circular No.6/2006 and it was approved by the Public Service Commission in November 2012 with the concurrence of the Department of Management Services, then Salary and Cadre Commission and the Ministry of Public Administration. Even though that Service Minute had been submitted to the Presidential Secretariat to obtain the clearance for Service Minute from the Cabinet of Ministers, submission to the Cabinet of Ministers had been delaying due to various reasons. Even though the new Service Minute should come into effect with the approval of the Public Service Commission, the vacancies existed at that time could not be filled due to the delay in obtaining the clearance from the Cabinet of Ministers as mentioned above.

Under the circumstances, the number of vacancies existed in each post of the Department at the beginning and the end of the year 2014 and as at 30 June 2015 was as follows.

Post	As at 01 January 2014			As at 31 December 2014			As at 30 June 2015		
	Approved Cadre	Actual	Vacant	Approved Cadre	Actual	Vacant	Approved Cadre	Actual	Vacant
Additional Auditors General	03	-	03	03	03*	-	03	03*	-
Deputy Auditors General	15	06	09	15	12	03	15	12	03
Assistant Auditors General	44	32	12	44	21	23	44	20	24
Superintendents of Audit	288	172	116	288	175	113	288	174	114
Audit Examiners	1200	815	385	1200	791	409	1200	1085	115

* Promoted to the post of Additional Auditor General on acting basis

As mentioned above, the existence of the large number of vacancies in the cadre of every post of the Department was an impediment to discharge the statutory function of the Department and after having informed this situation to the Public Service Commission, the validity period of the existing Service Minute effective at that time was extended up to a future date on which the new Service Minute approved in terms of the circular 6/2006 come into effect. Accordingly, the opportunity was provided to make the recruitments for the above vacancies, thus the vacancies existed in 08 posts of Deputy Auditor General and 20 posts of Assistant Auditor General could be filled during the year 2014. Further, interviews had been held to fill 13 vacancies arisen due to the retirement and promotion of Assistant Auditors General to the posts of Deputy Auditor General and due to the retirement of two Deputy Auditors General while the list of qualified officers had been referred with the recommendations to the Public Service Commission in May 2015. Nevertheless, the administration and financial authority of the Auditor General's Department is vested with the Audit Service Commission in accordance with the 19th Amendment to the Constitution and until the Commission is established, such

authority is vested with the Cabinet of Ministers. As such, it has been forwarded to obtain the approval of the Cabinet of Ministers for the above appointments. After the urgent requirement of filling vacancies in the 03 posts of Additional Auditor General in the approved cadre was identified by the Public Service Commission, approval had been granted to fill those vacancies on acting basis. Further, the approval and instructions had been received from the Public Service Commission to amend the Service Minute effective at present so as to make the provision for filling the vacancies in those posts permanently. Accordingly, action has been taken to publish those provisions in the Gazette notification and to fill those vacancies permanently. Applications for filling the 316 vacancies in the Audit Examiners' Service existed by the year 2013 were called by the Gazette notification dated 28 March 2014 and that competitive examination was held in October 2014. The results of that examination were issued in March 2015 and the qualified applicants were subjected to the interview in the same month itself. Those qualified applicants who were interviewed were appointed to the posts of Audit Examiner with effect from 22 April 2015.

Formulation of the Service Minute

The audit staff of the Auditor General's Department consists of officers of the Sri Lanka Audit Service and Audit Examiners Service. Under the circumstances at that time, even though separate Service Minutes were formulated in respect of these two Services in terms of Public Administration Circular No.6/2006, a Committee was appointed by the Secretary to the President to look into the various proposals and requests made by the staff in this connection. That Committee was chaired by the Auditor General and it consisted of two former Auditors General and an Additional Secretary to the President. Considering the recommendations made by the Committee, approval had been granted on 23 December 2014 for the Cabinet Memorandum submitted to the Cabinet of Ministers with a view to establishing a new service named "Sri Lanka State Audit Service".

The AGDSL is continued to provide the training to its staff in order to develop the professional and technical skills of the staff and to successfully facing the changes and challenges in the accounting and auditing environment. In view of conducting effective and result base training programs, the AGDSL had established a separate training Centre (Centre for Public Auditing Training and Development "CPATD") in Ratnapura at a cost of Rs. 150 million utilizing the fund provided by World Bank under the Public Sector Capacity Building Project (PSCBP). It had been declared opened by the Honorable Speaker on 29 October 2014 with the participation of Hon. Chairman to the Committee on Public Enterprises (COPE), the Auditor General, former Auditor General and

Lanka State Audit Service" by combining the Sri Lanka Audit Service and Audit Examiners' Service.

The establishment of "Sri Lanka State Audit Service" proposed to be set up by combining the Sri Lanka Audit Service and Audit Examiners' Service in accordance with the aforesaid Cabinet Decision had been accepted by the Government as a policy. Accordingly, a Service Minute for the new Service is being formulated and it will pave the way for the maintenance of a staff of more extensive professional level for the efficient performance of duties and functions assigned to the Auditor General. Moreover, the Audit Service Commission is the Appointing and Disciplinary Authority of the new service and as such the capability of discharging those functions without delay will be immensely helpful for the upliftment of the performance of the Depart

Staff Training

the staff of the AGDSL. The training center was fully equipped with a computer laboratory, a library, an auditorium, hostel complex and other infrastructure facilities as enable to carry out the training activities more efficiently and effectively.

An in house training program had been conducted as inaugural in the field of financial audit relating to Local Authorities at the CPATD. The hands on computer program for Local Authorities, induction training program for newly recruited audit examiners, new financial audit methodologies for Local Authorities, Tamil language proficiency programs, training on procurement procedure and civil construction works

related to Asian Development Bank funded projects were the other major in house training programs conducted at the CPATD during the year under review. All these training programs designed in considering the enhancement of physical and mental fitness of the staff. Therefore it's includes morning warm up activities, meditations, team building and leadership skill development activities as well as other personal development activities.

The roll out program of the new audit methodologies throughout the department which was commenced in the year 2011 has been further expanded during the year 2014 as well. Accordingly, three 6 days training

programmes for 83 officers on financial audit methodology and a 3 day training programme for 30 officers on performance audit methodology were conducted and refreshment training programmes are in progress to address the issues in implementing the new audit methodology.

The particulars of main training Programmes conducted in the year under review are given below.

Field of Training	Number of Officers Trained	Number of Training Hours
Financial Audit	442	7,809
Procurement and Civil Constructions	40	1,600
Performance Audit	30	720
Induction Training programme for newly Appointed Audit Superintendents	35	1,680
Local Authorities – Financial Audit	300	2,400
Total	847	14,209

Engagement of Qualified Auditors to Assist the Auditor General

The deployment of qualified auditors was required to fill the resource gap created in view of the prevailing vacancies and in the meantime it is done in need of specialized services, especially in the case of State Bank Audits. Auditor General is vested with the authority to deploy qualified auditors by Article 154 of the Constitution.

Total sums paid by the respective Auditee Institutions on the approval of the Audit Fees Fixing Committee of the Department for the audit services rendered by the Department for the year 2014 amounted to Rs. 32,469,326 and for the year 2013 amounted to Rs. 33,094,818. The selection criteria adopted had been the quality of the services rendered by them in the past, the number of partners engaged in the firm concerned, and the number of audit trainees working with them, International affiliation of the firm serves as a factor to consider the standard and quality of professional services rendered by them.

Generally a particular audit assignment is entrusted to a particular firm to continue only for a maximum period of five consecutive years. The same firm could be entrusted with the same audit assignment thereafter only after a lapse of the minimum period of 5 years.

Services of 135 firms of auditors in public practice were engaged during the year 2014 as compared with 158 in the year 2013 to assist me in carrying 174 audit assignments in

the year 2014 and 174 institutions including branches of three State Banks in the year 2013.

Assistance given to COPA and COPE

The Committee on Public Accounts (COPA) and Committee on Public Enterprises (COPE) are established by the Parliament under Standing Orders 125 and 126 respectively. The main task of the COPA is to probe the managerial efficiency and financial discipline of the Government, its Ministries, Departments, Provincial Councils and Local Authorities and the task of the COPE is to report to Parliament on accounts examined, budgets and estimates, financial procedures, performance and management of Corporations and other Government Business Undertakings.

These two Committees review reports issued by the Auditor-General and determine issues for further examination. During this process the Auditor General gives guidance on issues for discussion. The Committees take evidence from Accounting Officers and other senior government official entrusted with stewardship of public funds and make recommendations for the management and use of those funds. The two Committees issue their own reports to Parliament. One of the responsibilities of the Auditor General is to assist Parliamentary Committees on Public Accounts and Public Enterprises to examine the manner in which the public sector

institutions are managed with a view to improving the quality of governance and to assess the situation and ensure the public accountability.

The two Committees regularly hold hearings based on the Auditor General's reports tabled in Parliament and taking evidence from the senior officials responsible for managing resources of their Institutions.

The year 2014 was a remarkable year in this regard as 105 Public Institutions have been examined by the Committee on Public Enterprises. Although this was a great challenge to the Department, I myself and my officers actively participated in all these secessions and assisted the Committee to examine the affairs of these institutions to a great extent.

During the year 2014 the Auditor General and his staff also actively participated and assisted the Committee on Public Accounts (COPA) to examine 44 Ministries and Departments.

Other than attending the above two Parliamentary oversight Committees, Assistant Auditor Generals who are in charge of the audit of nine Provincial Councils also assisted the Provincial Accounts Committees to examine the affairs of the institutions of the Provincial Councils. In this context my officers have attended 120 sessions during the year 2014.

Surcharges imposed by the Auditor General

The Auditor General audits the affairs of 335 Local Authorities in Sri Lanka comprising 23 Municipal Councils, 41 Urban Councils and 271 Pradeshiya Sabhas, in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka and the respective Statutes.

The Auditor General is vested with the power to surcharge items contrary to law, losses due to negligence and misconduct and items which should have been brought to account but not brought to account by the provisions in the respective Statutes. Though the recovery process of surcharges imposed had functioned smoothly in the past, the authorities concerned do not take the necessary follow – up action for the recovery of surcharges at present.

According to the interpretation of the Attorney General the Minister of the Central Government in charge of the subject of Local Government has the power to waive surcharges relating to Municipal Councils and Urban Councils and the Secretary to the Ministry of the Minister of the Central Government in charge of the subject of Local Government is vested with the power to waive surcharges relating to Pradeshiya Sabhas.

Nevertheless surcharges totaling Rs. 6.73 million issued up to 31 December 2014 had

been waived by Provincial Ministers and Secretaries to Provincial Ministers in charge of the subject of Local Government. Seven surcharge certificates amounting Rs. 5.81 million were imposed on 33 parties relating

Performance Audits carried out by the Auditor General

Performance Audits undertaken by the Department are done concurrently with the financial audit to ascertain the economy, efficiency and effectiveness as well as the impact on the environment of the activities undertaken by the institutions of the Government.

This activity functions in the Department as a separate unit since the year 2011 and the performance audits are carried out on the basis of proposals made by other audit units relating to various areas of operations as well as according to the areas selected by this unit and in other instance as is determined by the Auditor General.

The reports on these activities carried out apart from the financial audits are tabled in Parliament. The training of officers for the purposes of the sector is being done.

Even though a results based budgetary system is very important in connection with the implementations of the performance audit, such result based budgetary system is not in operation in Sri Lanka. As such the criteria for the respective Sectors have to be determined by us.

local authorities during the year 2014 remain recoverable up to date. Seventeen Surcharge Notices amounting to Rs. 294.75 million were issued on 178 parties up to end of the year 2014.

Operations of the Sri Lanka Transport Board and the Utilisation of Government Funds

The Sri Lanka Transport Board established in the year 2005 as a successor to the Ceylon Transport Board established in the year 1957 functions with 120 Depots, 12 Regional Officers, 11 Regional Workshops and 07 Driver Training Schools spread throughout the Island for providing an efficient transport system to the general public.

Even though the Board had a fleet of 7,900 buses in the year 2012, only 4,400 buses representing 56 per cent of the fleet could be run. Even though the Board had earned ticket income of Rs.18,357 million and received Rs.1,508 million from the Treasury, the loss for the year 2012 amounted to Rs.2,458 million.

In addition to the major observations given above, the reasons such as poor maintenance of the bus fleet, the challenge from the private bus services, poor performance of workshops, high use of fuel, disposal of buses needing repairs without carrying out repairs, lack of follow up of procurement procedure in the purchase of spare parts, lack of attention paid to alternative sources of income, disregard to environmental matters, lack of

concern for settlement of problems existing in relation to the ownership of lands and buildings belonging to the Board, lack of approved staff and schemes of recruitment and promotion, problems relating to payment of salaries, non-settlement of dues to Employees' Provident Fund, delays in the payment of retirement gratuity and lack of adequate funds for the operating activities of the Board resulting in the frequent intervention of the Treasury were among the major observations made.

Performance Audit of the Manufacture of Bottled or Packaged Drinking Water

The consumption of drinking water abundantly available in the form of Bottled or Packaged Water has rapidly increased at present due to reasons such as the expansion of urbanization, industrialization, increase in population, changes in the consumer preference and difficulties in the supply of domestic water.

Attention in the connection was paid to the roles of the Government institutions such as the Food Control Administration Unit of the Ministry of Health charged with the responsibility of controlling the institutions manufacturing bottled or packaged water and that of the Regional Health Authorities in the Water sources used for the purpose are situated.

According to the Food Act, No. 26 of 1980 water is introduced as an item of food. As

such, according to the methodology adopted by the Food Control Administration Unit of the Ministry of Health envisages for the prevention of food poisoning caused by the microbiological organisms usage of good health habits and the proper planning of the food process during the entire process of manufacturing up to the consumption stage. Prevention of possible damage of food by microbiological organisms from the manufacturing stage to the consumption stage for the chemical protection is expected.

Concerns relating to the physical safety could take place during the entire process of manufacture, storage, transport or in the process of manufacture and packaging. Labeling the necessary information which would not mislead the consumer is expected under the authentic presentation.

The main objective of the audit was to evaluate the satisfactory intervention of the Government institutions for the manufacture of quality drinking water by taking into consideration the above facts. The observations made in this connection included lack of proper implementation of the laws and rules in force for the Bottled Water manufacturing institutions, lack of adequate supervision, expiry of registration and failure to renew registration in time, import of bottled water without a valid registration, differences in the level of specified components for bottled water of quality, lack of proper supervision on import of bottled water, etc. As such it was observed that the weaknesses in this field can be

remedied by enforcing the law on the products of poor quality revealed through proper supervisions of the market and random checks of the products.

Issue of Annual Conformity Certificates on Smoke Emission Tests of Motor Vehicles.

Due to the increase in the emission of Carbon Monoxide, Nitrogen Dioxide and Sulphur Dioxide and other gases to the atmosphere had been the reason for the increased global warning.

The Smoke Emission Testing Programme had been launched in Sri Lanka in the year 2008 as the best course of action to be taken to ensure the fuel efficiency of motor vehicles through proper maintenance and for the discharge of the social responsibility for the maintenance of a salubrious environment through minimising the noxious gases released to the environment from the fossil fuel.

The primary role of the Smoke Emission Programme is performed by the Central Environmental Authority and the Department of Motor Traffic while the supply of laboratory facilities and information data are provided by the National Building Research Organisation.

A special Fund for the purposes of the Smoke Emission Programme had been established in March 2010 and the surplus of the Fund for the year 2012 amounted to Rs.108.12 million

and an interest income of Rs.36.5 million had been earned by investing Rs.326.91 million in the Treasury. An adequate staff for the maintenance of the Fund was not available. The information on the penalties payable on the money to be remitted to the Department of Motor Traffic by the two companies carrying out smoke emission tests had not been maintained.

Even though the two companies carrying out smoke emission tests had established 61 Testing Centres in the Western Province, only 16 Centres had obtained the permits in terms of the provisions in the Central Environmental Authority Act, No. 47 of 1980.

Even though Smoke Emission test certificates should be produced for obtaining Revenue Licences for motor vehicles, the examinations of the Western Provincial Department of Motor Traffic revealed that certain motor vehicles had been released from this requirement without adducing justifiable reasons while the control over those certificates and other Forms was unsatisfactory.

The Smoke Emission Test Fund should take action for the rectification of the deficiencies in the following areas of its operation.

- Identification of garages suitable for carrying out tests of motor vehicles and providing necessary technical knowledge.
- Proper supervision of such garages.
- Regulate mobile testing process

- Ensure accuracy of data maintained by the Fund.
- Getting rid of the general idea prevailing that the Test Certificates can be obtained through fraudulent methods.

Evaluation of the Role of the Government Institutions intervening in solving the Problems of Migrant Labour Leaving to the Middle East.

The total labour force out of the 20.5 million population of Sri Lanka is about 8.8 million and out of that 95.6 per cent represent those employed and the unemployed ratio is 4.4 per cent. Unemployed ratio of Sri Lanka had increased by 6.6 per cent males and 3.2 per cent females. Under such conditions 293, 218 persons had proceeded abroad in the year 2013 for employment and 48 per cent of that represented women. Out of those leaving for domestic employment more than 93 per cent leave for the Middle east countries. Out of the foreign exchange earned by the total labour force employed abroad, the earnings of those employed in the Middle East countries amounted to 55.6 per cent.

With the rapid increase in the number of people proceeding abroad for employment, the number of complaints of problems encountered by women had also increased. The Ministry of Foreign Employment Promotion and Welfare and the Sri Lanka Bureau of Foreign Employment interverse in connection with such complaints.

In view of the substantial contribution of the migrant labour to the foreign exchange earnings of Sri Lanka, the State institutions should look after their welfare prior to departure for employment, during employment and after the termination of employment.

Even though complaints received are from about 5 per cent of the total migrant labour, a larger portion of that relate to the women who are in domestic employment. Such complaints relate to physical and mental offences, breach of agreements, actions contrary to the laws of the country concerned and not being suitable for the job. Instances where the intervention of the Sri Lanka Bureau of Foreign Employment and the Sri Lanka Missions on the countries concerned was inadequate were observed.

Even though most of the complaints had been settled, in certain instances, unsettled files had been closed and new files had been opened as a new complaint. Certain files relating to cases had been incomplete mainly due to lack of co-operation from the Agencies for settlement.

The results expected from the training provided prior to the departure of migrant labour had not been achieved. Further improvements are necessary in areas such as the identification during training the mothers with small children and those with mental and physical disabilities and blacklisting of such persons, detection of expectant mothers during medical examinations, detection of

symptoms of diseases, submission of fake medical certificates and imparting a knowledge of laws and language of the countries concerned.

There were instances of sending under-age persons abroad by fraudulently obtaining fake Passports. The possibility of obtaining such fake Passports existed due to the lack of a combined data base maintained in collaboration with the Department of Registration of Persons, Department of Registrar General and the Department of Immigration and Emigration. The institutional role in this connection should be strengthened to prevent sending unsuitable persons abroad.

Intervention of Government Institutions in the Import of Quality Foods

Intervention of Government institution in the import of food required for the country had been relaxed since the introduction of the Open Economy and the intervention of the private sector for the import of food has become a noticeable feature. The media had highlighted instances of import of food unfit for consumption as well as lacking in quality.

The Chief Authority to determine whether the food imported to Sri Lanka are fit for consumption and of good quality is the Director General of Health Services while the Food Authority is the Director General of Customs.

There were reports of problems relating to the assistance in the form of laboratory services for testing of foods imported, provided by the institutions such as the Department of Government Analyst, Sri Lanka Standards Institutions and the Medical Research Institute.

The release of the following items of food imported into Sri Lanka which did not conform to the standards or the quality levels to the market were observed.

- Ten instances of fish with higher content of formalin imported in the years 2011, 2012 and 2013.
- Five instances of salt with iodine content less than required level released in the year 2011, 2012, and 2013.
- Three instances of fish with high aerobic plate count imported in 3 instances in the year 2013.
- Four instances of milk powder without the specified fat content imported in the years 2012 and 2013
- Stock of 1,425 crates of chicken determined as unfit for consumption due to contamination with salmonella and 4,768 bags of cuttlefish contaminated with staphylococcus determined as unfit for consumption in the year 2013.
- Thirty nine and 83 stocks of milk powder and salmon without the required laboratory reports of the Atomic Energy Authority in the years 2012 and 2013 respectively.

Further it was observed that 113,993 metric tonnes and 150,889 metric tonnes of red

dhall imported in the years 2012 and 2013 had been subjected to the standards testing only in one instance.

In addition, 145,912 and 168,874 metric tonnes of big onions and 110,823 and 123,204 metric tonnes of potatoes imported to Sri Lanka in the years 2012 and 2013 respectively had not been subjected to testing for pesticide.

Frequent repairs needed for the laboratory equipment of the Sri Lanka Standards Institution, the lack of competent staff and adequate laboratory facilities with the Medical Research Institute and the lack of facilities for certain tests at the Department of Government Analyst had resulted in delays in release of food stuff imported to the market.

Investigation Audits carried out by the Auditor General

The investigation audit is carried out focusing its prime attention on the risk of intentional acts which use deceptions for gaining unfair or unlawful benefits by one or more persons from among the persons, employees or third party who are responsible for the management control. In this context, the investigation audit examine as to how the systems can be strengthened so as to prevent and disclose the frauds.

Action has already been taken to enhance the capacity of the Investigation Audit Division by way of increasing particularly the staff of the

Investigation Audit Division from 08 to 20 by 150 per cent in order to shoulder the process of bringing about state good governance in a circumstance where action had been taken to strengthen the Auditor General's Department by the 19th amendment to the Constitution of the Democratic Socialist Republic of Sri Lanka while the priority is given for the concept of good governance of Sri Lanka.

The Investigation Audit Division had examined and reported the recent controversial incidents such as subsidiary fertilizer utility, illegal possession of wild elephants, erection of electric fence for the control of wild elephant trespass to villages, weaknesses in the purchase and storage of paddy, irregular financial control in the school system and irregular collection of money from school students, construction of flats to shanty dwellers by the Urban Development Authority and provide houses, misuse of State properties for elections and misuses relating to the procurement activities of the petroleum production.

In relation to the above observations, expenditure amounting to Rs.13.86 billion had been examined and it had been observed that the value of the misuse of assets, irregular transactions or transactions contrary to the laws and rules amounted to Rs.12.85 billion. During the year under review the Department had received 806 public representations and those had been referred to the relevant divisions of the Department for examination. Out of that 87 special representations had been referred to the

Investigation Division and in the examination of 30 important representations and an expenditure amounting to Rs.4.12 billion, it was observed that the estimated loss incurred to the Government amounted to Rs.3.77 billion. The significant observations relating to the examinations conducted during the year under review have been summarized below.

Sri Lanka Bureau of Foreign Employment

At the audit test check conducted on the transactions of the Bureau during the years 2013 and 2014, it was disclosed that misappropriation of public funds exceeding Rs.113 million had taken place in 16 instances due to the reasons such as misappropriation of money through the preparation of forged documents, taking action contrary to the Procurement Guidelines, incurring losses due to irregular and excess payments, financial misappropriation for political and personal affairs, misuse of money on television advertisements and programmes and making expenses for the activities extraneous to the objectives.

Sri Lanka Football Federation- Receipt of Donations and Financial Assistance

A financial fraud amounting to Rs.12.70 million had been committed by forwarding forged order papers to the bank in order to fraudulently obtain the donation amounting to Rs.6.29 million (€ 40,400) received from the Italy Football Players Association for the renovation of the Kalutara football playground and the host aid amounting to Rs.6.41 million (US\$ 59,900) received for the

Asian Football Federation Chairman's Trophy tournament to the bank accounts.

An aid amounting to Rs.5 million received for the construction of houses damaged by the Tsunami disaster had not been paid for the construction of houses and thereby financial irregularities had occurred.

National Transport Commission- Issue of permanent passenger bus service permits in the Southern Expressway.

Without following a proper method, 13 passenger bus service permits had been issued on temporary basis for the festive period from 09 to 22 April 2014.

Without approval of the Director Board of the National Transport Commission and at the discretion of the Chairman, the period of the temporary permits had been irregularly extended up to 02 September 2014 for more than in 10 instances during the period of 05 months. Further, no legal provisions had been made for the extension of the period of the temporary permits.

Bus owners who had not engaged in the permanent passenger service had been issued 07 temporary permits by giving reasons such as bus repairs, substitution of new bus or another bus and transfer of the ownership etc.

Department of Prisons- Financial Control Weaknesses

In terms of the provisions of the Public Administration Circular No.09/2009 dated 16 April 2009, instructions had been issued to the effect that finger printing machines should be used to record the arrival and the departure of the officers. However, despite the installation of finger printing machines at Welikada Prison and Prison Hospital in September 2009, those had not been properly maintained in an operative condition and overtime of Rs.20,506,988 had been paid during the year 2013 based on the attendance registers maintained under the control of the officers. As such, the accuracy of the overtime payments could not be confirmed.

Ministry of Education- Irregular Financial and Operating Control of the School System

In terms of Sub-section 15.2 of the Education Ministry Circular No.1982/2 dated 30 March 1982, the prior approval of the Regional Director of Education should be obtained for the estimates, plans and work sheets, whereas the canteen of the Colombo Thurston College had been renovated spending a sum of Rs.3.32 million and most repairs had been carried out without applying proper standard and as such the works had been unsuccessful.

