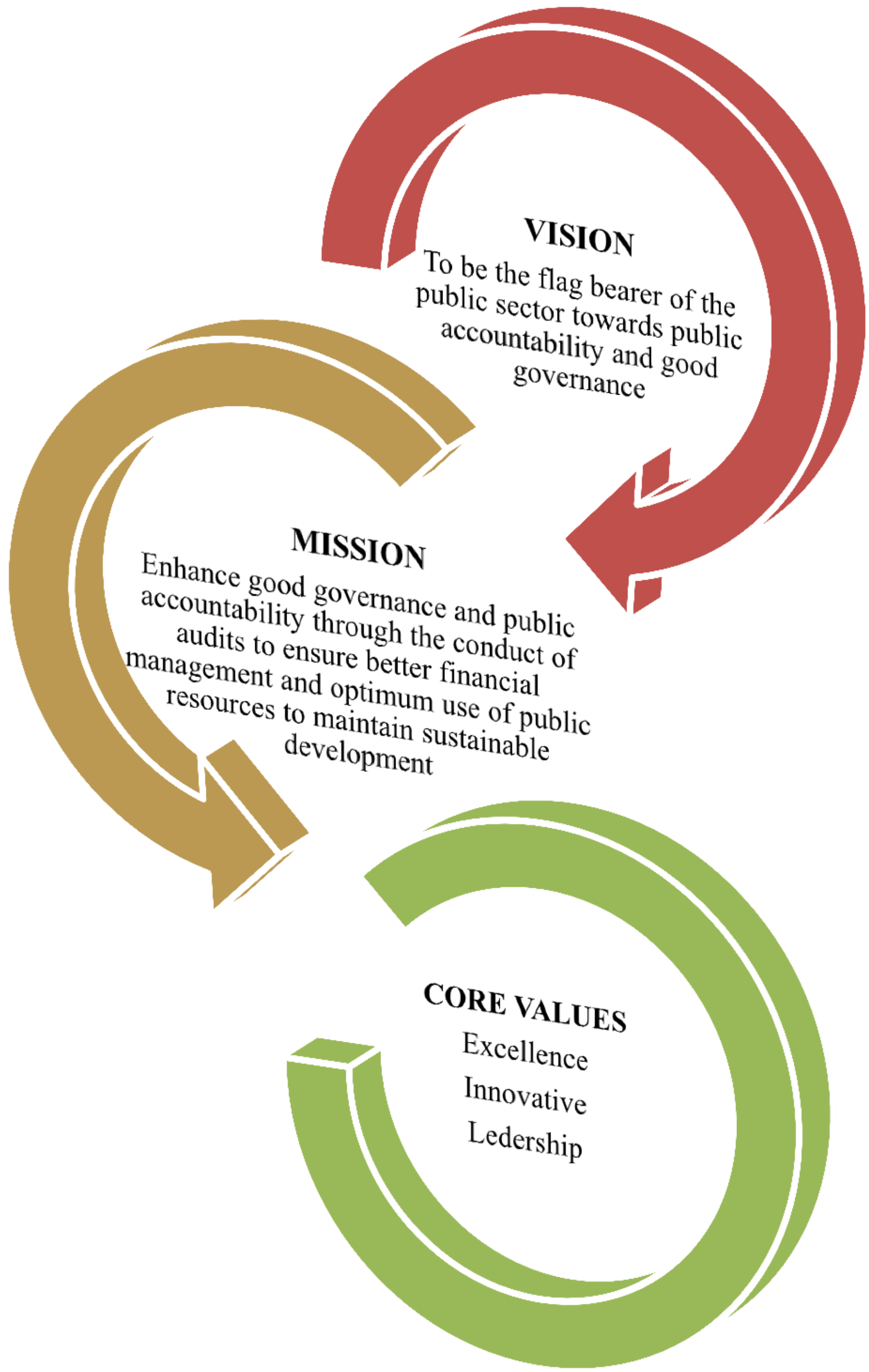

VISION
To be the flag bearer of the public sector towards public accountability and good governance
MISSION
Enhance good governance and public accountability through the conduct of audits to ensure better financial management and optimum use of public resources to maintain sustainable development
CORE VALUES
Excellence
Innovative
Ledership

PUBLIC ACCOUNTABILITY FROM OUR OWN HISTORY

(Extract from the stone inscription of King Mihindu IV in the 10th Century A.D. at Minhintale as shown in the above photograph)

"Whatever is spent on the maintenance of the Maha Paya on revenue collections and on the renovation of works shall be entered in the register. (From the particulars therein) a statement of accounts shall be made with the concurrence of (those at the respective) places of business and such entries as are found false shall be expunged from the accounts. The statements of accounts shall (thus) be placed in a casket under lock (and key). Every month sheet of accounts (so deposited) shall be made public and (fresh) statement of accounts prepared from them. From the 12 statements of accounts (so made) during the year there shall be compiled a balance sheet at the end of (each) year which shall be read out in the midst of the community of monks and be (thus finally) disposed of. Those employees who infringe these rules shall be made to pay gedand fines and be dismissed from the service".

(Extract from an inscription of King Mihindu IV-10th Century AD – at Mihintale, Sri Lanka – Source : Empgraphia Zeylanica Vol. 1- Page 75)

The Way forward of the Auditor General's Department

The Auditor General's Department commenced in the year 1799 is to further expand the services performance over two centuries for the achievement of high expectations by providing strength to Sri Lanka undergoing a development process and being the foremost guide of public financial control, is committed to serve the general public of Sri Lanka and to assist the Government and Semi-Government Institutions to achieve their targets.

FOREWORD

I am pleased to present my report for the year 2013 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 Parliament and arrangements have already been taken to table the other reports under the following seven installments.

First Installments	Ministries and Departments
Second Installment	State Corporations Authorities and Boards
Third Installment	Statutory and Other Fund Accounts
Fourth Installment	Foreign Funded Projects
Fifth Installment	Provincial Councils
Sixth Installment	Local Authorities
Eighth Installment	Performance Audits and Other Special Audits

The possibility of achieving a substantial number of targets set out in the Corporate Plan for the years 2012 to 2015 and the Action Plan for the year under review is a matter to rejoice. The tiring efforts made by the Audit Officers in the audit approach and reporting on the financial statements that should be prepared by the Semi-Government institutions in accordance with the Sri Lanka Accounting Standards prepared in compliance with the International Financial Reporting Standards which became operative from the year 2012 and the financial statements that should be prepared in accordance with the Sri Lanka Public Sector Accounting Standards by the other Government and Semi-Government Institutions are commendable. Even though the progress of work done by the Auditor General's Department of Sri Lanka as the independent observer of the public finance and functions with the foremost objective of serving for the benefit of the overall Sri Lankan public is not so matured to be measured in accordance with methodologies adopted by the western and other developed countries it has to be admitted that the audits done in the year 2013 had provided effective results to the public. The contribution to the country through the State Audit is briefly described in the Chapter on "To the Country Through State Audit". A special course of action for the improvement of the knowledge of Audit Officers was undertaken in the year under review. Special training programmes were conducted on the Financial Audit, the Computerized Audit and the Audit of Local Authorities while classes in Tamil Language were conducted for the improvement of the knowledge in Tamil Language.

With a view to signifying the important of State Audit and with the objective of strengthening the audit process, March 19 was declared as the Audit Day and the Audit Day was celebrated on 19 March 2014 at the Head Office and the Offices of the Provincial Assistant Auditors General.

Action was taken in the latter part of the year 2013 to fill 20 vacancies in the posts of Assistant Auditors General and 08 posts Deputy Auditors General included in the approved cadre which enabled the regularization of audit work and reporting process. These appointments formed a foundation for the strengthening of the supervision of auditing and reporting. A Gazette Notification was published for holding a competitive examination to fill about 400 vacancies representing about 1/3 of the approved posts in the cadre of Audit Examiners. It is expected to fill these vacancies in the latter part of the year 2014 or the first half of the year 2015. Action is also being taken for filling 79 posts of Superintendents of Audit. The preparation of the Services Minutes, which had been hampering working of the Department was finalized and the Minute on the Sri Lanka Audit Service and the Minute on the Audit Examiners Service had been approved by the Public Service Commission on 17 September 2012 and 03 January 2014 respectively and forwarded to the Secretary to the President for the clearance by the Cabinet of Ministers. Nevertheless, the Secretary to the President, based on a request made by the Audit Examiners' Service Association, made a request for the preparation of a Combined Service Minute. Accordingly a Combined Service Minute prepared by amalgamating both Service Minutes had been forwarded to the Secretary to the President.

The reporting patterns of the Department were reviewed and the reporting formats and patterns were revised as an inducement for reporting in accordance with the modern auditing practices and effective audit reporting. Specially the reporting formats relating to the Provincial Councils were revised and an awareness programme on the use of those formats was held for the Sabaragamuwa Provincial Council in March 2014.

In fulfilling the long felt need of the Department, a Training Complex with residential facilities, a conference hall, an indoor sports facility and an administrative unit was constructed at a cost of Rs.158 million near Batuhenawatta, Hidellana, Ratnapura. Plans have been made for the opening of the Centre for Public Audit Training & Developments of Auditor General's Department (CPATD) before the end of October 2014. Through this Training School, it is expected to provide professional training to the Officers of the Department under a systematic training programme to achieve training activities in line with international levels and for the training of Internal Audit Officers. Arrangements have been made for the maintenance of the institution without being a heavy financial burden to the General Treasury.

Significant courses of action were taken in connection with the welfare, religious and social welfare activities for the benefit of the officers. An evaluation of the officers who had completed 30 years service in the Department was carried out. A special programme aimed at strengthening the finance of the Welfare Association of the Department was held in the year 2014. A special achievement during the year 2013 was the assistance provided to the Committee on Public Accounts and the Committee on Public Enterprises to conduct their affairs actively and effectively in the examination of the Audit Reports of Government and Semi-Government institutions tabled in Parliament in making public financial control more meaningful. The compilation of the history of the 215 years of the Department established in the year 1799 for preservation for the benefit of the posterity was commencement in the latter part of the year 2013 and it is expected to launch the book in October 2014.

I thank entire staff of the Department who assistant me in the performance of the statutory function, 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 administrative, the International Development Association which contributed to the improvement of the physical and human resources of the Department and the Supreme Audit Institution of the countries such as India, Malaysia, Japan, the Republic of South Korea and the People's Republic of China which contributed to the training of my staff.

I thank the Honourable Chairman and the Honourable Members of the Committee on Public Accounts and the Honourable Chairman of the Committee on Public Enterprises and the Sub-Committees and the Honourable Members who reviewed the Audit Reports of 250 Auditee Institutions and the Secretary General of Parliament and his staff.

H.A.S. Samaraweera
Auditor General
30 September 2014.

CONTENTS

Our Role on Public Accountability

According to the responsibility and the authority devolved on the Parliament in pursuance of the provisions in Article 148 of the Constitution of the Democratic Socialist Republic of Sri Lanka, money and resources for the Government and Semi-Government Institutions are apportioned from the Annual Appropriation Act. The major role of the Auditor General is 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 and Parliament had confidence in the Auditor General for the independent assessment of the Government affairs carried out and the accounting thereof. The public accountability comprises the following main stages.

Functions of Public Accountability

The functions of public accountability are as follows.

- Authorization of Government expenditure on supplies and services by the Parliament through the Appropriation Act.
- Preparation of annual financial statements/ accounts by Ministries, Departments and other Public Enterprises.
- The audit of those financial statements/ accounts and affairs of the Public Entities by the Auditor General.
- Review of the Audit Reports submitted to Parliament by the Auditor General by the two Parliamentary Committees called the Committee on Public Accounts and the Committee on Public Enterprises by summoning the parties concerned.
- The Committee on Public Accounts and the Committee on Public Enterprises examine the Audit Reports and issue recommendations.
- The Institutions concerned respond to those reports.

The three central agencies within the institutional and organizational framework of accountability are the Parliament, the General Treasury and the Auditor General's Department as the Supreme Audit Institution. The Auditor General, through his reports, makes the Parliament aware whether the provisions made for the public institutions through the Budget have been utilized with economy, efficiency, effectiveness and preservation of the environment. By expressing an opinion on the financial statements of the Public Enterprises, Funds and Projects, the status of the financial statements presented by those institutions is communicated to the interested parties. According to the existing Statutory provisions, the Auditor General enjoys an independent mandate to determine the extent and scope his audits. Aside from the criminal issues which are taken up the Commission to Investigate Allegations of Bribery or Corruption and the Criminal Investigation Department, the audit findings and recommendations arising from the financial, performance, regularity and systems audits of the auditee institutions are tabled in Parliament in the three languages for the benefit of the performance of the public sector and the enhancement of the financial control and the efficiency of the auditee institutions. As in the other Commonwealth Countries, the Committee on Public Accounts and the Committee on Public Enterprises of Sri Lanka have the remit that permits reference to any current and historical Government financial authority across the whole of the Public Sector. The Auditor General's Department of Sri Lanka and the two oversight Committees of Parliament need to maintain close relationship. The Auditor General's Department of Sri Lanka provides the two Committees with reports based on financial audits, performance audits and investigative audit reports of comprehensive coverage that from the basis for their work.

Our Mandate and Independence

Article 154 of the Constitution of Democratic Socialist Republic of Sri Lanka provides the mandate for the Auditor General to audit the public sector institutions. The Auditor General should audit the accounts of all Departments of Government, the Office of the Cabinet of Ministers, the Judicial Service Commission, the Public Service Commission, the Parliamentary Commissioner for Administration, the Secretary General of Parliament and Commissioner of Elections, Local Authorities, the Public Corporations and Business or other Undertakings vested in the Government under any written law.

Nevertheless the right to audit the Government Companies registered under the Companies Act is not devolved on the Auditor General. This position has to be pointed out as a weaknesses in the public financial control.

The duties and functions devolved on the Auditor General are further expanded by the following Statutes.

(a) Part II of the Finance Act, No. 38 of 1971 which provides for the Audit of Public Corporations.

(b) Section 23 of the Provincial Councils Act, No. 42 of 1987 which provides for the Audit of Provincial Councils.

(c) Section 219 of the Municipal Councils Ordinance (Cap. 252) which provides for the Audit of Municipal Councils.

(d) Section 181 of the Urban Councils Ordinance (Cap 255) which provides for the Audit of Urban Councils.

(e) Section 172 of the Pradeshiya Sabha Act, No. 15 of 1987 which provides for the Audit of Pradeshiya Sabhas.

(f) Section 58 of the Agrarian Development Act, No. 46 of 2000 which provides for the Audit of Agrarian Development Councils.

(g) Section 9 of the Sports Act, No. 47 of 1993 which provides for the Audit of Sports Associations.

The Auditor General has also been vested with authority under Article 154 of the Constitution to engage the services of audit firms in public practice to assist him in his work. He also has the power to obtain the assistance of specialists in the examination of any technical, professional or scientific problems relevant to the Audit. According to Article 154(5) of the Constitution, the Auditor General or any person authorized by him shall in the performance and discharge of his duties and functions be entitled-

- to have access to all books, records, returns and other documents.
- to have access to stores and other property, and
- to be furnished with such information and explanations as may be necessary for the performance of such duties and functions.

Our Independence

The independence of the Auditor General is preserved to a great extent by the Constitution and the Article 153 states that –

There shall be an Auditor General who shall be appointed by the President with the recommendation of the Constitutional Council and who shall hold office during good behavior". Further the Auditor General can be removed from the Office "on his removal by the President on account of ill health or physical or mental infirmity or on his removal by the President upon an address of Parliament.

As stated in the Article 153 of the Constitution

The salary of the Auditor General shall be determined by Parliament, shall be charged on the Consolidated Fund and shall not be diminished during his term of office. Nevertheless, the prevailing position with regard to the determination of the salary of the Auditor General has not reached the level expected in the Constitutional provisions.

The Auditor General does not come under the supervision of any Minister or officer of the Government. Though the functional independence of the Auditor General has been safeguarded by the Constitution, the financial and administrative independence of the Auditor General is constrained by the Executive due to the Constitutional and legislative provisions on the subject. The Auditor General must be completely free from all obligations to any individual or an institution and must be free from arbitrary retaliation. The dependence of the Auditor General on the Executive for his resources in terms of both financial resources and manpower would harm the truly independent nature of the audit performed on behalf of the Parliament. As such, elaborate safeguards have to be provided by the Parliament through legislation to ensure the functional and financial independence of the Auditor General.

As present the Auditor General depends on the General Treasury for his budget and the resource allocation for his Department is not limited to fiduciary risks. Unlike in the other Commonwealth countries, the budget of the Auditor General in Sri Lanka is neither subject to scrutiny or approval by a legislative committee nor are there any safeguards against the Executive Control over his budget. The administrative control over the appointments, promotion, transfer, disciplinary issues, salaries and the other administrative matters of the 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. 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 Public Service Commission. 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 does not include 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.

From the point of view of the staff turnover, the staff turnover of the Auditor General's Department is very heavy. The recruitment of a staff most suitable to conduct the audits of the financial statements in prepared by the institutions in compliance with the Sri Lanka Accounting Standards or the Sri Lanka Public Sector Accounting Standards in accordance with the Local and the International Auditing Standards and obtaining their services continuously should be based on attractive allowances. The value addition to the economy of the country through the State Audit is of high significance. It should be pointed out that this aspect has so far not received the due attention of any of the Sectors.

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 International Organization of Supreme Audit Institutions (2007 in Mexico) defined these requirements in more concrete terms and identified eight major requirements for the independence of the Supreme Audit Institution as reproduced below.

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

- 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.

- 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.

- In order to fulfill their Mandate effectively, SAIs 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.

- 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.

- 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.

- 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.

- 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.

Apart from the Mexico Declaration consisting the above requirements, the latest development in this regard is that on 22 December 2011, the 66th United Nations General Assembly adopted the Resolution A/RES/66/209 "Promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening, Supreme Audit Institutions". Similarly, Resolutions on the Independence and Functions of the State Audits were adopted at the Conference held in the year 2013 in Beijing, People's Republic of China and the Commonwealth Heads of Government Meeting held in Sri Lanka in the year 2013. It should be pointed out that the parties responsible have not made an effective contribution to the implementation of these resolutions. Though the initial stage for the enactment of a National Audit Act for the interpretation of the functions of the audit was launched as far back as the first decade of 2000, the results thereof have not been achieved thus far. This situation has hampered the proper implementation of the Parliamentary control of the public finance.

Audit 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 the conventions and the 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 (COPA) and the Committee on Public Enterprises (COPE) Further to the above, as regards the Public Corporations, the Finance Act, No. 38 of 1971 defines the scope of audit to be considered by the Auditor General in more specific terms and it requires the Auditor General to render three distinct statutory reports, viz. the detailed report to the management of the Corporation, a report for publication together with the Annual Report of such Corporation 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.

- 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;

- 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;

- Whether there has been economy and efficiency in the commitment of funds and utilization of such funds;

- Whether systems of keeping moneys and the safeguarding of property are satisfactory;

- 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

- Any such other matters as the Auditor General may deem necessary.

According to the above matters included in the Finance Act passed in the year 1971, it is evident that Sri Lanka had made efforts in the 1970s decade to enter the sphere of Value for Money Audits, that is Performance Audit,. As such our modest opinion is that Sri Lanka has been a forerunner of the concept of Value for Money Audit or the Performance Audit. The Auditor General can examine only the affairs of the Government and Semi-Government Institutions. However, the wholly or partly owned Government Companies incorporated under the Companies Act do not come under the purview of the Auditor General. Apart from the direct investment in capital by the General Treasury, there is a trend in the Public Enterprises incorporating public companies under the Companies Act. Similarly the examination of the Private Organizations connected with Government activities as well do not come under the purview of the Auditor General. Nevertheless, he can look into the activities of a public entity in contracting with or directly funding a private entity and how the public entity has monitored the private entity's use of public funds. The Auditor General does not have any authority to question matters of Government Policy. Nevertheless, the Auditor General could consider how well the public entities had implemented such decisions in keeping with the applicable policy and the laws or whether the decision making process met the relevant Standards. The powers for quasi-judicial function in relation to the Local Authorities and the Universities have been vested in the Auditor General through the relevant Acts and Ordinances. Accordingly, the powers for the imposition of surcharges on the Local Authorities and the Universities is vested the Auditor General.

Our Client Base

Apart from the Government Companies incorporated under the Companies Act, the audit of over 1,500 financial statements/accounts of all the following Government Institutions is vested in the Auditor General.

Government Ministries	54
Government Departments	92
District Secretariats	25
Public Enterprise (Corporations, Boards, etc.)	181
Statutory and Other Funds	77
Other Independent Institutions	22
Sports Associations	42
Agrarian Development Centers	557
Foreign Funded Projects	145
Local Authorities	335
Provincial Councils	09

The Certification of the Appropriation Accounts of the Government Ministries and Departments, the issue of the management reports and publication reports on the Public Enterprises and the Statutory Funds, the issue of management reports on the Foreign Funded Projects and Local Authorities and the preparation of the management reports on the Provincial Councils and the tabling of all such reports in the three languages in Parliament are being done. In addition detailed reports on the Provincial Councils are tabled in the respective Provincial Councils for the purpose of discussion by the Provincial Accounts Committees. Though the financial statements of the Agrarian Development Centers are certified reports are not tabled in Parliament. The financial statements of most of the Sports Associations is done by Firms of Chartered Accountants in public practice while the Audits of five associations including Sri Lanka Cricket, the National Olympic Committee and the Handball Association is done directly by the Department. The special observations arising from the audit are tabled in Parliament under the Ministry of Sports.

Organization Structure

The present Organization Structure of the Department comprises six levels in its hierarchy with specified numbers of officers in each level, in conformity with the cadre as approved by the Department of Management Services of the General Treasury. The first level is the position of the Auditor General as the Head of Department and for all the remunerations and administration purposes he is on par with a Secretary to a Ministry. According to the new organization structure, there are three Additional Auditors General and arrangements have been made to maintain those posts on acting basis until the approval of the new Service Minutes. One post of Additional Auditor General is in charge of the audit of Ministries and Departments, the Performance Audits and the Accounts and Administrative Affairs of the Department and another post of Additional Auditor General is in charge of the Corporations and the audit of the other institutions of the Central Government while the remaining post of Additional Auditor General is in charge of the audit of Provincial Councils, Local Authorities, and Surcharges. These posts are in the second level.

The posts of Deputy Auditors General come under the third level. This includes 10 Divisions under Deputy Auditors General for the affairs of the Central Government, two Deputy Auditors for the Local Government Audits, one Deputy Auditor General for the Performance and the Environmental Audits, one Deputy Auditor General for Investigations and Surcharges and one Deputy Auditor General for Quality Control, Capacity Building and Services, thus constituting 15 Divisions.

The direct supervision of audit is assigned to the Assistant Auditors General and they come under the fourth level. According to the approved cadre there should be 44 Assistant Auditors General and out of that 08 posts are reserved for professionally qualified Accountants while 03 posts are reserved for those qualified in Engineering, Law and Information Technology. Recruitment has not been made so far to fill those posts as the Schemes of Recruitment have not been prepared as yet.

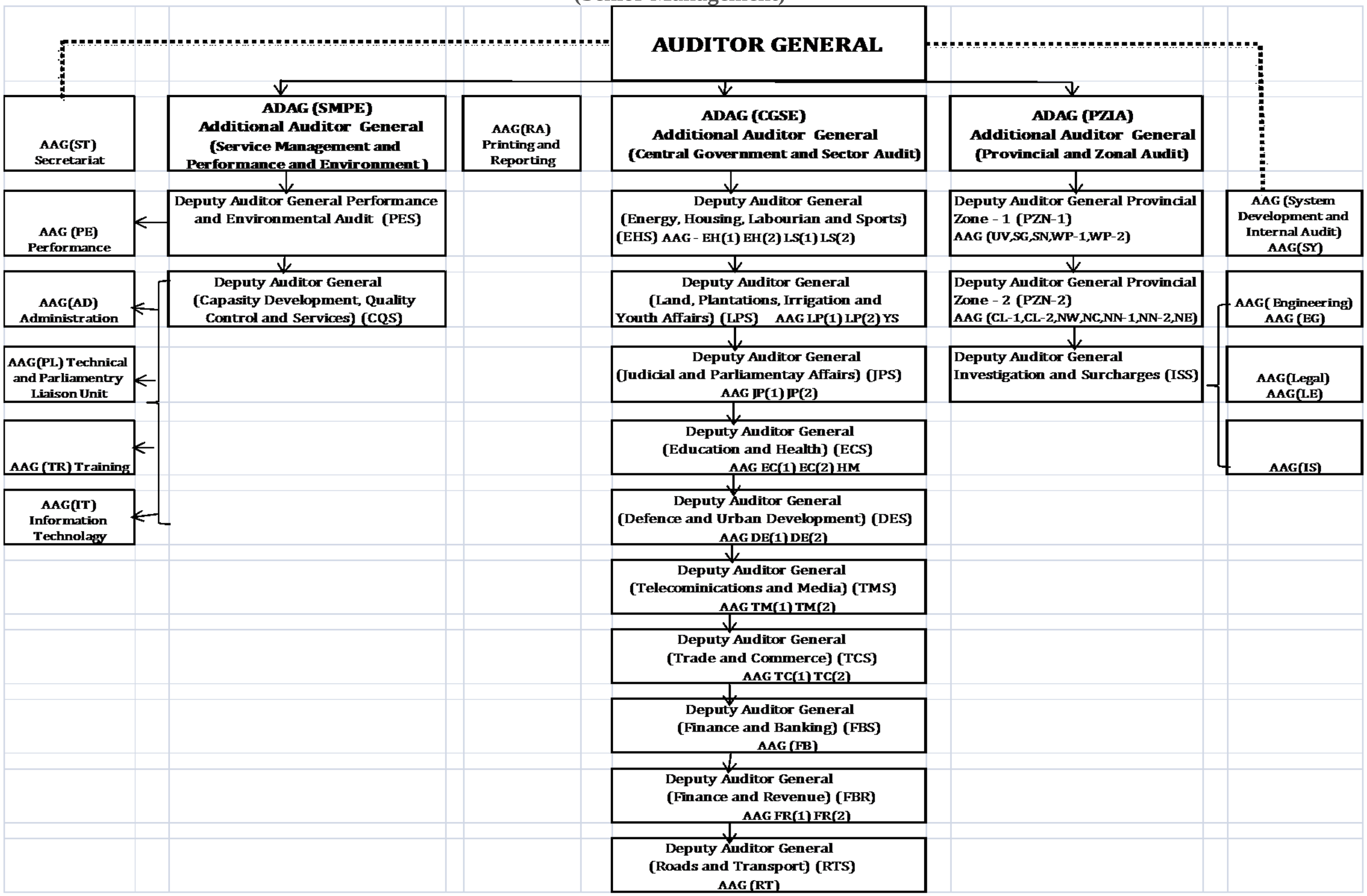
The Superintendent of Audit come under the fifth level and they carry out the direct operation of the audits. The final level comprises the Audit Examiners and they are deployed in the office based and field based work. They come under the sixth level of the Organization Structure.

Accordingly those field officers assist their Heads of Branches by carrying out the work assigned to them in accordance with the approved programs, and in compliance with the Sri Lanka Auditing Standards, other Statutory and legal requirements and in accordance with the best practices.

The Organization and the Senior Management Structure as at 30 June 2014 in depicted in the figure below.

Organization Structure

(Senior Management)



The cadre position as at 31 December 2013 and 31 July 2014 are as follows.

Category	APPROVED A	APPROVED B	ACTUAL A	ACTUAL B	VACANCIES A	VACANCIES B
Audit Personnel						
Additional Auditors General	03	03	--	--	03*	03*
Deputy Auditors General	15	15	06	12	09	03
Assistant Auditors General	44	44	32	22	12	22
Superintendents of Audit	288	288	172	177	116	111
Audit Examiners	1,200	1,200	817	804	383	396
Non Audit Personnel						
Director – Administration	01	01	01	01	--	--
Assistant Director – Administration	01	01	--	--	01	01
Accountants	02	02	02	02	--	--
PMA Service – Super Grade	03	03	01	01	02	02
Technical Officer Special	01	01	--	--	01	01
Librarian	01	01	01	01	--	--
PMA Service	121	121	86	91	35	30
Translators	10	10	06	06	04	04
Technical Officer I	01	01	--	--	01	01
Technical Assistant – IT and Communications	01	01	01	01	--	--
Report Processors	54	54	50	50	04	04
Drivers	23	23	19	17	04	06
KKS	148	148	98	121	50	27
Circuit Bungalow Keepers	10	10	01	01	09	09
Total	1,927	1,927	1,293	1,307	634	620

A – As at 31 December 2013 B – As at 31 July 2014

The approved cadre of audit personnel as at the end of the year 2013 and as at 31 July 2014 stood at 1,550. The number of vacancies as the end of December 2013 stood at 523 as compared with 535 vacancies that existed as at 31 July 2014. As such the Department had been running with vacancies in 35 per cent of the approved staff.

There were 507 vacancies or 34 per cent of the approved cadre as at 31 July 2014 only in the posts of Superintendents of Audit and the Audit Examiners who are directly involved in the audit execution and that had adversely affected the smooth functioning of my Department.

** Three Deputy Auditor Generals has been appointed as Additional Auditor General on the approval of Public Service Commission, with effect from August 2014.*

Sri Lanka Audit Service

The cadre of the Sri Lanka Audit Service constitutes the senior and middle management levels of the Department, namely, three Additional Auditors General, 15 Deputy Auditors General, 44 Assistant Auditors General and 288 Superintendents of Audit. Out of the 15 Deputy Auditors General, two will be recruited on the open basis. Out of the 44 Assistant Auditors General, 08 will be recruited from the professionally qualified Accountants and 03 will be recruited from those qualified in Law, Information Technology literacy and Engineering disciplines with a view to introducing Multi-Disciplinary Culture to the Audit Service .

Audit Examiners' Service

The cadre of the Audit Examiners' Service comprises 1,200 field and office based officers. These officers are under Audit Examiners Grade I and II. The services of these officers are used in the implementation of Audits. According to the provisions in the Minute on the Audit Examiners' Service, recruitment to Grade II is only through an open competitive examination. According to the existing provisions, officers with 10 years satisfactory service in Grade II and who have passed the Efficiency Bar Examinations and not subjected to disciplinary action, are promoted to Grade I on the recommendations of an Interview Board on the approval of the Public Service Commission.

Welfare Association

Action was taken in the latter half of the year 2013 and the first half of the year 2014 to give a new lease of life to the Welfare Association active for over 30 years in the Head Office. The new Welfare Association was organized by amalgamating the Welfare Association, the Help-in-need Fund and the Day Care Fund. The Constitution of the Association was amended to allow every officer/ employee of the Department to obtain membership and the members of the former Welfare Association and the 'Help – in – need Fund were absorbed to the new Association. The monthly contribution was increased from Rs.7 to Rs.50 to augment the fund of the Association while the sum exceeding Rs. 3 million was collected by staging a drama "Deviyoth Danne ne" in March 2014.The Constitution was amended to enable the payment of a grant on resignation, retirement or death of a member. Cash donations were made to the children of the members who had obtained excellent results in the Grade Five Scholarship Examination, General Certificate of Education, Ordinary and the Advanced Level Examinations. Arrangements were also made with a private company for the members to obtain textiles on welfare basis during the Sinhala and Tamil New Year.

In addition to the Welfare Association at the Head Office, Associations are maintained in the Sub-offices in the Central, North Central, Sabaragamuwa and Southern Provinces to promote mutual relationships among the members.

Buddhist Association

The Buddhist Association conducted several religious and social activities in the year 2013 and the particulars of such activities conducted under the auspices of the Association are given the Chapter on Religious and Social Responsibilities. The Association published two booklets on the Worship Somawathi Stupa and the Sri Pada.

International Relations, Staff Training and Development

International Relations

The following officers participated in the International Conference held in the year 2013.

Mr. H.A.S. Samaraweera, Auditor General and Mr. W.P.C. Wickramaratne, Deputy Auditor General participated in the 22nd UN/INTOSAI Symposium held in Vienna, Austria from 03 to 07 March 2013 and on the return journey inspected the Sri Lankan Embassy Offices in Austria and Italy and the Offices of Sri Lankan Consul General in Frankfurt, Germany and the Sri Lankan Embassy Office in Berlin.

Mr. H.A.S. Samaraweera, Auditor General and Mr. U.G.S. Wijesinghe, Deputy Auditor General participated in a Conference held in October 2013 in Beijing, People's Republic of China and on the return journey inspected the Sri Lankan Embassy Office in Moscow, Russia.

Mr. H.A.S. Samaraweera, Auditor General and Mr. S.A.D.S.A. Christy, Deputy Auditor General participated in the Conference on the Role of SAI in Fighting against Corruption held from 03 to 07 March 2014 in Hungary and on this tour inspected the Sri Lankan Embassy Office in Poland and the Sri Lankan Consul General's Office in Dubai.

International Training

Following Superintendents of Audit have undergone training in five ASSOSAI member countries on Performance audit, Audit of public works, IT audits and quality control in audit.

NAME OF OFFICER	TRAINING PERIOD	COUNTRY
Mrs. S. Ratnaweera	2013.06.23 – 2013.07.13	Japan
Mrs. M.D.S. Amaratunga	2013.11.04 – 2013.11.15	Malaysia
Mr. N.R.M. Dharmasiri	2013.11.11 – 2013.11.15	Republic of Korea
Mr. M.G. Madarasinghe	2013.11.25 – 2013.12.06	Malaysia
Miss. M.K.D.N. Mayakaduwa	2013.11.18 – 2013.11.27	Thailand
Mr. A. Chandrapala	2013.12.02 – 2013.12.05	Vietnam

Local Training

The officers who received training under the Special Training Programmes in the year 2011, conducted training programmes on the conduct of investigations in accordance with the new methodologies for the rest of the audit staff of the Department. Accordingly 65 officers in the audit staff were trained in two training programmes of 3 days each held in the year 2013. A short term training in investigation audit was provided to the 19 Superintendents of Audit recruited in the year 2013. The particulars of other training provided to the staff of the Department in the year are given below.

FIELD OF TRAINING	NUMBER OF OFFICERS	TRAINING HOURS
Financial Audit	859	11,728
Constructions	60	3,360
Performance Audit	60	1,560
Investigative Audit	30	720
Local Authorities	158	1,106
Public Sector Accounting Standards	95	560
Leadership Training	179	7,990
Computer Hardware Training	06	270
Computer Network Training	03	135
Web Designing Training	01	45
Data Base Management Training	01	45
Introduction training to Newly recruited Superintendents of Audit	46	3,680
Total	**1,498**	**31,199**

Training of Internal Auditors

Training courses of 5 days each were held during the year under review for 40 Internal Audit Officers of the Ministry of Health and 40 Internal Audit Officers of the Sri Lanka Navy.

Public Audit Journal

The half yearly publication issued up to the year 2000 ceased temporarily and action was taken to issue a journal on a new format and the first issue of the Journal was launched on 01 January 2014.

Colombo Conference of the Supreme Audit Institutions

An International Conference on "SAI's Meeting Higher Expectations" was held at the Cinnamon Lakeside Hotel from 23 to 25 July 2013 with financial support from the Public Sector Capacity Building Project World Nineteen Asia Countries participated in the Conference.

Religious and Corporate Social Responsibility

The audit staff of the Auditor General's Department is committed itself for the execution of the statutory audit mandated by the Constitution of the Democratic Socialist Republic of Sri Lanka and their valuable assistance is regularly provided for the purpose. In addition to the discharge of statutory duties and responsibilities, the entire staff of the Department discharge the Social responsibilities willingly. The staff of the Department commence work on the first of January or the first working day with the blessings of all religions and continue the 31 year long tradition of conducting Buddha Pooja at the Buddha Statue at the Head Office on every Monday morning and act as a model to the public service by conducting religious programmes on all important full moon days for spiritual development. The officers act in unison in connection with Christmas, Ramazan, Deepawali and Thaipongal celebrations. The entire staff of the Department participated in the year 2013 for carrying out the social and religious activities.

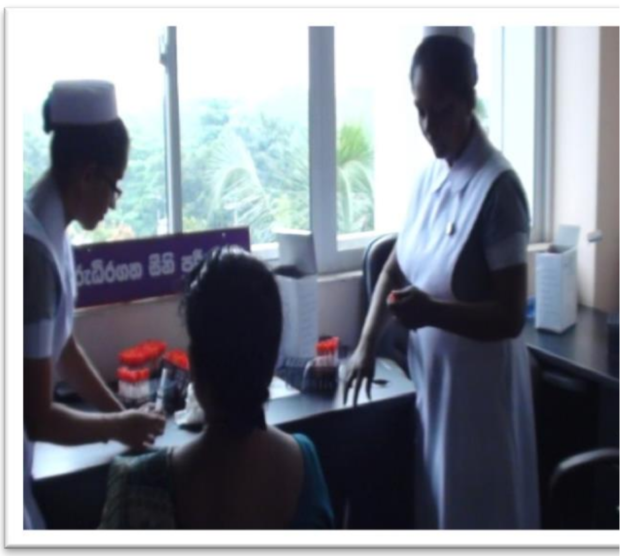
Following Social and Religious activities have been conducted in the year 2013.

(a) Kapruk Offering at Ruwanvali Vehera
(b) Kapruk Offering at Thuparama Vehera
(c) Kapruk Offering at Sri pada

Distribution of School Equipment to Students at the Thuparamaya and the Kapruk Offering at the Thuparama Vehera

Celebration of Audit Day – 19 March 2014

Special programmes were held at the Head Office and the Regional Offices of the Department on 19 March 2014. The celebrations commenced at the Head Office after a Special Buddha Pooja included a blood donation programme, Western and Ayurvedic Clinics and a lecture on Positive Thinking by the expert lecturer Mr. Lal Fonseka. Blood donation programmes, office cleaning, special lectures and sports events were held by the Uva, North Central, Northern, Eastern, North Western, Sabaragamuwa, Central and Southern Offices of Assistant Auditors General.



PART II

REPORTING ON OUR PERFORMANCE

Urban Development Authority

Contrary to the instructions in the Circular No. PCMD/PR/2013 dated 05 June 2013 of the Secretary to the President, 78 motor vehicles belonging to different Government Institutions had been left parked over a long period in the premises of Sethsiripaya Stages I and II without being disposed of.

Condominium Management Authority

The following bogus payments had been made under the contracts for the painting and repair of the houses of the stage I of the Dias Place Housing Scheme, Colombo 15 and the Dissanayakewatta Housing Scheme.

		Rs.
(a)	Payment for 06 water tanks not supplied	180,000
(b)	Payments made for 15 items of work not done under the estimate for repairs to lavatories and bathrooms of Dias Place Housing Scheme	544,277
(c)	Payment for temporary lavatories not supplied	153,000
(d)	Payment for work in the estimate not done – Repairs to lavatories and bathrooms of Dissanayakewatta Housing Scheme	2,012,529
(e)	Payments made for additional lavatory facilities not supplied to the above Housing Scheme	510,000
	Total	**3,399,806**

Department of Irrigation

Arrangements had been made to fell and remove 1,885 valuable trees such as Kumbuk , Mee and Koon for clearing the curves and barriers of the Kahambiliya Oya in the areas of authority of Medirigirya and Lankapura Pradeshiya Sabhas in the Polonaruwa District under the Kahambiliya Oya Flood Protection Project. About 250 trees had been felled by the date of audit. The following weaknesses were observed in that connection.

(a) According to the Notification published in the Gazette Extraordinary No. 772/22 of 24 June 1993, under Section 23(i) of the National Environmental Act, No. 47 of 1980 as amended by the National Environmental (Amendment) Act, No 56 of 1988, any project covering a land area exceeding 05 hectares should obtain the approval of the Central Environmental Authority. But such approval had not been obtained for the project covering over 25 hectares.

(b) A Feasibility Study had not been done and Engineering advice had not been obtained for a project including the construction of a retaining wall.

(c) Financial proposal had not been prepared for the project.

(d) Even though the timber had been removed proper arrangements had not been made for stumping while no arrangements had been made to handover removed timber to the State Timber Corporation.

(e) There was no proper co-ordination among the different Government Institutions participating in the project.

Divisional Secretariat, Monaragala

Fraudulent payments amounting to Rs.4,659,980 comprising Rs.3,407,300 under the Samurdhi Sipdora Secondary Education Scholarship Programme and Rs.1,252,680 in respect of payment for deaths, marriages and births under the Social Security Fund had been made during the period 2006 to 2011.

Southern Development Authority

Twenty two agreements valued at Rs.30,270,000 had been entered into between 30 June 2006 to 24 January 2011 for the purchase of tea seedlings and advances amounting to Rs.22,638,000 which exceeded the 20 per cent mobilization advance that can be allowed, had been paid in 17 instances without obtaining advance payment guarantees. Out of the 22 agreements referred to above, the supply of tea seedlings under 06 agreements relating to the years 2006 and 2007 had been delayed over periods ranging from 01 month to 13 months. Under such circumstances, further 10 agreements had been entered into on 29 December 2008 and advances amounting to Rs.9,000,000 had been paid. Several other agreements had been entered into on 24 January 2011 and 26 January 2011 and two advances of Rs.3,600,000 totalling Rs.7,200,000 had been paid. As at 27 May 2013, the date of audit, the advances not settled by external parties over periods ranging from 2 ½ years to 4 ½ years amounting to Rs.18,034,507, the interest recoverable thereon amounting to Rs.5,687,260 and the Departmental charges amounting to Rs.5,930,442 remained recoverable by the Authority.

Purchase of Machinery from the People's Republic of China by the Ministry of Economic Development

The Ministry of Economic Development had purchased 725 items of construction machinery valued at U.S. $ 115,853,893 (Sri Lankan Rs. 14,504 million) from a company in the People's Republic of China in the year 2011 for distribution to the State Development and Construction Corporation, the Western Provincial Road Development Authority, the Ministry of Agrarian Services and Wildlife, the Central Engineering Consultancy Bureau, the State Engineering Corporation of Sri Lanka and the Road Development Authority.

The Ministry of Economic Development should have entered into a supply Agreement with that Company in accordance with the Cabinet Decision dated 01 June 2011 and the Secretary to the Treasury should enter into a Loan Agreement with that Company as specified in paragraph 3.2 of the above Cabinet Decision, such agreement had not been entered into.

Even though sums totaling Rs. 3,454 million had been paid from the Consolidated Fund to the said company as loan installments and interest on that loan in the years 2011 and 2012, that loan had not been brought to account as a Public Debt.