Contrary to the provisions of the Education Ministry Circulars No. 2012/19 and 2013/23 dated 28 May 2012 and 23 May 2013, an

amount aggregating to Rs.15.46 million had been collected from the parents at the time of admission of the children to the Grade One classes of the Thurston college in the years 2013 and 2014 and that amount had been credited to the Old Boys Association Account.

Ceylon Phosphate Limited- Non-utilization of Resources

The Eppawala Phosphate deposit with the capacity of 60 million tons of phosphate had not been utilized for the production of Super Phosphate and Triple Super Phosphate required for the agriculture and as a result an opportunity for minimizing the Government expenditure of Rs.3,220 million and the saving of foreign exchange of US\$. 45.9 Dollar million per annum had deprived.

Eastern Provincial Road Development Department – Procurement Irregularities

Eleven out of 59 provincial roads development projects packages implemented in Batticaloa under the aid of the Japan International Corporation Agency, the payment rates for the item of works of bid documents had been fraudulently increased and thereby a financial loss exceeding Rs.174 million had incurred.

Department of Wildlife- Weaknesses in the Implementation of Activities for the Minimization of Human Elephant Conflict.

The following weaknesses were observed in the implementation of activities relating to

erection of electric fence and distribution of elephant- crackers on which the Department of Wildlife had focused more attention from among the strategies meant for the minimization of human-elephant conflict.

In accordance with the Cabinet decision dated 06 January 2012 and the instructions of the President, a decision had been taken to obtain assistance of the Department of Civil Security for the construction and proper maintenance of electric fence and provision amounting to Rs.67.92 million had been made to the Department of Civil Security for the erection of electric fence of 710 kilometers and out of which 68 per cent had remained idle in a deposit account without being utilized.

According to the expenditure incurred for the construction and maintenance of electric fence by the Department of Wildlife Conservation, higher financial performance was shown, whereas the comparative physical performance of the construction had been at a minimal level. The purchase of equipment for constructions and release of money for the civil work before the completion of the constructions to the Department of Civil Security had given rise to the improvement of the financial performance. Out of the electric fence of 1,020 kilometers belongs to 33 works scheduled to be completed as at 01 January 2014, the electric fence of 490 kilometers belongs to 14 works had only been completed by 15 May 2014 representing the physical performance of 48 per cent. It was observed

at the sample physical verification that substandard timber posts had been purchased and constructions had been done without being compiled with the prescribed specifications.

According to the audit test check, the equipment valued at Rs.28.4 million purchased for 09 works relating to the construction of electric fence of 155 kilometers in the years 2012 and 2013 had remained without being utilized for the relevant purposes even by 15 May 2015.

Sri Lanka Tourism Development Authority- The Promotional Programme for Local Tourists – Uva Province.

Without proper authority and an approval, a sum of Rs.5.74 million had been paid to the Welfare Association of the Authority by stating that the said money was meant for the implementation of a promotional programme for educating local tourists. Out of that money, a sum of Rs.4.77 million had been utilized for the Uva Provincial Council election.

Without paying the balance sum of the above programme amounting to Rs. 0.97 million to the Authority, the Association had retained that money in the Account of the Association.

Sri Lanka Tourism Promotion Bureau

Stating the fact that for the production of 8,000 T-shirts for the celebration of World Tourism Day, 2014, a sum of Rs.5.82 million

had been spent contrary to the Government Procurement Guidelines by preparing forged documents with the intention of promoting one election party contrary to the objective of the Bureau and the Financial Regulations of the Democratic Socialist Republic of Sri Lanka. Having selected 02 institutions for the implementation of programmes with an estimate of Rs.166.75 million under the Social Responsibility Promotional Campaign in Tourism in the year 2014, a sum of Rs.55.45 million had been paid in 06 instances. In the selection of the above two institutions, it had been done contrary to the Government Procurement Guidelines while erroneously calling quotations and the contracts had been awarded to two institutions registered under a same owners. Moreover, despite the failure to achieve the objective of the Bureau, 55.76 per cent of the total contract value had been paid in respect of the completed amount of the works without proper evaluation and an approval of the Technical Evaluation Committee.

Municipal Council, Sri Jayawardenapura Kotte - Mixed Building Construction Project

Contrary to the Government Procurement Guidelines, contracts valued at Rs.90.67 million had been awarded to a private company.

The scope of the construction of the originally planned building with 28 floors had dropped up to 11 floors by 42 per cent and the estimated expenditure had decreased by Rs.448 million from Rs.2,015 million to

Rs.1,567 million. Nevertheless, since consultancy service charges had not been revised based on the expenditure, an estimated loss amounting to Rs.8.53 million had incurred.

Delays of the construction activities relating to the project and the amendments could be observed due to the reasons such as non-preparation of the project report, failure to conduct of the market survey, and failure to take action for the fulfilment of the requirements such as initial environmental inspection and assessment of environmental impact and social impact.

Paddy Marketing Board- Processing Paddy into Rice

Examination with regard to the supply of paddy stocks purchased for 2012/2013 Maha seasons and 2013 Yala season to the private mill owners on the recommendation of the Cooperative Wholesale Establishment and the distribution of that stock of rice through the market of the Lanka Sathosa Limited.

The material observations disclosed at the above examination are given below.

On the recommendation of the Cooperative Wholesale Establishment, paddy stocks had been issued to 133 private mill owners out of the 154 private mill owners registered for the year 2013 and only 10 of such mill owners had entered into an agreements. Paddy stocks of 112,092 MT valued at Rs.2, 906.12 million had been supplied to 123 mill owners.

After making adjustments of the balances receivable from the mill owners for the year 2012, Rs.2,962 million remained receivable for 61,767 MT of five varieties of rice as at 31 December 2013. Further, in the inspection carried out with regard to taking over of rice from the mill owners by the Cooperative Wholesale Establishment it was observed that handing over and the rejection of substandard rice had abundantly taken place.

Handing over the rice or the payment of money in respect of paddy valued at Rs.262 million supplied to the 95 private mill owners by the Paddy Marketing Board under the export of rice programme in the years 2010,

2011 and 2012 had been defaulted. Further, as a result of defaulting payments for the stock of paddy supplied to 65 mill owners under the supply of rice to the market after paddy being processed in to rice in the years 2010 and 2011, a sum of Rs.88.60 million including the Government charge of Rs.17.72 remained receivable to the Board as at 31 December 2013.

A stock of 258,272 kilogram of broken rice received in the year 2012 as a by-product from the two rice mills operated under the Cooperative Wholesale Establishment had been sold at a lower price without following the procurement process.

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR 2014

Annual Financial Statements

It should be noted that the incorporation of the assets generated from the annual budget estimates into the financial statements through the introduction of this process would provide for their control, as well as the computation of the assets held by the Government on behalf of the country, and ensure their protection by the assignment of responsibility. This system also can maintain the control of revenue collection and expenditure through reconciliation of the revenue and expenditure appearing in the annual budget estimates with the revenue and expenditure computed on the accrual basis as appearing in the financial statements.

Annual Appropriations

The total provision made for the Department for the year 2014 amounted to Rs.1,042 million as compared with the provision of Rs. 1,024 million for the preceding year. Out of the total provision, a sum of Rs.210 million was allocated for the implementation of the Capacity Building Project funded by the International Development Agency. The actual Expenditure of the project for the year 2014 amounted to Rs.59 million as compared with the corresponding expenditure of Rs.153 million for the preceding year.

A sum of Rs.100 million was credited to the Consolidated Fund in the year 2014 as audit fees from Public Corporations, Statutory Boards, Local Authorities, Universities and Statutory Funds and as compared with the budgeted amount of Rs.90 million shows an over collection of Rs.10 million.

Preparation of Financial Statements of the AGDSL

Initial steps of the preparation of financial statements as an instrument of measurement of the assets control and efficiency of operations were commenced in the year 2010. For the first time, this system was introduced to the departments under the institutions in the category of which only the appropriation accounts were being presented from the colonial period. Further, this system was introduced to all Ministries and Departments from the year 2013 by the Letter No.SA/AS/AA/Circular of 24 January 2013 issued by the Director General of State Accounts. By introducing this system, the preparation of the financial statements as an initial step the Department has set an example to the public sector.

Statement of Financial Performance for the year ended 31 December 2014

Estimate 2014		Note	2014	2013
Rs.000			Rs.000	Rs.000
Revenue				
90,000	Audit Fees	1	117,238	104,185
200	Rent		232	134
9,000	Interest		10,110	10,303
-	Fines and Forfeits		69	-
2,000	Others		2,714	2,225
	Profit on disposal of Assets	2	3,637	571
101,200	Total Operating Revenue		134,000	117,418
711,183	Treasury Grant for Recurrent Expenditure	3	780,973	740,296
812,383	Total Revenue		914,973	857,714
Expenditure				
700,650	Personal Emoluments	4	670,988	635,327
21,900	Staff Travelling	5	13,611	19,425
16,500	Supplies	6	21,033	15,498
14,200	Maintenance	7	14,954	9,746
48,519	Services	8	52,693	42,268
10,114	Transfers	9	10,326	10,054
500	Training and Capacity Building		251	316
	Depreciation	10	79,530	72,843
	Recurrent Expenditure – Public Sector Capacity Building Project		1,788	25,058
	Public Officers Advances written off		-	67
	Amortization of the cost of developing Audit Methodologies	11	24,904	24,904
812,383	Total Expenditure		890,078	855,506
	Excess/ (Deficit) of Revenue over Expenditure		24,895	2,208

Statement of Financial Position as at 31 December 2014

	Note	31 December 2014	31 December 2013
		Rs.000	Rs.000
Current Assets			
Cash Balance		-	-
Inventory	12	6,577	5,449
Advances to Public Officers	13	231,840	251,605
Audit Fees Receivable	14	214,810	189,456
Total Current Assets		453,227	446,510
Development of Audit Methodologies	11	176,284	201,188
Non-Current Assets			
Property, Plant and Equipment	10	1,151,089	1,027,340
Work-in-progress		-	139,188
Total Assets		1,780,600	1,814,226
Current Liabilities			
Payables	15	2,897	115,310
Deposits		18,221	8,456
Total Current Liabilities		21,118	123,766
Accumulated Fund			
Balance as at 1 st January		193,595	191,387
Surplus/(Deficit) for the year		24,895	2,208
Balance as at 31 st December		218,490	193,595
Contribution			
General Treasury	16	623,327	662,610
Treasury Grant to implement Public Sector Capacity Building Project	17	917,665	834,255
		1,540,992	1,496,865
Total Tax Payers' Equity		1,780,600	1,814,226



W.P.C. Wickramaratne
Auditor General (Acting)
28 October 2015



S.G. Senarathna
Chief Accountant.

Accounting Policies

1. Reporting Entity

There is no specific law with regard to the establishment of the Auditor General's Department. However, Article 153 of the Constitution of the Democratic Socialist Republic of Sri Lanka states that there should be an Auditor General. The main activity of the Auditor General's Department is to provide audit services to Public Institutions specified in Article 154(1) and (3) of the Constitution. These financial statements are for the year ended 31 December 2014.

2. Reporting Period

Reporting period is the calendar year commencing on 01 January and ending on 31 December.

3. Basis for Preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Principles. These financial statements have been prepared on the historical cost basis and all the values are presented in Sri Lanka Rupees. All the values are rounded to the nearest thousand Rupees.

4. Income

The Treasury Grant received for recurrent expenditure, Audit fees, interest on loans, building rent, circuit bungalow charges, profit from disposal of assets, fines and charges will be considered as the main

sources of revenue of the department and these are brought to account under the accrual basis. Income is calculated on fair basis according to the consideration received.

Audit fees are charged from Public Corporations, Statutory Boards, Local Authorities, Universities and Statutory Funds. The fee is recognized as revenue in the period to which it relates. The value of audit fees is decided based on the time spent for audit and other direct costs incurred on a particular audit.

Even though the Revenue Accounting Officer for the interest on loans, rent of buildings, circuit bungalow charges, fines and charges and revenue from disposal of assets is the Head of another Department, as such the Auditor General is the officer collecting such revenue relating to the Department and as the revenue collected represents a small percentage of the overall revenue, that revenue is stated in the financial statements. Even though the Treasury Grants for recurrent expenditure are brought to accounts on cash basis.

5. Expenditure

All recurrent expenditure is brought to account under the accrual basis.

6. Foreign Currency Transactions

Foreign currency transactions are translated into Sri Lanka Rupees by using exchange rates prevailing on the date of transaction. Foreign exchange gains and losses resulting from the settlement of such transactions

are recognized in the Statement of Financial Performance.

7. Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and highly liquid short- term deposits with Banks.

8. Debtors and other Receivables

Debtors and receivables are initially measured at fair value when there is evidence that the Department is unable to recover cash or the receivable balance according to the basic conditions attached thereto, the receivable amount is considered as impaired.

9. Property, Plant and Equipment

Property, Plant and Equipment consist of land, buildings, furniture and fittings, office equipment including computers, and motor vehicles etc. Property, Plant and Equipment are shown at cost, less accumulated depreciation and losses from disposal. The financial statements have been prepared for the first time based on the carried forward balances of the year 2009 and all the lands and buildings that existed on 01 January 2010 have been brought to account according to the plans of the Department of Surveyor General and the value assessed by the Department of Valuation. All motor vehicles have been brought to account on the basis of revaluation done by the Chief Government Valuer while the furniture and computers and other items have been

brought to account on the basis of the valuation done by an independent team of assessors.

The cost of items of property, plant and equipment is recognized as an asset, if it is probable that the future economic benefits or service potential associated with the item will flow to the Department and the cost of the item can be measured reliably. In most instances, an item of property, plant and equipment is recognized at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognized at fair value as at the date of acquisition.

9.1 Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the Statement of Financial Performance.

9.2 Subsequent Cost

Cost incurred subsequent to initial acquisition is capitalized only when it is probable that future economic benefits or service potential associated with the item will flow to the Department and the cost of the item can be measured reliably.

9.3 Depreciation

Depreciation is provided on the straight line basis on all plant and equipment, at rates that will write off the cost less estimated residual values of the plant and equipment over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows.

Assets	Useful Lives (Years)	Depreciation Rates Percentage
Buildings	50	2.0
Mini Press	20	5.0
Electric Passengers Lifts	20	5.0
Motor Vehicles	8	12.5
Furniture and Equipment	5	20.0
Computers and Hardware	4	25.0

10. Payables

Payables are brought to account at the value prevailing on the date of the Statement of financial position. Payables are initially measured at fair value.

11. Annual Estimates

The main estimates figures are those included in the annual budget estimates approved by the Parliament under the Annual Appropriation Act. The figures shown are final figures after making adjustments for Virement transfers under Financial Regulation 66 and 69 or

Supplementary Estimates and Supplementary provisions.

12. Judgments and Estimations

The presentation of these financial statements requires judgments, estimations and assumptions that affect the application of policies and reported amounts of assets and liabilities, revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances.

Notes to Financial Statements

Note No.1	Audit Fees		
Estimate 2014	Description	2014	2013
<i>Rs.000</i>		<i>Rs.000</i>	<i>Rs.000</i>
90,000	Receipts		
	Public Corporations, Boards and Other Public Institutions	38,809	42,986
	Local Authorities	15,025	16,324
	Agrarian Service Centres	725	489
90,000	Total	54,559	59,799
	Receivable		
	Public Corporations, Boards and Other Public Institutions	32,852	16,004
	Local Authorities	28,171	26,704
	Agrarian Service Centres	1,656	1,678
	Total	62,679	44,386
90,000	Grand Total	117,238	104,185

Note No.2	Disposal of Assets		
Estimate 2014	Description	2014	2013
<i>Rs.000</i>		<i>Rs.000</i>	<i>Rs.000</i>
	Disposal of Vehicles		
-	Sales value of vehicles	7,241	-
-	Cost	(3,610)	-
-	Profit/(Loss) on disposal of vehicles	3,631	-
	Disposal of Furniture and Equipment		
-	Sales value of Office Furniture	8	710
-	Cost	(2)	(139)
-	Profit/(Loss) on disposal of Furniture and Equipment	6	571
-	Profit/(Loss) on Disposal of Assets	3,637	571

Note No.3 Treasury Contribution for Recurrent Expenditure

Estimate 2014	Description	2014	2013
<i>Rs.000</i>		<i>Rs.000</i>	<i>Rs.000</i>
711,183	Imprest received from Treasury for recurrent expenditure	676,539	637,100
-	Prior year Adjustment – Inventory	-	5,449
-	Imprest receivable for depreciation for the year 2014	79,530	72,843
-	Cost of the development of Audit Methodologies	24,904	24,904
711,183	Treasury contribution for recurrent expenditure	780,973	740,296

Note No. 4 Personal Emoluments

Estimate 2014	Description	2014	2013
<i>Rs.000</i>		<i>Rs.000</i>	<i>Rs.000</i>
370,650	Salaries and Wages	341,291	340,820
3,000	Overtime and Holiday Payments	2,999	2,584
327,000	Other Allowances	326,698	291,923
700,650	Total	670,988	635,327

Note No. 5 Travelling Expenses

Estimate 2014	Description	2014	2013
<i>Rs.000</i>		<i>Rs.000</i>	<i>Rs.000</i>
12,000	Domestic	11,226	12,555
2,713	Foreign	2,385	6,870
14,713	Total	13,611	19,425

Note No 6 Supplies

Estimate 2014	Description	2014	2013
<i>Rs.000</i>		<i>Rs.000</i>	<i>Rs.000</i>
9,000	Stationery and Office Requisites	9,131	8,652
12,000	Fuel	11,454	6,398
450	Diets and Uniforms	448	448
21,450	Total	21,033	15,498

Note No 7		Maintenance Expenses	
Estimate 2014	Description	2014	2013
<i>Rs.000</i>		<i>Rs.000</i>	<i>Rs.000</i>
8,500	Motor Vehicles	6,238	5,406
5,250	Plant, Machinery and Equipment	4,662	1,016
4,500	Buildings and Structures	4,054	3,324
18,250	Total	14,954	9,746

Note No.8		Services	
Estimate 2014	Description	2014	2013
<i>Rs.000</i>		<i>Rs.000</i>	<i>Rs.000</i>
11,200	Transport	10,920	4,110
10,500	Postal and Communication	10,118	7,915
12,500	Electricity and Water	11,518	11,212
1,500	Rent and Local Taxes	548	622
19,600	Others	19,589	18,409
55,300	Total	52,693	42,268

Note No. 9		Transfers	
Estimate 2014	Description	2014	2013
<i>Rs.000</i>		<i>Rs.000</i>	<i>Rs.000</i>
600	Subscription and Contribution Fees	468	440
9,900	Interest on Loans to Public Officers	9,858	9,614
-	Others	-	-
10,500	Total	10,326	10,054

Note No. 10 Property, Plant and Equipment

	Land	Buildings	Motor Vehicles	Computer and Software	Furniture and Equipment	Mini Press	Passenger Lift	Total
	<i>Rs.000</i>	<i>Rs.000</i>	<i>Rs.000</i>	<i>Rs.000</i>	<i>Rs.000</i>	<i>Rs.000</i>	<i>Rs.000</i>	<i>Rs.000</i>
Cost								
Balance as at 1 January 2014	256,147	581,513	88,208	131,057	82,388	26,023	8,828	1,174,164
Additions	-	193,515	-	1,337	12,039	-	-	206,891
Disposals	-	-	(5,775)	-	(6)	-	-	(5,781)
Balance as at 31 December 2014	256,147	775,028	82,433	132,394	94,421	26,023	8,828	1,375,274
Depreciation								
Balance as at 1 January 2014	-	24,361	30,381	59,761	28,580	2,602	1,139	146,824
Depreciation on disposed assets	-	-	(2,165)	-	(4)	-	-	(2,169)
Additions	-	15,501	10,304	33,099	18,884	1,301	441	79,530
Balance as at 31 December 2014	-	39,862	38,520	92,860	47,460	3,903	1,580	224,185
Net Value as at 31 December 2014	256,147	735,166	43,913	39,534	46,961	22,120	7,248	1,151,089

Note No. 11 Cost of the development of Audit Methodologies

Description	2014	2013
	<i>Rs.000</i>	<i>Rs.000</i>
Balance as at 01.01.2014	201,188	206,497
Expenditure for the year 2014	-	19,595
Amortization cost for the year 2014 (10% of the total cost)	(24,904)	(24,904)
Balance as at 31 December 2014	176,284	201,188

Note No. 12 Inventory

Description	2014	2013
	<i>Rs.000</i>	<i>Rs.000</i>
Building Maintenance Materials	367	284
Stationery and Requisites	4,973	4,846
Tyres and Tubes	1,237	319
Total	6,577	5,449

Note No. 13 Advances to Public Officers

Description	2014	2013
	<i>Rs.000</i>	<i>Rs.000</i>
Total amount due from officers serving in the Department	228,663	248,265
Total amount due from officers transferred out of the Department	187	1,730
From retired and deceased officers	1,917	435
From officers who vacated their posts	475	580
From service terminated officers	598	595
Total	231,840	251,605

Note No. 14 Audit Fees Receivable

Description	2014	2013
	<i>Rs.000</i>	<i>Rs.000</i>
Development Councils	30	30
Municipal Councils	24,493	22,706
Urban Councils	50,187	47,732
Pradeshiya Sabhas	24,601	24,443
Public Corporations, Boards and Other Public Institutions	105,207	86,153
Agrarian Service Centres	10,254	8,392
Economic Centres	38	-
Total	214,810	189,456

Note No. 15 Accrued Expenses

Description	2014	2013
	<i>Rs.000</i>	<i>Rs.000</i>
Railway Warrant – Leave	416	105
Railway Warrant – Travelling Expenses	44	5
Fuel Expenses	-	33
Postal Charges	21	15
Telephone Bills	844	163
Electricity Bills	808	945
Water Bills	60	34
Vehicle Maintenance	296	10
Rathnapura Building – Consultancy Fees	-	3,556
Public Addressing System Charges	-	441
Furniture for Rathnapura Building	-	13,541
Audit Methodology	-	19,595
Rathnapura Building - Construction	-	76,867
Stationary & Office Requisites	355	-
Plant & Machinery Maintenance	53	-
Total	2,897	115,310

Note No.16 Treasury Contribution for Capital Expenditure and General Deposit Account

Description	2014	2013
	<i>Rs.000</i>	<i>Rs.000</i>
For Advance to Public Officers	231,840	251,605
For Deposit Account	(18,221)	(8,456)
For Fixed Assets	409,708	419,461
Total	623,327	662,610

Note No.17 Public Sector Capacity Building Project Contribution

Description	2014	2013
	<i>Rs.000</i>	<i>Rs.000</i>
For Fixed Assets	741,381	652,662
For Audit Methodology	176,284	181,593
Total	917,665	834,255

Summary of the Audit Observations (Sector wise)

Consolidated Fund

The payments into the Consolidated Fund and withdrawals from the Fund are subject to the provisions in Articles 148, 149, 150 and 152 of the Constitution of the Democratic Socialist Republic of Sri Lanka, other statutory provisions and Public Financial Regulations.

The Minister of Finance is charged with the raising of Revenue and the collection of other Government monies as well as with the general oversight of all the financial operations of the Government in terms of the Financial Regulation 124. He or the Treasury, on his behalf, therefore lays down the broad frame work within which the Departmental financial transactions of all kinds devolved on the Minister of Finance may be undertaken. It is the duty of the Minister of Finance to account to Parliament for all receipts and payments. He therefore appoints each Secretary to a Ministry to be the Chief Accounting Officer of his Ministry and delegates to him as the Chief Accounting Officer the responsibility for supervising Departmental financial transactions subject to the directions of the Treasury. In addition to the Secretaries to Ministries, the Officers in charge of the Departments specified in Article 52(7) of the Constitution and other Departments not supervised by Secretaries to Ministries will be Chief Accounting Officers.

In terms of the Article 148 of the Constitution of the Democratic Socialist Republic of Sri Lanka "Parliament shall have full control over public finance". The provisions required for the public expenditure for the year 2014 had been made by the Appropriation Act, No. 36 of 2013 and that had been amended by the Appropriation (Amendment) Act, No.42 of 2014. Accordingly, provision amounting to Rs.1,692.55 billion comprising Rs.992.5 billion for recurrent expenditure and Rs.700.05 billion for capital expenditure in respect of 208 Heads had been made. Expenditure amounting to Rs.1,058.45 billion comprising recurrent expenditure amounting to Rs.610.12 billion and capital expenditure amounting to Rs.448.33 billion, as approved by the existing laws to be charged to the Consolidated Fund should have been incurred in the year under review. As such provisions amounting to Rs.2,750.99 billion had been made in the Annual Budget Estimate. Together with the additional provision of Rs.16.04 billion made for Special Law Services, the annual provisions for the year 2014 amounted to Rs.2,767.04 billion. Parliament had made provision amounting to Rs.28.24 billion comprising Rs.8.13 billion for recurrent expenditure and Rs.20.12 billion for capital expenditure under Head 240 Department of National Budget-Programme No. 2 Development Work Programme. The

financial resources so made from the Appropriations Act, had been utilized by 22 Special Spending Units, 59 Government Ministries, 93 Government Departments, 25 District Secretariats and 9 Provincial Councils. The total expenditure incurred up to 31 December 2014 amounted to Rs.2,601.72 billion comprising capital expenditure amounting to Rs.595.71 billion and recurrent expenditure amounting to Rs.2,006.01 billion.

Revenue amounting to Rs.1,331.45 billion, inclusive of the revisions, had been estimated for the year 2014 under 99 Revenue Codes for financing the provisions made for the year 2014. Out of the revenue estimates for the year, revenue amounting to Rs.1,127.63 billion had been collected during the year. In addition to the above, estimates had been made for collection of Rs.646.01 billion from foreign borrowings, Rs.13.4 billion from foreign grants, Rs.989.23 billion from domestic non-banking borrowings, Rs.14.75 billion from the recoveries on lending and Rs.0.30 billion from the sale of capital assets and revenue amounting to Rs.422.54 billion, Rs.9.41 billion, Rs.965.45 billion, Rs.14.89 billion and Rs.17.6 billion respectively and Rs.16.92 billion from the net changes in the deposits and liabilities and Rs.27.27 billion from increase in cash and equivalents. The Government had resorted to the issue of Treasury Bonds and Treasury Bills as the major source of supply of funds under the non-banking domestic borrowings.

Public Revenue and Budget Deficit

According to the Financial Statements of the Republic, the recurrent expenditure and the capital expenditure of the Government for the year 2014 amounted to Rs.1,370.05 billion and Rs.595.71 billion respectively. Nevertheless, the overall revenue earned by the Government amounted to Rs.1,127.63 billion and as such it was not sufficient even to meet the recurrent expenditure for the year 2014. As such the recurrent expenditure incurred exceeding the overall Public Revenue amounted to Rs.242.42 billion. Therefore, recourse to domestic and foreign financing sources was further required to meet the overall budget deficit of Rs.838.13 billion inclusive of the capital expenditure amounting to Rs.595.71 billion. Accordingly, the total foreign financing inclusive of foreign grants during the year 2014 had increased by 211.64 per cent to Rs.324.98 billion. The net domestic borrowings, as compared with the year 2013, had decreased by 9.46 per cent to Rs.436.46 billion.

The impact on the Public Revenue from the following reasons arising in the preparation of the estimates relating to the Public Revenue Management and the evaluation of the performance of the institutions generating revenue cannot be ruled out.

- Tax revisions made from time to time
- Increase in the quantities of goods and services imported
- Fluctuations in the foreign exchange rates

- Fluctuations in the prices of goods and services imported

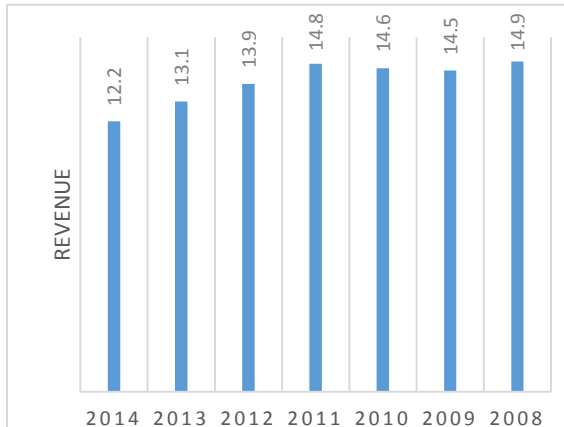
Fund Utilisation

Provision amounting to Rs.2,767.04 billion had been made for the year 2014 and the utilization amounted to Rs.2,601.72 billion, thus resulting in a saving of Rs.165.31 billion. That as compared with the saving of Rs.191.37 billion in the preceding year indicated a decrease of the savings by Rs.26.05 billion. Even though the provisions amounting to Rs.2,767.04 billion referred to above had been transferred to the Heads and utilized, the entire net provisions of 41 Objects of the year under review amounting to Rs.9.78 billion had been saved and that represented 5.9 per cent of the overall savings. The savings, ranging from 76.0 per cent to 99.0 per cent of the net provisions amounted to Rs.14.87 billion and that represented 9.0 per cent of the overall savings. Similarly, the savings ranging from 51.0 per cent to 75.0 per cent of the net provisions amounted to Rs.62.75 billion and represented 37.9 per cent of the overall savings. Out of the overall savings amounting to Rs.165.31 billion, 40.3 per cent or Rs.66.62 billion represented

recurrent provisions, while the savings of capital provision amounting to Rs.98.7 billion represented 59.7 per cent of the overall savings. The estimated capital expenditure for the year 2014, excluding the repayment of loans, amounted to Rs.671.66 billion and the utilization amounted to 88.7 per cent or Rs.595.71 billion. That, as compared with the utilization of capital provision for the preceding year amounting to Rs.455.58 billion indicated an increase of Rs.140.13 billion.

Gross Domestic Product and Public Revenue

The Public Revenue for the year under review represented 12.2 per cent of the Gross Domestic Product and the corresponding percentage for the preceding year had been 13.1 per cent. It was observed that such decrease had resulted continuously in the year under review and the two preceding years. Such decrease had been due to the decrease in the revenue from all categories of income taxes other than the Pay As You Earn Tax.



Public Revenue as a Percentage of the Gross Domestic Product

Source - Annual Report of the Central Bank of Sri Lanka – 2014

The following observations are made in connection with the collection of Public Revenue, provisions made and the expenditure incurred referred to above.

- Even though the premium received as the surplus the issue of Treasury Bonds at a price above their interest income and the full value should be brought to account as revenue separately, the interest revenue and the surplus earned from the sale of Bonds in the year under review amounting to Rs.17.89 billion and Rs.35.25 billion respectively had been credited to the Interest Account on the Domestic Borrowings.
- The surplus received by the Government in the year under review on the issue of Treasury Bonds at a premium above the face value amounted to Rs.35.25 billion and the deficit resulting from the issue of Treasury Bonds at a value below the face value amounted to Rs.3.09 billion.
- In the issue of Treasury Bonds below the face value of the Treasury Bonds, the sales value of the Bonds had been credited to the Treasury Bonds Account instead of crediting the face value of Treasury Bonds to the Treasury Bonds Account. As such the value of the Treasury Bonds issued as at 31 December 2014 had been understated by a sum of Rs.609.97 billion in the Financial Statements of the Republic.
- Even though it was stated in the financial statements that the Government had contributed Rs.323.37 billion to the capital contribution of 08 businesses of the Government, the actual capital contribution made according to the direct confirmation made by the institutions concerned to the audit totalled Rs.373.87 billion. As such understatements totaling Rs.50.49 billion had been made in the financial statements in respect of the 08 institutions.
- According to the Board of Survey conducted on the Investment Certificates, the value of investments relating to 07 institutions had been understated by a sum of Rs.19.5 billion and the value of investments in 14 institutions had been overstated by a sum of Rs.20.93 billion in the financial statements.

- The share certificates relating to the investments of Rs.9.69 billion made by the Government in 49 businesses had not been produced for verification by the Board of Survey. Accordingly, the Board of Survey had not confirmed that investment.
- Even though investments totaling Rs.397.84 had been made in 121 institutions comprising 92 Government Institutions, 24 Plantation Companies, 02 Development Banks and 03 Corporations quoted in US Dollars, out of that, dividends amounting to Rs.4.68 billion had been received during the year under review, only from 40 institutions in which a sum of Rs.91.32 billion had been invested. That sum represented a very low of 1.17 per cent of the investment made.
- Reconciliation of the foreign debt payable as appearing under the liabilities in the financial statements for the year under review with the balance of the foreign debt appearing in Report 854-1 of the Department of Public Debt revealed overstatements of Rs.2.92 billion in respect of 81 loan agreements and understatements of Rs.3.33 billion in respect of 90 loan agreements.
- According to the information on the liabilities for unsettled recurrent expenditure as at 31 December 2014 as reported on the Forms DGSA 8(i), 8(ii) and 8(iii) of the Appropriation Accounts relating to 206 Heads of the year amounting to Rs.85.32 billion and Rs.94.86 billion relating to Capital expenditure totaling Rs.180.18 billion had not disclosed in the Financial Statements of the Republic.
- The total liabilities incurred by the General Treasury in the year under review in connection with the lease purchase of 24,017 motor vehicles (including 21,498 motor cycles) amounting to Rs.10.06 billion had not been disclosed in the Financial Statements of the Republic.
- Interest amounting to Rs.11.87 billion had been paid in the year under review on the overdraft balances of 03 Bank Accounts of the Deputy Secretary to the Treasury. Thus, as compared with the preceding year indicated an increase of Rs.1.6 billion.
- According to the letter No. PF/FD/04/148 dated 31 October 2014 of the Director General of Public Finance, a sum of Rs.0.3 billion out of the Object 277-1-1-0-2502 had been transferred to the Deposit Account No.

- 6000/0000/00/0011/0602 for the establishment of a Revolving Fund for production of grains. That deposit remained idle as action in terms of the above letter had not been taken.
- The value of losses and damage of the year under review as shown in the Financial Statements of the Republic amounted to Rs.0.38 billion and that represented an increase of Rs.0.16 billion over the value of losses and damage in respect of the preceding year of Rs.0.23 billion or 69.02 per cent. The sum of Rs.0.54 billion further remaining recoverable as reported on Form DGSA 7 of the Appropriation Accounts of 26 Heads had not been disclosed in the Financial Statements of the Republic.
 - Even though the value of the loans provided to the local institutions under 09 on-lending agreements as at 31 December 2014 had been shown as Rs.1.23 billion in the Financial Statements of the Republic, the value of loans confirmed by the institutions concerned amounted to Rs.0.81 billion. As such an overstatement of Rs.0.42 billion had been made in respect of those 09 institutions.
 - A sum of Rs.8.68 billion recognized as arrears of Revenue as at 31 December 2014 according to the Return on Arrears of Revenue prepared by the Department of Treasury Operations had not been shown in the Financial Statements of the Republic.
 - A sum of Rs.1.08 billion earned by the Sri Lanka Navy in the years 2013 and 2014 from the services supplied to external parties had not been credited to the Consolidated Fund.
 - The revised budget deficit for the year under review amounted to Rs.777 billion and as the actual budget deficit amounted to Rs.838 billion, it represented an unfavorable position of Rs.61 billion as against the estimated budget deficit. The actual budget deficit for the year under review represented 8.5 per cent of the Gross Domestic Product.
 - According to the Financial Statements of the Republic, the gross liability of the Republic as at 31 December 2014 amounted to Rs.6,971.18 billion and as compared with the gross liability of Rs.6,344.94 billion for the preceding year, that represented an increase of Rs.626.23 billion or 9.9 per cent.

Special Investigations on the Public Revenue Management conducted by the Auditor General's Department and their Impact on Public Revenue

The errors, weaknesses, inefficiencies and uneconomic features prevailing in the Public Revenue Management detected at the Special Investigations of the Public Revenue Management undertaken by the Auditor General's Department from time to time were pointed out. Even though observations on these have been made continuously through audit queries and reports, it has to be pointed out that the slow progress in the action taken to minimize those deficiencies had adversely impacted the Public Revenue Management. The significant audit observations made at the audit of the affairs of the four main institutions, namely the Department of Inland Revenue, Sri Lanka Customs, the Department of Excise and the Department of Motor Traffic which contributed 85.35 per cent to the Public Revenue in the year under review, appear below.

Department of Inland Revenue

- Arrears of Revenue amounting to Rs.210.08 billion had not been included in the Revenue Accounts.
- A sum of Rs.8.334 billion out of the total Stamp Duty Revenue amounting to Rs.11.93 billion and a sum of Rs.13.1 billion out of the total Nation Building Tax amounting to Rs.57.68 billion had not been included in the Revenue Accounts.
- The difference of Rs.0.66 billion between the Tax Revenue for the year under review under three Control Accounts of the Treasury and the Tax Revenue according to the Departmental books had not been identified and brought to account correctly.
- Even though the Commissioner General of Inland Revenue is the authority for the refund of the Nation Building Tax. The Treasury had indicated a sum of Rs.7.66 billion as refunds of the Nation Building Tax. The particulars thereof had not been furnished.
- The remittance forms for 04 categories of taxes amounting to Rs.0.07 billion had not been received even by the end of the year under review and as such those taxes had not been recorded in the accounts of the respective tax payers.
- According to the revised Revenue the Tax Revenue due for collection in the year under review amounted to Rs.605.33 billion. However a sum of Rs.485.39 billion or 80 per cent only had been collected.
- As a result of three audit queries on the non-submission of Value Added Tax Returns, under-computation of tax and defaulting the payment of taxes issued

to the Commissioner General of Inland Revenue during the year under review, an additional Tax Revenue of Rs.0.12 billion could be recovered from 13 tax payers.

- The monthly Returns on the Pay As You Earn Tax recovered from the emoluments which should be furnished to the Commissioner General of Inland Revenue in terms of Section 120 of the Inland Revenue Act, No. 6 of 2006 had not been furnished by 226 State Institutions.

Sri Lanka Customs

- Out of 192,848 Customs Entries on the containers imported in the year 2014, about 88 per cent or 170,120 Entries had been released without formal inspection by the Customs. Accordingly, the possibility of importing goods prohibited under the provisions in the Customs Ordinance existed.
- Even though the nature of the Customs inspection is determined according to the experience of the Customs Officers attached to the Screening Division and the history of the importer, such information system is not established in the Screening Divisions and the methodology is determined at the discretion of the officers concerned.
- In most instances the contents of containers had not been subjected to a detailed examination.
- As duties had been charged on the Toyota Hilux Vigo Model motor cars outside the classification according to the manufactured model, customs duty of Rs.0.002 billion had been deprived of to the Government per motor car. More than 3,000 motor cars of this category had been released by the Customs.
- As the importers of motor vehicles under the Concessionary Motor Vehicle Licences had paid the duty by under-valuation, tax revenue of about Rs.0.72 billion had been lost.
- An information system containing specific customs values had not been made use of for determining the value of goods brought into the country by post as gifts.
- Lack of a proper procedure for the identification of new institutions from which Excise Duty should be collected, non-updating of legal provisions relating to the collection of Excise Duty, the very slow process of collection of arrears of Excise Duty, lack of proper organization of the raids and investigations relating to the Excise Duty, the failure to implement properly the legal steps taken on the defaulted payment of the Excise Duty and the lack of a proper internal control system for the improvement of the

performance of the officers of the Excise Duty Division to a high level were observed.

- Use of the Passenger Terminal of the Airport for the import of commercial level goods was observed. Goods of commercial level valued at Rs.0.02 billion brought in 391 instances by 06 air travel passengers in the year 2014 were pointed out.
- Weaknesses in the storage, valuation and sales process of confiscated goods were observed.
- There were instances in while the Public Revenue had not been well protected in connection with the goods imported and abandoned by the importers due to reasons such as determining the penalties according to the discretion of the Customs Officers, the under-valuation of goods, release of goods to the importer who committed the Customs offence, delays in Customs investigations resulting in destruction or outdating of goods, etc. Revenue amounting to Rs.0.05 billion had been lost in 02 instances.
- Vessels, Drivers and Lascar Officers are not deployed in adequate numbers for the marine surveillance work. As such it was observed that the role of the Regional Customs Preventive Officers is inadequate for the control of smuggling.

- Sri Lanka Customs had collected revenue amounting to Rs.2.982 billion and Rs.2.63 billion in the years 2013 and 2014 respectively by imposing penalties for Customs offences and frauds and from the sale of confiscated goods and out of that revenue, only 30 per cent, that is, Rs.0.89 billion and Rs.0.79 billion respectively had been credited to the Public Revenue. The allocation of the balance 70.0per cent, that is, Rs.2.09 billion and Rs.1.84 billion respectively for the rewards and welfare activities of the Customs Officers was a noticeable point.

Department of Excise

- The arrears of Excise Duty Revenue amounting to Rs.0.5 billion as at 31 December 2010 had rapidly increased to Rs.1.53 billion by 31 December 2014. Nevertheless, the progress of recovery of the revenue in arrears had not been satisfactory while no meaningful and timely steps had been taken for the recovery of the arrears of revenue.
- In the grant of rebates of taxes for the export of liquor, the Department uses only the Customs Export Entry as the basis and the Department had not formulated a methodology to ascertain the actual quality exported.
- The revenue collection function performed by the officers attached to the companies manufacturing had not

been subjected to a continuous system of test checks by the Department.

- Even though the Department issued licenses for the export of cigarettes, the Department did not have a methodology to ascertain whether the quantity of cigarettes approved for export is actually exported.
- Even though the Withholding Tax retained in the local purchase or the import of spirit is allowed for set off for the payment of the Excise Duty on the liquor manufactured from such spirits, Withholding Tax amounting to Rs.0.51 billion had been brought to account as Excise Duty Revenue.
- An appropriate Computer Network System designed for the easy and accurate collection of Excise Duty had not been introduced.

Department of Motor Traffic

- Necessary courses of action had not been taken on 18 Insurance Companies which had not properly carried out the collection of Luxury Tax.
- The provisions in the Act had not been enforced on 371 owners of motor vehicles who had defaulted the payment of Luxury Tax.

- Action in terms of the provision in the Act had not been taken on motor vehicle fully taken off the road due to tsunami, terrorist activities or accident or other cause and cancel the registration of those motor vehicles.
- A Register of Registration Cancelled Motor Vehicles had not been maintained.
- Registers had not been maintained in a manner to facilitate obtaining the statistical information on the actual number of motor vehicles used for running in the Island.
- Even though it is the primary duty of the Department to ensure that the original files of the motor vehicles registered duly by the Department are kept in safe custody it was pointed out in audit over and over again during the past several years on the unavailability of a large number of original files on motor vehicles or misplacing such documents. Nevertheless, the officers had not paid their responsibility to ensure the security of the official documents.
- Even though 597 files essential for audit purposes / connected to fraudulent activities were called for during the last 04 years, those files had not been furnished to audit.
- The failure of the officers responsible to ensure the security of the original files

had been the main reason for the large scale loss of revenue as well as the frauds and irregularities pointed out in audit.

- Eighty five Custom Entries for the import of 141 motor cycles and 07 Customs Entries on which the motor cycles had been imported had been used to enter 2,577 motor Cycles and 2,098 motor cycles respectively to the computer systems of the Department with the intention of making fraudulent registrations.
- Even though it was pointed out in audit that illegally imported or assembled motor vehicles had been registered continuously under the identification numbers of the motor vehicles taken off the road due to accidents or other causes, the Department had not taken action in connection with 29 such motor vehicles.
- Even though it was pointed out in audit that the use of modern motor vehicles had been allowed to run with the registration numbers and the chassis numbers of the old motor vehicles already registered with the Department, the Department had not taken action on 05 such motor vehicles.
- According to Section 16 of the Motor Traffic (Amendment) Act, No. 8 of 2009 no person shall fabricate, manufacture, assemble, innovate, adopt, modify or

change the construction of a motor vehicle in Sri Lanka except with the prior written approval of the Commissioner General. It was pointed out in audit that the appearance of 26 motor vehicles had been totally altered by violating all those provisions. Instead of examining such motor vehicles and taking action in accordance with the legal provisions against the officers responsible, action had taken action to regularize this situation.

- Action had not been taken for the recovery of Luxury Tax amounting to Rs.0.004 billion from 18 motor vehicles initially registered in the Department as single cab motor vehicles and subsequently converted as Jeeps.
- Out of the special purposes motor vehicles imported on the payment of lesser Customs Duty, 22 and 56 motor vehicles had been registered as Dual Purpose vans and motor lorries respectively, thus resulting in large scale loss of revenue. It was also observed that motor vehicles old up to 07 years had been imported.
- A large amount of Tax Revenue is deprived of to the Government daily due to the fraudulent registration of a large number of illegally imported or assembled motor cycles. It was observed that 108 such motor cycles had been registered on 05 days in June 2014.

- Even though such illegal activities were pointed out in audit over and over again, the officers responsible had not taken appropriate courses of action to prevent

such illegal activities. In addition, disciplinary action had not been taken against the officers connected to such illegal activities.

Public Enterprises

Public Enterprises (PE) in Sri Lanka are engaged in the provision of goods and services and operate in strategic sectors of the national economy such as electricity, water, petroleum etc. Therefore the financial as well as the operational performance of such enterprises have a direct impact on the macroeconomic stability of the country. The deferent Funds also have been established for several specific or common purposes. This Chapter comprises the analysis of the financial performance of the Public Corporation including Funds for the year 2014.

As defined by the Constitution of the Democratic Socialist Republic of Sri Lanka a

Public Corporation is “any Corporation, Board or any other body which was or is established by or under any written law other than the Companies Act, where the Government has the controlling interest with the capital wholly or partly provided by the Government by way of grant, loan or any other form”.

In this analysis, 276 Public Corporation including Funds and State Owned Universities have been broadly treated as Public Enterprises and categorized under five segments based on their nature, size, operations etc. as follows.

Category	No.of Entities
Specified Business Enterprises (SBE)	53
Regulatory and Monitory Institutions (RMI)	22
Universities, Research and Other Training Institutions (URT)	74
Other Development and Non Profit Oriented Institutions (DNP)	64
Funds (FUN)	69
Total	282

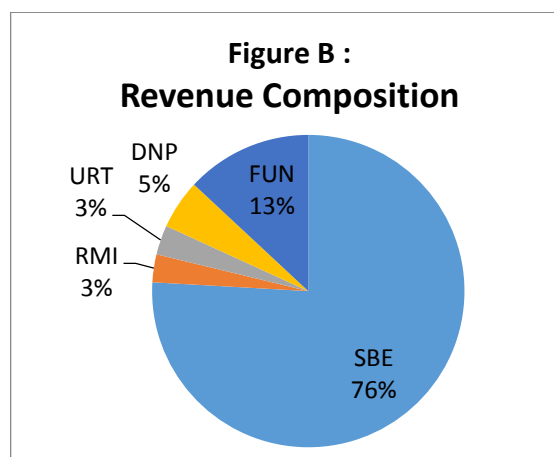
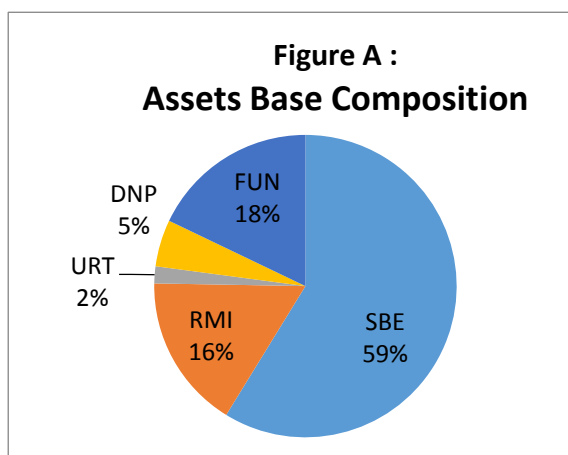
However the above mentioned analysis is based on the annual financial statements submitted to the Auditor General. The financial statements of 43 PEs and Funds which includes 13 SBE, 1 RMI, 6 URT, 15 DNP and 8 Fund had not been submitted financial statements for the year ended 31 December 2014 to the Auditor General as at

20 October 2015. Two PEs namely Janadiriya Fund and Shipping Development Fund were not in operating during the year under review. Samurdi Authority of Sri Lanka has been merged with Divineguma Department. Hence it is not further considered as public enterprise. Institute of

Geology which had been formed during the year is considered as public enterprise.

The total revenue earned by the PEs during the year 2014 is over Rs. 1,431 billion which exceeded the total revenue earned by the Government, and represented an increase of 9 percent compared with the previous

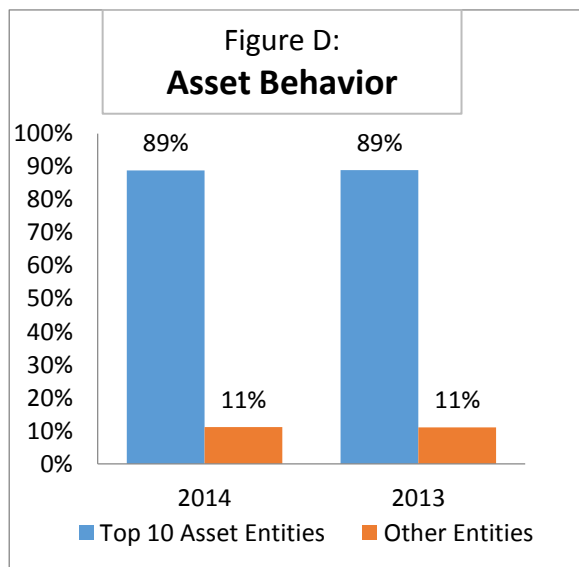
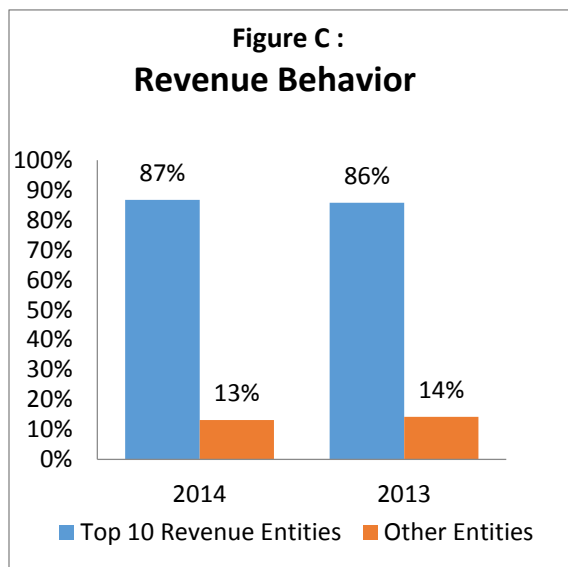
year. Total Asset Base of PEs is around Rs. 9,000 billion and it was an increase of 15 percent compared with the assets based as at 31 December 2013. The composition of the revenue and Assets Base of each category of PEs as at 31 December 2014 are depicted in the Figure A and B below.