Sri Lanka Customs

A fine of Rs.208,283,881 had been imposed on the Ceylon Electricity Board, a Government Corporation, reporting that imported goods which should have been classified under the Classification No. 7614.10 of the Harmonised System Classification had been erroneously shown under No. 8544.60 and a sum of Rs.104,142,940 or 50 per cent and a sum of Rs.41,656,776 or 20 per cent out of that had been allocated for the payment of rewards to a few officers and for welfare activities of the officers respectively instead of having recourse for the revision or waiver of the fines imposed by Sri Lanka Customs by the Minister of Finance in accordance with the powers devolved on him in terms of provisions in Sections 164 and 165 of the Customs Ordinance (Cap. 235). The payment of a sum of Rs.60,000,000 as a reward to an officer whose duty is the performance of customs functions and receiving salaries, incentives, overtime and allowances for the purpose is a severe inequity as compared with the remunerations paid to the rest of the public officers of the Island. It should be pointed out that the authorities responsible for amending the archaic provisions in the Customs Ordinance have not paid their attention for amending the Customs Ordinance in line with the present conditions.

Surcharges

In terms of provisions in Sub-section 226(1) of the Municipal Councils Ordinance, Sub-section 182(1) of the Urban Councils Ordinance and Sub-section 172(3) of the Pradeshiya Sabha Act, No. 15 of 1987, the Auditor General has the powers to surcharge all item contrary to law, all deficiencies and losses due to negligence and misconduct, and items that should be brought to account but not brought to account.

Accordingly 48 Surcharge Certificates valued at Rs.29,258,218 were issued on 392 persons of Local Authorities during the period from January 2008 to 31 December 2012. Out of that, a sum of Rs.1,006,303 only had been recovered by 31 May 2014.

Though 10 Surcharge Certificates valued at Rs.3,738,830 were issued on 104 persons in the year 2013, no recoveries have been made up to date.

Eight Surcharge Notices valued at Rs.245,205,168 were issued on 96 persons by 30 June 2014.

PART III

FINANCIAL STATEMENS

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 value 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 2013 amounted to Rs.1,024 million as compared with the provision of Rs.1,088 million for the preceding year. Out of the total provision, a sum of Rs.263 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 2013 amounted to Rs.153 million as compared with the corresponding expenditure of Rs.216 million for the preceding year.

A sum of Rs. 97 million was credited to the Consolidated Fund in the year 2013 as audit fees from Public Corporations. Statutory Boards, Local Authorities, Universities and Statutory Funds. Though the estimated revenue form audit fees for the year amounted to Rs.45 million, collection of audit fees during the year under review exceeded the estimate by a sum of Rs.52 million.

Preparation of Financial Statements

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 Department under the institutions in the category of which only the Appropriation Accounts are being presented from the colonial period. Further, this system was introduced to all Ministries and Departments from the year 2013 by the Department of State Accounts 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.

Auditor General's Department
Statement of Financial Performance for the year ended 31 December 2013

ESTIMATE 2013		NOTE	2013	2012
Rs.000				***Restated***
			Rs.000	*Rs.000*
	Revenue			
45,000	Audit Fees	01	104,185	90,589
200	Rent		134	215
9,000	Interest		10,303	11,155
--	Fines and Forfeits		--	187
2,000	Others		2,225	4,941
--	Profit on disposal of Assets	02	571	739
56,200	**Total Operating Revenue**		**117,418**	**107,826**
747,180	Treasury Grant for Recurrent Expenditure	03	736,482	744,980
803,380	**Total Revenue**		**853,900**	**852,806**
	Expenditure			
638,080	Personal Emoluments	04	635,327	606,614
21,900	Staff Travelling	05	19,425	15,212
16,500	Supplies	06	15,498	13,048
14,200	Maintenance	07	9,746	6,366
48,519	Services	08	42,268	44,587
10,114	Transfers	09	10,054	9,073
1,000	Training and Capacity Building		316	174
--	Depreciation	10	73,774	60,563
26,000	Recurrent Expenditure - Capacity Building Project		25,058	44,541
67	Advances to Public Officers Written Off		67	--
27,000	Amortization of the Cost of Developing Audit Methodologies	11	25,607	22,944
803,380	**Total Expenditure**		**857,140**	**823,122**
--	**Excess (Deficit) of Revenue over Expenditure**		**(3,240)**	**29,684**

Auditor General's Department
Statement of Financial Position as at 31 December 2013

	NOTE	31 DECEMBER 2013		31 DECEMBER 2012	
		Rs. 000	*Rs. 000*	*Rs. 000*	*Rs. 000*
Current Assets					
Cash Balance		--		15	
Advances to Public Officers	12	251,605		265,787	
Audit Fees Receivable	13	189,456		193,086	
Total Current Assets			441,061		458,888
Development of Audit Methodology	11		207,522		206,496
Non-current Assets					
Property, Plant and Equipment	10		1,028,548		1,010,046
Work-in-progress			179,064		--
Total Assets			**1,856,195**		**1,675,430**
Current Liabilities					
Expenses Payable	14	162,892		1,699	
Unsettled Imprest		--		15	
Deposits – Payable		8,456		43,878	
Total Current Liabilities			**171,348**		**45,592**
Accumulated Fund					
Balance as at 01 January		191,387		161,703	
Surplus/(Deficit) for the year		(3,240)		29,684	
Balance as at 31st December			**188,147**		**191,387**
Contribution					
Treasury	15	662,610		653,160	
Public Sector Capacity Building Project	16	834,090	1,496,700	785,291	1,438,451
Total Tax Payers / Equity			**1,856,195**		**1,675,430**

The Accounting Policies on pages 28 to 30 and Notes on pages 31 to 35 form an integral part of these Financial Statements. Auditor General is responsible for the preparation and presentation of these Financial Statements.

H.A.S. Samaraweera
Auditor General
30 September 2014

S.G. Senaratna
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 shall 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 2013.

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 rounded to the nearest thousand Rupees.

4. Income

The Treasury Grant received for recurrent expenditure, Audit Fees, Interest on Loans, Rent, Circuit Bungalows Income, Profit on disposal of Assets, Fines and Charges are the main revenue of the Department and these are brought to account under the accrual basis. Revenue is computed on the fair basis according to the consideration received for those.

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 is related. The value of audit fees is decided based on the time spent for audit and the 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 the sale of assets is the Head of another Department, as 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 account on cash basis, the depreciation on fixed assets is brought to account as the Grants receivable for recurrent expenditure.

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 loses resulting from the settlement of such transactions are recognized in the Statement of Financial Performance.

7. Cash and Cash Equivalents

Cash includes 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 lands, buildings, furniture and fittings, office equipment including computers, motor vehicles, mini press, electric lifts, etc. Property, Plant and Equipment are shown at cost, less accumulated depreciation. 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 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 cost less estimated residual values of the plant and equipment and at rates according to their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows.

ASSETS	USEFUL LIFE	RATE DEPRECIATION
	Years	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 estimate 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 Regulations 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 2013 Rs.000	DESCRIPTION	2013 Rs.000	2012 Rs.000
45,000	Received		
	Public Corporations, Boards and Other Public Institutions	42,986	28,106
	Local Authorities	16,324	9,984
	Agrarian Service Centres	489	374
45,000	**Total**	**59,799**	**38,464**
	Receivable		
	Public Corporations, Boards and Other Public Institutions	16,004	37,281
	Local Authorities	26,704	14,013
	Agrarian Service Centres	1,678	831
		44,386	**52,125**
45,000	**Grand Total**	**104,185**	**90,589**

NOTE NO. 2 — **DISPOSAL OF ASSETS**

ESTIMATE 2013 Rs.000	DESCRIPTION	2013 Rs.000	2012 Rs.000
	Disposal of Vehicles		
--	Sales value of vehicles	--	700
--	Cost	--	(591)
--	**Profit/Loss on disposal of vehicles**	--	**109**
--	Disposal of Furniture and Equipment		
--	Sales value of Furniture and Office Equipment	710	948
--	Cost	(139)	(318)
--	**Profit on disposal of Furniture and Equipment**	**571**	**630**
--	**Profit/Loss on Disposal of Assets**	**571**	**739**

NOTE NO. 3 TREASURY CONTRIBUTION FOR RECURRENT EXPENDITURE

ESTIMATE 2013	DESCRIPTION	2013	2012(Restated)
Rs.000		**Rs.000**	**Rs.000**
747,180	Imprest received from Treasury	637,650	661,473
--	Imprest receivable for depreciation	73,774	60,563
--	Cost of the development of Audit Methodology	25,058	22,944
747,180	**Treasury Contribution for Recurrent Expenditure**	**736 482**	**744,980**

NOTE NO. 4 PERSONAL EMOLUMENTS

ESTIMATE 2013	DESCRIPTION	2013	2012
Rs.000		**Rs.000**	**Rs.000**
342,380	Salaries and Wages	340,820	348,564
3,000	Overtime and Holiday Payments	2,584	2,619
292,700	Other Allowances	291,923	255,431
638,080	**Total**	**635,327**	**606,614**

NOTE NO. 5 TRAVELLING EXPENSES

ESTIMATE 2013	DESCRIPTION	2013	2012
Rs.000		**Rs.000**	**Rs.000**
13,000	Domestic	12,555	11,344
8,900	Foreign	6,870	3,868
21,900	**Total**	**19,425**	**15,212**

NOTE NO. 6 SUPPLIES

ESTIMATE 2013	DESCRIPTION	2013	2012
Rs.000		**Rs.000**	**Rs.000**
9,000	Stationery and Office Requisites	8,652	6,677
7,000	Fuel	6,398	6,204
500	Diets and Uniforms	448	167
16,500	**Total**	**15,498**	**13,048**

NOTE NO. 7 MAINTENANCE

ESTIMATE 2013	DESCRIPTION	2013	2012
Rs.000		**Rs.000**	**Rs.000**
8,100	Motor Vehicles	5,406	4,821
2,100	Plant, Machinery and Equipment	1,016	1,329
4,000	Buildings and Structures	3,324	216
14,200	**Total**	**9,746**	**6,366**

NOTE NO. 8 SERVICES

ESTIMATE 2013	DESCRIPTION	2013	2012
Rs.000		**Rs.000**	**Rs.000**
5,000	Transport	4,110	4,004
10,000	Postal and Communications	7,915	8,047
13,500	Electricity and Water	11,212	11,437
700	Rent and Local Taxes	622	253
19,319	Others	18,409	20,846
48,519	**Total**	**42,268**	**44,587**

NOTE NO. 9 TRANSFERS

Estimate 2013	Description	2013	2012
Rs.000		**Rs.000**	**Rs.000**
500	Subscriptions and Contributions	440	276
9,614	Interest on Loans to Public Officers	9,614	8,797
10,114	**Total**	**10,054**	**9,073**

NOTE NO. 10 PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Motor Vehicles	Computer and Hardware	Furniture and Equipment	Mini Press	Passenger Lift	Total
	Rs.000	**Rs.000**	**Rs.000**	**Rs.000**	**Rs.000**	**Rs.000**	**Rs.000**	**Rs.000**
Cost								
Balance as at 1 January 2013	253,140	569,027	88,208	105,962	55,691	2,602	7,960	1,082,590
Additions	3,007	12,486	-	25,095	27,540	23,421	867	92,416
	256,147	581,513	88,208	131,057	83,231	26,023	8,827	1,175,006
Disposals	-	-	-	-	(174)	-	-	(174)
Balance as at 31 December 2013	256,147	581,513	88,208	131,057	83,057	26,023	8,827	1,174,832
Depreciation	-	-	-	-	-	-	-	-
Balance as at 1 January 2013	-	13,528	19,355	26,997	12,136	130	398	72,544
Depreciation on disposed of assets	-	-	-	-	(35)	-	-	(35)

Additions	-	11,630	11,026	32,764	16,612	1,301	441	73,774
Balances as at 31 December 2013	-	25,158	30,381	59,761	28,713	1,431	839	146,283
Net Value as at 31 December 2013	256,147	556,355	57,827	71,296	54,344	24,592	7,988	1,028,549

NOTE NO. 11- COST OF THE DEVELOPMENT OF AUDIT METHODOLOGY

DESCRIPTION	2013	2012
	Rs.000	**Rs.000**
Balance as at 01 January	206,496	--
Expenditure for the year	26,633	229,440
Amortization (10 per cent of the total cost)	(25,607)	(22,944)
Balance as at 31 December	**207,522**	**206,496**

NOTE NO. 12 - ADVANCES TO PUBLIC OFFICERS

DESCRIPTION	2013	2012
	Rs.000	**Rs.000**
Total amount due from officers serving in the Department	248,265	263,572
Total amount due from officers transferred out of the Department	1,730	285
From retired and deceased officers	435	977
From officers who vacated their posts	580	560
From service terminated officers	595	514
Credit Council balance	--	6
Told of Balances to be settled to other Ministries and Departments	--	(127)
Total	**251,605**	**265,787**

NOTE NO. 13 – AUDIT FEES RECEIVABLE

DESCRIPTION	2013	2012
	Rs.000	**Rs.000**
Development Councils	30	30
Municipal Councils	22,706	18,207
Urban Councils	47,732	45,401
Pradeshiya Sabhas	24,443	25,247
Public Corporations, Boards and Other Public Institutions	86,153	97,182
Agrarian Service Centres	8,392	7,019
Total	**189,456**	**193,086**

NOTE NO 14 – EXPENSES PAYABLE

DESCRIPTION	2013	2012
	Rs.000	**Rs.000**
Railway Warrant - Leave	105	-
Railway Warrant – Travelling Expenses	5	-
Fuel Expenses	33	-
Postal Chargers	15	5

Telephone Bills	163	410
Electricity Bills	945	1,140
Water Bills	34	144
Vehicles Maintenance	10	-
Ratnapuara Building – Consultancy Fees	3,736	-
Public Addressing System Chargers	441	-
Furniture for Rathnapura Building	14,210	-
Audit Methodology	26,633	_
Rathnapura Building Construction	116,562	
Total	**162,892**	**1,699**

NOTE NO 15 – TREASURY CONTRIBUTION FOR CAPITAL EXPENDITURE AND GENERAL DEPOSIT ACCOUNT

DESCRIPTION	2013	2012
	Rs.000	**Rs.000**
For Advance to Public Officers	251,605	265,787
For Deposit Account	(8,456)	(43,878)
For Fixed Assets	419,461	431,251
Total	**662,610**	**653,160**

NOTE NO 16 – PUBLIC SECTOR CAPACITY BUILDING PROJECT CONTRIBUTION

DESCRIPTION	2013	2012
	Rs.000	**Rs.000**
For Fixed Assets	653,201	578,794
For Audit Methodology	180,889	206,497
Total	**834,090**	**785,291**

PART IV

SUMMARY AUDIT REVIEW OF STATE AUDIT SECTORS

Management of Public Enterprises

A public enterprise is an entity wholly owned by the Government with a separate legal personality and separate accounts that earns revenue from the sale of its goods and services. Thus the entity has the potential to earn a return on its assets. Regulatory, promotional and educational public enterprises do not typically have this commercial potential and are considered as non-profit oriented organizations and their performance needs to be examined using differing criteria other than profitability. The Public Enterprises in Sri Lanka can be broadly categorized under the following headings.

- Specified Business Enterprises
- Government Owned Limited Liability Companies
- Regulatory and Monitoring Institutions
- Universities, Research and Other Training Institutions
- Other development and non-profit oriented institutions.

Strategically vital areas of the economy are operated by public enterprises such as electricity, water, petroleum products, telecommunications, and airlines, etc. The corporate governance of all public enterprises is of great importance to the overall equity and competitiveness of the economy. The composition of the total assets of each category of 181 public enterprises other than Government owned Companies incorporated under the Companies Act as at 31 December 2013 as compared with that as at the end of the preceding year is depicted in the following Figure 1.

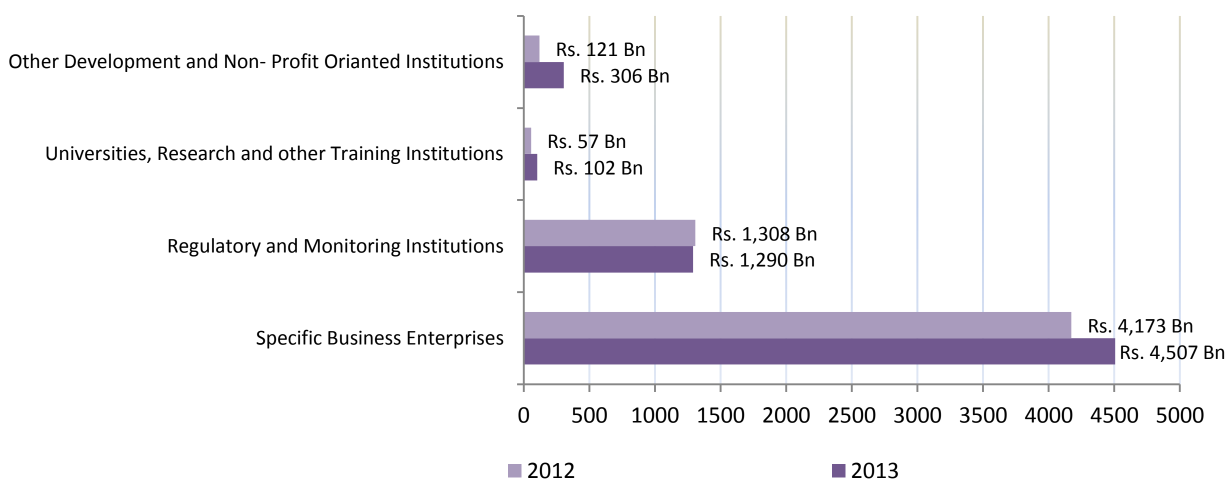


Figure 1 : Total Assets of Public Enterprises in the year 2013 as compared with the year 2012

Government grants and subsidies to public enterprises accounted for Rs. 47.5 billion in the year 2013 and amounting to 3.8 per cent of total Government recurrent expenditure as compared with the corresponding figure of Rs. 42.2 billion and 3.8 per cent respectively. Poorly performing public enterprises can further hamper private sector development by being poor payers for services and goods from the private sector. The need for the improvement of the following areas for the efficient functioning of the Public Enterprises is emphasised.

Performance Evaluation

Audit of public enterprises is not only confined to financial and compliance audits but also to the efficiency, economy and effectiveness with which these operate and fulfill their objectives and goals.

The efficiency and effectiveness audit of public enterprises is conducted on the basis of certain standards and criteria. Profit is not the key criterion of performance; management's performance in the economical and efficient use of public funds and achievement of objectives is more relevant. The objectives vary from enterprise to enterprise. The appraisal analyses whether the performance of an enterprise to bring out the extent to which the objectives for which the enterprise was set up have been served. One of the first tasks of the Audit is to identify the criteria for assessing the performance of an enterprise. In the case of a manufacturing enterprise such as CPC for example, the objective and the basis of investment, capacity, costs and time schedules, norms of consumption, yields, productivity, costs, rate of return, etc. are relevant. These provide yardsticks by which the performance is measured. The enterprises have their long and short term capital and operational plans and these provide another set of reference points for assessment of the performance.

Where appropriate, rated capacity of the unit provides an acceptable bench mark against which physical performance is evaluated. Utilisation of the rated capacity is, however, assessed along with norms for consumption of raw materials and utilities, yields and rejections as well as requirements for proper maintenance and servicing of equipment. Cost efficiency is another important basis for appraising performance. Standard or target costs are determined on the basis of norms of capacity utilisation, consumption, productivity, yields, etc. Treasury has issued guidelines to be followed by the public enterprises in respect of corporate governance, general management, financial management, procurement management, construction management, etc. and these guidelines provide another basis for appraising enterprise performance and its systems. Other sources of criteria are technical studies conducted by internal and external experts and the standards.

External Audit performed by the Auditor General is an instrument of accountability. But an equally important purpose of public enterprises audit is to help the Government and the enterprise managements to improve their efficiency and effectiveness. This is achieved by bringing out the financial and operational deficiencies, inadequacies or ineffectiveness of systems, shortfalls in performances, non-compliances with laws, rules and regulations, etc. and by analysing causes of non-attainement of acceptable standards of performance. Financial performance is linked with physical performance and issues of efficient and economic operations and management of resources are highlighted in the audit report. During regular meetings with the managements of the entities my officers discuss the needed systems and operational improvements. It is also important to ensure follow-up by the Boards and the managements of the public enterprises to adverse findings of the Auditor General. Repetition from year to year of adverse findings on the same matter and a high incidence of qualified audit opinions indicate that this is not always occurring.

Auditor General's Opinion on the Financial Statements

Public Enterprises prepare financial statements annually comprising statement of financial position as at the end of the year, statement of income, cash flow statement, statement of changes in equity for the year then ended, a summary of significant accounting policies and other explanatory information. The Auditor General provides independent assurance to Parliament as to whether the financial statements give a true and fair view of the state of affairs of the institutions. This assurance is provided in the form of expressing an opinion on the financial statements. The opinion simply states the Auditor General's conclusion that the financial statements do or do not fairly represent the financial position and financial performance of the Public Enterprises, and that they do or do not conform to the financial reporting standards either Sri Lanka Accounting Standards or Sri Lanka Public Sector Accounting Standards which are now in line with the respective International Accounting Standards.

Four types of audit opinion are expressed. Those are, the unqualified, qualified, adverse and the disclaimer of opinion which are expressed in instances of material uncertainty, management disagreement or limitation of work. The pervasiveness of the scope limitation would lead to express disclaimer of opinion whereas the pervasiveness of the disagreement would lead to express an adverse audit opinion.

Unqualified Opinion

An unqualified audit opinion indicates that Auditor General could find no significant violations or misstatements in the financial statements of a Public Enterprise. An alternate name for this opinion is a clean opinion. Auditor General typically expresses this opinion referencing the Public Enterprise's ability to record financial information according to financial reporting standards either Sri Lanka Accounting Standards, or Sri Lanka Public Sector Accounting Standards. This is the best audit opinion an enterprise can receive.

Qualified Opinion

A qualified audit opinion indicates that the Auditor General found issues in the financial information of a Public Enterprise. These issues prevent the Auditor General from issuing a clean opinion on the affairs of a Public Enterprise. Qualified audit opinion often has one or more specific qualifications. The qualification may represents deviations from Reporting Accounting Standards. This indicates the enterprise has improperly applied the Standards, and the financial statements do not conform to standard accounting principles. Another qualification is limitation of scope. Limitation of scope indicates that Auditor General cannot review one or more areas related to the financial statements. This qualification relates only to the financial information not reviewed by the Auditor General due to unavailability of documentary evidence.

The Auditor General express a qualified opinion when:
(a) The Auditor General, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
(b) The Auditor General is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Disclaimer of Opinion

The Auditor General disclaims an opinion when he is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and he concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. The Auditor General disclaims an opinion when, in rare circumstances involving multiple uncertainties and concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

Adverse Opinion

An adverse opinion is one of two significantly negative audit opinion and the worst audit opinion a Public Enterprise can receive. An adverse opinion indicates that the Auditor General found significant material misstatements relating to financial statements. These misstatements typically mean that financial statements do not conform to the financial reporting standards and the information is inaccurate or unreliable. Auditor General expresses an adverse opinion after obtaining sufficient appropriate audit evidences, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements. Expressing an adverse opinion on financial statements by the Auditor General is very rare as he gives an opportunity to the public enterprise to rectify the misstatements and submit a fresh set of financial statements. In this opinion the Auditor General states that, because of the significance of the matters described in his audit report, the financial statements do not give a true and fair view of the financial position, financial performance and cash flows for the year in accordance with Reporting Financial Standards.

The audit opinions expressed on 181 Public Enterprises on which the Audit Reports have been issued for the year 2013 as compared with the preceding two years are as follows.

TYPE OF AUDIT OPINION	2013	2012	2011
Unqualified	11	16	12
Qualified	107	144	156
Disclaimer	-	8	8
Adverse	-	4	3
Not yet decided	43	2	-
Financial Statements not Submitted	20	7	2

The Governing Boards of certain Public Enterprises have withdrawn their financial statements as adviced by the Auditor General due to serious misstatements which may lead to express an adverse opinion. These institutions were advised to prepare a fresh set of financial statements and submit to the Auditor General for his scrutiny. Certain institutions have either not yet submitted their financial statements for audit or done so after a considerable delay. Due to these reasons the audit opinion has not yet been decided.

By analyzing the above data it is clear that improvements are shown in the preparation of financial statements in compliance with the reporting standards by reducing the issue of qualified, adverse and disclaimer of audit opinion in respect of the year 2013.

Maintaining records on Fixed Assets

Maintenance of proper records such as Registers of Fixed Assets (RFA), schedules and other records on Non-current assets is generally poor and in certain cases very poor. Non-current asset, also known as property, plant, and equipment (PP&E), is a term used in accountancy for assets and property which cannot easily be converted into cash. Fixed assets normally include items such as land and buildings, motor vehicles, furniture, office equipment, computers, fixtures and fittings, and plant and machinery. In a large corporation, the task of identifying and locating a specific fixed asset could be difficult unless numbering is scientific, systematic, and up-to-date. A common problem in most enterprises is the improper maintenance of the Registers of Fixed Assets. As a result it was observed that physical verification of fixed assets becomes a futile exercise. The managements of the enterprises have the responsibility to maintain proper records and the safeguard of the assets owned by the institution. In most of the cases Annual Boards of Survey had not been conducted and as a result the existence and the condition of assets had not been confirmed.

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. This situation was observed mainly in water projects of the National Water Supply and Drainage Board and electrification projects completed by the Ceylon Electricity Board. This situation was also observed with regard to the National Expressways and other major road projects completed by the Road Development Authority (RDA) and was later rectified and the cost of these roads had been capitalized and reflected in the financial statements of the RDA after being shown by Audit the importance of capitalizing such assets.

It is emphasized that RFA must be maintained in the updated manner by all Public Enterprises in order to be in compliance with the Treasury Circular No. 842 of 19 December 1978, It allows the entity to keep track of details of each fixed asset, ensuring control and preventing misappropriation of assets. It also keeps track of the correct value of assets, which allows for computation of depreciation and for tax and insurance purposes. The RFA generates accurate, complete, and customized reports that suits the needs of management.

It was also observed that records of lands belonging to Sri Lanka State Plantations Corporation, Janatha Estates Development Board and the Land Reform Commission were incomplete 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.

However it was also observed that considerable number of entities have now moved to identify and get their assets valued through the Chief Government Valuer with the adoption of the new Sri Lanka Accounting Standards which made compulsory to bring their assets to fair value basis.

Lack of Autonomy to Recruit and to retain Professional Staff

The numerous approval requirements have the overall effect of constraining the ability of Directors to make commercial decisions and to recruit and retain skilled staff. Due to this constraint it was observed that most of the enterprises recruit professionals on contract basis with higher salaries. Specially in the posts of Accountants, Engineers, Valuers etc. most of the public enterprises were struggling to recruit and retain qualified professionals due to poor salary structure as compared with the private sector.

Lack of a Succession Plan

It was observed that in certain major institutions such as CEB and CPC, several key managerial positions had been vacant for long periods without action being taken to fill the vacancies with suitable officers. The main reason for this situation was that any succession plan had not been prepared to cover the key positions of the institution. This situation allowed such enterprises to continue with acting arrangements which ultimately results in delays in work.

PAYE Tax paid by the institutions.

It was observed that 53 Public Enterprises had paid Pay As You Earn (PAYE) Tax out of their own funds on behalf of their officers against the rationale behind the Income Tax Law. Therefore it is emphasized that the General Treasury should take a firm decision regarding the settlement of Payee Tax which does not vary from institution to institution. The total amount so paid for the year 2013 amounted to Rs.1,541 million as compared with Rs.1,485 million in the preceding year. As such the purpose of the PAYE Tax would not be fulfilled and on the other hand fair treatment to all public officers has been violated.

Preparation and submission of Annual Financial Statements

The financial statements of 160 Public Enterprises for the year 2013 had been presented to the Auditor General for audit by 30 September 2014. However it was observed that 15 Institutions had not submitted their financial statements for the year ended 31 December 2013 even after the elapse of 9 months after the end of the financial year. These institutions are listed below. Further 7 institutions had not submitted their financial statements for the financial year 2012 even by 30 September 2014 after laps of 21 months.

NAME OF THE INSTITUTION	NAME OF THE INSTITUTION
Academy of Financial Studies	Paddy Marketing Board
Co-operative Wholesale Establishment	Ranaviru Sewa Authority
Industrial Development Board of Ceylon	Saumyamoorthi Thondaman Memorial Foundation
Institute of Valuers of Sri Lanka	Sri Lanka Ceramics Corporation
Lakshman Kadiragarmar Institute	Sri Lanka Cement Corporation
National Library Documentation Services Board	Sri Lanka State Plantations Corporation
	Sri Lanka Transport Board
	State Engineering Corporation of Sri Lanka
	Urban Development Authority

Table : Public Enterprises which had not submitted Financial Statements for the year 2013 to Audit

It is also emphasized that 68 institutions had withdrawn their financial statements after pointing out by me the serious misstatements in those statements to avoid issuing of adverse audit opinion.

It is emphasized that in accordance with a decision of the Cabinet of Ministers taken in the year 2002 to the effect that the Public Enterprises should present their Annual Financial Statements and the draft Annual Reports for audit within 60 days after the close of the financial year, the issue of the Audit Reports thereon to the respective Public Enterprises within a period of 30 days from the date of receipt of the Financial Statements and that the Public Enterprises should table their Annual Reports and the audited Financial Statements in Parliament within 150 days after the close of the relevant financial year. The Secretary to the Treasury had, by the Public Finance Circular No.PF/PE/21 dated 24 May 2002, issued instructions thereon for compliance.

Settlement of Advances

It was observed that considerable amount of money had remained in the accounts as advances for a long period of time without been charged as an expense even though the goods have already been purchased or services have already been rendered. In certain instances same officer had been given several subsequent advances regardless of the non-settlement of the advances granted previously.

Incorporating Subsidiary Companies

It was observed that certain institutions had formed limited liability companies incorporated under the Companies Act sometimes without the approval from the Cabinet of Ministers. This action would dilute the functions of the main institution as well as its operations are not coming under the Auditor General's scrutiny. Certain strategic institutions such as CEB and CPC hold a number of subsidiary and associated companies and represent in the Governing Boards as the major shareholder, but it was further noted that the excising the controlling power by the respective enterprises are weak.

Specified Business Enterprises (SBEs)

These are enterprises that are involved in business like other private companies by providing goods or services and in certain cases engage in active competition with the private sector. SBEs are commonly seen in areas of the economy normally considered as Monopolies which have little or no competition from the private sector. That is those activities are done only by the respective SBE and not readily open to competition and private sector involvement. There is widespread involvement in resource and utility based industries such as electricity, water, petroleum products etc.

However there are certain SBEs which are open to competition with the private sector such as Sri Lanka Transport Board, State Banks, etc. Accordingly, 39 enterprises in operation (other than those incorporated under the Companies Act and not coming under the Auditor General's purview) at present can be categorized under Specified Business Enterprises and only 28 enterprises have submitted their financial statements for the year 2013 for audit even by 30 September 2014. With the adoption of Sri Lanka Accounting Standards (SLFRS and LKAS) based on International Financial Reporting Standards (IFRS) in the year 2012, the SBEs were compelled to apply the same. However it was observed that most of these enterprises managed to prepare their annual financial statements in compliance with these new Standards to a great extent which are based on fair valuation. However there were certain enterprises that struggled to prepare their financial statements due to lack of competence and technical support. I must emphasize that I have given fair opportunities to these institutions to rectify their financial statements by pointing out material misstatements and non-compliances with the SLASs. Most of these entities have taken up this trend as a positive step and resubmitted their financial statements to a reasonable fairness which averted expressing adverse audit opinions. Due to this new arrangement there were considerable delays in the tabling of Annual Reports in Parliament. Even though delays were occurred in the submission of financial statements, with reasonable fairness it would ultimately enhance the accountability to a great extent.

In view of massive investments in these Specified Business Enterprises, it is expected that they generate adequate surplus for their own replacements, expansion and growth. Self- financing for expansion should be made a specific obligation of public enterprises operating in industrial and commercial fields. Such enterprises should not only cover their cost but generate surplus for financing development plans of the entity.

The net assets as at the end of the year 2013 of those 28 enterprises which had submitted their financial statements for audit totaled Rs.404,917 million as compared with the net assets of Rs.362,192 million as at the end of the preceding year.

Adverse Net Asset Position

Even though Ceylon Petroleum Corporation and Janatha Estates Development Board had made profits at the inception, these two enterprises were making continuous losses from the recent past. The aggregated accumulated losses had increased rapidly by 31 December 2013 which had badly affected the net assets position of these enterprises and had recorded an aggregate negative net worth of Rs. 236,826 million as at the end of the year 2013 as compared with that in the previous year amounting to Rs. 228,797 million. It was further observed that the current liabilities of these enterprises had exceeded their current assets by Rs. 288,993 million. The adverse difference between current assets and current liabilities had been continuing for a long period of time. The inability of setting off the current liabilities by the current assets shows a suspense situation that these enterprises had faced a critical financial crisis as well as a doubt on their going concern without the assistance from the General Treasury.

Financial Performance

According to the financial statements presented, the working of those 28 institutions for the year ended 31 December 2013 had resulted in a profit aggregating Rs.48,261 million as compared with the corresponding net losses aggregating Rs.101,320 million for the preceding year thus indicating an improvement of profits by Rs.149,581 million. This improvement of financial performance of these institutions in the year 2013 was mainly due to reduction of losses incurred by the Ceylon Petroleum Corporation and earning a profit of Rs. 18,593 million by the Ceylon Electricity Board. Out of those 28 institutions 3 institutions had incurred losses aggregating Rs.8,370 million and 25 institutions had earned profits aggregating Rs.56,632 million in the year 2013. Three institutions namely Ceylon Petroleum Corporation, Ceylon Fisheries Corporation and Janatha Estate Development Board had incurred continuous losses for the last four years ended 31 December 2013 whereas Ceylon Electricity Board and Sri Lanka Land Reclamation and Development Corporation had been able to show an improvement in their financial results for the year 2013 by earning profits aggregating Rs. 18,712 million against the loss of Rs.61,489 million in the preceding year. Ceylon Petroleum Corporation had also been able to reduced their loss by Rs. 81,836 million in 2013 showing an improvement. Only 16 entities were able to either improve its profits or earn profit as against losses in the previous year. Profits of twelve institutions had deteriorated by Rs. 17,226 million in the year 2013 as compared with the preceding year.

The analysis of the profitability levels of poorly performing enterprises and their relative performances from 2008 to 2013 indicated that the poor performance during the final year of this period was the result of the aggravation of a declining trend which was already present in the earlier years of the period. The typical path of a poorly performing enterprise during this period was characterized by a substantial annual decline in profitability.

There has been a considerable variability in the performance amongst SBEs as shown by the rates of return. Return On Capital Employed (ROCE) on total assets of SBEs for the year 2013 vary from -17.9 per cent to 83.4 per cent as compared with the range of -43.4 per cent to 90.5 per cent in the year 2012. The average annual ROCE of 1.1 per cent for the year 2013 as compared with -2.4 per cent in the preceding year shows an improvement in the year 2013.

However, even when the deficits were extremely large, as in the case of the enterprises such as the Ceylon Petroleum Corporation and the Ceylon Electricity Board the enterprises have not been allowed to go into liquidation, with the balance required being subsidized directly or indirectly from Government revenue. As emphasized in my previous year Annual Report the interdependence of major public enterprises such as the Ceylon Petroleum Corporation on the credit facilities provided by two State Banks and the Ceylon Electricity Board on the credit facilities provided by the Ceylon Petroleum Corporation for supplying furnace fuel to generate power had been worsened. This situation had adversely affected the maintenance of the required Capital Adequacy Ratio of the two State owned commercial Banks.

But in view of massive investments in these public enterprises, it is imperative that they generate adequate surpluses for their own replacements, expansion and growth as well as for financing the future developments. Self-financing for expansion should be made a specific obligation of public enterprises operating in industrial and commercial fields. Such enterprises should not only cover their cost but generate surplus for financing development plans of the country.

The losses and poor performance of SBE's are attributable to a variety of factors including the following

- Inadequate Treasury monitoring.
- Excessive staff, high overheads and low productivity
- An absence of clear accountability and performance assessments.
- Poor commercial practices.
- Government controls on prices.
- The pursuit of non-commercial activities at the Government's request.
- Inappropriate facilities, poor quality plant and equipment.
- Lack of skilled staff and high staff turnover.
- Lack of personal consequences of success and failure (motivation of staff).

Government owned Limited Liability Companies

There is a further set of public-type enterprises in the country. They are companies with a majority shareholding by the Government (General Treasury). These companies are incorporated under the Companies Act and therefore not coming under the Auditor General's examination. These companies are sometimes fully owned by the Government or in certain percentage of the share capital which are in operation as public private joint ventures. Typically private sector involvement brings into play a set of control mechanisms that help to avoid many of the problems which beset purely Government-owned Enterprises. There are also government owned companies formed by public enterprises and registered under the Companies Act by capital infusion by the respective public enterprises without the involvement of the General Treasury as Subsidiary or Associate Companies. Therefore it is necessary to extend the scope and coverage of the Auditor General to enable him to assist Parliament to exercise the full control over public finance, as envisaged in Article 148 of the Constitution.

There were instances where certain companies have refused to appear before the Committee of Public Enterprises when they were summoned for examination. An amendment has already been proposed in the draft Audit Bill to cover any body or authority established by or under any written law with public resources provided wholly or partly and whether directly or indirectly by the Government. In recent years it was observed that considerable number of limited liability companies have been incorporated under the Companies Act by certain public enterprises even sometimes without the approval of the Cabinet of Ministers.

Limited Liability Companies with 100 per cent of the shares owned by the Government or a Public Enterprise would be one in which the Government would have the power to appoint directors and in which no private individual would receive a share of the profit. It would be virtually the same as a public corporation apart from the fact that the simple sale of shares by the Government would be sufficient to transform it into a normal 'private sector' company. The sale of less than 50 per cent of the shares would still give the Government the power to appoint the directors of the company. Even the sale of more than 50 per cent of the shares might still place the Government in a sufficiently dominant position to influence corporate policy. However it was observed that most of the Public Corporations do not exercise their controlling power over the subsidiaries although their members constitute the majority of the Board of Directors.

Continuous losses incurred by Sri Lankan Airlines Limited and Mihin Lanka Limited during the last couple of years are massive. The cumulative loss incurred by these two airlines as at 31 March 2013 is Rs. 90,963 million. This position had badly affected to the net assets position of these two Companies and which recorded aggregate negative net worth of Rs. 52,912 million as at 31 March 2013 as compared with that in the previous year amounting to Rs. 35,833 million. It was also observed that the current liabilities had exceeded their current assets by Rs. 22,364 million. The adverse difference between current assets and current liabilities had been continuing since the year 2007/2008. The inability of setting off the current liabilities by the current assets shows a suspense situation that these two airlines might face a critical financial crisis as well as a doubt on their going concern.

Other Non-Profit oriented Public Enterprises

These enterprises consist of regulatory and monitoring institutions, Universities, research and other training institutions and other development and non-profit oriented institutions. The main feature of these institutions are that the main source of revenue is the annual Government grant or a levy imposed by the Government on certain goods or services. According to the financial statements of these entities 99 institutions had earned surpluses over expenditure aggregating Rs.48,730 million after taking into consideration the recurrent grants provided to these institutions by the General Treasury in the year 2013 amounting to Rs.21,850 million. However 27 institutions had incurred net deficits aggregating Rs.772 million even after taking into consideration the recurrent grants from the General Treasury as compared with 28 institutions with net deficits aggregating Rs.1,256 million in the preceding year which shows a remarkable decline in net deficits by Rs. 484 million.

Foreign Funded Projects

Utilization of Foreign Funds

In view of the noticeable improvement in the per capita income in Sri Lanka, a change in the composition of the foreign financing had taken place. Accordingly, the amount of foreign funds, its sources and composition had changed in the current year. The foreign direct grants and the foreign borrowings on concessionary terms had reduced substantially, whereas the borrowings from the bilateral and multilateral sources, the borrowings on mixed terms and the borrowings from the money market had increased. Sri Lanka had received US$ 2,302 million as foreign borrowings and U.S.$ 205.6 million as grants during the year 2013. Out of the foreign borrowing US$ 1,479.4 million had been received from bilateral sources and US$ 455 million had been received as foreign grants. Out of the foreign borrowings 17 per cent had been allocated for the Water Supply and Sanitation Sector, allocations at the rate of 12 per cent had been made for Health and Social Development, the Power and Energy and the Transport Sectors while 9 per cent had been allocated to the Education Sector.

According to the statistics of the Ministry of Finance and Planning, the foreign borrowings for settlement for the year 2013 amounted to US$18.9 billion. This also included the loans obtained for the Development Projects and the borrowings of International Sovereign Bonds. A sum of U.S.$ 70.5 million had been paid as capital loan installments in the year 2013 and U.S.$ 454 million had been paid as interest. As compared with the Gross Domestic Product of Sri Lanka loans represented 35 per cent. As compared with the export income for the year 2013 that represented 220 per cent. The foreign debt service ratio as compared with the Gross Domestic Product represented 3.6 per cent and the foreign debt service ratio as compared with the export income, represented 15.2 per cent.

The recent changes in the composition of the foreign debt of Sri Lanka can be summarized as given below.

- Instead of obtaining loans from the institutions that supply foreign loans, the Government owned Enterprises had been induced by the Government of Sri Lanka to obtain loans direct from the Foreign and Domestic Capital Market under the Public Finance Integrated Strategic Plan. The Road Development Authority had been authorized under this arrangement to obtain loans amounting to Rs.151 billion from local Banks for financing 64 of its Road Development Projects. Authority had been given to the Sri Lanka Land Reclamation and Development Corporation and the National School of Business Management and the Sir John Kotalawala Defence University to obtain loans amounting to Rs.51.82 billion from the local Banking System.

- The Foreign and Domestic loans obtained recently on the Unsolicited Development Proposals had increased. A methodology for such loan proposals had been introduced through the Public Finance Circulars No. 444 of 04 August 2010 and No. 444(1) of 16 May 2011. Under this arrangement the Feasibility Reports on the development proposals obtained by the line Ministries are evaluated by the Standing Cabinet Appointed Procurement Committee. Thereafter the relevant proposals are analysed by the Department of National Planning, the Department of External Resources and the Central Bank of Sri Lanka to bring the proposals in line with the National Development Plan. The analysis of requirements for which loans to be obtained for this purpose and comparison with the Public Investment Strategies are done by a Loans Evaluation Committee of the Department of External Recourses. The selection of contractors by calling for bids for the implementation of Unsolicited Development Proposals is not given priority and that has posed a challenge to the Department in the implementation of the Public Audit Methodology in this connection. It is emphasized that the methodologies to be followed by the Treasury in this connection should be made more formal in order to ensure transparency and responsibility.