According to the Figure A, SBEs have the largest Asset Base representing the 59 percent of total Asset Base of PE while the Funds represented the second place with 18 percent of total Asset Base. As same as, shown in the Figure B, SBE has the largest revenue base representing 76 percent of total revenue and the Funds represented 13 percent. It shows, both SBEs and Funds earn 89 percent of total revenue and hold 77 percent of total asset base. Therefore, the strategic decisions taken in relation to the operation of these two categories is significantly influenced to the financial performance of the PEs.

Further, as depicted in the figure C and D, below 10 PEs earn 87 percent of total

revenue except the government grant received during the year under review compared with 86 percent in previous year. Further 10 PEs represent 89 percent of total Asset Base of the year under review and previous year too. Ceylon Petroleum Corporation (CPC) has earned the highest revenue which represents over 39 percent of total revenue of PEs while Employees Provident Fund has the largest Asset Base representing over 16 percent of total Asset of the PEs. When considering about the financial management of the PEs, the great attention should be paid to these entities. Proper financial management of these entities will make greater impact to the efficiency of the economic operations of the country.



Profitability

According to the financial statements presented the Profit Before Tax (PBT) of PEs had been increased by 14 percent compared to 2013. However, PBT of SBEs was increased only by 11 percent. Further, 71 of PEs had earned negative PBT for the year 2014 while 77 PEs had suffered losses in 2013. It includes 7 SBE, 7 RMI, 32 URT, 20 DNP and 5 funds. It is remarkable that 24 PEs which suffered losses in 2013 have earned profits in 2014 while 18 PEs earned profits have suffered losses in 2014.

Several PEs categorized under DNP and URT such as Sri Lanka Mahaweli Authority, Road Development Authority and Central Bank of Sri Lanka had incurred severe losses of more than Rs. 30 Billion. However, some PEs categorized under SBE including Ceylon

Electricity Board had incurred huge losses. According to the review most of these PEs which make loss continuously due to many factors such as problems in administration and good governance practice, low productivity of employees, poor financial management, weaknesses in internal controls and structural deficiencies. Profitability and growth perspectives are not the matters concerned by such PEs due to less competitions faced by other institutions such as private firms. Generally there were no succession plans and focus on early on short term targets basically due to changing environment. Management of certain PEs tends to make decisions which are not socially or economically viable, violating government policies and regulations.

Other Income

Public enterprises are not authorized to invest their excess funds without the approval of the General Treasury and required to transfer their excess funds to the General Treasury according to the Finance Act No. 38 of 1971. However with contrary to this provision, many of PEs have earned interest income on investments made. Some PEs tends to cover their routine expenses from that income rather than from their revenue from principal activities which limits the value addition to the country. Further the management of those PEs mostly focus on managing the fund investment rather than for their principal activities.

Many of PEs are depend on the annual contribution made by the Government to cover more than 50 percent of their total expenses such enterprises which include many URTs and 03 SBEs. However, SBEs and Funds had received less than 1 percent of recurrent grant comparing to their total income while URT receive the grant which is more than 50 percent of their total income.

Expenditure

Personal emolument of PEs is represented significant portion of administration expenses. However only 101 PEs are presented the personal cost clearly in their financial statements. Out of those entities, expenditure on personal emoluments had been increased by 11 percent in the year

under review compared with the previous year. It was observed that 56 of PEs spent more than 53 percent of total expenses for personal emoluments including 8 SBEs and 3 Funds. In addition, personal emoluments of 67 PEs were higher than their total revenue earned from principal activities including 3 SBEs and a Fund. It proved that such institution were unable to survive without government assistance. However revenue from value addition activity or principal activity of SBE has been increased only by 7 percent during the year under review compared to previous year. It indicates that the employees of these PEs should increase their efficiency by way of proper training as well as rebuilding of their attitude towards the development of the public sector. Certain SBEs which are profit oriented entities even spends for personal emoluments more than their revenue earned for the year.

It was observed that the research and development expenses of PEs are remained at below 0.1 percent of total expenditure which is very low compared to the research and development expenses of other developing countries. URT category of PEs had spent the highest cost for Research and Development which is 1.21 percent of its expenses. It includes the majority of research institutions and universities whilst such URTs have received grant of more than 50 percent of total revenue. When considering these factors, URTs have not spent a significant amount for Research and Development when compared with total

expenditure of that category. SBEs spend minimum amount for Research and Development representing 0.01 percent of its total expenses. Accordingly it was observed that PEs have spent for Research and Development with a view to introduce innovative products and services for the customers.

Finance cost of PEs represents 2.73 percent of total expenditure. DNP category had spent more than 8 percent of total expenditure which is the highest percentage of finance cost from its total expenditure among other categories. Several PEs enjoyed bank overdraft with interest rate higher than other sources of lending to finance their needs while possessing adequate investments. Therefore, these PEs should pay greater attention over proper financial management to get maximum advantage for the funds invested by the Government.

PEs had contributed their support to the Government by way of income taxes and approximately Rs. 5,099 million had been contributed in 2014 out of which the major portion was contributed by SBEs.

Financial Structure

According to the financial structure of the PEs the, current assets ratio is maintained at 0.72 reflecting that current liabilities remained over current asset and showed an adverse situation to meeting the short term financial obligations due to shortage of

enough liquid assets to settle immediate liabilities. The worst situation reflects in RMI category representing 0.44 of current ratio. SBE also has the current ratio at 0.78 reflecting a critical situation.

According to the financial statements of the PEs it represents 40 percent of current assets and 60 percent of non-current assets. Those have been financed by 55 percent of short term sources of funding and 45 percent of long term sources of funding. It reflects that part of long term assets have been financed by short term funds i.e. 25 percent of non-current assets had been financed by short term financing sources. The imbalance of short term assets with short term financing sources may cause to a problem of long term stability of the PEs as well as short term liquidity. This is an aggressive approach of financing.

Managing the long term assets and part of short term assets with long term financing sources and balance with the short term financing sources is required. However the imbalance between current assets and current liabilities basically reflects in SBE and RMI categories. More than 34 percent and 72 percent of non-current assets have been financed by short term financing sources in SBE and RMI respectively. However PEs should pay attention to manage their long term and short term assets and liabilities in accordance with the an approach which the entity finances all funds requirements with long term funds

and uses short term financing only for emergencies or unexpected outflows.

PEs had more than 1.7 Debt Equity Ratios which reflect an adverse situation for entities in the financial stability in the long term and they will incur a huge finance cost. However SBE has maintain Debt Equity Ratio at 3 while RMI at 15. This effect in RMI has been created almost by CBSL.

Some of public enterprises had negative net asset position while they had earned positive PBT such as CPC. Most of PEs continue with adverse situation for long period. It indicates that those entities are highly depending on the government grants for their day to day operations. Some of those entities are non profit oriented and mainly focusing on the provision of essential services to the public on free of charge or as subsidies. However there are some SBEs which are profit oriented entities with high negative net asset position.

Some PEs especially in DNP and URT categories have not identified their stated capital separately. Government assistance provided at the incorporation of the PEs which could be identified as the stated capital and presented together with the Government grants received from time to time for special tasks which amortized annually. Hence stated capital is always changing and most of the cases it reflects a decreasing situation because of amortization of grants. This practice is not recommended by the Financial Reporting

Framework which should be followed in preparation and presentation of financial statements of PEs.

Preparation and submission of financial statements

Sri Lanka Public Sector Accounting Standards (SLPSAS) and Sri Lanka Accounting Standards (LKAS and SLFRS) is the frame work for preparation and presentation of financial statements of PEs. However Specified Business Enterprises require to apply Sri Lanka Accounting Standards (LKAS and SLFRS). Accordingly, annual financial statements comprising the Statement of Financial Position, Statement of Comprehensive Income, Statement of Cash Flow, Statement of Changes in Equity and a summary of significant accounting policies and other explanatory information shall submitted to Auditor General by each PEs within two months after the end of the accounting year in accordance with the provision of Public Enterprises Circular No PED/12 of 2 June 2003.

Out of 236 PEs submitted these financial statements for the year ended 31 December 2014, only 66 PEs had submitted their financial statements on due dates and 170 PEs had submitted financial statements after the due dates. Out of that 65 PEs had delayed their submission of financial statements by more than 03 months. In accordance with SLPSAS, LKAS & SLFRSs, there shall be followed a common framework for the preparation and presentation of financial statements, it was

observed that different entities in same category had presented financial statements completely different by each other. It emphasized the necessity to introduce a common format for the financial statements of the PEs to be applied to ensure consistency.

Audit Opinion

Auditor General's Reports are focused on financial and operational aspects of the PEs including financing performance, economy, efficiency and effectiveness of the operations of the entity as well as the presentation of the financial information. In the first part of the report, it provides a reasonable assurance by way of expressing an opinion on the financial statements of public enterprises whether it gives true and fair view in accordance with the Sri Lanka Accounting standards or Sri Lanka Public Sector Accounting Standards. In many cases, those opinions are modified based on the materiality and pervasiveness of the misstatements. There are four types of audit opinions which are expressed on the financial statements namely unqualified, qualified, adverse audit opinions and

disclaimer of audit report. Unqualified opinion reflects that the financial statements of public enterprises give a true and fair view or free from material misstatement. Other than the unqualified opinion, other types of opinions reflect a negative impression of the financial statements of the entity. Accordingly, the sever pervasiveness of the scope limitation would lead to disclaim the opinion while the severe pervasiveness of the disagreement with management would lead to express an adverse audit opinion which have a severe influence to the management. A qualified opinion expresses when an unqualified opinion cannot be expressed but that the effect of any disagreement with management, or limitation of the scope is not so material and pervasive as to require an expression of adverse opinion or a disclaimer of opinion. A qualified opinion is expressed as being 'except for' the effects of the matter to which the qualification relates. Audit opinions expressed on the financial statements of the PEs on which the audit reports were issued for the year 2014 as compared with the preceding year are as follows.

Type of Audit Opinion	2014	2013
Unqualified	41	43
Qualified	151	181
Disclaimer	12	9
Adverse	8	7
Not Decided as at 20 October 2015	27	12
Financial Statement not Submitted	43	30

The governing boards of the several PEs had withdrawn their financial statements after pointing out the misstatements by the Auditor General due to serious misstatements which may lead to express an adverse opinion or disclaimer of audit opinion. These institutions were advised to prepare a fresh set of financial statement and submit to the Auditor General for his scrutiny. Some of the PEs had either not yet submitted their financial statements for audit or done so with considerable delay. Due to these reasons the audit opinion had remain undecided as at 20 October 2015.

Other General Highlights

It is observed that many of PEs continuously follows the unacceptable practices, even though the Auditor General continuously highlighted in the audit report. It is further emphasized that such issues needed to be rectified.

Maintenance of proper records such as Registers of Fixed Assets, schedules and other records on Non-Current Assets such as land and building, motor vehicles, furniture, plant and machinery, is generally poor. As a result the physical verification of fixed assets becomes a futile exercise. It was also observed that there were considerable delays in capitalization of fixed assets from work-in progress due to delays in issuing completion certificates by the responsible officers. Further the records of lands belonging to many of PEs were remained incompleted and were not even

in a position to produce a detailed schedule with the location and extent to audit to confirm the existence and ownership.

As numerous approvals are required, limited opportunities were existed for commercial decisions and recruiting skilled staff for the PEs. Hence professionals are recruited by the PEs on contract basis with higher salaries and struggling to retain qualified professional due to poor salary structure as compared with the private sector. Further, several key managerial positions of large PEs are vacant for long period without taking action to fill the vacancies due to failure in preparing succession plan to cover those positions.

It was observed that several large PEs have been paying Pay As You Earn (PAYE) Tax on behalf of their employees. It is further emphasized that the General Treasury should take a firm decision to adopt fair practices on reimbursement of PAYE taxes from the earnings of PEs as fair treatment to all public officers is required.

The Considerable amount of money had remained in the accounts as advances for long period without been charged as expenses even though the goods had already been purchased or services had already been rented. Further, there were many such instances revealed that granting subsequent purchase and other advances without settling previous advances.

Large PEs had formed limited liability companies incorporated under the Companies Act, without the approval of the Cabinet of Ministers. It caused to dilute the functions of the parent PEs. Even though some PEs hold number of subsidiary and associated companies, the excising the controlling power by the respective PEs was very poor.

In addition to the above issues which were highlighted in the previous Auditor General's reports following common issues were also observed.

- Property Plant and Equipment which are still in usable condition had been shown in the financial statements as fully depreciated assets without taking action to reassess the useful lifetime of such assets and show the fair value in the financial statements.
- It was observed that the balance receivable and payable shown in the individual financial statements of related parties are different from each other such as CPC. It seems that the coordination among the related parties such as subsidiaries is poor. Therefore there is a possibility to hide the real picture in the financial statements.
- Some PEs had invested massive amounts to procure lands even

though those assets remain idle since the acquisition. Further some PEs have given advances to implement number of large projects for private companies many years ago. Those companies had not implemented such projects, rather had invested and earned huge interest income such as National Gem and Jewellery Authority. Because of these reasons, PEs were unable to get maximum benefit from those funds on which had incurred huge opportunity cost.

- It was observed that many PEs were not given priority for human resource management. Maintaining of excess staff without enhancing the capacity/ production of the entity was a major problem and had resulted the declining of the efficiency of the entity. Even though there are qualified applicants for the responsible positions such as Directors, certain entities had recruited persons who were unable to fulfill minimum required qualifications. Further certain entities had procured consultancy and professional services from private firms while having competent and qualified staff on their own.

Local Authorities

There are 335 Local Authorities established in Sri Lanka, 23 Municipal Councils function after being established under the Municipal Councils Ordinance No. 16 of 1947 and the amendments made thereto, whereas 41 Urban Councils function after being established under the Urban Councils Ordinance No. 61 of 1939 and the amendments. The number of Pradeshiya

Sabhas that functioned after being established under Pradeshiya Sabhas Act, No. 15 of 1987 and the amendments made thereto, is 271, whereas the that number was 335 as at 31 December 2014. A summary on the accounts of those Local Authorities presented to audit, audits carried out, and audit opinions on the accounts, is as follows.

Category of Local Authority	Accounts should be submitted	Accounts presented as at 30 Sep. 2015	Audit Reports Issued	Audit Opinion according to Reports as at 30 Sep. 2015			
				Qualified	Un qualified	Disclaimer	Adverse Opinion
Municipal Councils	23	22	19	16	-	03	-
Urban Councils	41	40	40	36	01	03	-
Pradeshiya Sabhas	271	267	261	240	12	02	07
	335	329	320	292	13	08	07

Deficiencies observed during the course of audit were brought to the notice of the Commissioners of the Pradeshiya Sabhas and Local Authorities in each year nevertheless; the deficiencies brought to the notice earlier had to be pointed out each year during the audit. As action had not been taken to rectify the deficiencies pointed out, the same deficiency had to be reported continuously. Upon being informed by the organizations providing aids for the Local Authorities, that they would continue with aids only if the deficiencies being pointed out through the audit reports were rectified, a situation had

arisen where requests for certifications on the rectification of deficiencies had been made for the purpose of receiving aids.

The supervision of the Local Authorities is assigned to the Provincial Councils in terms of Section 4.2 of Schedule 9 of the 13th amendment to the constitution of the Democratic Socialist Republic of Sri Lanka. However, the Provincial Council had not executed a proper methodology for the supervision of Local Authorities. Matters revealed in the audits carried out on accounts of the Local Authorities were

brought to the notice of the Heads of the Local Government Authorities.

- Attention to discuss the weaknesses in Local Authorities was drawn by the detailed report presented annually to the Provincial Councils by the Auditor General. As the Mayor of the Urban Council, Moratuwa expressed that, pursuant to an opinion obtained from the Attorney General, Provincial Councils had no authority to discuss the reports of the Auditor General, the Western Provincial Council had desisted discussing the audit reports relating to Local Authorities. Under those circumstances, it has to be decided whether the detailed report relating to Local Authorities should be discussed at Parliament or the Provincial Council.
- Since the inception of Provincial Councils up to 2012 (except Local Authorities in Jaffna and Mannar Districts) the Auditor General had tabled the reports relating to Local Authorities at Parliament in terms of Article 154(6) of the Constitution though it has not so far been summoned for discussion. It is proposed that those reports be discussed at Parliament. In this context, the common deficiencies observed in audits carried out on the accounts of the Local

Government Authorities are listed from (a) to (h) below.

- (a) Generating income by issuing licenses to the telecommunication towers established in areas under the scope of a Local Authority Local Authorities though, an opportunity to generate a large income had lost, as the relevant Provincial Councils had not formulated by-laws governing the issue of licenses.
- (b) As per the regulations of the Local Government Authorities, approval for the appointment of employees should be sought from the Provincial Public Services Commission, whilst reimbursement of salaries should be obtained from the Provincial Council. As appointments had been given by many Local Authorities in an inappropriate manner contrary to the above reimbursements for salaries could not be obtained. Hence, salaries had been paid through overdrafts, or other sources of funding as the financial position of the Provincial Councils had been deteriorated.
- (c) In spite of requests made to the Provincial Council by the officers

- for approval to collect income as per powers granted to the Local Authorities for their direct involvement in collecting income and increasing the income collected, following the Circulars issued by the Commissioner of Local Authorities under the Central Government prior to establishment of Provincial Councils, the possible income that could have been collected had been lost as certain Local Authorities had not obtained such an approval. For instance, failure to recover rentals on shops.
- (d) Once the shops owned by the Local Authorities had been given to the primary owners, they had sub-leased those shops later. Most of the a Local Authorities had been not taken actions to formalize those sub-leases.
- (e) Prior to the establishment of the system of Local Authorities, it was possible to obtain the stamp duties and fines belonging to the Local Authorities promptly though, a delay in receiving those incomes by the Local Authorities, was observed as the said incomes had been remitted through the Revenue Department of the Provincial Council.
- (f) With the establishment of Provincial Council system, the Municipal Council Ordinance, the Urban Council Ordinance and the Pradeshiya Sabha Act relevant to the Local Authorities had to be amended so as to suit to that system on timely basis. Nevertheless, action had not been taken accordingly and it had resulted in the difficulties found in the preparation of future development plan.
- (g) Implementation of development schemes within the area of authority had been done with the agreement of making provisions to the Local Authorities by the various Ministries, Departments and institutions of the Government. Nevertheless, there were instances where the grant of funds had been rejected due to the weaknesses found in the implementation of those development schemes. But, those money had been continually shown as debtors in the accounts.
- (h) According to 4.2 of the Provincial Council list, that is the 1st list of the 9th schedule of the 13th amendment to the Constitution, the powers of the Provincial

Council cannot be nullified. Nevertheless, the Government or Provincial Councils had not implemented suitable methods to grant the charges recovered for the licences separately issued for the sale of liquor within the limits of a Municipal Council according to the Excise Ordinance referred to in the 2nd schedule of the Section 185(2) of the Municipal Council Ordinance to the 23 Municipal Councils presently in operation.

Further, the significant observations revealed by the audit queries issued by the Auditor General on the accounts of the Local Government Authorities are given below.

- The income in arrears remained recoverable as at 31 December 2014 in respect of 335 Local Authorities amounted to Rs.15,466.67 million and the arrears of the contribution payable to the Local Government Services Pension Fund amounted to Rs.733.88 million.
- The overdraft balance that existed in a Bank Current Account of the Colombo Municipal Council as at 31 December 2014 amounted to Rs. 935.02 million and the overdraft interest paid thereon during the year under review had been Rs.31.75 million. In addition, since there was an overdraft balances of

Rs. 844.9 million in the Current Accounts of the Council as at the end of the year, the financial control position had been at a weak level.

- Having obtained the service of a private contractor for the solid waste management in an area of the Colombo Municipal Council, a sum of Rs.101.29 million had been paid from January to October 2014, whereas the contractor could not be influenced on the implementation of the tender conditions due to the absence of an agreement.
- A Land Rover purchased by the Colombo Municipal Council about 23 years ago had been repaired at a cost of Rs. 2.17 million and after the repair it had been parked at the Council premises without being utilized for running.
- Without preparing a cost estimate for the Municipal Council Building Construction Project in the land belongs to the Kotte Municipal council situated close to the Welikada Police Station, the project estimate amounting to Rs. 900.27 million submitted by the relevant service supplier institution had been accepted. The following observations are
 - (i) It had not been disclosed as to how the expenditure for

- the construction of new building would be funded and a feasibility study had not been done.
- (ii) This land had been utilized for a non-commercial project violating the conditions of the Transfer order.
 - (iii) It was observed that since a sum of Rs. 15,21 million payable to the service supplier institute had not been paid, a legal action could have been taken against the Council by the said institute under the general condition 06 of the Agreement.
- The Water Project had been implemented by the Kuliyaipitiya Urban Council by using a water purification plant belonging to the Council and water had been supplied for 1,855 water consumers as at the end of the year under review. However, the evaluation of the productivity of the Water Project could not be done due to non-availability of information such as non-availability of stock water meters, monthly production and distribution etc. As such, the outstanding balance of the water bills amounted to Rs.3.69 million as at the end of the year under review and it represented 81 per cent of the income earned by billing during the year.
 - Having acquired a block of land containing 01 Acre 03 Roods and 30 Perches in extent owned by the Maharagama Municipal Council to the Sri Jayawardenapura Municipal Council, a sum of Rs.8.60 million had been paid to the Urban Development Authority by the Kotte Municipal Council without being entered into a memorandum of understanding for the establishment of Delkanda Fair therein. Even though business activities were carried out within the said premises during the year under review, no income whatsoever had been earned and action had not been taken to take over the title of that land to the Kotte Municipal Council.
 - Provisions amounting to Rs.2.60 million had been made to the Balangoda Pradeshiya Sabha under the Dorin Dorata Gamin Gamata Programme and agreements had been signed with 08 societies for the implementation of 08 products for Rs.2.56 million. Those industries had to be concluded as at 31 December 2014. The value of the works carried out by those industries amounted to Rs 0.92 million and the completion of the said projects had been stopped half way without any fair reason.

- The old fair building constructed by the Homagama Pradeshiya Sabha in the heart of the Homagama town utilizing a loan amounting to Rs.4.62 million obtained from the Local Loan Development Fund in the year 2007 had been demolished and removed at a cost of Rs. 0.2 million in October 2014 and thereby a loss amounting to Rs.4.82 million had incurred. In order to set up temporary huts instead of the removed weekly fair, a sum of Rs. 3.51 million had been paid at the rate of Rs. 0. 58 million per month up to March 2015 and when comparing that amount with the income of Rs.2.12 million earned by the Pradeshiya Sabhe from this weekly fair during that period, the Pradeshiya Sabha had occurred a loss of Rs.1.39 million. Even though renovation of the fair had been completed at a cost of Rs.70 million by the Urban Development Authority by 15 May 2015, payments had been continually made for the temporary huts without opening the weekly fair.
- According to the decision of a case filed by a lessee at the Kuliypitiya District Court regarding the prejudice caused to him as a result of renting out of meat stalls improperly relating to the year1988 by the Kuliypitiya Pradeshiya Sabha, the Pradeshiya Sabha had been ordered to pay a sum of Rs.657,000 at the rate of Rs.1,800 per day from 01 January 1988 to 31 December 1988 and the relevant legal charges to the relevant party.
- The income receivable by renting out of the compactor owned by the Galgamuwa Pradeshiya Sabha amounted to Rs.499,554 as at the end of the year under review and out of that a sum of Rs.457,940 was recoverable from external parties. Further, a sum of Rs. 2.68 million remained recoverable as at the end of the year under review in respect of renting out the JCB machine.
- In accordance with the tender conditions of the Nikaweratiya Pradeshiya Sabha , the payment of Key Money should be completed within a period of 05 months, whereas a sum of Rs.1.42 million remained recoverable in respect of 09 trade stalls even as at 31 December 2014 although a period exceeding 05 years had elapsed from the date of tendering.
- The rest house and the land belonging to the Seethawakapura Pradeshiya Sabha had been granted to the Urban Development Authority for the management, whereas action had not been taken either to recover the rental of Rs.11.24 million recoverable from the year 2001 or to take over the said property to the Pradeshiya Sabha.

Foreign Funded Projects

According to the statistics of the Ministry of Finance, the total foreign borrowings of Sri Lanka as at 31 December 2014 amounted to Rs. 3,131 billion and out of that, the foreign borrowings on concessionary terms amounted to Rs.1,491 million. As compared with the foreign borrowings amounting to Rs.1,467.6 billion obtained on non-concessionary terms as at 31 December 2013, those borrowings as at 31 December 2014 amounted to Rs.1,622 billion. This indicated that the foreign borrowings on non-concessionary terms had increased. The foreign borrowings obtained directly from the Loan Market as at 31 December 2014 amounted to Rs.1,164.5 million thus indicating an increase of 12.94 per cent as compared with the position existed at the end of the year 2012.