According to the information of the Department of External Resources, agreements had been signed for 62 new foreign funded projects in the year 2013 and 138 foreign funded projects were being implemented as at 31 December 2013. Out of that 113 Projects had presented the financial statements for audit. Several deficiencies observed during the course of audit are given below.

- Most of the Projects did not have implementation plans and as such it had not been possible to utilize the foreign loans for the achievement of the objectives of the Projects.

- Inefficient utilization of funds had resulted due to the absence of a sound co-ordination among the implementing institutions.

- Lack of efficient contribution from the Consultants for the achievement of objectives of the Projects.

- Lack of proper financial control due to the absence of properly functioning internal audits.

Provincial Councils

The audit of financial statements of the Provincial Councils for the year ended 31 December 2013 was carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 23(1) of the Provincial Councils Act, No. 42 of 1987 for tabling in Parliament and the detailed reports on the Provincial Councils are issued to the respective Governors of the Provincial Councils for tabling in the respective Provincial Councils.

Most of the Provincial Councils had not brought to account the fixed assets and the formal guidelines on accounting for fixed assets had not been issued up to 15 September 2014. Nevertheless, the Ministries and Departments had shown the purchase of fixed assets in the Appropriation Accounts presented for the year 2013.

In view of the underutilization of the money received from the Government for expenditure by the Provincial Councils without provisions for such in the Provincial Councils Act, or due to obtaining provisions from the Central Government without properly estimating the Provincial Councils revenue, large amounts had been invested in fixed deposits. Such particulars of several Provincial Councils are given below.

	YEAR 2013	YEAR 2012
	Rs.	***Rs.***
Western Provincial Council	7,000,000,000	9,000,000,000
Sabaragamuwa Provincial Council	3,371,763,491	1,182,077,159
Southern Provincial Council	109,576,949	102,179,377
North Western Provincial Council	748,452,671	1,152,378,365
Central Provincial Council	940,220,288	855,099,433

Performance

Taking into consideration, the net provisions and the actual expenditure for the capital expenditure of the Sabaragamuwa Provincial Council for the year 2013, the capital provisions amounting to Rs.691,477,416 of 04 Provincial Ministries had been saved due to the non-receipt of imprest and that had adversely impacted the development works of the province. Nevertheless, the balance of the fixed deposits of the Provincial Council as at 31 December 2013 amounted to Rs.3,371,763,491. But, action had not been taken to explore the possibility of utilizing the above fixed deposits existing over several years for the implementation of the development activities which could not be implemented due to the non-receipt of imprests. In addition, investment of money in fixed deposits had been made by the Authorities. (established under the Statutes) functioning under the Provincial Council as well.

The Authorities established under the Statutes functioning under the North Western Provincial Council also had invested Rs.362,714,688 as at 31 December 2013 and had earned interest amounting to Rs.39,871,627 as at that date.

The Provincial Council had provided money to most of these institutions established under the Statutes for the payment of salaries. This matter had not been taken into account in providing money by the Provincial Council while the Finance Commission and the Ministry of Local Government and Provincial Councils had not taken into consideration the investments of the Provincial Council in making available provisions to the Provincial Council.

General Observations

A summary of the general weaknesses existing in the Provincial Council System observed in audit are given below. These deficiencies were brought to the notice of the Chief Accounting Officers, the Accounting Officers and the other who had been functioning in the respective Provincial Councils as at 31 December 2013.

- Large amounts of Courts fines and stamp duty which should be remitted to the Local Authorities had been retained by the Provincial Councils without being so remitted.

- Despite the availability of Officers in Principal's Grade, Non-grade Officers had been appointed for covering up duties.

- Failure to take appropriate action on losses and damage reported.

- Certain institutions of Provincial Councils had not conducted Boards of Survey as at 31 December 2013. Appropriate action had not been taken on the deficiencies and shortages pointed out in the reports of the Boards of Survey conducted.

- Action had not been taken either for the use of the drugs of the Hospitals and Central Dispensaries under the purview of the Provincial Councils before the expiry of validity or for releasing those to other institution which need those drugs.

- An indifferences had been shown by the authorities concerned in the implementation of the directives made by the Provincial Accounts Committees on the matters surfaced at the discussion of the Reports of the Auditor General.

- Attention had not been paid for the effective direction of the Audit and Management Committees functioning under the Provincial Councils.

- Deficiencies such as the non-execution of certain items of work satisfactorily, non-preparation of accurate cost estimates and the failure to follow the correct procurement procedure were observed in relation to the contract works executed by certain institutions of the Provincial Councils were observed.

Local Authorities

Identification, implementation and evaluation of the common amenities and services that need to be introduced and those existing at present, taking into consideration the social, economic and cultural needs of the tax payers living in the Local Authority areas to their satisfaction are the key functions of the Local Authorities.

Improvement observations relating to poor financial Management revealed during the course of the audit of financial statements for the year 2013 furnished by Local Authorities are given below.

There were 335 Local Authorities comprising 23 Municipal Councils, 41 Urban Councils and 271 Pradeshiya Sabhas functioning as at 31 December 2013. 310 Local Authorities had presented financial statements for the year under review for audit by 10 October 2014.

The audits of the financial statements of Local Authorities for the year under review were carried out in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 219 of the Municipal Councils Ordinance (Cap. 252), Section 181(1) of the Urban Councils Ordinance (Cap. 255) and Section172(1) of the Pradeshiya Sabha Act, No. 15 of 1987. The matters observed during the course of audits are summarized below.

- The respective authorities had not taken legal action in accordance with the Statutory provisions in Section 254(1) of the Municipal Councils Ordinance, Section 170(A)(1) of the Urban Councils Ordinance and Section 166 of the Pradeshiya Sabha Act for the collection of the arrears of revenue and as such, the arrears of revenue of certain Local Authorities had been increasing year after year.

- The statutory provisions have been made in the Ordinances and Acts on Local Authorities for the Local Authorities to charge 1 per cent tax on the annual receipts of hotels and lodging houses approved by and registered with the Sri Lanka Tourism Development Authority. But most of the Local Authorities are deprived of a considerable amount of revenue annually due to the failure to by-laws for obtaining the information on the annual receipts.

- According to the Gazette Notification published by the Urban Development Authority in relation to the sub-division and sale of private lands in the areas of authority of Municipal Councils, Urban Councils and Pradeshiya Sabhas, block of land 10 per cent of the extent of such lands should be allocated to the respective Local Authorities for common purposes. Instances of failure to allocate the specified extent from the lands sold for common purposes were revealed in audit while most of the blocks of land allocated were not suitable for common purposes. Certain Local Authorities had not collected the 1 per cent tax on the sale price recoverable in accordance with Statutory provisions.

- There were instances of failure to carry out surveys of advertising boards and display boards installed in the areas of authority of Local Authorities and collect revenue in accordance with the provisions in by-laws.
- Local Authorities are authorized to recover a business tax from the professionals not exceeding an amount determined by the Minister in terms of the provisions in Section 247(c)(1A) of the Municipal Councils Ordinance, Section 165(1)(A) of the Urban Councils Ordinance and Section 152(2) of the Pradeshiya Sabha Act. But there was no possibility of imposing taxes on professions as the Minister had not made orders in accordance with those provisions.

- Most of the Local Authorities had failed to recover the specified environmental charges on the telephone/telecommunication towers in accordance with the provisions in the Gazette Notification published in the year 2009 by the Ministry of Urban Development and Sacred Areas Development.

- Local Authorities are accustomed only for billing revenue receivable periodically. The adoption of methodologies for the promotion of revenue through identification of new revenue sources and the improvement of the existing revenue had been at a weak level.

- Many instances of non-compliance with the agreed specifications and standard criteria were observed in relation to the constructions of rural roads under the Maga Neguma Rural Roads Development Proramme were observed.

- An adequate internal audit of the Local Authorities had not been carried out.

The major problems faced by the Local Authorities are the inability of discharge the statutory functions devolves on the Local Authorities, maintenance of public utility services and the inability to generate revenue required for the development works. In such circumstances, those institutions were dependent on Government Capital Grants.

The attention of the authorities concerned should be paid to the following areas to break off from this situation.

- Formulation of draft enactment providing for the direct remittance of the fines relating to the Local Authorities imposed by the Courts in the areas of Local Authorities,

- Formulation of a mechanism for the recovery of the 1 per cent payable on the gross value of the property to the Local Authorities as an advance at the time of approval of the Sub-division Plans and,

- The introduction of institutional framework for the implementation of a sound revenue promotion process in the Local Authorities prepared by revising the age old by-laws in line with the current requirements.

Special Investigations and Examination of Public Representations

The Department received 926 public representations during year under review and the different Sectors covered by those representations are as follows.

SECTOR	NUMBER OF COMPLAINTS	PERCENTAGE
Education	146	16
Local Authorities	121	13
Agriculture	112	12
Health	75	08
Higher Education	66	07
Trade	47	05
Others	359	39
Total	**926**	**100**

Investigations on 19 public representations relating to the Sectors specially identified by the Special Investigation Unit were conducted in the year 2013. The special observations made are given below.

Ministry of Education – Non - formal Financial Control of the Schools System

The following matters relating to the inappropriate financial controls were observed during the audit inspections of 05 National/ Provincial Schools carried out in the year 2013.

- Even though, sum of Rs.14,258,750 had been collected for different projects in 03 instances from the parents and students contrary to the circular instructions issued by the Ministry of Education, the money had not been utilized for the intended purposes.

- Principals had fraudulently withdrawn Rs.409,822 from Bank Accounts in 17 instances while Rs.1,241,343 had been misused in 23 other instances.

- Payments amounting to Rs.1,181,506 had been made in 11 instances without following the approved payment procedure, that is, without authorization, approval and certification of payments.

Ministry of Education – Supply of School Uniforms

A sum of US$ 5,473,800 had been spent in the year 2013 for the import of Uniform Materials for school children. The following matters were revealed at an audit inspection carried out, in that connection.

- The above procurement had not been done under the International Competitive Bidding Procedure in accordance with the Government Procurement Guidelines.

- Supply Orders had not been given to a Government institution which had submitted the lowest quotations without adducing specific reasons and as compared with the quotations submitted by the institution to which the orders were issued, the price exceeded that of the Government institution by a sum of Rs.68,419,000.

- It was established that a loss of Rs.83,340,000 had been caused due to the failure to invite separate bids for the selection of suppliers for 3 types of uniforms.

Failure to make supplies on the agreed dates and the failure to carry out proper quality tests prior to the import and distribution of uniform materials to the Schools System were observed. An additional interest amounting to Rs.30.42 million had to be paid due to the failure to release money to the Banks for Letters of Credit on the due dates. The two institutions which supplied 58 per cent of the textiles were owned by the same person.

Ministry of Economic Development – Divineguma Programme

Purchase of Seed Sets

The following observations were made at the audit inspection of the purchase of seed sets for Rs. 232 million in the year 2013 for free distribution to the public under the Divineguma National Development Programme.

- According to the bid conditions, the seeds should be of 98 per cent physical purity and a minimum of 75 per cent germination strength supported by test reports. But such reports on the seeds imported had not been submitted for the seeds supplied. Despite that the imported seeds had been accepted and distributed.

- According to a sample test carried out to ascertain the quality of seeds the germination capacity ranged between 11.9 per cent to 75 per cent. The value of seeds with minimum germination capacity amounted to Rs.4.64 million. The seeds with 75 per cent germination ranged between 7.2 per cent to 15.6 per cent of the total supply. The low success of the seeds purchased had been due to the low germination capacity of 1 per cent to 10 per cent.

- The number of seeds in a set had been less than the specified number in certain instances.

- The computer software of the institution had not been used for the issue of seed reports.

Sri Lanka Sustainable Energy Authority – Construction of Ten Minor Gauge Towers

A contract valued at Rs.16,675,000 for the construction of ten windgauge towers and a contract valued at Rs.7,095,000 for the supply of wind gauge equipment had been entered into in the year 2010 with a view to collecting data on wind. The following matters were observed at an examination of the success of the project.

The towers had not been constructed within the agreement period and the delays in the construction of 05 towers ranged from 03 months to 2 ½ years. One tower had not been constructed and two towers had not been in working condition and the commencement of collection of data and computerization of data had been inordinately delayed.

Manufacture of Three Electric Motors

Agreements had been entered into on 07 September 2007 for the manufacture of 03 electric motors at a cost of Rs. 9 million as a new test project under the Technological Development Programme. The following matters were observed at audit examination of the success of the project.

The feasibility study of the project had not been done as specified while the supervision had not been done properly. Even though a sum of Rs.7,887,600 had been spent on the project up to 14 December2009, the model electric motors had not been manufactured and handed over even by 07 February 2013.

PART V

DETAILED REVIEW OF STATE AUDIT SECTORS

Public Revenue Management

Revenue Collection

According to the Annual Budget Estimates for the year 2013 approved by the Parliament of the Republic of Sri Lanka, the estimated Public Revenue, excluding the Domestic and Foreign borrowings amounted to Rs.1,283,500 million and as compared with the estimated revenue of Rs.1,129,899 million for the preceding year indicated an increase of Rs.153,601 million or 13.59 per cent. Nevertheless, according to the Annual Report of the Ministry of Finance and Planning for the year 2013, the revised estimate of revenue, excluding the Domestic and Foreign borrowings amounted to Rs.1,192,226 million and that represented a decrease of Rs.91,274 million or 7.1 per cent from the estimated revenue approved by the Parliament. Revenue amounting to Rs.1,066,247 million or 89 per cent of the estimated revenue for the year under review had been collected. As compared with the revenue amounting to Rs.996,817 million collected in the preceding year, the revenue collected in the year under review had recorded an improvement of Rs.69,430 million or 6.97 per cent. Nevertheless, according to the Summary of Public Finance Activities of the Annual Reprot of the Ministry of Finance and Planning and the Report of the Central Bank of Sri Lanka for the year 2013, the revenue collected in the year 2013 as compared with the revenue amounting to Rs.1,051,460 million collected in the year 2012, amounted to Rs.1,137,447 million and as such an improvement of 8.2 per cent was indicated.

Out of the Public Revenue, 85 per cent (approximately) contribution is made by 04 major State Institutions, namely, the Department of Inland Revenue, Sri Lanka Customs, the Department of Excise and the Department of Motor Traffic. The performance of those Departments for the year under review and the preceding year is given in the following Table.

	DEPARTMENT OF INLAND REVENUE		SRI LANKA CUSTOMS		DEPARTMENT OF EXCISE		DEPARTMENT OF MOTOR TRAFFIC	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
	Rs(Millions)	*Rs(Millions)*	*Rs(Millions)*	*Rs(Millions)*	*Rs(Millions)*	*Rs(Millions)*	*Rs(Millions)*	*Rs(Millions)*
Estimated Revenue	575,606	511,960	405,622	361,742	68,138	65,225	8,279	6,482
Actual Revenue	467,162	418,424	362,782	341,999	66,041	60,081	7,726	7,952
Revenue Collection Performance (Percentage)	81	82	89	94	97	92	93	123

Composition (As a Percentage of the Total Public Revenue)	43.81	39.24	34.02	32.01	6.19	5.63	0.72	0.74

The above Departments had failed to collect revenue exceeding the estimated revenue during the year under review. Nevertheless, the contribution to the Public Revenue Structure in the year 2012 had been further deteriorated in year 2013 only in Department of Motor Traffic. Further, the revenue of the Government of Sri Lanka from the Value Added Tax for the year 2013 amounted to Rs.217,687 million and that included Value Added Tax amounting to Rs.104,517 million collected on imports by the Sri Lanka Customs.

Public Revenue is classified under Tax Revenue and Non-Tax Revenue and the revenue so collected during the year under review and the 04 preceding years is given in the following Table.

ITEM	2013	2012	2011	2010	2009
	Rs.Millions	*Rs.Millions*	*Rs.Millions*	*Rs.Millions*	*Rs.Millions*
Tax Revenue	1,005,895	908,913	845,697	724,748	618,932
Non-Tax Revenue	131,552	142,547	122,165	92,532	80,712
Total Revenue	**1,137,447**	**1,051,460**	**967,862**	**817,280**	**699,644**

Source : Annual Report of the Ministry of Finance and Planning

As compared with the Public Revenue amounting to Rs.1,051,460 million reported in the year 2012, the Public Revenue reported in the year 2013 had improved by Rs.85,987 million or 8.18 per cent to Rs.1,137,447 million. According to the overall performance of the revenue, despite the decrease of the Non-Tax Revenue by Rs.10,995 million or 7.71 per cent as compared with the year 2012, the improvement of the Tax Revenue by Rs.96,982 million or 10.67 per cent had impacted the improvement of the overall Public Revenue.

The improvement of the income tax, taxes based on the local consumption and the taxes on imports representing 19.2 per cent, 10.9 per cent and 7.4 per cent respectively had impacted the 10.67 per cent improvement in the total tax revenue.

The Non-Tax Revenue, as compared with the year 2012, had decreased by Rs.10,995 million or 7.71 per cent in the year 2013 and the decrease of the transfer of Profits from the Central Bank and the revenue from dividends had impacted that decrease.

Gross Domestic Product and Public Revenue

The Public Revenue for the year under review represented 13.1 per cent of the Gross Domestic Product and the corresponding percentage for the preceding year had been 13.9 per cent. This decrease existed continuously during the year under review and the 03 preceding years. According to the Annual Report of the Central Bank of Sri Lanka for the year 2013, the decrease of revenue from the Economic Service Charge, Ports and Airports Development Levy and the Excise Duty on Petroleum Products had been adduced as the reasons for the decrease. This position is depicted in the following Figure 2.

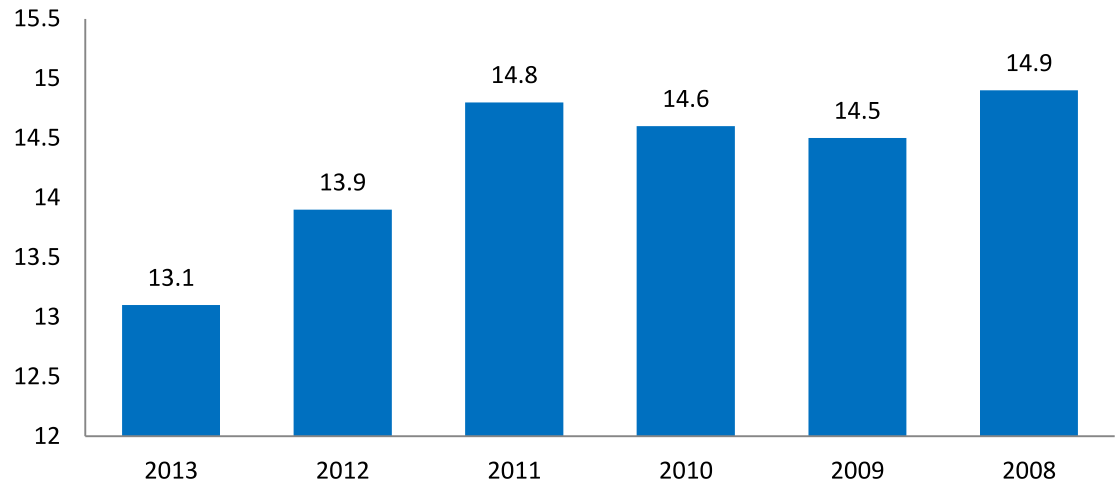


Figure 2 : Public Revenue as a percentage of GDP
Source : Annual Report of the Central Bank of Sri Lanka 2013

The decreasing of trend in the Tax Revenue as a percentage of the Gross Domestic Product was observed continuously in the past several years and the 12 per cent in the year 2012 had further decreased to 11.6 per cent in the year 2013.

The decrease in the Non-Tax Revenue as a percentage of the Gross Domestic Product as compared with 1.9 per cent in the year, had decreased to 1.5 per cent in the year 2013.

Public Revenue and Budget Deficit

According to the Financial Statements of the Republic the recurrent expenditure and the public investment expenditure of the Government for the year 2013 amounted to Rs.1,253,509 million and Rs.455,578 million respectively. Nevertheless, the overall revenue earned by the Government amounting to Rs.1,066,247 million was inadequate to settle the recurrent expenditure for the year 2013. As such, the recurrent expenditure incurred exceeding the overall Public Revenue amounted to Rs.187,262 million. Therefore, recourse to domestic and foreign financial sources was further required to meet the overall budget deficit of Rs.642,840 million inclusive of the investment expenditure of Rs.455,578. This position is depicted in the Figure 3 below.