Out of the foreign borrowings obtained on concessionary terms, a sum of Rs.786 billion had been received from the bilateral sources and out of that a sum of Rs. 416 billion had been contributed by the

Government of Japan. The foreign aid from the Government of India amounted to Rs.120 billion. Out of the foreign borrowings obtained from the multilateral sources, sums of Rs.471 billion and Rs.363 billion had been received from the Asian Development Bank and the International Development Agency respectively.

The foreign borrowings obtained on concessionary terms had been invested mainly in the sectors of Power and Energy, Water Supply, Roads, Bridges, Ports, Agriculture and Irrigation for purposes such as poverty alleviation, improvement of infrastructure facilities, livelihood support, social welfare, education and health.

The manner in which the foreign borrowings obtained in the year 2014 on concessionary terms and non-concessionary terms had been invested in various sectors of the Economy is given in the table below.

Field	Investment as a Percentage
Development of Roads and Bridges	64
Water Supply and Sanitation	6
Disaster Management	5
Labour and Vocational Training	5
Housing and Urban Development	3
Education and Media	3
Power and Energy	3
Other	11

The financial statements of 121 projects implemented on foreign loans obtained from the multilateral sources on concessionary terms in 2014 had been presented for audit and out of that, 27 projects were funded by the Asian Development Bank and while 25 projects were funded by International Development Agency. Significant audit observations included in audit reports presented in respect of those projects are summarized as follows.

- Substantial increases in the estimated cost as well as a instances where the functions of the foreign projects could not be completed during the expected period, were observed in audit due to subsequent changes of the scope of work of the foreign funded projects. Significant observations are as follows.
 - (i) The Athurugiriya Interchange of the Colombo Outer Circular Highway which consists of 2 stages from Kottawa to Kadawatha commenced at an estimated cost of Rs.72.92 billion had not been included in the original plans of the Project. However, the Athurugiriya Interchange Centre had been completed at a cost of Rs.475 million as a variation of the original estimate.
 - (ii) The construction work of a building for the Highways Secretariat had been

commenced in August 2010 under the National Roads Sector Project and the scope of this building planned for 08 storeys had been altered up to 10 storeys subsequently. As a result, the original estimate of Rs.1,167.44 million had increased up to Rs.1,963.17 million by 31 December 2014. Constructions of this building had not been fully completed even by 31 December 2014.

- (iii) The Cost of the road from Matara to Godagama rehabilitated under the National Roads Sector (Additional Financing) Project had increased by Rs.14 million due to variations extraneous to the original plan.
- (iv) The scope of the work of the Dry Zone Urban Water and Sanitation Project had been altered as a result of weaknesses of the original estimate. And estimated cost of the project had been increased from Rs.113 million to Rs.163 million by 44 per cent.

- A large number of foreign funded projects implemented without preparing an overall plan or Annual

Action Plans were observed in audit. A summary on such main Projects is given below.

Name of the Project	Estimated Cost
	<i>Rs. Millions</i>
Southern Expressway Extension Project	187,010
Climate Resilience Improvement Project	14,617
Secondary Towns and Community Based Water Supply and Sanitation Project	2,290
Southern Expressway Connectivity Project	791
North East Water Supply and Sanitation Project	220
Dry Zone Urban Water Supply and Sanitation Project	113

- The staff of any Project should be selected by calling applications on a public notification and those appointments should be limited for a period of three years on contract basis in terms of provisions of the Circular No.33 of 05 April 2007 of the Department of Management Services. However, it was observed that the officers who are in the permanent services of the Road Development Authority and Water Supply and Drainage Board had been deployed part time basis without selecting through public notifications for Projects of the Road Development and Water Supply Sectors. It was further observed that at the closer of the period of one project, those officers are attached to a staff of another project and remain in the service continuously in project offices.

- Several instances where the project activities could not be implemented as planned due to public objections, were disclosed during the course of audit. Activities of the Water Supply and Sanitation Project in Jaffna and Kilinochchi commenced in May 2011 could not be commenced even by 31 December 2014 due to public objections. The development activities of the Road from Kirulapana to Colombo – Horana under the Baseline Road Development Project had stopped halfway by 31 December 2014.
- Delays in submission of the audited financial statements to the Lending Agencies had been occurred due to late submission of the financial statements on foreign projects for audit. Even though the financial

statements for the year ended 31 December 2014 in respect of 03 Projects implemented by the Ceylon Electricity Board should be presented to audit as at 31 March 2015, such financial statements had been presented to audit in July 2015. In addition, the financial statements for the year ended 31 December 2014 relating to 07 Projects implemented by the National Water Supply and Drainage Board had not been presented to audit even by 31 August 2015.

- Action had been taken to construct a temporary Interchange at a cost of Rs.259 million due to delay in construction of buildings of the

Kottawa Interchange of Colombo Outer Circular Expressway in line with the date of the Southern Expressway was opened. Subsequently, this temporary Interchange had been removed by incurring a cost of Rs.8.27 million and the permanent Interchange had been constructed at a cost of Rs.945 million. In addition, a temporary Interchange had been constructed at a cost of Rs.176 million at Kothalawala, Kaduwela and action had been taken to remove it by incurring a cost of Rs. 10 million in March 2015. Such costs had been brought to account as expenditure of Colombo Outer Circular Highway Project – Part 1.

Banking

Bank of Ceylon

The total asset base of Bank of Ceylon grew by 10.9 percent to Rs.1, 323 billion in 2014 in comparison to Rs.1, 193 billion in 2013 mainly due to increase in investments by Rs.99.5 billion or 29 percent to Rs. 446 billion. The net interest income of the bank increased by 14 percent in 2014 due to improvement in net interest margin from 29.3 percent in 2013 to 34.8 percent in 2014. Bank had recorded a net profit before tax of Rs.20.8 billion in comparison to Rs.15.2 billion in 2013. It had been contributed Rs. 6.8 billion to the consolidated fund in 2014. The deposit base grew only by 11.8 percent in 2014 which is below the growth of 21 percent recorded in 2013.

Non-performing loan ratio (NPL) of the bank has improved by 3.8 percent in 2014 in comparison to 4.3 percent in 2013 mainly due to decrease in non-performing pawning advances by Rs. 7.8 billion to Rs. 4.1 billion at the end of year 2014.

During the year 2014, it had opened 6 new branches and 2 SME centers to expand its branch network. It has retained its AA+ long term rating from Fitch Ratings (Lanka) 2014 as well.

People's Bank

The Rs. 1 trillion asset base at the end of 2014 and recorded a growth of 10.6 percent from Rs.927 billion in 2013 to Rs.1, 026 billion in 2014. Despite the decrease in net interest income by Rs. 6.8 billion or 18.6 percent over 2013, pre-tax profits of the Bank increased to Rs. 17.2 billion mainly due to the increase in other income and reversal of impairment for loans and other losses. It has recorded a lower deposit growth rate of 4.0 percent in 2014 compared to growth rate of 11.4 percent in 2013.

Non-performing loan ratio of the bank has improved by the end of 2014 to 3.2 percent over 5.3 percent in 2013, mainly due to reduction in non-performing pawning by Rs.12.7 billion to Rs.0.95 billion.

It comprises with 348 branches, 391 service centers and 463 Automated Teller Machines ATM locations covering almost all parts of the island. Fitch Ratings (Lanka) has affirmed AA+ (lka) national long term rating for People's Bank for the third consecutive year.

National Savings Bank

The bank's asset base grew by 19 percent to Rs.779 billion at the end of 2014. An

increase in interest income together with improvement in net interest margin to 3.0 percent in 2014 over 1.7 percent in 2013 and recorded a profit before tax of Rs.10.5 billion in comparison to Rs.2.3 billion in 2013. Its deposit base grew by 10.4 percent to Rs.554 billion at the end of 2014 which is above the growth of 9 percent recorded in 2013.

The non-performing loan ratio has marginally decreased to 7.8 percent in 2014 in comparison to 7.0 percent in 2013 mainly due to increase in pawning non-performing loans by 103 percent to Rs.13.4 billion at the end of 2014. It expanded its branch network to 236 branches with the opening of 7 new branches in 2014 and retained the AAA (Ika) national long term rating by Fitch Ratings (Lanka) for the 12th consecutive year in 2014.

Pradheshiya Sanwardana Bank (RDB)

The objective of the establishment of the Pradheshiya Sanwardana Bank (PSB) is to improve the living standards of the rural masses by providing them with accessible and affordable credit facilities which in turn contribute to strengthen the rural economy.

The net profit had been increased by 84 percent in 2014 due to decline in interest expense and increase in interest income. The interest expenses declined by 10.6 percent to Rs. 5,312 million in 2014 due to

the adjustment of the higher interest rates offered for the deposits.

The deposit base of the bank had increased by 15.8 percent.

Non-performing loans ratio increased to 7.6 percent in 2014 from 7.3 percent in 2013 mainly due to losses in the pawning portfolio.

The bank relocated 19 branches, expanded 8 branches and opened 8 SME centers during the year 2014.

State Mortgage and Investment Bank

The net interest margin of the bank increased to 4.96 percent in 2014 from 4.76 percent in 2013. Hence the profit increased by 42 percent. Deposits, loan and advances increased by the same percentage to 14 percent as against the industry rates of 12.4 and 13.7 percent respectively.

The non-performing loan (NPL) ratio decreased to 34.06 percent in 2014 from 37.11 percent in 2013.

During the year 2014, the bank has expanded its branch network by opening of two new branches.

Housing Development and Finance Corporation Bank (HDFC Bank)

Being the only state bank listed on the Colombo Stock Exchange, the HDFC Bank is primarily engaged in granting loans or credit facilities for housing purposes.

The asset base of the bank grew by 25 percent in 2014 to Rs.35 billion mainly due to increase in investments and loans & advances.

Due to increase in interest income coupled with improvement in net interest margin to 5.94 percent in 2014 over 4.38 percent in 2013, the bank's profit before tax recorded an increase of 165 percent to Rs.818 million.

The deposit base of the bank has increased by Rs.5.5 billion or 29.5 percent to Rs.24.5 billion by the end of 2014, of which 87 percent represent time deposits.

The non-performing loans (NPL) ratio had increased to 22.57 percent in 2014 in comparison with 19.85 percent in 2013.

The bank's branch network has expanded to 36 with the opening of new 3 branches during the year 2014. It has retained the Fitch Ratings (Lanka) national long term rating of BBB+ in 2014 as well.

Source Ministry of Finance Sri Lanka – Annual Report 2014

Major Audit Observations

Central Bank of Sri Lanka (CBSL)

- According to the provisions in the Section 39 of Monetary Law Act,(MLA), the profits earned by the CBSL after the appropriations and making settlement of dues from the Government of Sri Lanka should be transferred to the General Treasury within 60 days after the closure of the financial year. Accordingly, a sum of Rs. 8.5 billion had been remitted to the General Treasury in 2 instances in 2014 as advance payments from the profit of first two quarters of the year under review even though, there was a loss of Rs. 32.31 billion. Further, the distributable profit had been calculated by the CBSL after taking into account the net foreign exchange revaluation loss of Rs.32.27 billion and “marked-to-market” gain/loss on foreign assets of Rs. 7.97 billion. In addition to that the balance of the retained earnings as at the end of the year under review remained a negative value of Rs. 5.7 billion.
- The CBSL had purchased a property in Brazil by spending a sum of Rs. 122.81 million during the year under review for the purpose of its future operations. The Cabinet approval before purchase of this property had not been obtained by the CBSL and the

future plan for utilization of the property had not been decided up to the end of the year under review as well. However, this property had been rented out to the Ministry of Foreign Affairs for a period of two (02) years from 01 February 2015 and the Embassy of Sri Lanka in Brazil had functioned in this premise since that date.

- The CBSL had acquired a building in New York by spending a sum of US\$ 6,207,116 (Rs. 607,121,953) on 24 August 2011 and it had been rented out to the Ministry of Foreign Affairs for three years period from 01 June 2012 at a monthly rental of US\$ 68,000 without being utilized for the intended purposes. However, according to Section 117 of Monetary Law Act, “the CBSL should not engaged in trade or otherwise have a direct interest in any commercial, industrial or other undertaking except such interest as it may in any way acquire in the course of the satisfaction of any of its claims”.
- The CBSL had paid a sum of Rs. 1,396.22 million during the year under review on behalf of the Government of Sri Lanka to three Foreign Service providers for obtaining consultancy services on reimbursable basis from Treasury. The said amount had been treated as expenditure of the CBSL in 2014 without claiming it from the General Treasury. Further, it

represented 68 per cent of the total consultancy advisory professional service expenses amounting to Rs. 2,050.62 million incurred during the year under review.

- The CBSL had entered into an agreement with a foreign company to establish an International Financial Centre in Sri Lanka. According to the agreement, the first installment of US\$ 250,000 had been paid in October 2014. Thereafter, the CBSL had decided to suspend obtaining the services from this company without being recovered the above amount.

Bank of Ceylon

Bank of Ceylon Seychelles Branch

Opening of Accounts in USD and Euro with correspondent Banks in New York and Frankfurt for Bank of Ceylon

All forex transactions of Seychelles Branch are channeled through Offshore Banking Division and Bank of Ceylon (UK) Limited. Therefore, the Bank customers are not satisfied with the situation because there could be more charges levied by the intermediary Banks and delays in the processes. It will be beneficial to the Seychelles Branch to have a direct correspondence bank relationship with the banks in USA and EU.

Even though the memorandum dated 21 May 2014 submitted by the Assistant

General Manager (Overseas Branches) and the Senior Deputy Manager (International and Treasury) to the Board of Director had given approval to open USD accounts with Standard Chartered Bank in New York and Deutsche Bank Trust Company America, New York and Euro accounts with Deutsche Bank in Frankfurt.

The Bank had tried to open an account in USD and EURO with correspondent Banks in New York and Frankfurt after obtaining the Board approval. However, it was futile due to non-compliance with the laws and regulations in Seychelles. Therefore, the Branch had faced difficulties of enhancing business operations in Seychelles.

Deposits from Customers – Dependency on few customers

During the review of deposits, it was observed that three major customers amounted to 62 per cent of the total deposits and ten major deposits customers amounted to 77 per cent of the total deposits of the Branch as at 30 April 2015. This indicates that the Branch was more dependent on very limited depositors and exposed to high liquidity risk. Hence, it was observed that this situation would adversely affect the going concern of the Branch.

Advance Payment of VAT amounting to Rs. 750 Million

The Bank had made a payment amounting to Rs. 750 million as a Value Added Tax (VAT) advance to the Department of Inland

Revenue on 30 December 2014. The above advance payment would be recovered from the future tax liabilities of Value Added Tax on financial services. According to the VAT guidelines, the VAT can be only charged after the service has performed based on the taxable activities carried out by the Bank. However, the above tax advance had paid using the profit/income made by the Bank during the accounting year 2014. Therefore, it had badly affected the future cash flows of the Bank. As a result of the above transaction, the opportunities of making profits or income through short term investment had forgone.

Direct recruitment of management trainees

Despite the fact that the second written examination for the above recruitment ought to had been conducted by the Examinations Department of Sri Lanka as per Board paper dated 03 October 2013 it had been accomplished utilizing a private institution which operates on private tuition classes that had no experience in conducting examinations.

In taking approval for the above private institution, the Assistant General Manager (Training and Development) had submitted wrong information as a University to mislead the higher management.

Although the private institution was selected for the purpose of holding the second written examination the said institution had carried out the setting up of

question papers and evaluation and its supervision and holding the examination had been handled by the Bank of Ceylon staff. Nevertheless a sum of Rs. 2.1 million had been made for only these two functions.

The Assistant General Manager (Training and Development) who had conducted all duties of the above recruitment, a daughter of him who had appeared for the said examination and successful which fact had not been apprised to the higher management. Accordingly, the impartiality of the situation under these circumstances is questionable.

People's Bank

- The outstanding balance of the loans transferred to non performing category without paying even one installment as at 31 December 2014 was Rs.361.69 million against 74 loans over one million within 18 branches.
- Non-performing loans and overdrafts amounting to Rs.6,176.16 million and Rs.601.26 million respectively of the major ten customers had remained as at 31 December 2014 for a long period without recovering.
- Since no proper policy had been prepared for the recovery of Non Performing staff loans, Even though non performing staff loan balance has been increased from Rs.260 million to Rs.336 million during the year 2014,

the management had not taken effective action for recovery of the non performing balances.

National Savings Bank

- The Bank had made an overpayment of Rs. 510.96 million contrary to the dividend policy of at least 30 percent of profits after tax or 15 percent of equity whichever is higher. As a result, equity and assets of the Bank had been understated by Rs. 510.96 million as at 31 December 2014.
- Out of the total project loans value of Rs.55,371 million approved to the Road Development Authority (RDA), Rs.49,218 million had been disbursed up to the end of the year. In that Rs.11,711 million or 24 percent had been disbursed during the month of December of year 2014. However, the Bank had not obtained any physical progress report from the RDA in each disbursement of the project before releasing the instalments as per the Project Finance Manual.
- Fraudulent withdrawals and Cashier's shortages as at 31 December 2014 were amounting to Rs.26.53 million and Rs. 1.51 million, out of them Rs.17.64 million had remained outstanding for more than one year and Rs.1.4 million were outstanding for more than three years respectively.

Pradeshia Sanwardhana Bank (RDB)

- As per Section 31 of the Pawn Broker's Ordinance No. 13 of 1942, a pawnbroker may bid for and purchase at a sale by auction made or purporting to be made under this Ordinance, a pledged pawned with him, and on such purchase the pawned broker shall be deemed to be the absolute owner of the pledged purchase. In contrary to this 23.95 kilograms of unsold pawned articles had been smelted without obtaining the absolute ownership of such articles. Total pawning outstanding of the Bank was settled by disposing gold bars made out of smelted gold and thereby preventing customers from being entitled to the excesses as stated in the section 28 of the said article.
- Competitive bidding procedures had not been followed on smelting process for smelting chargers, gold transportation chargers and selling prices of smelted gold.
- Contrary to the Public Administration Circular No. 03/ 2012 dated 23 February 2012, a vehicle had been handed over to the retired General Manager without being obtained the appropriate approval from the General Treasury.
- The value of variation orders as a percentage of total contract award price on two construction contracts namely repair to existing branch office

building at Mihintale and construction of Thirappane building was 217 per cent and 46 per cent respectively. Though the percentages were higher than the minimum, the relevant approval from the Secretary to the Line Ministry had not been obtained before issuing such variation orders as stipulate in section 8.13.4 of the Government Procurement Guideline – 2006.

State Mortgage and Investment Bank

- Sums aggregating Rs.7.06 million deposited by the customers during the period from 01 July 2013 to 31 December 2014 in the Gampaha Branch had been omitted from the accounts.
- Loan installment (Estate) recovered from the Central Bank of Sri Lanka by the Kandy Branch amounting to Rs. 13.73 million had not been transferred to relevant account. As such the income and loan balances had been understated and overstated by Rs. 5.57 million and Rs. 6.16 million respectively.
- There was a debit balance in cheque on realization account as at 31 December 2014 due to an error in posting. Thus the other debtors shown in the financial statements had been overstated by Rs.22.81 million.

- Even though the Bank had reconciled a balance of Rs. 1.12 million remained in the cheque on realization account-004/1/09/1607 of the Gampaha Branch as at 31 December 2013, the entries thereon had not been made in the accounts up to 31 December 2014.
- An unreconciled opening difference of Rs.18.58 million was observed between the current account with the Branches and the current account with the Head Office held in Branches.
- A difference of Rs. 69.96 million had been observed between the amount shown in the financial statements and the balances generated by the computerized systems with regard to the fixed deposits, savings accounts, unappropriated accounts, loans against fixed deposits etc. as at 31 December 2014.
- A balance of Rs.4.21 million had been shown in the advance account without being identified and adjusted in the accounts.

Housing Development Finance Corporation Bank (HDFC Bank)

- Out of total customer deposits of the Bank, more than 49 percent was owned by twenty depositors as at 31 December 2014 and it was 42 percent in the preceding year, thus indicates that the Bank was more dependent on

very limited depositors and exposed to high liquidity risk.

- The Bank had entered in to an agreement with a Finance Company to collect fixed deposits on behalf of the bank and agreed to pay a commission of 0.5 percent per annum on the deposits value and for any renewals of the fixed deposits thereafter.
- Even though the bank had two separate divisions as Treasury and Marketing headed by two Chief Managers, the Bank had incurred an additional cost of Rs. 1.29 million over the period of three years for collecting the funds through a third party.
- According to the agreement entered with the above Finance Company, the bank had agreed to pay a special rate for high value deposits of over Rs. 3 million. However, without considering the value of deposits, the bank had offered the special rate for the deposits less than Rs. 3 million too.
- The bank had issued the secured debentures valued at Rs. 2 billion during the month of October 2013 at the interest rate ranging from 14.5 percent to 15.5 percent. In the meantime, the bank had purchased Rs. 850 million worth of unsecured debentures in the year 2014 at the interest rates ranging from 8 percent to 9.75 percent and as such the financial market forecast made by the management is open to question.

- Even though the Bank had invested a sum of Rs. 850 million in debentures during the period from September 2014 to December 2014, the Bank had

incurred an estimated loss of Rs.9.87 million due to decrease of fair value of debentures as at 31 December 2014.

Agriculture and Land

Ministry of Agriculture

The Ministry consisted with the Department of Agriculture and 05 statutory institutes namely, Hadabima Authority, Hector Kobbekaduwa Agrarian Research and Training Institute, Sri Lanka Council for Agricultural Research Policy, Institute of Post- Harvest Technology, National Food Promotion Board and two companies owned by the Government namely, Ceylon Fertilizer Company Ltd and Colombo Commercial Fertilizer Company. The key functions of the Ministry are designing and implementing policy programmes and projects, agricultural diversification and improvement of products, promoting the use of organic fertilizer, administration of the Soil Conservation Act, Felling of Trees Control Act, Plant Protection Act, Provisions in the Fertilizer Act and the Pesticides Act, Agricultural Education, Research and Project Services, Agro Enterprises, Livestock Products Technology and Development of High Technological Activities. Provisions of Rs.41,004 million had been made in the year under review for the Ministry of Agriculture and the Department of Agriculture and a sum of Rs.37,757 million had been spent.

The matters observed at the inspection of projects implemented by the Ministry are as follows.

- A sum of Rs.72 million had been allocated by the Annual Estimate for the year 2014 for the implementation of the Supplementary Crops Production Programme and a sum of Rs.9.8 million had been provided to the Institute of Post- Harvest Technology for the implementation of programmes for introduction and promotion of ice cream made of rice, soya and associated pulses. Even though the approval of the Cabinet of Ministers had been granted to provide Government contribution of 50 per cent only to the beneficiaries contrary to that 20 ice cream producing machines had been procured on 10 December 2014 at a cost of Rs. 4.2 million. Nevertheless, those machines had not been distributed up to 30 September 2015.
- Even though provisions had been made since the year 2012 to commence a programme for promotion of export of rice, a feasibility study had not been carried out in that connection before the commencement of that programme and not identified the possibilities and problems thereto. Even though 04 rice export zones had been planned to be established according to the Action Plan of the year 2014 for this programme, only 02 zones had been established.

- Under the Programme for Improvement of Packaging and Transporting to minimize the Post-Harvest Damage of Vegetables and Fruits 5,448 tomato packings and plastic baskets at procured at a cost of Rs. 2.17 million purchased in the year 2011 had been remained idle in the stores of the Institute of Post- Harvest Technology even by 30 July 2015.
- The Ministry had held the “Jathika Govi Sathiya” exhibition from year 2006 to year 2014, and a sum of Rs. 26.19 million had been spent thereon during the year under review. However, this was not identified as a special project and not making provisions by the Annual Estimate. Further, out of the provisions made for the two programmes, namely Programme for Production of Supplementary Crops and Promotion Programme for Organic Fertilizer Production amounting to Rs. 13.2 million had been used to spend for these expenses without obtaining proper authority.
- It was informed to select farmers who cultivate vegetables, fruits and supplementary crops to be provided a contribution of 50 per cent by the Government under the Commercial Farm Programme, by the Circular No.4/3/2/8/1 of 11 December 2013 of the Secretary to the Ministry of Agriculture, 12 horticulturists had been selected from the districts of Ratnapura and Colombo and paid a sum of Rs. 2.76 million as Government contribution.
- Action had been taken by 12 private companies including the Colombo Commercial Fertilizer Company and the Ceylon Fertilizer Company to import and distribute 300,000 metric tons of fertilizer islandwide under the Fertilizer Subsidy Programme of the Government. The Government had spent a sum of approximately Rs.32 billion annually for this programme and it included a large amount of interest paid for loans obtained from banks due to unsetting of credit bills on the due date by the Fertilizer Companies. A sum of Rs. 4,922.12 million had been spent as interest and bank charges for short term and long term loans obtained by the two above mentioned Government Companies during the period from 01 April 2013 to 30 June 2014 and out of that, a sum of Rs.4,752.06 million had been reimbursed by the Treasury.

Ministry of Lands

The Ministry of Lands and the Land Commissioner General’s Department, Survey Department, Department of Lands Settlement, Land Use Policy Planning Department and the statutory institutes of Land Survey Council and Land Reform Commission under the purview of that

Ministry are operative in fulfilling the prime objectives such as updating and implementing of the National Land Policy, protecting the territorial environment, assuring the protection of lands, implementing and updating of the land use policy, proper management of state land and distribution of suitable land among the people without land and development and granting land for development projects and assuring the ownership and registration of all lands in the country. The total net provisions allocated for the Ministry and the Departments under the Ministry for the year under review was Rs. 6,150.3 million and out of it, a sum of Rs.6,025.1 had been utilized.