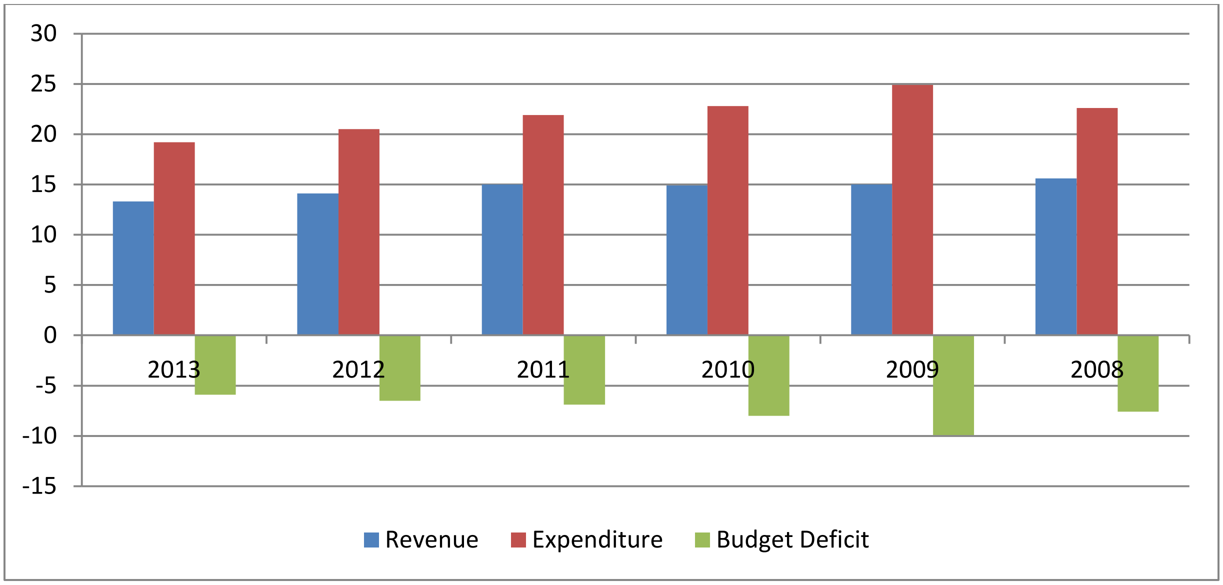


Figure 3 : Public Revenue, Expenditure and Budget Deficit as a percentage of GDP
Source: Annual Report of the Ministry of Finance and Planning 2013

The impact on the Public Revenue from the following reasons arising 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.

Financing the Budget Deficit

The total foreign financing in the year 2013 inclusive of the foreign grants had decreased by 54.44 per cent to Rs.104,280 million while the net domestic borrowings as compared with the year 2012 had increased by 74.69 per cent to Rs.482,073 million. The mid-term and long term borrowings of 74.38 per cent in the preceding year, represented 76.3 per cent in the year 2013. Out of that 83.8 per cent represented Treasury Bonds.

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 the 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 had been 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 summarized information on several weaknesses in the primary internal controls observed at the audits of the 04 main institutions collecting Public Revenue, namely the Department of Inland Revenue, Sri Lanka Customs, the Department of Excise and the Department of Motor Traffic are given below.

- Immediate action for the introduction of special methodologies for the prevention of error and fraud had not been taken even after the areas of audit risk in the revenue systems were pointed out in audit.

- Action not taken for the prevention of the weaknesses prevailing in the methodologies for maintenance and reporting of information of Government Institutions.

- Lack of proper implementation of the accountability process.

- Lack of an interconnected and updated information network system among the revenue collecting authorities and the lack of co-operation for the rectification of the weaknesses in the laws, rules and regulations existing in the respective Sectors.
- Lack of strengthening of the methodologies relating to the prevention of revenue frauds from time to time.

- Lack of an accurate data system for the accurate estimation of revenue by identifying the future uncertainties.

Greater attention should be paid to the protection of the existing revenue sources and the identification of new revenue sources by minimizing the above weaknesses in the internal control.

Several weaknesses observed in the collection of revenue by the Sri Lanka Customs under 15 Revenue Codes contributing over 34 per cent of the Public Revenue in the year under review are given below.

- Nearly 84 per cent of the Customs Declarations relating to the release of containers had been done through the Amber Channel where simple checks are exercised, thus leaving room for the import goods contrary to the provisions in the Customs Ordinance and the possibility of non-recovery of Public Revenue.

- The possibility of loss of revenue due to the lack of a relevant information system for determining the Customs examination methodology and the weaknesses arising from the officers of the Screening Division due to the changes made to the examination methodology selected automatically at the discretion of the officers.

- Four scanners purchased for U.S.$ 15,600,000 had been utilized for scanning of about 9.57 per cent of the total number of Customs Entries despite spending Rs.3,876,000 for servicing quarterly in addition to the heavy cost of maintenance and salaries, thus resulting in limiting in opportunities for the detection of Customs Offences.

- As the Sri Lanka Customs is not performing a direct supervision of the import and export containers of the institutions registered in the Board of Investments of Sri Lanka which play a major role in the import and export process, any Customs offences committed are not revealed.

- In view of the current policy on charging duty on motor vehicles imported, very often a lesser amount is taken into consideration for charging duty on motor vehicles purchased at high prices from auctions in Japan.

- In view of the failure to transmit all the data relating all motor vehicles to the Department of Motor Traffic in a manner to prevent the fraudulent use of the Customs Declarations relating to other motor vehicles for the registration of illegally imported or assembled motor vehicles and the failure of the Customs to recapture and reconcile such data results in the loss of revenue.

- A system for the prevention of tax frauds through the registration and use of motor vehicles fraudulently imported under the Customs Harmonized Nomenclature Number for ambulances and hearses carrying a lower duty, under other categories of motor vehicles.

- Loss of tax revenue due to practices such as the delay in the submission of quarterly reports on the collection of Excise Duty, failure to check their correctness, suspension of production on all inspection days, deployment of the same group of officers for supervision and non-maintenance of observation reports in writing.

- In view of the absence of a formal control and supervision of the imports and exports under the INFAC Scheme implemented for providing relief to the manufacturers of garments not registered under the Board of Investments of Sri Lanka, instances of misuse of the relief provided exist.

- The contribution to the Public Revenue had been lost due to reasons such as the failure to follow a formal storage methodology for the Security Rooms, the failure carry out a proper handover of the stores on transfer, the non-maintenance of accurate and updated stores registers, the difficulties in locating goods/items, certain goods perishing in the stores and the unauthorized removal of parts from the goods at the time of issue of goods for sale by the Central Disposal Division.

- The possibility of losses caused to the Public Revenue due to reasons such as subjecting about 15 per cent to 18 per cent of the parcels in the release of parcels by the Customs Postal Division, the lack of a proper supervision of Customs examinations and the non-maintenance of a proper methodology for the maintenance of information and records relating to import of goods through the Post Offices.

Several weaknesses observed in the collection of revenue by the Department of Inland Revenue, contributing 43.81 per cent of the Public Revenue in the year under review are given below.

- Even though the retention of 1/3 of the Value Added Tax and remitting the money to the Department had made it possible to credit 1/3 of the tax to the Public Revenue and as such checking whether the tax had been collected, in view of the amendments made with effect from 01 April 2011 crediting of tax had been delayed in addition to be weakening of the controls relating to the recovery of taxes.

- In view of the deficiencies in the computer system maintained by the Department for the purpose of tax administration, recording of taxes, refunds and other information had not been at an accepted level in addition to the existence of instances of action taken contrary to the instructions on computerizing taxes.

- Tax payers are not induced to pay taxes due to the inability of the tax payers to understand the prevailing tax systems in view of the complex nature of the Tax Laws and Rules enacted for the purpose.

- Failure to take timely and meaningful courses of action for the recovery of arrears of taxes.

- Failure to call for the remittance slips on the taxes paid to Banks.

- Delays prevailing from the payment of taxes to the Banks by taxpayers up to crediting such taxes to the Public Revenue and differences existing between those returns.

Several weaknesses observed in the collection of revenue by the Department of Excise under 2 Revenue Codes contributing 6.19 per cent of the Public Revenue are given below.

- The progress of the recovery of arrears of Excise Revenue is not satisfactory while timely and meaningful courses of action had not been taken for the recovery of arrears of tax.

- Misplacing the old files of licence holders as well as the failure to furnish files to audit.

- The collection of taxes by the officers attached to the distilleries had not been subjected to regular test checks by the Department.

- A computer system providing for simple and accurate collection of Excise Revenue and accounting thereof had not been implemented.

Weaknesses in the Collection of Revenue by the Department of Motor Traffic

Even though the Department of Motor Traffic collecting revenue under 3 Revenue Codes contributes less than one per cent of the total Public Revenue, the prevailing internal control weaknesses as well as the activities of the Department pose an extremely adverse impact on the collection of tax revenue on the motor vehicle imports which contribute about 30 per cent of the revenue collected by the Sri Lanka Customs. The audit observations on such instances are given below.

- The information on illegally imported motor vehicles without the payment of Customs Duty had been fraudulently registered by erroneously entering the information of such motor vehicles to the numbers in the G, H and J series under which motor vehicles had not been registered.

- Brand new motor vehicles illegally imported had been fraudulently registered by shrewdly altering the information on motor cycles and other low priced motor vehicles registered under the G, H and J and erroneously entering the information of the illegally imported motor vehicles.

- Motor vehicles had been fraudulently registered by preparing forged documents as motor vehicles auctioned by the Three Forces.

- Brand new motor vehicles illegally imported without paying Customs Duty had been fraudulently registered based on forged documents.

- Motor vehicles illegally imported without paying Customs Duty had been fraudulently registered by forging documents as motor vehicles auctioned by the Customs.

- Fraudulent registration of motor vehicles by entering forged Customs Declaration Numbers.

- Double cab motor vehicles imported had been registered as motor cars.

- Registration of luxury motor vehicles by utilizing Customs Declaration Numbers relating to the import of motor cycles and other goods and other documents.

- Registration of luxury motor vehicles by paying duty as hand tractors and utilizing other erroneous documents.

- The conditions attached to the vans imported by places of religious worship under import licences under the Gift Scheme had been fraudulently eliminated and registered. Large scale customs irregularities had been committed by erroneous alteration of the year of manufacture and committing other offences.

- Fraudulent registration of illegally imported or assembled motor cycles and hand tractors.

- Large scale customs duty irregularities had been committed by the conversion of motor vehicles imported by paying duty as double cab motor vehicles to five door luxury motor vehicles and the conversion of motor vehicles imported by the payment of customs duty as single cab motor vehicles as double cab motor vehicles.

- Fraudulent registration of motor vehicles by utilizing Customs Declarations for the import of motor vehicle spare parts.

- Motor vehicles imported under Customs Harmonized Nomenclature 8705 for special purposes other than the transport of goods and passengers had been registered as dual purpose motor vehicles or motor lorries.

- The motor vehicles brought for the use of the foreigners arriving temporarily to this country or for use by foreign institutions under the Carnet Permits had been registered in the Department of Motor Traffic after the expiry of the Carnet Permit and without the payment of duty.

- Illegally imported or assembled brand new motor vehicles had been registered under the identification numbers of motor vehicles taken off from running due to accidents or other reasons.

- The use of brand new motor vehicles under old numbers had been permitted by allowing the stamping of the chassis numbers of old motor vehicles registered with the Department.

- 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. Nevertheless, the fact that the old designs have been totally altered by violating the above provision. Instead of examining such motor vehicles and taking action in accordance with the legal provisions the officers responsible had taken action to regularize that situation.

- Deviating from the provisions in the Act, the classification of the motor vehicles subject to the luxury tax have been applied erroneously, thus resulting in the recovery of semi-luxury tax from motor vehicles on which luxury tax should be recovered.

- The Government had been deprived of a large sum of luxury tax due to the registration of dual purpose motor vehicles as motor lorries.

- Books and registers had not been maintained systematically to facilitate the identification of arrears of revenue and proper courses of action and not been taken for the recovery of arrears of revenue.

- Substantial loss is caused to the Government annually due to the non-recovery of the luxury tax on motor vehicles subject such tax and due to the failure to recover the tax on timely basis.

Public Expenditure Management

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 by Financial Regulation 124. He or the Treasury on his behalf therefore lays down the broad framework within which the Departmental financial transactions of all kinds 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 Account Officer and delegates to him the responsibility of Departmental transactions on the collection of and incurring expenditure from, the public funds subject to the direction of the Treasury. In addition to the Secretaries to the Ministries, the officers in charge of the Departments specified in Article 52(7) of the Constitution and the other Departments not supervised by Secretaries to Ministries will be the Chief Accounting Officers for the discharge of the Constitutional responsibility relating to supervision of financial transactions of those Departments.

The full control over public finance is vested in the Parliament in pursuance of the provisions in Article 148 of Chapter XVII of the Constitution of the Democratic Socialist Republic of Sri Lanka in relation to the control over public finance. The provisions required for the public expenditure for the year 2013 had been made in the Appropriation Act, No. 23 of 2012. Accordingly, provision amounting to Rs.1,387 billion comprising Rs.827 billion for recurrent expenditure and Rs.560 billion for capital expenditure had been made under 202 Heads of Expenditure. Expenditure amounting to Rs.1,180 billion comprising recurrent expenditure of Rs.462 billion and capital expenditure of Rs.718 billion as approval by the existing laws to be charged to the Consolidated Fund, should have been incurred in the year under review. As such provision amounting to Rs.2,567 billion had been made in the Annual Budget Estimates for the year 2013. Together with the additional provisions of Rs.36 billion made for the Special Law Services the annual provision for the year 2013 amounted to Rs.2,603 billion. Parliament had made provision amounting to Rs.74 billion comprising Rs.37 billion for recurrent expenditure and Rs.37 billion for capital expenditure under Head 240 Department of National Budget – Development Programme 2.

Utilization of Funds

Even though provision amounting to Rs.2,603 billion had been made for the year 2013, the utilization amounted to Rs.2,412 billion, thus resulting in savings amounting to Rs.191 billion. As compared with the savings amounting to Rs.101 billion for the preceding year, an increase of Rs. 90 billion in savings was observed. Even though the provisions amounting to Rs.2,603 billion had been transferred to the Heads and utilized, out of the net provisions amounting to Rs.13 billion made under 38 Objects of the year under review, the entire provisions had been saved without making any utilization whatsoever. That represented 6.8 per cent of the overall savings. The savings out of net provisions ranging from 76 per cent to 99 per cent amounted to Rs. 16 billion and that represented 8.4 per cent of the overall savings. Similarly, the savings out of the net provisions ranging from 51 per cent to 75 per cent amounted to Rs. 25 billion and that represented 13.1 per cent of the overall savings. Out of the overall savings amounting to Rs. 191 billion, 70.2 per cent or Rs. 134 billion represented savings of recurrent provisions and 29.8 per cent or Rs.57

billion out of the overall savings represented capital provision. The estimated capital expenditure for the year 2013, except the loan repayments amounted to Rs. 545 billion and the utilization out of that amounted to 83.7 per cent or Rs. 456 billion. That as compared with the capital provision of Rs. 471 billion utilized in the preceding year indicated a decrease of Rs.15 billion. The recurrent and capital provisions utilized in the year under review and the 04 preceding years are given in the Table below.

YEAR	2013	2012	2011	2010	2009
	Rs.Billions	*Rs.Billions*	*Rs.Billions*	*Rs.Billions*	*Rs.Billions*
Recurrent	1,956	1,721	1,562	1,404	1,381
Capital	456	471	399	347	366
Total	**2,412**	**2,192**	**1,961**	**1,751**	**1,747**

Source: Financial Statements of the Democratic Socialist Republic of Sri Lanka – 2013

The expenditure amounting to Rs.2,567 billion estimated for the year 2013 had been expected to be financed from local funds amounting to Rs.2,344 billion and foreign funds amounting to Rs.223 billion. A sum of Rs.199 billion had been received as foreign loans and grants during the year under review. As such the foreign funds required for the expected utilization had not been received. Out of the provisions made from foreign funds for the year under review 100 per cent had been utilized and that amounted to Rs.201 billion. Accordingly, an excess of Rs. 2 billion over the provision was observed. Details appear below.

	NET PROVISION	ACTUAL RECEIPTS	UTILIZATION	UTILIZATION IN THE YEAR EXCEEDING THE FOREIGN FUNDS RECEIVED FOR NET PROVISION
	Rs.Billions	*Rs.Billions*	*Rs.Billions*	*Rs.Billions*
Foreign Loans	208	183	186	(3)
Foreign Grants	15	16	15	1
Total	**223**	**199**	**201**	**(2)**

The collection of Rs.223 billion as foreign loans and grants had been expected for the year 2013. But the amount collected from those financing sources had been less by Rs. 24 billion from the expected amount. Out of the target of Rs.15 billion from foreign grants Rs.16 billion had been received. Accordingly, Rs. 1 billion had been received in excess from the foreign grants. The overall position is that the Treasury had not been able to obtain financing requirements for the achievement of the expected targets of the Budget for the year 2013 in quantities as expected.

A comparison of the classified overall expenditure under the recurrent, capital and repayment of loans with that of the preceding year indicated that despite the decrease of repayment of the public debt in the year under review by Rs.58 billion as compared with the preceding year, the increase of Rs.158 billion in the repayment of the domestic debt and the increase of recurrent expenditure by Rs.135 billion over that of the preceding year, had affected the increase in the overall expenditure for the year 2013. Details appear in the Table below.

EXPENDITURE	2013	2012	2011	2010	2009	2008
	Rs.Billions	*Rs.Billions*	*Rs.Billions*	*Rs.Billions*	*Rs.Billions*	*Rs.Billions*
Recurrent	1,235.5	1,118.3	1,020.2	951.5	881.9	736.5
Public Investments	455.6	471.1	398.5	347.0	365.7	297.2
Repayments of Loans	702.5	602.8	542.3	452.6	499.4	379.2
Total Expenditure	2,411.6	2,192.2	1,961.0	1,751.1	1,747.0	1,412.9
Gross Domestic Product	8,674.0	7,582.0	6,543.0	5,602.0	4,825.0	4,411.0
Total Expenditure as a Percentage of Gross Domestic Product	27.8	28.9	30.0	31.3	36.2	32.0

Sources: Financial Statements of the Democratic Socialist Republic of Sri Lanka 2013

Reconciliation of the total Public Expenditure with the Gross Domestic Product indicted that the Public Expenditure of the year 2013 represented 27.8 per cent of the Gross Domestic Product and indicated a decrease of 1.1 per cent over that of the preceding year.

The recurrent expenditure for the year under review amounted to Rs.1,253.5 billion and that represented 51.9 per cent of the Public Expenditure and 14.5 of the Gross Domestic Product. As compared with 14.7 per cent for the preceding year a decrease in the year under review was observed. As in the preceding years Rs.464.5 billion or 37 per cent of the total recurrent expenditure had been spent in the year for payment of interest and that as compared with the expenditure of Rs.408.9 billion for the preceding year indicated an increase of Rs.55.6 billion in the expenditure in the year under review. The expenditure on subsidies, grants and transfers included in the recurrent expenditure as compared with the preceding year had increased by Rs.24.8 billion to Rs.351.4 billion in the year under review. The expenditure incurred in the year under review on personal emoluments amounted to 24.5 per cent or Rs.306.9 billion out of the total recurrent expenditure. That had increased by Rs.34.3 billion over that of the preceding year. Out of the total recurrent expenditure Rs.1,123 billion had been spent on interest, subsidies, grants, transfers and personal emoluments. **The above expenditure represented a large percentage of the total recurrent expenditure and the total revenue collected was not sufficient to cover the overall recurrent expenditure.** Domestic loans and foreign loans and grants had to be obtained to meet a part of the recurrent expenditure and Public Investments and for the payment of loan installments.

Domestic and foreign loans had to be obtained for the other recurrent expenditure and Public Investments. A large sum of money had to be spent for the payment of annual interest and loan installments and it was observed as an annually increasing cost.

Despite the inadequacy of the revenue collected to meet the recurrent expenditure, a sum of Rs.455.6 billion had been spent in the year under review on Public Investments. That as compared with the expenditure for the preceding year amounting to Rs.471.1 billion indicated a decrease of Rs.15.5 billion. The Public Investments as compared with the Gross Domestic Product indicated 3.2 per cent in the year 2013.

Parliament had made provision amounting to Rs.74 billion in terms of Section 6(1) of the Appropriation Act, No. 23 of 2012 for the Development Programme of Head 240.

Investments – In Public Enterprises

The investments as at 01 January 2013 in the shares and capital contributions in respect of 125 institutions consisting of State Commercial Corporations, Government Owned Companies, Plantation Companies and Development Banks amounted to Rs.176.6. billion. A sum of Rs.38 billion had been invested in 11 institutions in the year 2013. In addition, the total investment value had decreased by Rs.1.67 billion due to the decrease of share capital of 16 institutions during the year. Accordingly the total value of investment is Public Enterprises as at 31 December 2013 amounted to Rs.212.9 billion.

Even though investments totaling Rs.82.90 billion had been made in the share capital of 91 institutions comprising 62 institutions owned by the Government, 24 Plantation Companies, 02 Development Banks and 03 Companies quoted in U.S. Dollars, dividends amounting to Rs.4.8 billion had been credited to the Public Revenue in the year under review by 38 institutions in which Rs.33.75 billion had been invested. That revenue represented 5.8 per cent of the total value of the investment. Accordingly, no dividends whatsoever had been received in the year under review from 67 institutions in which Rs.49.15 billion had been invested. Similarly, 34 State Corporations out of the 125 institutions in which capital contribution of Rs.212.9 billion had been made, had not declared dividends and the value of investments made in those amounted to Rs.130.0 billion.

General Deposits

A sum of Rs.77,109.3 million had been shown in the Financial Statements of the Republic as the balance of the General Deposit Account after the set off of a sum of Rs.2.6 million receivable by the Treasury against the deposit balance payable amounting to Rs. 77,111.9 million.