Significant audit observations relating to the year 2014 are given below.

- Out of 4,408 active Land Acquisition Files of the Ministry during the period from 2008 - 2014, activities of 122 files had been completed and 298 files relating to payment of compensation remain inactive. The Ministry had paid a sum of Rs. 1,704.69 million as

- compensation and a sum of Rs. 525.03 million as interest for acquisition of land in the year 2014. An interest of Rs. 110.37 million as well had been included in that amount only for the lands acquired in the year 2005. A large cost had to be incurred by the Ministry for interest due to the delay in payment of compensation in the acquisition of lands.
- The Ministry had allocated a sum of Rs. 50 million to the Land Commissioner General's Department in the year 2014 for the implementation of recommendations of the Lessons Learnt and Reconciliation Commission and out of that the Department had spent a sum of Rs. 41.68 million out of 199,641 issues presented in the year 2014, 81,954 issues had been solved and as such, the overall physical progress had been remained lower.
- The overall progress of the Bim Saviya Programme conducted by the Ministry during the past 4 years was as follows.

Year	Provision Rs. million	Expenditure Rs. million	Targeted No. of Title	No. of blocks	No. of blocks	Amount of ownerships
2011	1,000	481	200,000	157,470	79,678	25,697
2012	1,100	416	200,000	124,717	62,130	26,386
2013	800	670	500,000	110,630	58,690	63,943
2014	446	445	500,000	121,973	66,759	50,672
	3,346	2,012	1,400,000	514,790	267,257	166,698

- Even though the Bim Saviya Programme was due to be completed after issuing the Title Certificates for all the landowners by the end of the year 2021, the overall progress of the programme was only 12 per cent. Even though work had been commenced in 97 divisions, from the year 2007 to 31 December 2014, only the work of 05 divisions had been completed even by the end of the year 2014.
- It was observed that out of the 310 official quarters belonging to the Land Commissioner General's Department, 90 quarters had been rented out, and out of 220 quarters 70 quarters in repairable condition, 22 quarters under destruction condition and 23 quarters remained vacant. Further, 37 official quarters are occupied by encroachers and action had not been taken to remove the encroachers from those quarters up to the end of the year under review.
- Even though the Survey Department had decided on the Monthly Norms of a Surveyor in making incentive payments of the Surveys General Department, incentives and supervision fees had been paid in the year 2014 same as in the years 2012 and 2013 without deciding on the maximum number of plots per month relevant to the payment of incentives or a limit payable as a percentage of the basic salary. As such, it was observed that incentive payments had been made to 207 officers from 50 per cent to twice of the annual basic salary as incentives and supervision fees in the year 2014. At present, the survey activities are carried out using modern equipment as well as methodologies such as satellite and computer technology and the Survey Department had procured adequate measuring equipment, to carry out duties. Therefore, limit of a minimum measurement of 30 per month by a Surveyor, which is an old methodology over thirty years is not a fair basis for the incentive scheme. It was observed that this methodology had mainly contributed to the aforesaid irregularity in payment of incentives.
- The Land Use Policy Planning Department had conducted a workshop to provide instruction to implement the 2014 action plan in Polgolla area and a sum of Rs. 1.87 million had been spent. According to the Agenda, only 01 hour had been allocated to discuss the Action Plan. As such, it was observed that public funds had not been used in an effective manner.

Culture and Arts

The Ministry of Culture and the Arts and the Ministry of National Heritage had been established for the conservation, promotion, and protection of the Cultural Heritage of Sri Lanka through the formulation and implementation of the policies and programmes required for the purpose.

The above objectives had been identified by considering the Culture and the Arts and the National Heritage as the main tools which influence the behavior of the people. Five institutions under the Ministry of Culture and the Arts and four institutions under the Ministry of National Heritage had been established in order to achieve these objectives.

An allocation of Rs. 2,186 million had been made in the year 2014 for the capital and recurrent expenditure of the Ministry of Culture and the Arts and 4 institutions under its purview and a sum of Rs. 1,675 million out of that had been utilized. The Central Cultural Fund had earned an income of Rs. 2,309 million in the year 2014, mainly from the sale of Tourist Admission Tickets and out of that a sum of Rs.1,830 million had been utilized.

Review of Performance

Ministry of Culture and the Arts

- Even though a sum of Rs.2,177 million had been allocated since the year 2011 for the establishment of the SAARC Cultural Centre under the Cultural Exchange Programme for the improvement of Co-operation among the SAARC Countries, the financial progress of the project as at 31 December 2014 amounted to Rs.648.59 million or 29.79 per cent.
- A sum of Rs. 11 million had been spent for the construction of 03 Cultural Centers on lands, the title of which had not been transferred to the Ministry.
- Even though work on the construction of a Cultural Centre and a Tsunami Research Institute with an estimate of Rs.323 million had been commenced in the year 2011 the expenditure incurred up to 31 December 2014 amounted only to Rs.82.91 million on 20 per cent of the overall provision.

Department of Cultural Affairs

The professor Ediriweera Sarathchandra Drama Training School had been constructed in the year 2014 at a cost of Rs. 11.3 million, in order to remedy the lack of study of drama as an art and for the Sinhala

and Tamil Cultural Co-existence. Provision had not been made in this connection in the Annual Budget Estimates and it had not been included in the Action Plan. The work had been done by granting ad hoc sub-impressts. Such impressts of Rs. 2.27 million obtained by the Director of Cultural Affairs in 59 instances had been settled after delays ranging from one month to 08 months while ad hoc sub-impressts amounting to Rs.4.3 million granted in 247 instances to 40 non-staff grade officers had been settled after delays ranging from two months to 12 months.

Central Cultural Fund

Even though the cost of materials and the direct labour for 301 Archaeology work sites amounted to Rs. 211 million and Rs. 368 million respectively. the labour cost incurred on the actual cost of materials amounting to Rs. 52 million and the cost of labour amounted to Rs.402 million, thus rendering such high cost of labour a questionable issue. Contrary to the objectives of the Fund a sum of Rs. 60 million had been given on loan basis during 03 years to a Trust not established legally for the construction of the National Heritage Concepts Museum, Kahawilgoda. It was observed in audit that the money had been misappropriated.

Out of a sum of Rs. 70.7 million spent in the year 2014 and the previous years for the production of Software Discs on National Heritage which was not related to the Fund,

a sum of about Rs. 50 million had been misappropriated.

Tower Hall Theatre Foundation

An agreement had not been entered into with the Department of Civil Security for the supply of labour for the modernization of the Elphinstone Theatre from 31 May 2012 up to the end of the year under review and a sum of Rs. 17 million had been paid to that Department for the services of 37,549 man days obtained up to 31 December of the year under review. The Foundation had lost an annual income of about Rs. 6 million due to the Theater remaining closed over period exceeding 03 years.

Ministry of National Heritage

Even though provision of Rs. 60 million had been made for the creation of documentary programmes on 100 well-known and not so well-known archaeological sites, the live performance programmes of traditional low country rituals, and broadcasting those in the television channels, the programmes / projects costing about Rs. 30 million had not been planned in the year 2014. Even though a sum of Rs. 13.69 million had been spent for the preparation of compact discs with the documentary programmes on 100 well-known and not so well-known archaeological sites and for preparation for trailer action had not been taken for broadcasting them on television channels.

Department of Archeology

Even though 377,000 bricks valued at Rs. 6 million had been supplied in the year 2014 to the Dighawapi Stupa Construction site for the conservation of the Dighawapiya, Neelagiriya and Yudhanganawa Stupas, construction work had not been commenced even by June 2015 due to problems relating to the standards of the bricks and the non-preparation of estimates.

Even though a sum of Rs. 6.5 million had been given in the year 2014 for the conservation of the two-storeyed building situated on a hillock in the Ratnapura City Centre declared as an archaeological monument on 22 November 2002, construction work had not been begun even by May 2015.

Even though the Archeological Rewards Fund established under Section 46(1) of the Antiquities Ordinance No.9 of 1940 as amended by the Antiquities (Amendment) Act, No. 24 of 1998 had received Rs. 64 million from the year 2010 to 31 December 2014 out of the fines imposed by Courts situated in different regions of the Island, the money had been retained in the General Deposit Account without being utilized for the purpose in respect of which the Fund was established.

Department of National Museums

Reconstruction work of the Colombo Museum

The left side section of the main stairway of the Colombo Museum had collapsed on 28 March 2013 due to lack of proper maintenance of the building and 9 out of 14 Galleries of the Museum only could be kept open for viewing by the general public due to carrying out repairs. This had resulted in the decrease of the annual revenue of the Museum by about Rs. 4 million in the years 2013 and 2014 as compared with the year 2012.

Security of the Colombo Museum

The number of Museum pieces lost due to the robbery of the National Museum committed on 16 March 2012 had been 221 and the value of those had been assessed at Rs. 4,440,140. Out of that, 94 museum pieces had been recovered in their original condition while 57 had been recovered in parts and stones the others had been destroyed as those had been cut into pieces and hammered. The Courts action had not been finalized even by June 2014.

Even though an unauthorized entry had been made to the Textile and Pottery Gallery in the year 2014 by breaking the door locks, no suspects had been identified.

Department of National Archives

The new building constructed under the expansion of the building of the Department, at a cost of Rs. 637 million and

opened in November 2012 remained underutilized due to the delay in the purchase of 285 items of furniture, 105

computers for the department sections and the mobile racking system needed for all storeys.

Education

Many institutions affiliated to the Ministry of Education keep functioning with the aim of the mission to develop the human resources of Sri Lanka through the creation of a citizen who love their mother country, parents and teachers alike, with the empowerment of knowledge, benevolence, strength, and health. These institutions include, Provincial Departments of Education, Department of Examinations, Educational Publications Department, National Institute of Education, and Sri Lanka National Commission for UNESCO. Additionally, foreign aids and foreign funded loans have contributed to achieve the goals in education sector.

The allocation for recurrent and capital expenditure for the education in the year 2009 amounted to Rs. 85,198 million and Rs. 7,511 million respectively, whereas the said allocation amounted to Rs. 107,740 million and Rs. 10,726 million respectively for the year 2013. For the year 2014, the allocation for the recurrent and capital expenditure amounted to Rs. 118,982 million, and Rs. 17,202 million respectively and it included a sum of Rs. 2,907 million received as foreign loans and aids. As compared with the year 2013, the allocation for recurrent and capital expenditure had been increased by 10 per cent and 60 per cent respectively.

Schools, Students and Teachers

There were 9,410 government schools in the year 2009. It was increased up to 10,119 by the end of the year 2014. The student population of government schools in the year 2009 was 3,860,176 and this number had increased up to 4,078,037 by the end of the year 2014. There were 213,694 teachers in the schools, whereas this number had been increased up to 232,989 by the end of the year 2014. Accordingly, it was reported that the average number of students per school was 410 for the year 2009, and a trend in declining of average to 403 students per school was observed by the year 2014. Furthermore, the teacher-student ratio for the year 2009 was 18 and trend of improving the ratio up to 17 by the year 2014 was observed.

Achievement of objectives

Implementation of Transfers of Teachers

As a result of the objective of preparation and implementation of a scheme for the transfer of school teachers in a manner that maximizes the welfare of both teachers and students paving the way for an optimized process of education was properly been achieved, the test checks revealed that there were dearth of 2,248 teachers in 193

national schools , and a surplus of 1,387 teachers in 163 national schools respectively as at 31 December 2014, without taking action to minimize and 4,268 teachers of 200 national schools had remained at the same schools for a period ranging from 12-35 years without being transferred , appointing of 118 teachers recruited and trained for sector of education for special needs for 72 national schools which were no units for special needs education, and 58 trained teachers for special needs appointed to 40 schools equipped with units for special needs education had been assigned to teach for the classes for ordinary students.

Admission of Children

A sample check revealed that contrary to the objective of fair education for every child, and by exceeding the limits authorized by the provisions of Circulars that the maximum number of students in a class parallel to the primary grades , and secondary grades of a national school should be 40 , and 45 respectively , 9,329 students had been admitted to 20 national schools of popular fame.

Introduction of Technology Stream of Education

The total cost estimate for the construction of 250 *Mahindodaya* technical faculties to facilitate the Technology subject stream newly introduced into the GCE Advanced Level examination in the year 2013 , was Rs. 7,000 million. As of 31 December 2014, 02 faculties had been fully constructed,

whereas, 248 had been built halfway by incurring a sum of Rs. 2,791 million. As the technical instruments and furniture had been purchased for those 250 faculties during the year 2014 at a cost of Rs. 970 million before the construction of laboratories had been concluded , those assets remained idle for more than one year ,thus warranties had expired. As students had been enrolled for the technology stream before providing facilities of physical and human resources , infrastructure, it was revealed that the students are directed to the Advanced Level examination to be conducted in August 2015 depriving them of 15 per cent of practical session of the syllabus , none of the students of 13 schools chose technical stream, number of students reading for technology stream at 20-62 schools is as low as 1-9, and the overall shortage of teachers with regard to each subject was 165. Hence, the importance of preparing a proper methodology promptly to complete the construction of faculties required for the technology stream by enrolling students and utilizing the instruments properly, is observed.

Construction of Mahindodaya technical laboratories

Allocations amounting to Rs. 8,557 million for constructing 860 *Mahindodaya* technical laboratories had been made in the years 2012, 2013 and 2014, whereas the actual expenditure as at 31 December 2014 was Rs. 8,519 million. The construction of 822 laboratories were completed and

construction of other 38 buildings were remained halfway as at that date.

Improvement of 457 New Model Schools

Improvement of 457 new model schools had been commenced in the year 2008 with the objectives of improving schools with lesser number of students despite ample resources located in the vicinity of the schools of popular fame, minimizing the discrepancies among schools, minimizing competition for the so-called popular schools, decreasing the number of school dropouts and improving the relationship between the school and the community. Allocation amounting to Rs. 316 million had been made over 04 years since then up to the year 2011 under this program and, only a sum of Rs. 118 million had been allocated for the entire 03 years of 2012, 2013 , and 2014 , of which , only a sum of Rs. 73 million had been spent. It was not possible to review the performance of this program as the performance reports showing the financial and physical progress of each year had not been prepared. Further it was not possible to ascertain as to whether the provisions had been gradually decreased due to the unsuccessfulness of the project achievement of initial goals of the program already.

Payment of Bursaries to the 5th Grade Scholarship Holders

A test check made on a sample of 50 out of 97 overall Zonal Educational Offices , had revealed that the total value of the unpaid bursaries contrary to the provisions of the Circular issued by the Secretary to the Ministry of Education related to the payment of bursaries to scholarship holders of Grade-5, amounted to Rs. 57 million including a sum of Rs. 52 million payable to 24,506 scholarship holders of 119 national schools due to inability of the Ministry of Education to make allocation and imprests as at 31 December 2014, and another sum of Rs. 4 million remained payable to 1,813 scholarship holders of 29 national schools due to failure in furnishing the vouchers properly. Therefore It was observed that education and mentality of children of parents with low income suffering from the deprivation of bursaries , had been degraded.

Library Aids and Donations to the Students in Pirivenas

As a result in failure of introducing a proper mechanism to prepare and obtain annual reports on the student's attendance , follow-up actions, lack of attention to make adequate allocation, and failure to introduce a methodology for the distribution of donations and aids proper and fair manner according to an Action Plan, donations to the students and library aids due for every registered *Pirivena* had

not been duly granted in accordance with a decision made by the Cabinet and the ordinance on *Pirivena* education to registered Pirivenas. The arrears as at 31 December 2014 amounted Rs. 3 million.

Procurement of Computers, Laptops and Accessories for 775 Computer Labs

Contrary to the procurement procedure and the decision made by the Cabinet to purchase computers, laptops, and other accessories from a model of international fame, a sum of Rs. 5,618 million had been spent to supply and install of computers, laptops and other accessories, that had not conformed to internationally-acclaimed standards. Despite a sum of Rs. 7.2 million spent on laptops and computers purchased for one laboratory, only a sum of Rs. 6.9 million had been spent per laboratory in purchasing laptops and computers of international fame for other 40 laboratories following procurement guidelines.

Use of Information Technology in Schools

A sum of Rs. 855 million had been spent on the operations, supply of equipment, and settlement of telephone bills of the school computer network linked to 1,724 schools

and educational institutions, during 2008-2014, telephone bills aggregation Rs. 814 million related to years 2012, 2013, and 2014 had been settled without obtaining recommendations on its efficiency and productivity, and without identifying the school or the institution to which the bill belongs. Many schools had given up using "Schoolnet" due to various reasons such as, drops in speed, and lack of signal strength.

Moreover, despite a total sum of Rs. 64 million had been incurred from the year 2011 to 31 December 2014, to install the installation of an Information System on education management, so as to achieve objectives, including, -access to information related to human and physical resources, and financial activities of all educational institutions at school, divisional, zonal, provincial and Ministerial levels, gaining access directly to the personal files of teachers through Internet, enabling teachers to browse and update their information and apply for transfers and training opportunities, and obtaining statistical reports required by the Ministry, it was revealed that the expenditure had not been productive without a performance, and objectives in that connection could not be achieved.

Environment

The institutions such as the Department of Forest Conservation, the Department of Wildlife Conservation, the Central Environmental Authority and the Marine Environment Protection Authority which were under the purview of the Ministry of Environment and Renewable Energy and the Ministry of Wildlife Resources Development, had taken measures in respect of protection of the environment by preventing the environmental pollution and maintenance of favourable environmental situation within Sri Lanka.

Wildlife Conservation Department

The main functions of the Department are the establishment and management of the network of Wildlife Protected Areas for protection of the extensive biodiversity heritage and ecosystems which Sri Lanka is endowed with, conservation of threatened fauna and flora species and planning and implementation of social and economic programmes for the people who utilize the forest resources. This Department which holds the trusteeship of the Wildlife Protected Areas of this country, had earned an income of Rs. 2.5 billion in the year 2014 from sale of tickets for entry into the national parks and other activities and credited to the Wildlife Conservation Fund. In addition, the General Treasury had granted a sum of Rs.1,243 million as well to the Department.

The audit had pointed out the matters on issue of licenses illegally for the elephant calves captured from the forest in preceding years and subsequently, legal action had been taken against the persons who kept 6 elephant calves illegally in the year 2014.

An elephant kraal had been constructed in a land with an extent of 1,117 hectares by spending Rs. 189 million as a remedy to minimize the human-elephant conflict and a loss of Rs. 81.2 million had been caused due to shortcomings of the constructions. The elephant kraal had been constructed without a proper feasibility study and a scientific basis and a specific arrangement had not been made for maintenance of that elephant kraal. As such, it was observed in audit that there is a minimum possibility of success in the activities of herding of elephants which is the key function thereof. A sum of Rs. 15 million had been overpaid to the contractor in respect of a circuit bungalow constructed by the Wildlife Conservation Fund owned by the Department.

Forest Conservation Department

Encroachments in 116 instances within the area belonging to the Nuwara Eliya District of the Hakgala Strict Nature Reserve and other encroachments in 103 instances within the areas belonging to the Badulla

District had been reported and no action had been taken to protect these Reserves which are environment sensitive areas, that is, no legal action had been taken in respect of encroachments.

Central Environmental Authority

One of the main objectives of the Central Environmental Authority is to order to a certain Local Government Authority to perform in terms of recommendations on the environmental protection within the control of the area of Authority of that Local Government Authority and to enforce those recommendations in terms of the National Environment Act, No. 47 of 1980. The progress of several main Projects implemented by the Authority was as follows.

A sum of Rs. 6.2 million had been spent for procurement of a Polythene Film Making Machine and a Plastic Polythene Grain Making Machine under the Reusable Plastic Recycling Projects and a loss amounting to Rs. 1.2 million had been caused due to transportation of the machine by air considering as an emergency requirement without a plan.

It was observed in the physical verification carried out on 06 March 2015 that the Sanitary Landfill Project at Dompe which was constructed spending Rs.395 million and handed over to the Authority had remained idle for over a period of one year without commencing the operations

thereof. Further, necessary action had not been taken to recover the loss of Rs. 49.6 million caused to the constructions of the Project.

The Authority had failed to commence the constructions of 4 Land Filling sites proposed to make solid waste disposal facilities under the Loan facilities of the Economic Development Cooperative Fund since November 2013. As such, a sum of US\$ 1,340,608 which had been agreed to be provided by the Korean Government in the year 2014 had not been made use of for the project.

Even though the Pilisar Project was scheduled to be completed in the year 2010, it had not been completed up to the end of August 2015. Out of the provisions amounting to Rs. 5.633 billion made for that Project, only 42 per cent had been spent up to the end of the year under review. The Project had provided financial support amounting to Rs. 1,601 million to construct the Compost Yards in 121 Local Government Authorities under the Solid Waste Management Component of the Project. It was observed that out of those yards, there are 06 yards where composting is not carried out, 05 yards under constructions, 05 yards not in operation and 02 yards not constructed.

No action whatsoever had been taken by the Authority in respect of the complaints received on environmental damages caused to the nature reserve as a result of the

construction of the Powerhouse by erecting an anicut and diverting water in the Samanala Adaviya Nature Reserve by the Nayaganga Mini Hydro Project. It was confirmed in field inspections and follow up action tests that the Project Proponent, Ministry of Irrigation and Water Management had failed to fulfill the relevant conditions for granting the environment approval for the Uma Oya Multipurpose Development Project. Nevertheless, the approval of the Environmental Impact Assessment (EIA) had been granted from 12 April 2011 to 12 April 2017 without considering those observations. Even though 113 complaints had been received from people's representatives, the Management had not paid attention thereon. Accordingly, such environmental damages had been caused due to neglecting the situations of risks in the environment in granting approval for the Preliminary Environmental Test Reports. As such, it was observed that the Authority had deviated from the primary social responsibility.

The complaints of 2013 on the environment had been received in the year 2014 and out of that 1614 or 79 per cent of that had not been settled. As such, it was observed that the progress of the settlement of the complaints remained very low.

Amendments of the Act had not been made for 18 identified sectors required to improve by amending the National Environment Act No.47 of 1980.

Marine Environment Protection Authority

The functions of prevention, reduction, control and management of pollution arising out of ship based activities and shore based marine related activities in the territorial waters of Sri Lanka or any other maritime zones or the coastal zone of Sri Lanka are remained under the main objectives of the Marine Environment Protection Authority.

Even though the Cabinet of Ministers had granted the approval to recover all expenses amounting to Rs. 1.55 million incurred by the Authority from the ship owners to prevent from a possible marine pollution due to oil leakage from a ship in the year 2012 had not been recovered even in the year 2014. A sum of Rs. 31.16 million had been spent by 31 December of the year under review only to procure equipment for the laboratory of the Authority, established in the year 2009 and no action had been taken to publish the reports of the researches carried out by the laboratory hitherto or to prevent marine pollution based on those reports. An expenditure aggregating Rs. 10.04 million comprising Rs. 5.58 million and Rs.4.46 million had been incurred respectively in the year 2013 and in the year under review for the Project for Management of Introduction of Invasive Alien Species into Sri Lankan waters through ship's Ballast water. However, the final report of the Project had not been prepared up to the end of June 2015.

External Affairs

There were 67 Missions Abroad comprising 14 High Commissions, 37 Embassies and 11 Consulates functioning under the Ministry of External Affairs in the year 2014.

The provision made for the year 2014 had been Rs.10,063.39 million, of which Rs.9,769.53 million had been utilized. The expenditure of the Missions Abroad amounted to Rs.7,966.34 million and represented 82 per cent of the total expenditure. The Sri Lankan Mission in London had spent the largest amount of Rs. 436 million followed by the Mission in Geneva which had spent Rs.426 million. The rent payable as at 31 December 2014 to the Central Bank of Sri Lanka in connection with the Mission in New York amounted to Rs.26.671 million.

Material deficiencies revealed during the audit of the activities of the Ministry of External Affairs:

- Regular payment of penalties for delays in the clearing of the heavy baggages of officers those who return to Sri Lanka after the completion of their postings abroad was revealed. Such payments made in the year 2014 amounted to Rs.3.73 million or 29 per cent of the sum of Rs.12.78 million paid as heavy baggage clearance charges.
- Even though two super luxury buses costing Rs. 35.9 million had been purchased in November 2013 on lease basis for Rs. 55 million payable in 60 installments, the two buses remained idle parked without protection in the vehicle park of the Ministry.
- Non- settlement of imprest balances amounting to Rs. 87 million older than 5 years.
- The difference of Rs.75 million between the actual imprest balance of the Ministry including the unsettled advances and cash balances of the Missions Abroad and the balance appearing in the books had not been adjusted.
- The balances of unsettled advances of the Ministry and the Missions Abroad as at 31 December 2014 amounted to Rs.365 million and included unsettled advances of the Missions Abroad older than 06 years amounting to Rs. 91 million.
- Two buildings valued at Australian \$ 2,589,000 of the Sri Lankan High Commission in Canberra, Australia had been idly over a period of 1 year and 6 years.