According to the States Accounts Circular No. 200/2009 dated 29 October 2009, no deposits should be credited to the Treasury General Deposits (old) Account after 01 November 2009 and that Deposit

Account should be closed down after the settlement of the balance of the deposits under that Deposit Number. But it had not been done.

Budget Deficit

According to the Financial Statements of the Republic the estimated budget deficit of Rs. 650 billion for the preceding year had become Rs.664 billion to the year under review and that represented an increase of Rs. 14 billion or 2.1 per cent. In terms of Section 3(a) of the Fiscal Management (Responsibility) Act, No. 3 of 2003 the estimated budget deficit should not exceed 5 per cent of the estimated Gross Domestic Product. As compared with the estimated Gross Domestic Product for the year 2013 amounting to Rs.8,674 billion, that represented 7.4 per cent.

Management of Public Debt

In terms of Article 148 of the Constitution of the Democratic Socialist Republic of Sri Lanka, the full control over public finance including the Public Debt is vested in Parliament. The approval of Parliament should be obtained for all borrowings of the Republic. In terms of Section 2.1(b) of the Appropriation Act, No. 23 of 2012, the Parliamentary approval had been granted for borrowings subject to a limit of Rs.1,303 billion in or outside Sri Lanka for and on behalf of the Government.

According to the Financial Statements of the Republic, loans amounting to Rs.1,273 billion comprising foreign loans amounting to Rs.183 billion and domestic non-banking loans amounting to Rs.1,090 billion had been obtained during the year under review. That, as compared with Rs.1,092 billion obtained in the preceding year indicated an increase of Rs.181 billion or 16.6 per cent. But with the addition of Rs.62.1 billion comprising Rs.61 billion relating to 45 loan agreements not brought to account due to unavailability of provisions in the year 2013, a sum of Rs.0.16 billion received in the year 2013 in respect of the years 2008 and 2011 and not brought to account and the exchange difference amounting to Rs.0.94 billion relating to those loans, to the loans amounting to Rs.1,273 billion brought to account in the year under review, the total loans amounted to Rs.1,335.1 billion and as such the borrowing limit approved by the Parliament had been exceeded by Rs.32.1 billion.

The Government had paid greater attention to the domestic borrowings even during this year and the domestic borrowings in the year 2013 amounted to Rs.1,090 billion. Thus, as compared with the domestic borrowings amounting to Rs.726 billion in the preceding year, indicated an increase of Rs. 364 billion or 50 per cent.

A sum of Rs.1,009 billion comprising Rs.608 billion for the repayment of domestic borrowings and a sum of Rs.401 billion for payment of interest had been spent in the year under review. That expenditure represented 92.6 per cent of the domestic borrowings during the year under review. Accordingly, an extremely low percentage of 7.4 per cent only had been utilized out of the domestic borrowings for the development works of the Republic. The domestic borrowings and the payment of loan installments and interest during the year under review and the 04 preceding years had been as follows.

YEAR	2013	2012	2011	2010	2009	TOTAL
	Rs.Billions	*Rs.Billions*	*Rs.Billions*	*Rs.Billions*	*Rs.Billions*	*Rs.Billions*
Domestic Borrowings	1,090	726	695	639	786	3,936
Payment of Loan Installments	608	450	470	383	387	2,298
Payment of Interest on Loans	401	351	312	319	277	1,660
Amount Utilized for Development Works	81	(75)	(87)	(63)	122	(22)
Amount utilized as a Percentage	7.4	--	--	--	15.5	23

Source: Financial Statements of the Democratic Socialist Republic of Sri Lanka - 2013

A sum of 158 billion comprising Rs. 95 billion for repayment of foreign loans and Rs. 63 billion for the payment of interest had been spent in the year under review. That amount represented 86.3 per cent of the total foreign loans received during the year under review. Accordingly, a sum of Rs.25 billion or a low amount of 13.7 per cent only had been utilized for the Development Works of the Republic.

After the adjustment of loan installments and interest paid from the foreign loans obtained during the year under review and the 04 preceding years, a percentage less than 45 per cent only had been utilized for the development works of the Republic. Details appear in the Table below.

YEAR	2013	2012	2011	2010	2009	TOTAL
	Rs.Billions	*Rs.Billions*	*Rs.Billions*	*Rs.Billions*	*Rs.Billions*	*Rs.Billions*
Foreign Borrowings	183	365	287	261	207	1,303
Payment of Loan Installments	95	153	72	69	112	501
Payment of Interest	63	58	40	28	26	215
Amount Utilized for Development Works	25	154	175	164	69	587
Amount Utilized As a Percentage	13.7	42.2	60.4	62.8	33.3	45.0

Source: Financial Statements of the Democratic Socialist Republic of Sri Lanka – 2013

Accordingly, it is observed that a larger amount of Domestic and Foreign Borrowings had been utilized for the payment of loan installments and interest.

According to the Financial Statements of the Republic, the total borrowings repayable by the Government as at 31 December 2013 amounted to Rs.5,996 billion. That as compared with the balance of Rs.5,409 billion as at 31 December of the preceding year indicated an increase of Rs.587 billion or 10.8 per cent. Nevertheless, the balance of the borrowings as at 31 December 2013 according to the economic classification of the Ministry of Finance and Planning had been Rs.6,793.3 billion. That indicated an increase of Rs.793.2 billion over the loan balance of Rs.6,000.1 billion for the preceding year. The particulars of the year under review and the 04 preceding years appear in the Table 1 below.

COMPOSITION OF THE PUBLIC DEBT	2013	2012	2011	2010	2009
	Rs.Billions	*Rs.Billions*	*Rs.Billions*	*Rs.Billions*	*Rs.Billions*
Total Domestic Debt	3,833	3,233	2,804	2,566	2,401
Rupee Loans	56	59	62	88	112
Treasury Bills	700	629	591	514	441
Treasury Bonds	2,452	2,095	1,819	1,644	1,514
Sri Lanka Development Bonds	369	223	184	174	168
Advances from Central Bank of Sri Lanka	109	111	95	78	74
Others	147	116	53	68	92
Total Foreign Loans	2,960	2,767	2,329	2,025	1,761
Project Loans	1,939	1,356	1,640	1,462	1,363
Non-Project Loans	1,021	1,411	689	563	398
Total Unsettled Public Debt	6,793	6,000	5,133	4,591	4,162
Gross Domestic Product	8,674	7,582	6,543	5,602	4,825
Unsettled Public Debt as a Percentage of the Gross Domestic Product	78.3	79.1	78.4	81.9	86.2

Table 1 : Composition of Public Debt
Source : Annual Report of the Ministry of Finance and Planning – 2013

The overall unsettled loan balances of the year under review, represented 78.3 per cent of the Gross Domestic Product and that amounted to a decrease of 0.8 per cent from that of the preceding year.

According to the Financial Statement of the Republic the total liabilities of the year under review inclusive of the total Public Debt amounted to Rs.6,345 billion. The total Public Debt of the Government as a percentage of the Gross Domestic Product represented 73.1 per cent and that indicated a decrease of 2.2 per cent from the 75.3 per cent for the preceding year. Nevertheless according to Section 3(f) of the Fiscal Management (Responsibility) Act, No. 3 of 2003, from the financial year commencing from 01 January 2013, the value of the total liabilities should not exceed 60 per cent of the estimated Gross Domestic Product of the respective financial year. Nevertheless, that limit had been exceeded by 13.1 per cent in the year 2013.

The total of the loans as at 31 December 2013 according to the Financial Statements of the Republic, as compared with the Population of the year indicated a per capita debt of Rs.331,655. That as compared with the per capita debt of Rs.296,106 for the preceding year indicated as increase of Rs.35,549.

Banking

The Banking Sector in Sri Lanka is monitored by the Bank Supervision Department of the Central Bank of Sri Lanka under the Banking Act.

The Banking Sector remained strong, with capital being maintained at healthy levels along with adequate liquidity buffers. However, asset growth moderated during the year as credit granted by Banks to the private sector expanded at a slower pace in the year 2013 as a result of the lagging effects of the tight monetary policy maintained since the year 2012, subdued external demand impacting on trade related activity, particularly during the early part of the year, and the contraction of the Banks' pawning advances portfolios due to the steady decline in gold prices in the world market from around October 2012.

The Branch Network of Banks expanded further in the year 2013, improving financial accessibility. The total banking network expanded with the opening of 89 Banking Outlets (including Student Savings Units) and the installation of 123 Automated Teller Machines during the year 2013. Of these, 71 Banking Outlets and 95 ATMs were established outside the Western Province. Accordingly, by the end of the year 2013, the Banking System was operating with 6,487 Banking Outlets and 2,538 ATMs.

Banking Sector Structure

The Banking Sector includes;

- **Licensed Commercial Banks (LCBs)**: There are 24 LCBs. Among LCBs, the two largest (Bank of Ceylon and People's Bank) Banks are State – owned, 12 are Domestic Banks owned and 12 are Branches of Foreign Banks.

- **Licensed Specialized Banks (LSBs)**: There are 9 Specialized Banks consisting of long-term lending institutions, Development Banks, Savings Banks, Regional Development Banks etc. They are mostly State owned with market share of about one fifth of LCBs. The single largest LSB is the State owned National Savings Bank.

Overall Growth

Assets

The total assets of the Banking Sector increased by 16.5 per cent, year-on-year, to Rs. 5.9 trillion, as compared with the growth of assets of the Banking Sector by 19.9 per cent in 2012. The moderation in credit growth from 21.1 per cent in the year 2012 to 8.8 per cent in 2013 resulted in a decrease in the share of loans and advances in total assets from 61.8 per cent in the year 2012 to 57.7 per cent in the year 2013. Consequently, funds mobilized were utilized in investment activities resulting in the share of investments in total assets increasing from 23.9 per cent in the year 2012 to 28.5 per cent in the year 2013. Government securities largely accounted for the increase in total investments during the year 2013.

The increase in lending during 2013 was largely on account of lending to five key areas of economic activity. Construction (26 per cent), trading (21 per cent), infrastructure (20 per cent), manufacturing (17 per cent) and transport (11 per cent) mainly contributed to the increase in lending (their respective contribution to the increase in lending is given within parentheses). Notably, lending for consumption related purposes, contributed negatively to credit growth in the year 2013.

Liabilities

Deposits continued to be the main funding source in the Banking Sector, accounting for 70.2 per cent of total liabilities as at end of the year 2013. The resultant funding gap was largely bridged through borrowings, and the share of borrowings in funding sources increased from 15.8 per cent as at end of the year 2012 to 17.1 per cent by end of the year 2013. Nevertheless, year-on-year growth of deposits and borrowings slowed from 18 per cent and 26.6 per cent respectively, at end of the year 2012 to 15 per cent and 26.2 per cent, respectively, as at the end of the year 2013. Notably, the share of foreign currency borrowings in total borrowings increased from 54.8 per cent in the year 2012 to 64.6 per cent in the year 2013 due to an increase in borrowings from overseas sources by US$ 1,618 million.

Profitability

Profitability of the Banking Sector amounted to an after tax profit of Rs. 74.6 billion for the year 2013, as compared with the after tax profit of Rs. 82.7 billion recorded for the year 2012. The net interest margin declined from 4.1 per cent in the year 2012 to 3.5 per cent in the year 2013, due to the increase in the share of high cost term deposits in total deposits, the moderation in credit growth and the increase in low yielding assets. While the net interest margin declined, partly reflecting the slowing down of core business operations of the Banking Sector in the year 2013, provisions for bad and doubtful debts and loans written-off increased from Rs. 6.3 billion in the year 2012 to Rs. 18.4 billion in the year 2013. However, there was no significant increase in the operating expenses as all the profitability indicators of the Banking Sector, i.e., net interest margin (NIM), return on assets (ROA) and return on equity (ROE), declined during the year 2013.

Risk and Resources of the Banking Sector

An analysis of the State Banks and the Private Banks prepared by using the main soundness indicators is given below.

Credit Risk

The total amount of non-performing accommodations (NPAs) increased during the year 2013 to Rs.37 billion, from Rs.23 billion in the year 2012 The exposure to NPAs in relation to the total accommodations outstanding increased to 6.7 per cent by end of the year 2013 from 5 per cent in the year 2012.The LFC sector accounts for 92 per cent of the NPAs with the restructured companies being the main contributors to the NPAs. With respect to loan loss provisioning, the net NPA ratio was 2.5 per cent as at end of the year 2013. The total provision coverage for NPAs increased marginally to 56.1 per cent in the year 2013 from 55.6 per cent in the previous year.

Performance of State Banks

The eight State Banks in Sri Lanka accounted for 49 per cent of the assets of the total Banking Sector as at end of the year 2013. Among these, Bank of Ceylon (BOC) and People's Bank (PB) are the two largest licensed commercial Banks with asset bases of Rs 1,193.6 billion and Rs 926.6 billion, respectively. The National Savings Bank (NSB) is a licensed specialized Bank with an asset base of Rs 655 billion while the other five specialized licensed Banks, namely, State Mortgage and Investment Bank (SMIB), Regional Development Bank (RDB), Lankaputra Development Bank (LDB), Sri Lanka Savings Bank (SLSB) and HDFC Bank (HDFC) have an aggregate of Rs 149.2 billion in assets. The asset base of the State Banks grew by 14.3 per cent in the year 2013 as compared with in the year 2012.

The deposit base of the State Banks totalled Rs. 2 trillion during the year 2013. Profit after tax of these Banks declined by 25 per cent in the year 2013 as non-performing advances increased by 71 per cent largely contributed by the non-performing gold backed loans, consequent to the sharp decline in international gold prices.

The following table 2 shows certain key performance indicators of the State owned Banks for the year 2013 as compared with the whole Banking Sector.

	BANKING SECTOR	STATE BANKS
	2013 *Rs. billions*	**2013** *Rs. billions*
Assets	5,942.0	2,924.4
Loans and Advances	3,427.0	1,718.5
Non-performing Advances	191.9	94.3
Deposits	4,170.0	2,209.7
Total Borrowings	1,015.0	387.2
Net Interest Income	196.7	92.6
Profit Before Tax	104.7	32.1
Profit After Tax	74.6	23.6
Return on Assets (ROA) (Percentage)	1.26	0.8
Return on Equity (ROE) (Percentage)	15.2	17.8
NPA Ratio (Percentage)	5.6	5.5

Table 2 : Key Performance Indicators of State Banks
Sources: Department of Public Enterprises, State Banks and Central Bank of Sri Lanka

Contribution to the Consolidated Fund

The payments made to the Consolidated Fund as dividends, levy or share of profit by State Banks during the year 2013 amounted to Rs. 43.606 billion as compared with that in the preceding year amounting to Rs. 54.751 billion indicating a decline of 20 per cent mainly due to low profitability. The contribution by the six State owned Banks are depicted in the Figure 4 below.

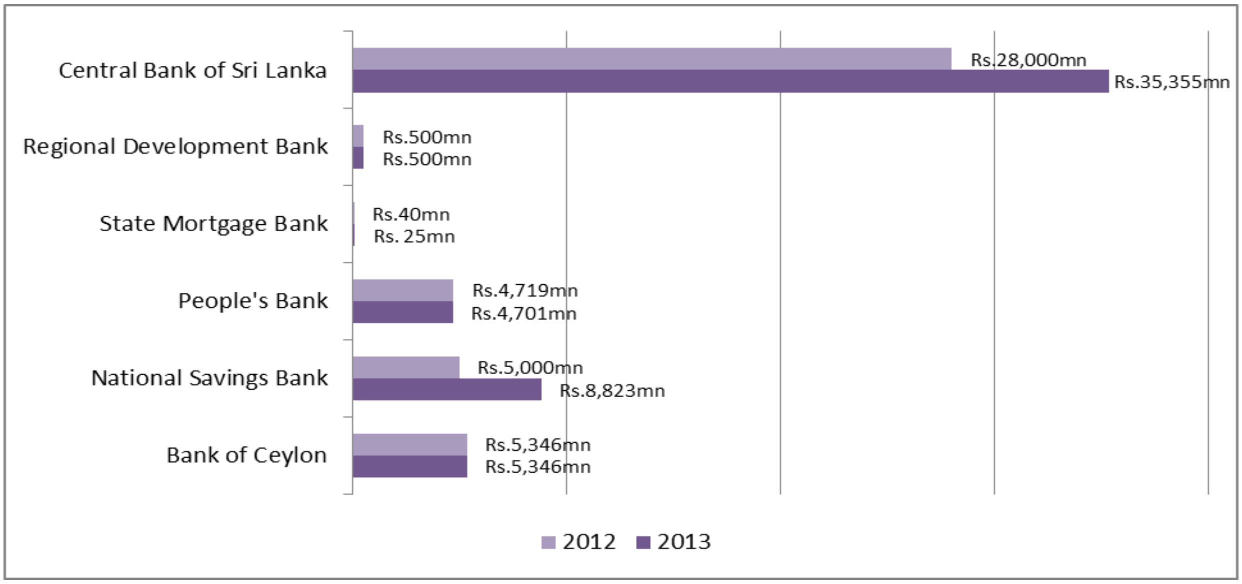


Figure 4 : Contribution to the Consolidated Fund by State Banks in 2012 and 2013

Banking Sector Performance

The Sri Lankan Banking Sector remains concentrated. The six largest local LCBs identified as being systemically important are the Bank of Ceylon, People's Bank, Commercial Bank of Ceylon Plc, Hatton National Bank Plc, Sampath Bank Plc and Seylan Bank Plc.

The commercial Banks had given loans to Private Sector amounting to Rs. 175.9 billion in the year 2013. This represented an increase of 7.5 per cent as compared with the preceding year. However, asset growth moderated during the year as credit granted by Banks to the Private Sector expanded at a slower pace in the year 2013 as a result of the lagging effects of the tight monetary policy maintained in the year 2012, subdued external demand impacting on trade related activity, particularly during the early part of the year, and the contraction of the Banks' pawning advances portfolios due to the steady decline in gold prices in the world market from around October 2012.

Major Audit Highlights

Bank of Ceylon

The following cash frauds had occurred during the year 2013 due to lapses in the internal control.

- **Metropolitan Branch – Fraudulent Fund Transfer of Rs. 5.8 million**
  Bank had transferred a sum of Rs. 5.8 million on 23 October 2013 from the Non-resident Foreign Currency Account of a deceased customer of the Metropolitan Branch to a Savings Account at a Local Private Bank on a fraudulent request made by a fraudster.

  According to the findings of the preliminary investigation, it was revealed that the Manager and the Assistant Manager had discharged their duties in a grossly negligent manner while transferring funds as mentioned above despite the notation made in the request to read as "Signature Differs" and not referring to the Senior Manager of the Branch.

  Further investigations had been conducted and the matter had been reported to the Criminal Investigations Department.

- **Personal Branch – Fraudulent Fund Transfer of Rs. 11.1 million**
  Bank had transferred funds amounting to US$ 86,384 equivalents to Sri Lanka Rs. 11.1 million from the DFC Account of a customer of the Personal Branch to an Account in the Bank of Cyprus on a fraudulent request made by a fraudster on an unverified source. Investigations on this matter are in progress.

- **Bogawanthalawa Branch – Fraudulent removal of Gold articles valued at Rs. 8 million**
  Fraudulently removing gold articles pawned by customers which were lodged in the vault, by an Officer who worked as the Manager of the Bogawanthalawa Branch. The total advances paid by the Bank on the removed articles amounted Rs. 8 million approximately. The Manager had been retired from the Bank's service, but her pension benefits had been withheld by the Bank. The matter had been reported to the Criminal Investigations Department and investigations are in progress.

- **Bopitiya Branch – Fraudulent creation of Pawning Advances amounting to Rs. 18 million**
  A Junior Executive Officer of the Bank had defrauded a sum of Rs.18 million by creating fraudulent Pawning Advances in the system by the time the fraud was detected. The officer who committed the fraud and left the country had been interdicted from service. The Manager who discharged the duties in a grossly negligent manner was interdicted from the Bank's service pending finalization of the disciplinary proceedings. The matter had been reported to the Criminal Investigations Department.

- **Makandura Extension Office – Fraudulent substitution of fake articles in place of Gold Articles valued at Rs. 3 million**
  In this case an officer of the Bank who worked as the Manager of the Makandura Branch had fraudulently substituted fake articles in place of the Gold articles pledged to the Bank. The gross value of the removed gold articles amounted to Rs. 3 million approximately and the officer had been interdicted from the Bank's service. Further investigations are in progress.

- **Metropolitan Branch – Unauthorized fund transfer amounting to US$ 750,000**
  Allegation had been made by a customer regarding an unauthorized fund transfer amounting to US$ 784,562 (with interest) effect by the Bank from his fixed deposit. Related requests and other correspondence had been transmitted through emails. Representative Officer of the Bank at UAE and Bank Manager of Metropolitan Branch had failed to re-confirm the customer over the phone.

  However the Bank Manager had made the fund transfer without taking further instruction from the higher authority. Bank made the said transaction in a negligent manner without identifying the customer properly.

- **Personal Branch – Funds transfer from Special Foreign Investment Deposit Account (SFIDA)**
  Bank had transferred funds amounting to US$ 70,000 and GBP 200,000 from the SFIDA Savings Account of a customer of the Personal Branch to Accounts in Banks in People's Republic of China and United Arab Emirates on a fraudulent request made by a customer using the different e-mails. Investigations on this matter are in progress.