Foreign Employment

Sri Lanka Bureau of Foreign Employment

The total number of persons who migrated in the year 2014 for the foreign employment market had been about 300,413 and the Central Bank of Sri Lanka had estimated that Sri Lanka would receive an inflow of foreign remittances amounting to Rs. 916,344 million. Even though the Sri Lanka Bureau of Foreign Employment is the regulatory authority in relation to matters of the foreign employment market, material differences contrary to the objectives of the Bureau revealed in the audit of the Bureau are given below.

- A sum of Rs. 12.45 million deposited from the year 2008 to the year 2013 by the Employment Agencies for the settlement of 252 of complaints / disputes of the migrant labour had been retained by the Bureau without being paid to the parties concerned.
- Out of the money paid by the migrant labour for the Provident Fund Scheme implemented by the Bureau for the migrant labour from the year 1989 to the year 1996, sixty per cent had been deposited with the Employees' Trust Fund in the names of the respective migrant labour. The balance sum of Rs. 6.11 million had been retained by the

Bureau without being paid to the parties concerned.

- Out of the money received from the United Nations Compensation Commission for the payment of compensation for the distress caused to the Sri Lankans employed in Kuwait from the invasion of Kuwait by Iraq, a sum of Rs. 2,975.5 million had been retained by the Bureau even by 31 December 2014 without being paid to the parties concerned.
- Long delays in the settlement of dues payable to the migrant labour.
 - Insurance indemnity older than 24 months amounting to Rs. 3.45 million
 - A sum of Rs. 18.35 million recovered as refundable deposits from the migrants at the rate of Rs. 50,000
 - Insurance indemnity older than one year amounting to Rs. 2.06 million.
- Even though an advance of Rs. 20 million had been paid in the year 2013 for obtaining 99 year lease of a land valued at Rs. 95 million, action had not been taken up to date to finalise the transaction and utilize, the land for the intended purpose.

- Even though the expenditure on the Foreign Welfare Division for the year under review amounted to Rs. 727.56 million a sum of Rs. 232.97 million or 32 per cent only had been spent on the welfare of the migrants. The balance 68 per cent amounting to Rs. 494,581,991 represented salaries and establishment and administration expenses.
- The Bureau had spent a sum of Rs. 134.48 million in the years 2013 and 2014 for the Musical Shows held in connection with the implementation of a project which did not fall under the ambit of the objectives as specified in the Act on the incorporation of the Bureau. The intended project had been abandoned, thus rendering the expenditure incurred fruitless.
- A sum of Rs. 38.31 million had been paid for the supply of food and drinks to the resident Korean trainees without following the procedure under the shopping method. A further payment of Rs. 9.53 million had been made without entering into a contract agreement on the approval of the Procurement Committee for the supply of food to 1,244 participants of 28 resident Korean training programmes.
- Even though the Committee on Public Enterprises had, at the meeting held on 14 August 2012, directed that the loan granted to the Subsidiary Company in the year 2012 should be recovered and that it is not necessary to grant loans to the company, a further loan of Rs. 20 million had been granted again in the year 2014. No dividends had been received up to the year 2009 for the investment made in the Company. Even the dividends amounting to Rs. 3.5 million receivable up to the year 2014 had been surrendered to the Company.

Fisheries and Livestock

Ministry of Fisheries and Aquatic Resources Development

The fisheries sector occupies a major place in the upliftment of nutrition level of the general public in Sri Lanka and the responsibility with regard to the activities related to the fisheries industry rests on the Ministry of Fisheries and Aquatic Resources Development. The Ministry, the vision of which being the management of fisheries and aquatic resources utilization for the wellbeing of the present and future generation, expects to achieve those objectives through the supervision of the institutions namely the Department of Fisheries and Aquatic Resources Development (Management of Fisheries Resources), National Aquaculture Development Authority (Development of Fresh Water Fisheries Industry and Aquaculture) , Ceylon Fishery Harbours Corporation (Harbour, Anchorages and Berthing Management and Development) National Aquatic Resources Research and Development Agency (Scientific Researches), Ceylon Fisheries Corporation (Marketing Management) CEYNOR Foundation Ltd. (Input Supply), and the Peliyagoda Central Fish Market Complex Management Trust which are functioning under the purview of the Ministry.

Even though the provisions amounting Rs.9,416 million had been received for the Ministry of Fisheries and Aquatic Resources Development and the institutions functioning under the Ministry including the Department of Fisheries and Aquatic Resources Development for the year 2014, only Rs.8,069 million had been spent and provisions amounting to Rs.1,347 million had been saved.

The significant matters observed at the audit of the Ministry and the institutions functioning under the Ministry are specified below.

Purchase of two mother vessels

In order to purchase 02 mother vessels at a cost of Rs.326.01 million, the Ministry had entered into an agreement with a foreign supplier in the year 2007 and a sum of Rs.113.55 million had been paid up to 31 August 2015. Even though provisions had been annually made for this project from the year 2006 to 2013, out of that allocation of Rs. 541.01 million had been transferred to another items of expenditure in each year and due to the failure on the part of the Ministry to utilize those funds effectively, the Secretary to the Ministry had been emphasized by the Cabinet Decision dated 22 August 2013 that the effective utilization of the available resources should be ensured and a strict

supervision on that connection should be carried out. However, even after period of 08 years elapsed from the inauguration of the project, mother vessels had not been purchased and as such the Ministry had failed to achieve objectives of this project.

Dikovita Fishery Harbour Construction Project

This project initiated on foreign aid by the Ministry in the year 2009 and completed in 2011 had been further expanded and constructions had been carried out with the local funds from the year 2011 on an estimated value of Rs.792 million. For the purpose of improvement of the Mattkkuliya boat yard belongs to the CEYNOR Foundation Ltd as a vessels repairing centre of this harbor, a sum of Rs. 180 million had been spent from the project funds as at the end of the year under review. As it had been agreed to carry out boats and vessels repairs on concessionary prices to the fishermen, the Committee on Public Enterprises had directed on 13 January 2013 to prepare a scheme for that purpose. Nevertheless, such a scheme had not been prepared even up to 31 August 2015 and the CEYNOR Foundation had manufactured vessels on commercial basis. As a result, the benefits of the funds spend by the Treasury for the development of the fisheries industry had not infiltrated to the fisheries community.

Further, having entered into an agreement for the purchase of computer software

licence utilized for manufacturing boats in the year 2013, that is irrelevant to the purpose project, a sum of Rs.9. 66 million had been paid in the year 2014. Although a period of 02 years and 08 months had elapsed as at 31 August 2015 from the date of obtaining this licence of which the period of validity is due to be expired on 17 January 2018, it had not been utilized.

Fishery Harbour and Anchorages Development Project

This Project which had been initiated for the development purposes of 06 fishery harbours and anchorages at a cost of Rs.2,000 million in the year 2013 had been included the construction of additional 08 fishery harbours and anchorages in the year 2014 and the cost had been increased up to Rs. 5,789 million.

- The approval of the General Treasury and the Cabinet of Ministers had not been obtained for the construction of additional 08 fishery harbours and anchorages. Further, approval of the Central Environmental Authority and the Coastal Conservation and Coastal Resources Management Department had also not been obtained for this purpose.
- Instead of carrying out procurement activities of 04 constructions under the project through the Cabinet Appointed Procurement Committee according to the Procurement Guideline 2.14.1, it had been carried out through the Ministry

Procurement Committee after segmenting the cost.

- Since Project activities could not be practically activities, all the activities of the Project had been assigned to a single Entity at the time of awarding the contract and a sum of Rs.1.01 million had been paid as allowances to Procurement and Technical Evaluation Committees in respect of each activity.
- It is observed that spending Rs.9.9 million in respect of the ceremony of laying foundation stone for the commencement of 05 project activities under this Project is uneconomical and of 03 Project activities had not been commence of even up to 15 July 2015 for which foundation stones had been laid and it was remained questionable.
- While the Department of Management Services had approved a staff of 18 officers for the Project Operation and Implementation Unit, 29 officers had been recruited by the Project. Further, salaries and allowances amounting to Rs. 2.48 million had been paid in respect of the 11 officers recruited without approval.

Distribution of Instruments for Self-employments for Livelihood Development

- Instruments required for the industries non-related to the fishery such as sewing industry, food processing, spices production, poultry keeping, and flowery culture as the self-employments for the livelihood development of the fisheries community, had been procuring by Ministry at a cost of Rs.10.5 million. As a result of procuring of these instruments at higher price, a loss amounting to Rs.1.34 million had incurred.
- Although it had been stated that these instruments to be distributed through the District Fishery Office, Negoembo and had been handed over to the said office, no information whatsoever was found to the effect that such instruments had been taken over or distributed. The assets such as 121 sewing machines, 53 bicycles for women and 120 sets of school equipment were induced there in and distributions of such assets were remain questionable.

Erroneous Payments

Payments had been made for the invoices submitted by the private Security Service Company which provided the security to the Peliyagoda Central Fish Market Complex stating that excessive number of employees had been deployed than the actual number of officers so deployed and as such the Management Trust of that market complex

had erroneously paid a sum of Rs.15.39 million as security services charges, Rs.1.88 million as the Value Added Tax (VAT) and Rs.0.31 million as the Nation Building Tax (NBT) for the year 2011, 2012 and up to November 2013 to the Company. The amount which had been erroneously paid to the security services company represented 45 per cent of the total amount paid to the aforesaid company.

Ceylon Fisheries Harbour Corporation

Providing facilities required for the fisheries community such as construction and maintenance of fisheries harbours, provision of facilities required for the repairs and maintenance of fishery vessels, provision of cold store facilities and supply of ice, development of fisheries harbours and anchorages are the main functions of the Corporation. However, out of 20 fishery harbours owned by the Corporation, vessels repairing facility of 07 harbours, fuel supply facility of 04 harbours and ice-supply and cold stores facilities of 06 harbours were not available. Further, 12 harbours out of 20 harbours were running at loss and the total loss suffered by the Corporation from the year 2010 up to the year 2014 amounted to Rs.323.51 million.

Ceylon Fishery Corporation

Engaging in the activities such as making higher contributions to the Gross Domestic Product, marketing and processing of fish and the production and sale of high quality

fish and value added manufacturing at a fair value with using modern technology are the mission of the Corporation. However, 150 fish stalls were remained and out of that 49 stalls had been closed down as at 31 August 2015.

National Aquatic Resources Researches and Development Agency

To be the premier institution for scientific researches in conservation, management and development of aquatic resources in the region is the vision of the Agency and to provide innovative solutions for national development issues in the aquatic resources sector utilizing scientific and technical knowledge and resources is the mission of the Agency. Nevertheless, a research vessels constructed at a cost of Rs.15.69 million in the year 2011 had not been utilized for research activities even up to 31 August 2015. A sum of Rs.7.04 million had been paid as salaries and allowances from the year 2011 up to 31 December 2014 for the staff attached to this purpose.

Further, contrary to the objectives of the Agency Act, a fish market had been constructed at Beruwala at a cost of Rs.152.24 million in the year 2013, whereas this building had not been utilized even up to 31 August 2015.

Ministry of Livestock and Rural Community Development

Formulation and implementation of policies, programmes and projects, development of livestock industry, milk production and distribution, planning and implementation of veterinary medical services and researches, protection of animals from diseases and animal quarantining, administration and implementation of the Animal Act, Animal Disease Act and Animal Food Act and the improvement of the socio-economic standard of the rural community are the main functions of this Ministry. The technical expertise and support services required for the livestock development are provided by the Department of Animal Production and Health and Milco Private Company, National Livestock Development Board and Mahaweli Livestock Resources Development Company are the other institutions which contribute to this endeavor while functioning under the purview of the Ministry.

Provisions aggregating to Rs.5,789 million had been received for the Ministry and the Department of Animal Production and Health for the year 2014 and out of that Rs.5,438 million had been spent and provisions amounting to Rs.351 million had been saved.

Ministry of Livestock Resources and Rural Community Development

For the purpose of implementation of 07 projects required for the livestock

development by the Ministry of Livestock Resources and Rural Community Development, provisions amounting to Rs.1,441.20 million had been made by the original estimate in the year under review. Since the performance report of those projects had not been prepared according to the Action Plan, progress thereon could not be examined in audit. Further, in accordance with the revised estimate prepared in October 2014, a sum of Rs.3,478 million had been received. Nevertheless, the Action Plan had not been amended so as to depict the manner in which the said money would be utilized.

Department of Animal Production and Health

In order to meet the drinking water requirement of the Seepukulam Livestock Training Centre, the Department of Animal Production and Health had established a water purification unit at a cost of Rs.1.87 million in the years 2012/2013. However, it was unable to meet the water requirement as expected and action had been taken to fulfill the water requirement by spending Rs.15,000 per month from March 2015. An expenditure amounting to Rs.29,000 had been incurred in March and April for that purpose. It was further observed that the requirement for the drinking water could not be fulfilled from that purification unit even by 10 June 2015.

National Livestock Development Board

Following audit observations are made.

- In the computation of the contribution in terms of Section 47 of the Employees' Provident Fund Act No.15 of 1958 and Section 44 of the Employees Trust Fund Act No.46 of 1980, only the basic salary of the employees had been considered.
- Even though it had been indicated in the financial statements that interests amounting to Rs.7.11 million and Rs.20.43 million for the year 2012 and 2013 respectively to be paid the General Treasury in respect of loan amounting to Rs. 1,600.8 million obtained for Wellard Dairy Cattle Project, provisions for the interests had not been made for the year 2014. Further, the Board had failed to prepare a proper plan for the repayment of this loan. In terms of the Letter of the Department of Foreign Resources dated 06 November 2012 the repayment should be commenced on or before 08 March 2013, whereas based on the self-evaluation as at 31 December 2014, only a sum of Rs.12 million had been paid during the year under review.
- A sum of Rs.9.45 million older than 5 years and a sum of Rs.1.51 million older than two years in respect of providing chicks to the Mahaweli Livestock Development Company and the Line

Ministry respectively remained recoverable to the Board.

- As per the Cabinet Decision dated 28 June 2007, it was decided to hand over a block of 1000 acres in the Kanthale reserved for sugarcane cultivation to the National Livestock Development Board temporarily for cultivation of maize as a pilot project until a suitable entrepreneur is selected for sugarcane cultivation and a sum of Rs.37.5 million had been allocated to establish a Revolving Fund under the Negenehira Navodaya Programme. Since this project was unsuccessful, the land utilized for that Project had been re-transferred to the Kanthale Sugar Company on 01 September 2011. According to the comments of the Central Bank of Sri Lanka submitted to the Cabinet of Ministers, this project had been recommended under to the condition of remitting the balance of the revolving fund to the General Treasury when a suitable entrepreneur is selected for sugarcane cultivation. Nevertheless, the relevant land had been re-transferred to the Kanthale Sugar Company on 01 September 2011, However, a sum of Rs.13.29 million remained in the Revolving Fund as at 31 December 2014 had been retained in a Current Account by the Board without being remitted it to the General Treasury.
- The physical progress of 61 activities relating to 06 projects of 27 farms

indicated in the Action Plan and the Progress Report was zero and the achieved physical target of 40 activities of 19 farms had been less than 50 per cent. Further, the progress of 293 activities of 31 farms included in the Action Plan had not been included in the Annual Performance Report and as such it could not be examined whether the relevant activities had been carried out during the year under review.

- A land of 150 acres of the Ridiyagama Farm had been encroached by 98 persons for unauthorized cultivation in the year 2001 and the Department had failed to evacuate them from the land, further unauthorized occupants who were not officers/ employees of the Board had enclosed 70 houses situated in the farms of the Board. Further, it was observed there were 145 houses suitable

for residing and other 110 houses unsuitable for occupation purposes owned by the Board that although no one was occupied.

- In order to sale milk under the Milk project, 69 sales outlets had been maintained by the Head Office. But, 53 sales outlets had only remain in operation as at the end of the year under review. Out of the 69 sales outlets 25 outlets had sustained a loss of Rs.1.83 million and 44 outlets had earned a profit of Rs.17.06 million. Further, a net loss of Rs.152.39 million had incurred from 17 farms maintained by the Board during the year under review and out of which 07 farms had been running at loss since 2008. However, the Board had failed to bring those farms and sales outlets to a condition of gaining profits.

Health Services

The main activities are implementing plans for health sector, implementing programs and projects, implementing standards and rules, regulations for providing health services, development, management, planning of human resources and system development, distribution of resources, and execution, supervision and evaluation of programs and projects.

The number of hospitals all over Sri Lanka is 811 included 47 health ministry hospitals, 554 provincial council hospitals, 210 private hospitals and 341 health medical officers' offices for patient treatment services. A sum of Rs. 138,403 million had been spent by the government for health sector in the year 2014 and it was an increase of Rs. 18,873 million or 15 percent with compared to the sum of Rs. 119,530 million spent in the year 2013.

A sum of Rs.519,904 million had been spent during the last 05 years and a sum of Rs. 87,329 million and a sum Rs.432,655 million as capital and recurrent expenditure respectively. Per capita health cost of Rs.3,573 in the year 2010 had been increased up to Rs. 6,694 or 87 percent in the year 2014. It is shown an increase of the number of beds in private hospitals with compared to the contribution of private hospitals to health sector in the year 2010. Also it is shown an increase in the number

of hospitals and the number of beds as well as the entire work force of the health sector. The number of doctors getting salaries from the head office of health ministry was 2845. Out of them 2638 doctors are trainee post graduate medical officers and 116 doctors are engaged in the posts of ministry administration sector.

Purchasing, Storing and Distributing Procedure

There are 26 district level divisional stores adjoining to stores complex network in Colombo to store and distribute all medicinal materials receiving to medical supplies unit. A part from this, 03 wholesale stores in Angoda and a wholesale store in Digana are belonging to medical supplies unit. Medicine and surgery materials required for hospitals controlled under provincial councils are distributed through these medical supplies units in district level. Even though it was proposed to construct a pharmacy drugs store by spending a sum of Rs. 199 million at Welisara chest hospital premises in the year 2013, construction had not been commenced even in the year under review due to lack of space. Private buildings had been used on rent basis to store medicine and the annual expenditure for this was Rs.9 million.

Medicine Purchasing Expenditure and Medicine Rejected/ Failure from Quality Test

The wholesale value of 3537 items of medicine and surgery materials supplied from State Pharmaceutical Corporation in the year under review was Rs. 17,386 million. Out of them, though 48 medicine and surgery materials valued at Rs. 218 million consisting of 10 million units had been decided to dispose due to quality failure, it was revealed that the 9 million units (valued at Rs. 186. million) of quality failed medicine had been issued to patients even before the notification made in this regard. It was 90 percent from the quality failed stocks which purchased. The amount as per the procurement conditions for quality failed stocks had not been recovered as the cash had been paid to suppliers and the stocks had been used. The actions had not been taken to recover the amount of Rs. 210 million from the suppliers for disposed stocks from 2010 to 2014. The value of 45 items disposed during the year 2014 due to the life expiry of the medicine was Rs. 218 million.

Incurring Additional Cost Occurred in Purchasing of Medicine Locally

State Pharmaceutical Corporation is mainly providing the national requirement of medical supplies and the procurement activities of the corporation is commenced by ordering one year before. However, Ministry had to do immediate purchasing

locally due to non-receiving of medicine in due periods. In this reason, the additional cost had to be incurred is Rs. 2,013 million from the year 2007 to the year 2013. The cost had not been calculated for year 2014 and an additional cost of Rs. 174 million had been incurred only for the year 2013.

Supply of Medical Equipment- Bio Medical Engineering Service Unit

A sum of Rs. 2,646 million had been spent during the year under review to purchase medical equipment under this unit. Other than this, medical equipment had been purchased under foreign funded loan. Even though, it had been planned to purchase 3059 equipment units in 71 equipment categories in the year 2014, equipment planned in the years 2011, 2012, 2013 and other equipment had been purchased without purchasing anything planned during the year. Further, there were delays in installation of these purchased equipment in hospitals and therefore there were instances that the wasting of warranty periods.

Utilisation of Vehicles

According to the details in Motor Traffic Department as at 19 October 2014, out of the 2705 vehicles registered under Health Ministry, the ministry was not in a position to explain the things happen to 971 vehicles. The information with regards to persons used or the existing premises of those vehicles were not available and not updating the vehicle registers had been the main reason for this. It was observed that

two government vehicles due to be auctioned (In good running condition) had been inappropriately purchased by two government officers without being auctioned.

Utilisation of Foreign Funds

The net provision of foreign fund was Rs. 11,696 million and expenditure was Rs. 9,860 million. According to the percentage of spending of foreign fund, it is observed that though the foreign loan expenditure is in higher percentage of 96 per cent, the percentage of spending foreign grant in 35 per cent is not convenient for the country. And also it was mainly observed that, actions had not been taken to utilized funds of non-refundable foreign grants in maximum capacity and prepare relevant work plans efficiently and not using effectively.

Contracts of Building Constructions

A sum of Rs. 1,610 million had been provided from local funds during the year 2014 for 38 various building construction projects connected to hospitals for patient treatment. Out of them, there were 02 construction projects without utilizing the funds and 02 were abandoned projects. (Construction of millennium ward complex in Colombo south teaching hospital, Mahamodara Maternity hospital in Galle) The number of projects which had less than 50 per cent financial progress from the allocation was 15. Matters such as non-presenting claims from related hospitals,

incompletion of procurement activities, abandoned of work and taking legal actions on contract institutions, lack of fund to make payments for the vouchers presented had been presented as reasons for the low progress. Also the total cost estimation of the construction of maternity ward complex at Kurunegala teaching hospital amounted to Rs. 1,291 million and works of this had been commenced in the year 2007 and works should be completed in 10 February 2013. This contract is implementing under 03 stages and only 02 stages had been completed even after more than 08 years. The amount spent was Rs. 394 million.

Unnecessary delays due to Coordinating Inefficiencies

There were almost 90 divisions to perform duties within the Health Ministry and the inter connectivity between each other is in a poor level. Segregation of duties within divisions and staff are also in much irregular manner. Specially, more duties were taken on to higher level posts but files drifted on tables as inability to do in scheduled time period and therefore it was observed that much delays in Ministry administration activities. Sometimes, it had been taken several months to send a letter from one division to another division. Not granting proper authority and lack of supervision had been caused to this weakness.

State Pharmaceutical Corporation of Sri Lanka

A sum of Rs. 999 million or 4.7 per cent had been increased in overall turnover of the Corporation of Rs. 22,134 million in the year 2014 with compared to the turnover of Rs.

21,135 million in year 2013. Seven new authorized pharmacies and three new state pharmacies were established and 31 state pharmacies with the 04 new distributors (excluding the 02 pharmacies closed during the year), 195 agency pharmacies, 54 distributors, and 10 authorized sellers are engaged in the open market. Following audit observations are made.

- The stock loss of Rs. 62 million had been occurred during the year under review including the medicine of Rs. 20 million taken to sell in the corporation and the medicine of Rs. 42 million taken to sell in the Medical Supplies Unit due to reasons such as quality failure, expiring etc.
- Out of the bank over draft interest incurred by the Ministry, the reimbursement of the over draft interest made on purchases in medical supplies unit had been made by the Treasury from year 2012 to April 2014. Therefore, over draft interest expenditure of Rs. 316 million relating to year 2012, Rs. 510 million in 2013, Rs. 179 million in 2014 had been incurred by the Treasury.

- Out of the 610 items of ordered medicine to medical supplies unit during the year under review, the Corporation had failed to supply 332.02 million units in 103 items. Out of them, the amount in which was unable to supply a single unit was 38.96 million units in 38 items.
- There were 33 active pharmacies in the Corporation including 03 pharmacies newly opened during the year and 02 pharmacies closed during the year loss of Rs.41.95 million had been incurred in 23 pharmacies and a profit of Rs. 113.88 million had been generated in 10 pharmacies. Therefore net profit of Rs. 71.93 million had been made from overall pharmacy operations and it is a decrease of Rs.18.36 million or 20.3 per cent with compared to the profit of Rs. 90.29 million in previous year.

Sri Lanka State Pharmaceutical Manufacturing Corporation

The operational profit of the Corporation in the year under review was Rs. 225 million and it was a decrease of Rs. 79 million or 26 per cent with compared to the operating profit of Rs. 304 million in year 2013. The sales income of the Corporation in the year under review was Rs.1,712.1 million and it had been decreased by Rs, 229 million or 11.8 per cent with compared to the overall sales income of Rs. 1,941.1 million in previous year. Further, out of the overall sales income, medicine amounted to Rs.

1,099.5 million had been sold to Health Services Director and it was 64.2 per cent from the overall sales. However, the sales made to Health Services Director in the year under review had been decreased by Rs. 312.6 million or 22.1 per cent with compared to previous year.

Out of the total production of 1,909.2 million units of manufactured 38 types of medicine, 1,303.8 million units or 68.3 per cent on 8 types and out of total production 605.4 million units or 31.7 per cent on 30 types had been subsisted.

Health Development Fund

According to the paragraph 7 of National Health Development Fund Act No. 13 of 1981, it was shown the money belongs to the fund should be utilized to implement activities such as development and promotion of institutions providing health-care services, the promotion of research among, and the advancement of the education or knowledge of persons engaged in or associated with, to finance any project for the purpose of taking necessary steps for, the prevention of disease among, or protection of the health, purchasing of medical equipment and essential medicine/drugs. However it was observed that, the money of this fund has being been invested continuously without being applied them to develop the health sector. The balance of this fund was Rs. 205.4 million at the end of year 2014.

Ayurvedi Department

The net Allocation for Ayurvedic Department for the year 2014 was Rs. 1,347.51 million and, the expenditure was Rs. 1,179.12 million. Therefore the saving was Rs. 168.38million or 12.49 per cent.

Even though maintaining and promotion of Experimental Herbal Gardens were activities of the Ministry and the Department, 02 herbal gardens under the Ministry (44 acres in Wedagama herbal garden, 25 acres in Medirigiriya herbal garden), 05 herbal gardens under the Department (25 acres in Neelabemma, 50 acres in Dangolla Medawachchiya, 25 acres in Padaviya, 100 acres in Hiwalkandura, 69 acres in Ambanpola Peella) are become wilderness and maintenance had not been done. Raw medicine had been purchased from outside institutions by the Ayurveda Drugs Corporation and Department of Ayurveda due to providing insufficient raw materials from herbal gardens.

Even though the salary is paid by Vennappuwa provincial council for the doctor who was transferred to Vennappuwa provincial council, a gross salary of Rs. 548,376 had been paid by Ayurveda Department for 15 months. And that amount had not been recovered even at the end of the year under review and responsible parties had not been inquired with regard to erroneous salary payment.

Ayurveda Medical Council

As per the paragraph 11(1)(e) of section 111 of the Ayurveda Act No 31 of 1961, though the board comprise with 3 members elected from registered Ayurvedic doctors, no registered doctor had been appointed to the medical board.

As per the Ayurveda medical board paper No. (3) 08/13/14 of 05 July 2005, the registered doctors should be renewed their registration in 05 years with effect from 01 January 2006. Though it was decided to charge registration fees, only one out of the registered doctor at the end of the year under review had been paid and updated.

The total number of registered doctors in the medical board as at 31 December 2014 is 24,049 and out of them the dead amount is 3,001. And 2,545 registered doctors had not been updated even at the end of the year under review.

Homeopathic Medical Council

There were no medical board since year 2011 (Even as at 31 August 2015) and the activities are conducted by an interim committee. Implementation of the objectives mentioned in the Act was interrupted as such medical board was inactive.

Investment Promotion

In the context of Investment Promotion in Sri Lanka, a major role is being played by the Ministry of Investment Promotion and the Board of Investment collectively. The Board of Investment incorporated as the government principal agency for the purpose of promotion and coordination of industrial development in Sri Lanka since 1978. Encouraging and promoting Foreign Direct Investments (FDI), diversifying the source of foreign exchange earnings and increasing export earnings, fostering and generating the economic development, encouraging and fostering the establishment and development industrial and commercial enterprises are remained among the major objectives of the BOI.

Total attracted foreign direct investments in 2014 had increased from Rs. 1391.10 million up to Rs.1616.26 million representing 16 per cent increase compared with previous year.

Infrastructure and Service Sector is the most significant sector of the FDIs and it represented 77 per cent of the total attracted FDIs through BOI projects in 2014. However, it was reported attracted investments for agricultural and manufacturing sectors had decreased by 32 per cent and 7 per cent respectively during the year under review as compared with the previous year.

Export earnings through BOI enterprises was increased by 15 per cent and 5 per cent in 2013 and 2014 respectively as compared with previous years. Import cost incurred by the BOI enterprises was increased by 2 per cent and 15 per cent in 2013 and 2014 respectively as compared with previous years.

The approvals granted for the commencement of projects had been reduced from 384 in 2009 to 181 in 2014 by 53 per cent. However it was increased by 3 per cent when compared with 176 projects in last year. The Commencement of the commercial operations of the projects had been decreased from 134 in 2009 to 87 in 2014. It was observed that number of cancelled, closed down or suspended projects also had remained at a considerable level. Even though 87 projects commenced commercial operation during the year under review, 125 numbers of projects had been cancelled, closed down or suspended.

Zones operation

BOI facilitates investors through 12 Export Processing Zones. However Wathupitiwala, Koggala and Malwatta Export Processing Zones had incurred losses continuously since 2008 due to huge administration cost and underutilization of lands for revenue generation. Accumulated loss of above three zones was Rs.250.65 million as at the

end of the year 2014 and losses of Rs.47.76 million was incurred for the year 2014.

Underutilization of Asset

Maliduwakanda Estate with an extent of 122 acres of land, procured by the BOI on 08 January 2003 at a cost of Rs. 97.94 million had not been utilized the intended purposes up to end of May 2014. According to the Register of Fixed Asset, the book value of this land as at 31 December 2014 was Rs.100.8 million.

Investment Promotion activities

Out of the total expenses of the BOI amounting to Rs. 2,802.69 million, a sum of Rs.67.47 million respectively 2 per cent had been spent for investment promotion activities in 2014. Under Investment Promotion expenses, a sum of Rs.34.63 million or 51 per cent had incurred on Hambanthota Conclave-2014, exhibition

held paralleled to the CHOGM and producing at 9.5 minutes documentary film on the recent development in the North era and East era provinces. The purposes of these expenses are questionable since these expenses are not related to investment promotion.

The BOI had paid Rs.100 million for construction of 15 houses within a block of land in extent of 72 hectares at Weliwewa Grama Niladari Division for people who lost their houses due to construction of access road to the Sooriyawewa International Cricket Stadium. Ownership of this land at Weliwewa had not been rested with the BOI until May 2015 at the date of audit examination. The obligation of the BOI regarding the construction of houses and handing over five houses to the parties nominated by the political authorities were remained questionable.

Irrigation

Department of Irrigation and three statutory bodies namely the Water Resources Board, Sri Lanka Mahaweli Authority and the Central Engineering Consultancy Bureau were under the purview of the Ministry and the key functions of the Ministry were the preparation of policy programmes and implementation of projects preparation of policies, programmes, and projects under the subjects of irrigation, reservoirs, water resources management and other activities under the preview of departments and institutions of the Ministry, promotion, construction, monitoring maintenance, reconstruction and management of irrigation system suarage, flood protection, disposal of salty water, avoiding of water pollution, collection of rain water, providing of engineering consultancy and implementation of lairs relations to Irrigation Act, Mahaweli Development Act, Water Resources Board Act, and other law related to other ministry and other projects of other Ministries ect. The total net provision made in respect of the Ministry and the Department of Irrigation for the year under review amounted to Rs.50,120 million, and out of that a sum of Rs.44,942 million had been utilized.

Significant audit observations relating to the year 2014 are given below.

- A sum of Rs.3,765.43 million had been spent out of the provision of Rs.3,765.51 million made during the year 2014 for the import of prefabricated buildings from the Government of China in respect of the state institutions not under the purview of the Ministry. Nevertheless, the details related to total number of houses handed over to the state institutions after installations up to 10 August 2015, the number of state institutions for which the houses were handed over, and the certificates obtained from the institutions confirming the satisfactory installation of number of houses handed over to each institution had not been presented for audit. It was observed that the total expenditure incurred on this purpose as at 31 December 2014 amounted to Rs.8,576.59 million.
- Out of the provision made for the rehabilitation of urgent infrastructure of main and medium irrigation schemes, a sum of Rs.12.84 million had been paid during the year 2014 by the Ministry to the Mahaweli Consultancy Service Bureau (private) Company for the establishment of micro irrigation systems and renovation of buildings. Further, assignment of those activities to that Company which do not possess the qualifications to perform such activities offered by deviating from the tender procedure and utilization of fund on the establishment of micro irrigation systems at farms in Moragahakanda, Rajanganaya, Niraviya etc. was remained questionable in audit.
- The payment of salaries totaling Rs.0.63 million made to the two Accountants of the Pro-Poor Economic Advancement and Community Enhancement (PEACE) Project which was winded up in May 2013 by utilizing the provision made for the feasibility studies of the

Ministry despite the non-availability of proper letters of appointment and the project being inactive had been observed as a payment of contentious nature.

- Out of the provision made during the year 2014 in respect of the feasibility studies of the projects for the development of Northern Province Canal / Moragahakanda / and Kaluganga Yatigan areas, a sum of Rs.11.14 million had been utilized for the feasibility studies of the North Western Canal Project. Nevertheless, that expenditure had been erroneously brought to account as expenditure on the projects above mentioned. These activities had been carried out by the Mahaweli Consultancy Service Bureau (private) Company and the awarding of these contracts had been made deviating from the tender procedure.
- Out of the provision made for the Ministry during the year 2014 in respect of the reconstruction of main and medium irrigation schemes, a sum of Rs.6.91 million had been utilized for the construction and repair of tube wells of the Water Resources Board and expenses of “Deyata Kirula” exhibition.
- In terms of Section 7.2 of the Drivers’ Service Minute No.1101/9 of 13 October 1999, recruitment of employees to the Department of Irrigation should be made by the Director General of Irrigation. Nevertheless, recruitment of 75 drivers to the Department had been made by the Secretary to the Ministry of Irrigation. Further, calling applications for such recruitments should be done through Government Gazette, a public notice or by any other appropriate method in terms of Section 7.1 of the above Drivers’ Service Minute. In contrary, calling applications for these recruitments had been done as informed the Director General of Irrigation by the Secretary to exhibit the relevant notice at Regional offices of the Department of Irrigation depriving of the opportunity to be applied by any applicant. As such, this recruitment was not observed as an appropriate method of recruitment approved by the Secretary to the Ministry of Public Administration.
- The entire provision of Rs. 55 million made for two Objects under the Development Programme of the Department of Irrigation had been transferred to other Objects. Making provision for projects that could not be implemented and transferring those provisions to other projects were matters of contentious nature.

Mass Media

The Ministry of Mass Media and Information which is performed to preparation of policies and strategies, supply of facilities ,implementation, supervision and follow up and contribution tasks for the establishment of a mass media of Sri Lankan identity with People-friendly, amenable to development, free and with responsibilities is control the country's public mass media institutions directly and the private mass media institutions indirectly. Department of Information, the Department of Government Printing, Sri Lanka Broadcasting Corporation, Sri Lanka Rupavahini Corporation, the State Printing Corporation, the Press Council, the National Film Corporation, the Associated Newspapers of Ceylon Ltd, and the Selasine, Press Institute of Ceylon Ltd, and the Independent Television Network are the Institutions relating to the Public Mass Media functioning under the direct supervision of the Ministry.

Even though Orders given by the Committee on Public Accounts to take action by paying attention of the Ministry on the sectors for revising the Press Complaints Commission Act of Sri Lanka as complaint could be made for electronic media also, preparing a draft relevant to confirm the right to obtain information easily on public safety and economy, adopting the Broadcast Development

Authority Act and taking necessary action for transferring Sri Lanka to digital technology from analogue technology, preparing a methodology to supervise the activities of the private radio and television channel license holders for avoiding of outflow of public finance to the private parties anomalously and preparing license charging method, formulating new policy in relation to Rupavahini Institutions based on cable satellite and internet, establishing a Fund without delay for the income charged for imported Rupavahini Programmes, formulating a National Media Policy and taking action to control the Rupavahini advertisements, the Ministry had failed to fulfill the said activities. However, without formulating new policy on the institutions which are based on cable satellite and internet, a license had been given for maintaining a Rupavahini channel through satellite technology in November 2014.

Resource persons with the skills of the fields such as science, psychology and law had not been assigned for the Board of Review appointed in the year 2014 to obtain approval for telecast imported teledramas, commercial programmes, films and children's programmes and it was observed that it had not consider the future generation with social responsibility and dedication when getting approval of the telecasting children's movies and cartoons .

According to the test check done in relation to telecast the imported commercial advertisements without paying taxes ,an income of Rs.3 million had been lost from about 06 advertisements.

A loss of Rs.52 million had been incurred in the year 2014 from the operational activities in the Ranminitenna Tele Cinema Village which is under the Ministry, it induced a loss at Rs. 47 million incurred on supply of free facilities for an Indian Film Corporation.

Department of Government Information

The Department of Government Information had been established on 31 July 1948 with a view to determining the rights of the general public for accurate information by the Constitution of Sri Lanka.

Action had not been taken to recover the sum amounting to Rs.8.6 million overpaid on the construction of new media centre of the Department and action had been taken to grant the liquor permit even in the year 2014 without an agreement or charging for the outside person whom performs through the Attorney General since February 2014 for the recovery of a sum amounting to Rs.4.65 million on maintaining of the liquor shop in the media society of the Department.

Having being a Research Unit in the Department, a sum of Rs.3.38 million had been paid for an outside institute for 02 surveys in the year 2014 and a result obtained thereon was not observed.

Sri Lanka Broadcasting Corporation

There were 08 National Channels, 06 regional services and 02 community broadcasting services and 07 FM transmission centres, 01 medium wave transmission centre, 01 short wave transmission centre in the service net of the Sri Lanka Broadcasting Corporation during the previous year whereas it had reduced to 06 National Channels ,and 01 community broadcasting service as at in the year 2014.

The Corporation had been occurred continuous losses due to the reason of prominent activities such as transmission system of the Corporation was not in a satisfactory condition in general, the assets of the Corporation had not been managed properly, team work had not been improved, existing of employees exceeding the requirement, non- handing over of duties by appreciating the skills of employees, though a large amount of money had spent for technical equipment, proper management had not done and specific training had not given for use those equipment. The contribution granted by the Treasury to the Corporation during the last 5 years period was Rs.1,317 million due to the said losses.

As the continuous deterioration of the financial position of the Corporation is being existed, the bank overdraft of the Corporation at the end of the year 2014 was amounting to Rs.36.7 million and the interest paid in this connection during the year was amounting to Rs.5.7 million.

The buildings constructed in the lands which vested by the Corporation from through the Land Reclamation Commission and other assets had been remained idled and underutilized condition. It was observed that some lands had lost to the Corporation and the ownership had been handed over to another parties.

As an example, buildings of the Weeraketiya transmission station and the lands extent of 30 acres had been released for the Youth Corps Programme of the Marine University. Action had been taken to give 19 acres of the land out of 159 acres situated at Diyagama to the University of Moratuwa and 25 acres for the Stadium. The action taken for the rest 105 acres was not revealed at audit.

Sri Lanka Rupavahini Corporation

Even though the Corporation had earned a profit of Rs.36 million in the year 2013, it had been converted to a loss of Rs.175

million in the year 2014. The Corporation had given free air time of Rs.34.7 million for promotion activities of the Presidential Election for one candidate and an air time of Rs.2.2 million had been given as a scheduled Programmes of the Corporation. Further, the Corporation had been failed to advertise the advertisements valued of Rs.5.2 million in relation to the Presidential Election. Out of that, having being received the money amounting to Rs.1 million for advertisements, the same money had been re-paid due impossibility of allocation of the air time.

A sum of Rs.3.5 million had been paid for a private association for transmission of Jathika Rupavahini in foreign countries through the Satellite technique without entering in to a written Agreement contrary to the Procurement Process and neglecting the Order given by the Cabinet of Ministers to obtain the agreement of the Ministry of Finance and Planning, stating that an urgent necessity in December in the year under review.

Two used transmitters of Rs.16.93 million not suitable for the future technological transformations had been purchased on the Agreements with conditions which adverse to the Corporation.

Law and Order

The Department of Police and the Special Task Force are the institutions functioning in the Law and Order Sector and the scope of the Ministry includes providing policy guidance, the modern technology and the physical and human resources needed by the institutions under the purview of the Ministry to function at a high level of efficiency, supervision and evaluation of performance.

Audit observations.

- Failure of the Ministry to recover loan balances amounting to Rs. 6.30 million remaining outstanding over periods ranging from 01 year to 03 years.
- Failure to recovered or write off losses amounting to Rs. 3.90 million caused to 15 motor vehicles of the Special Task Force during the year by accidents.
- Failure of the Department of Police to recover loan balances amounting to Rs.133.39 million remaining outstanding over periods ranging from 01 year to 03 years.
- The Department of Police had conducted 71,215 raids in the year 2014 relating to cannabis, opium, hashish and heroin which cause severe harm to the community. That represent of an increase of 1.2 per cent increase in the number of raids conducted in the preceding year. The conducted of such raids in more formal and efficient manner for the benefit of the society was emphasized.
- Deficiencies in the procurement and storage processes were pointed out.
- The Department of Police had retained in the Deposit Accounts 218 deposits amounting to Rs.66 million and Rs.2.8 million relating to pensions for over 02 years contrary to Financial Regulations 571.
- In view of the defects in bill of quantities, contract agreements and weakness in the supervision, the constructions contract valued at Rs.354 million awarded in the year 2011 for completion within 18 months, the financial progress as at 31 December 2014 amounted only to Rs.184 million.

Ports and Nautical Operations

Port Operations

The main ports governed by the Sri Lanka Ports Authority can be named as the Port of Colombo, the New Colombo South Port, the Port of Galle, the Port of Hambanthota and the Port of Trincomalee. In addition, there were no operations carried out at the Oluwil Port from its inception while the nautical operations at the Kankasanthurei Nautical Jetty are carried out.

Noticeable changes observed in the operations of the Sri Lanka Ports Authority in the year under review of 2014 are given below.

- The total net income for the year 2014 amounted to Rs.41,088 million and that as compared with the preceding year indicated an increase of Rs.7,302 million. That represented an increase of 21.61 per cent as compared with the income of the preceding year.
- The total expenditure for the year under review of 2014 amounted to Rs.33,139 million and that as compared with the preceding year indicated a decrease of Rs.978 million for the year under review. That represented 3.04 per cent.
- The after tax profit for the year 2014 amounted to Rs.7,947 million and that as compared with the profit for the preceding year indicated an increase of Rs.6,322 million. That as compared with the after tax profit for the preceding year indicated an increase of 389 per cent in the after tax profit. The increase in the profit occurred due to adjusting the foreign exchange ratio by Rs.4,077 million as compared with the preceding year had mainly attributed to therefor.
- The total number of ship arrivals in Sri Lanka for the year 2014 had been 5,072 and that as compared with the preceding year indicated an increase of 5.68 per cent in ship arrivals.
- The Twenty Feet Units of Containers handled in the year 2014 had been 2,559 in thousands of units and that as compared with the preceding year indicated an improvement of 2.3 per cent. However, the conventional cargo handled in the year 2014 had been 6,339 in thousands of metric tonnes and that as compared with the preceding year indicated an increase of 11.91 per cent.

The Port of Trincomalee had been continuously incurring losses in the 08

preceding years and the cumulative loss amounted to Rs. 2,475 million.

Colombo South Port

The construction of Breakwater, the nautical approach channel and dredging the Colombo South Port had been carried out as a Colombo Port Expansion Project under a loan from the Asian Development Bank and the total expenditure incurred thereon amounted to Rs.42,055 million (Local Funds Rs.9,876 million and Foreign funds Rs.32,179 million).

However, construction of nautical jetty, the installation of Granti Cranes and operations of the port for the period of 35 years had been assigned on the Build Operate and Transfer basis to a newly registered company namely Colombo International Container Terminals Limited established with the contribution of a China Company. According to the agreement entered into between that company and the Sri Lanka Ports Authority, the Authority had to purchase shares of 15 per cent from the Share Capital of that company and a sum of Rs. 2,860 million had been spent thereon. However, no money whatsoever had been granted as dividends to the Sri Lanka Ports Authority yet.

According to the agreement entered into between the Sri Lanka Ports Authority and the Colombo International Container Terminals Limited, the Sri Lanka Ports Authority receives only a royalty for containers. It was observed that the royalty received for containers had not been

adequate even for the payment of the interest of the loan obtained for the Colombo Port Expansion Project.

As the constructions and operations of the deepest basin out of the ports of Sri Lanka to which the largest ships of the world could arrive, had been assigned to a China Company for a period of 35 years, the Sri Lanka Ports Authority had to face a severe competition in calling ships at the Terminal.

Port of Hambanthota

The construction work of the first stage of the Hambanthota Port Construction Project was commenced on 15 February 2008 and the constructions of the first stage of the Port of Hambanthota had been completed by 31 December 2011. A sum of Rs. 53,272 million had been spent thereon. However, the number of ships calling at the port of Hambanthota had been limited only to the ships transporting motor vehicles due to the inability to handle the containers as granty cranes had not been installed in the port. The installation of nautical operating equipment and constructions of operating Terminal of the port of the second stage of the Hambanthota Port Development Project had been commenced by utilizing a foreign loan of US \$ 808 million. The total expenditure incurred for stages 1 and 11 of the Hambanthota Port Construction Project by 31 December 2014 amounted to Rs. 105,962. That Project was scheduled to be completed on 14 April 2015 and action had been taken to obtain Funds necessary for the Project from the EXIM Bank of China.

However, no adequate earnings had been made for payment of interests and loan installments on the loan obtained for the constructions of the port. As such, the losses sustained by the operations of the port of Hambanthota in the years 2011 and 2012 amounted to Rs. 11.9 million and Rs. 25.5 million respectively. However, operating profit of the Port of Hambanthota for the year 2013 had not been prepared separately and the loss sustained by the operations of the port for the year 2014 amounted to Rs. 3,819 million.

Oluwil Port Construction Project

The construction of the Oluwil Port with a loan from the DANIDA Agency of the Government of the Denmark had been completed on 01 September 2013 and a sum of Euro 38.96 million (Rs. 6,780 million in Sri Lankan Currency) had been spent thereon. In addition to that Sri Lanka Ports Authority had incurred Rs. 444 million. Accordingly, the Oluwil nautical port and the fisheries harbour had been separately constructed. It was confirmed that only very small vessels can call at this port, as the Oluwil Port is a very shallow port of a depth of 8 meters. As the foreign loan obtained for construction of the port of Oluwil should be returned in 10 ensuing years and in view of the no income and the heavy expenditure needed for the maintenance of the operations of the Port, the possibility of the Ports Authority facing a financial crisis cannot be ruled out in audit in returning the installments on the foreign loan obtained. Further, no ships whatsoever had arrived in

this port after constructing and opening the Oluwil Port and it was observed that the Oluwil Port had been filled with the sand and it had to be mined again.

Nautical Operations

Ceylon Shipping Corporation Ltd,

The Ceylon Shipping Corporation which owned 17 nautical vessels by the year 1983, maintains its operations without the ownership of any ship whatsoever by the year under review. The ability to expand the operations of the Ceylon Shipping Corporation had been minimized as transport affairs are carried out obtaining nautical vessels mainly on rental basis. The sole ship owned by the Ceylon Shipping Corporation in the year 2011 had been rented out to a private company and that rented company had not paid the rent from the year 2011 to the year 2013 and on behalf of that, the amount recoverable for the Ceylon Shipping Corporation Ltd, amounted to Rs. 87.6 million. Further, that ship had been retained at a port in Kenya by the rented company and embarkation charges and other charges had not been paid for that port. As such, that ship had been retained on Court Orders of the Government of Kenya. Accordingly, the Ceylon Shipping Corporation Ltd, had spent Rs. 57.42 million for harbor dues, legal charges and payment of salaries and allowances for the staff of the ship to release the ship from Kenya and that amount as well had not been paid by the rented company.

The Ceylon Shipping Lines Ltd, a subsidiary company of the Ceylon Shipping Corporation had been peoplized in the year 1992 and 51 per cent of the Share Capital of the company had been sold to the C&A Consultant Company and 39 per cent of the Share Capital had been saved by the Shipping Corporation Ltd. Even though the

Ceylon Shipping Corporation Ltd, had invested Rs. 255 million in subsidiary and associated companies by the end of the year under review, the dividend income received from investment of shares from those companies had been at a very low level of Rs.300,000.

Road Construction and Rehabilitation

The Road Development Authority, Road Safety Fund, Maga Neguma Consultancy and Project Management Service Company, Maga Neguma Emulsion Production Company, Maga Neguma Construction and Equipment Company, Merchant Shipping Secretariat, Ceylon Shipping Corporation, and the Sri Lanka Ports Authority functioned under the purview of this Ministry during the year 2014.

Budgeted provision amounting to Rs.361.6 million had been made for the recurrent expenditure while the provision made for the capital expenditure of the Ministry for the year 2014 amounted to Rs.143,903.76 million. Out of that, sums amounting to Rs.91,605 million and Rs.1,994 million were foreign loans and foreign grants respectively while the domestic expenditure on projects proposed to be incurred amounted to Rs.50,282.66 million. According to the accounts, a sum of Rs.361.39 million had been incurred as the recurrent expenditure and the capital expenditure incurred during the year amounted to Rs.132,942 million out of which a sum of Rs.88,097 million had been received as foreign loans and grants. The entire staff during the year stood at 396. The total number of foreign loan projects implemented by the Ministry during the year 2014 stood at 37. The total foreign loans allocated during the year therefor amounted to Rs.93,599 million and the total

foreign loans spent on all projects amounted to Rs.88,098 million. It was reported that the number of foreign loan projects completed during the year under review stood at 06.

The material observations made during the course of audit of accounts for the year ended 31 December 2014 and the transactions and activities of the Ministry and the institutions thereunder are given below.

- According to the accounts presented, liabilities amounting to Rs.53.5 billion exceeding the net provision made for 54 Objects had been committed by the Ministry of Highways, Ports and Shipping for its operations during the year 2014. It represented 37 per cent of the total budgeted provision of the Ministry for the year 2014 whereas a provision amounting to Rs.378.6 million made for 05 Objects had not been spent.
- Out of a loan obtained from the National Savings Bank by the Road Development Authority, a sum of Rs.7.86 billion had been obtained by the Ministry of Highways, Ports and Shipping and had utilized for projects of the Ministry and on projects implemented thereunder without an approval of Parliament contrary to the Article 148 of the