People's Bank

- The value of financial assets held to maturity had been calculated based on the simple interest method instead of amortizing the same by using original Effective Interest Rate (EIR) violating the LKAS 39 - Financial Instruments: Measurement and Recognition. This erroneous treatment has resulted in the overstatement of the value of financial assets held to maturity by Rs.36,960,694.

- Since the Salaries Department of the Bank does not maintain appropriate and systematic records in respect of the employees, in order to facilitate accurate payroll reconciliation, a difference of Rs.56,015,643 had been observed between the payroll and financial statements.

- The Corporate Banking Division had granted trade finance loan facilities to a customer and total outstanding balance of those non-performing loans had exceeded the Forced Sale Value (FSV) of Rs.220,000,000 by Rs.792,352,875 as at 22 January 2014.

- The short term loan facilities amounting to Rs.17,020,362 and remaining non-performing as at 28 January 2014 had not been secured by immovable properly.

- Even though loan balances amounting to Rs.260,050,066 included in the Staff Loans Portfolio as at 31 December 2013 had been non-performing, the Management had not taken effective action for the recovery of the non-performing balances. Effective controls are not in place to avoid such classification of staff loan balances and ensure prompt recovery.

National Savings Bank

Amount receivable from the Treasury for Unclaimed Deposits

The amount receivable from the Treasury for the unclaimed deposits as at 31 December 2013 amounted to Rs.659,014,723. Out of the amount receivable, 24 per cent or Rs.160,986,618 had been older than 9 years. The percentage of the amounts older than one year had been 94 per cent.

According to the financial statements for the year 2013, the value of unclaimed deposits receivable from the Treasury including interest paid to customers amounted to Rs.957,891,777.However this amount had not been received even though claim for the reimbursements had been made to the Treasury.

Return on Investment on Shares in quoted Companies

- The capital gain from the sale of shares in trade investments in the year 2013 amounted to Rs. 189,164,668. The percentage of capital gain on overall trade investments in the year 2013 had been 3.68 per cent.
- The dividend received from long term investments in 3 quoted companies in the year 2013 amounted to Rs. 150,223,421 and represented 5.34 per cent.

- No dividends whatsoever had been received for the investment of Rs.1,193,572,481 made in 10 companies. That investment represented 15.01 per cent of the total investment of Rs.7,950,328,654 made in the quoted companies as at 31 December 2013.

Diminution of Value of Investments without Dividends

- No dividends had been received as at the end of the year 2013 for the investments costing of Rs.744,681,081 made in 7 quoted companies by the Assets Management Division. That investment represented 9.37 per cent of the total cost of investments made in quoted Companies amounting to Rs.7,950,328,654.

- The market value of investments made in the above 7 companies amounting to Rs.744,681,081 had diminished by Rs. 403,333,135.

- The market value of the investments costing Rs.276,650,081 made in quoted companies had diminished in the years 2011, 2012 and 2013 by a sum of Rs. 157,440,880.

Investments in Equity Securities without adequate Returns

There were 4 equity certificates amounting to Rs.1,267,575,023 as at 31 December 2013. However dividend of Rs. 6,090,000 had been received only from one equity certificate for Rs.57,363,543. Accordingly, the return on Unit Trusts in Equity Securities in the year 2013 had been at a very low rate of 0.48 per cent.

State Mortgage and Investment Bank

- Differences of Rs.31,217,166 had been observed between amount show in the Financial Statements and the balances generated by the computerized system in respect of 11 branches with regard to the fixed deposits and savings accounts as at 31 December 2013.

- Difference of Rs.10,212,121 observed between balances show in the Financial Statements totaled Rs.150,378,908 and the balances generated by the computerized system totalled Rs.160, 602,177 with regard to the unappropriated accounts as at 31 December 2013.

- Differences of Rs.6,369,435 and Rs.7,384,579 had been observed between the ledger balances and the balances in the fixed assets register balances relating to the cost of assets accumulated depreciation respectively.

Housing Development and Finance Corporation Bank (HDFC)

- According to the financial statements presented, the operations of the Bank for the year ended 31 December 2013, had resulted in an after tax profit of Rs. 158.01 million as compared with the corresponding after tax profit of Rs. 55.53 million in the preceding year thus indicating an increase in the after tax profit by Rs.102.48 million or 182 per cent. The recognition of revaluation gain of Rs.95 million on investment property is mainly attributed for this increase in the financial results of the year under review.

- The Board of Directors of the Bank at the meetings held on 26 September 2013 and 31 October 2013 had approved the creation of a new source of income by charging an administration fee on every outstanding loan with effect from 01 January 2012. Accordingly, Rs.88, 382,116 had been accounted as income for the year under review. However, it was observed that the unrealized loan administration fees amounted to Rs.48, 736,213 as at 31 December 2013.

- Further it was observed that the above decision would contravene the provisions in the Housing Development Finance Corporation Bank of Sri Lanka Act, No.7 of 1997 as amended by the Act, No.15 of 2003 and Act, No.45 of 2011 which specify that the Bank should formulate and implement schemes for the provision of housing for the economically disadvantaged of section of the society.

- It was observed that the Bank had claimed a sum of Rs.46,541,725 as loan administration fee from the Employees Provident Fund 'for the "Srama Udana Loans" granted against balances in the Employees Provident Fund without issuing written notices of the decision to the customers.

Regional Development Bank

- The Net Profit Ratio decreased to 3.61 per cent in the year 2013, as compared with the 11.21 per cent in the year 2012.The reduction in profitability has been mainly caused by the increase in interest expense due to high reliance on fixed deposits and increase in impairment due to growth in non- performing loans. The non-performing loans represent 7 per cent of the total loan portfolio of the Bank in the year 2013 compared with the 4 per cent in the year 2012. The specific provision made on the capital loss on pawning advances amounting to Rs.348,787,046, had affected the decrease in profitability.

- The Bank had reported high interest margin of 5.92 per cent as at 31 December 2013 as compared with the average LSB ratio of 3.7 per cent.

- The contribution of non-interest income to the total income of the Bank is only 5.04 per cent which is significantly lower than average LSB ratio of 9.78 per cent. Therefore the Bank is highly concentrated on interest income and would be vulnerable to changes in interest rates.

- According to Banking Industry Analysis in the year 2013, the Bank had recorded the highest ratio of the personal cost out of total expenses excluding the interest expenses and fee and commission expenses which is 72 per cent as compared with the average LSB ratio of 48 per cent.

- Bank's Deposit structure is highly concentrated on high cost fixed deposits which represent 61 per cent of the total deposits as at 31 December 2013. Interest expense on fixed deposits represents 83 per cent of total interest expense as at 31 December 2013. High dependence on heavy cost fixed deposits may adversely affect the cost of funds.

- The pawning portfolio of the Bank is around 38 per cent on the total loan portfolio of the Bank as at 31 December 2013. High credit concentration on pawning advances may affect the liquidity of the Bank.

Developments in Banking Sector 2013

In the year 2013, National Savings Bank was successful in raising dollar funds totaling US$ 750 million at 8.76 per cent interest with maturity in 5 years while Bank of Ceylon passed yet another milestone by raising its second international Dollar bond of 5 years amounting to US$ 500 million at 5.325 per cent which was 6.8 times oversubscribed.

Banking Sector Challenges

Sri Lanka's Banking Sector is faced with significant challenges in managing asset quality, accessing low cost capital in the face of rapid expansion, poor risk management practices, and maintaining profitability as margins narrow in the low interest rate regime and weaknesses in loan recoveries.

Defence and Urban Development

The key function of the Ministry of Defence and Urban Development is the formulation and implementation of the strategies for the maintenance of the autonomy and territorial integrity of Sri Lanka, and defence and law and order in the country. In order to achieve this objective, Sri Lanka Army, Sri Lanka Navy, Sri Lanka Air Force, Department of Police, Department of Civil Security, Department of Coast Guard, Department of Coast Conservation, Department of Immigration and Emigration, Department of Registration of Persons, Urban Development Authority, Sri Lanka Land Reclamation and Development Corporation, National Dangerous Drugs Control Board, Ranaviru Seva Authority, Sir John Kotelawala Defence University and Defence Service Command and Staff College function under the Ministry.

A summary of the expenditure incurred by the Ministry of Defence and Urban Development and the Institutions and Departments under the purview of the Ministry in the discharge of these functions in the year ended 31 December 2013 and the preceding year is given below.

	2013	2012
	Rs.Millions	*Rs.Mllions*
Recurrent Expenditure	241,034	220,743
Capital Expenditure	33,070	17,830
Total	**274,104**	**238,573**

Since the ending of the war in the north, arrangements have been made to make available the labour contribution of the three forces to the major projects of the Urban Development Authority as well as the different small scale to large scale projects implemented independently by the three forces. With the establishment of the Department of Civil Security under the Ministry of Defence and Urban Development, the Ministry had taken action to utilize the labour contribution of that Department for the development of the county. An analysis of the above data indicate that , the annual expenditure of every institutions under the Ministry including the three forces had increased. Sri Lanka Army had made labour contributions in the year 2013 to a large number of projects implemented by the Urban Development Authority such as 47 projects on the preservation and repair of old buildings in Colombo, 2 projects on repairing sports stadiums, 5 projects on road development, 8 projects on the reconstruction of tanks and anicuts as well as 26 other major projects. In addition, the general public had been provided with relief in 116 instances of natural disasters. Foreign exchange amounting to US$ 25,042,462 had been earned from the deployment of men and equipment for the Peace Keeping Forces of the United Nations.

Sri Lanka Navy had successfully protected the Sri Lankan Maritime Boundaries from the Somali pirates in the year 2013. The Navy had taken into custody 1,019 illicit immigrants and emigrants while the Intelligence Unit of the Navy had arrested 07 persons suspected of narcotic offences. Foreign exchange amounting to Rs.969,222,940 had been earned in the year through the projects on storage of armaments nautical protection, project on Training of Maritime Guards ,Project on Armaments Cleaning and the Project on Firing Training of Maritime Guards. In addition labour contribution valued at Rs.110,996,000 and Rs.48,617,000 had been provided by assisting in the activities of the Sri Lanka Land Reclamation and Development Corporation and the Urban Development Authority respectively. Labour contribution valued at Rs.321,031,452 had been provided in connection with repairs to Government buildings, construction of hospital wards and buildings of Government intuitions, roads development and the development of places of religious worship.

Sri Lanka Air Force had performed 10,283 flight hours in the year 2013 out of which 2,681 flight hours had been for air operations. Assistance to the Light Infantry and Naval Operations had been provided through 14.45 flight hours of unmanned aircraft. Air transport had been supplied to 27,990 personnel of the Light Infantry, Navy and Air Force while the goods transported amounted to 83,673 kilogrammes. A significant service to the national economy had been made through providing the services of 06 Aircraft Technicians to the Srilankan Airlines, carrying out repairs to aircraft at Katunayake and Ratmalana by deploying the Engineering and Technical personnel of the Air Force and carrying out different Units of repairs to aircraft by the Research and Development Division. In addition to the above, a significant services to the national economy had been rendered by the labour contribution made for the projects of the Urban Development Authority as well as 12 other projects.

The Department of Civil Security functioning with 19 Force Headquarters and 11 Sub-Force Headquarters had taken part in the projects such as the development works of the Vihara Maha Devi Park, Improvements to Elphinstone Theatre and the construction and maintenance of the elephant fence. In addition, labour contribution had been made for the development places of religious worship situated throughout the Island.

Audit Observations

- Action in terms of Financial Regulation 170(2) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka had not been taken to credit to the Public Revenue, a sum of Rs.127,647,083 received as donations by the Ministry of Defence and Urban development from individuals, private institutions, Government Institutions during the period from 18 July 2011 to 30 July 2014. A sum of Rs.107,308,091 out of that had been spent and the balance Rs.20,338,992 had been retained in the General Deposit Account even up to 31 August 2014.

- All revenue earned by the three Forces, the Department of Police and the Department of Civil Security from sources such as the sale of farm produce to outside parties, Hire of Musical Groups, revenue received from restaurants, welfare trade stalls, barber and tailoring services, sale of produce of camp premises, canine displays, aircraft and ship operations, revenue received from repairs to aircrafts and ships and all other revenue earned by deploying Government property should be credited to the Consolidated Fund and the total credited to the Consolidated Fund should be given as a grant to the Api Wenuven Api Fund. In accordance with the Cabinet Memorandum No. MOD/FD/IA/5/3/(2) dated 23 January 2009 and the Cabinet Decision action should not be taken to distribute a portion of the revenue received from the supply of external services as stated above among the participating officers. Even though action should have been taken in accordance with the Cabinet decision, it had not been so done even up to 31 August 2014 and such revenue had been credited to the Funds maintained for the welfare of officers. Even though the information on the revenue so collected was called for, such information had not been made available to audit.

- Even though a sum of Rs.24,671,115,345 comprising a sum of Rs.19,817,306,000 received in connection with a land released for the development of the Hotel Industry and a sum of Rs. 4,853,809,345 being the amount received up to 31 July 2014 should have been credited to the Public Revenue in terms of Article 149 of the Constitution of the Democratic Socialist Republic of Sri Lanka and the Financial Regulations, it had not been so done and the monthly had been retained in a Bank Account of the Ministry of Defence and Urban Development. A sum of the Rs.7,120,497,622 had been paid out of had by 31 December 2013 and the balance as at 31 December 2013 amounted to Rs.17,343,327,720.

- Even though the balance sum of Rs. 39,682,343 remaining from the money made available by the Ministry of Higher Education to the Sri Lanka Army in connection with the University Students Leadership Training 2013 should be credited to the Consolidated Fund in terms of Financial Regulation 807, it had not been so done.

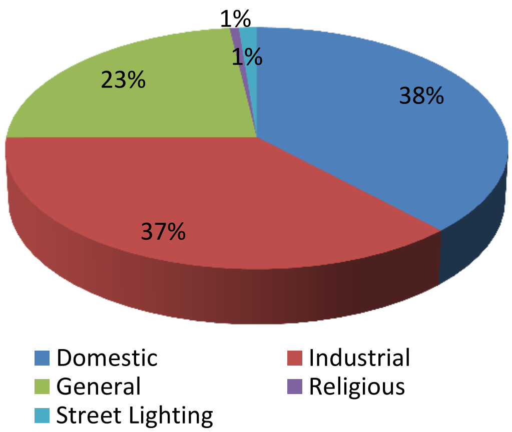
- Sri Lanka Army had invited quotations in the year 2011 for the purchase of 31,500 packets of photocopy paper and there was no evidence that the suppliers who submitted quotation had been property evaluator. The selected supplier has produced a forged Value Added Tax number. Even though 20,000 packets of paper had been supplied during the period 03 to 27 December 2011 at Rs. 375 per packet as agreed, the quality of the papers supplied did not conformed to the agreed quality and the receipt of 11,750 packets of paper supplied by the store had not been established.

Power and Energy

Ceylon Electricity Board (CEB)

The Ceylon Electricity Board (CEB) is under a statutory duty to develop and maintain an efficient, coordinated and economical system of Electricity supply for the whole of Sri Lanka. This was established by the Ceylon Electricity Board, Act No. 17 of 1969 (as amended) and at present has 04 Subsidiaries and 12 sub-subsidiaries and one joint venture. CEB has been issued a generation license, a transmission license and four distribution licenses by the Public Utility Commission of Sri Lanka (PUCSL) being the regulator in the Power and Energy Sector. Further the Lanka Electricity Company (LECO),a subsidiary of CEB is the other license holder for distribution and there are several independent power producers, whose production is also purchased by the CEB. The Sri Lankan Electricity System has a total installed capacity of approximately 2,970 MW. The maximum demand recorded in the years 2012 and 2013 had been 3,312 MW and 3,362 MW respectively.

By the end of December 2013, approximately 94 per cent of the total population had access to electricity from the national electricity grid. The amount of energy consumed by each sector (i.e. each tariff category) from the year 2009 to the year 2013 is shown in the Figure 6 while Figure 5 depicts sectorial electricity consumption share in the year 2013.These figures reveal that the consumption of the industrial and the commercial sector is more than the consumption in the domestic sector. This is a pleasing situation for an economy with an ambitious GDP growth projection.



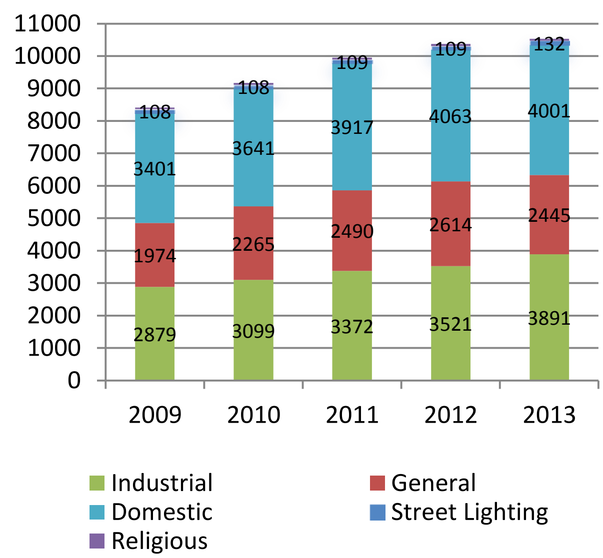


Figure 5 : Sectorial consumption of electricity 2013

Figure 6 : Sectorial consumption of electricity 2009 – 2013in Gwh

CEB is providing electricity at a low price when compared with the cost of production. The reason is to provide power to the general public at a reasonable and affordable price in order to keep the consumers in highest utility level. Even though there is enough hydro generation, the fixed cost involving in the power purchase agreements must be borne by the CEB which cannot have a favorable impact to reduce the unit cost. However the average cost per unit in the year 2012 had been Rs.23.66 and was sold at Rs.15.56 whereas the cost has come down to Rs.17.70 in the year 2013 and sold at Rs.17.93 per unit. It was mainly due to favorable weather conditions that prevailed during the year 2013 which led to more hydro generation. The Board had made a profit of Rs. 12 billion in the year 2013 as against the loss of Rs. 61 billion in the year 2012. That can be analyzed as shown in the Table 3 below.

CATEGORY	PROFIT/(LOSS) *RS. MILLIONS*
Domestic	(7,268)
Religious	(587)
General Purpose	21,913
Government	204
Industrial	(3,313)
Hotel	392
Street Lighting	(1,848)
LECO Sales	3,357
Total	**12,850**

Table 3 : Analysis of Profit

Financial highlights of the Board can be summarized and presented together with comparative figures as shown in the Table 4 . The reason for the above mentioned profit in the year 2013 was the increase in the turnover and the decrease in direct cost due to increase in hydro generation. System losses also have come down from 20 per cent in the year 2001 to 11.5 per cent in the year 2013 due to various innovations to the system as a result of the foreign funded projects launched under the Generation, Transmission and Distribution Sectors.

	2013 *Rs. Millions*	2012 *Rs. Millions*	2011 *Rs. Millions*	2010 *Rs. Millions*	2009 *Rs. Millions*
Turnover	194,147	163,513	132,460	121,862	110,518
Direct Cost	(166,926)	(222,419)	(151,448)	(116,168)	(118,186)
Gross Profit (Loss)	27,221	(58,906)	(18,988)	5,694	(7,668)
Administration Expenses	(2,598)	(2,997)	(1,636)	(1851)	(2,870)
Operating Profit (Loss)	24,623	(61,903)	(20,624)	3,843	(10,538)
Other Income	5,106	4,225	3,810	3,063	3,412
Finance Cost(Net)	(11,136)	(3,769)	(3,371)	(2,047)	(2,213)
Profit (Loss) before Taxation	18,593	(61,447)	(20,185)	4,859	(9,339)
Balance Sheet					
Total Assets	785,717	738,171	606,333	605,423	516,022
Capital and Reserves	212,769	193,230	257,464	287,032	275,208
Non-Current Liabilities	482,806	407,585	281,835	229,128	141,883
Current Liabilities	92,872	137,356	122,034	89,263	98,931

Cash	(1,431)	(17,813)	(1,178)	(3,102)	(4,039)
Sales (GWh)	10,621	10,424	10,023	9,268	8,441
Generation (GWh)	11,962	11,802	11,528	10,714	9,882
System Loss	1,341	1,378	1,505	1,446	1,441

Table 4 : Financial highlights of the CEB for the years from 2009 to 2013

As far as the sources of finance of the Board are concerned it had obtained commercial loans amounting to Rs. 50 billion other than the loans provided by the General Treasury. The interest cost of the Board for the year 2013 amounted to Rs. 12,813 million and 66 per cent of that represented interest on the borrowings for the working capital requirements. The liability to the Ceylon Petroleum Corporation had been reduced from Rs. 20 billion to Rs.6 billion in the year 2013 due to the settlement of dues. Nevertheless, there is an increasing trend in debt financing. The debt position as at 31 December 2013 is shown in the Table 5 given below.

	RS. MILLIONS	RS. MILLIONS
Long Term Loans		
Treasury Loans	334,684	
Bank Loans	44,404	
Lease Creditors	252	
Loans from Related Party	3,695	
Bank Overdraft	3,474	386,509
Other Liabilities		
Ceylon Petroleum Corporation	6,358	
Independent Power Suppliers	14,921	
Renewable Energy Suppliers	1,122	22,401
Total		**408,909**

Table 5 : Debt position as at 31 December 2013

- The total net price variances of Rs 1,898 million in relation to the material purchases and materials included in the inventories, direct labor and overhead recoveries had been considered as Income in the Region 02 resulting in an overstatement of profit by that amount.

- Further it should be stated that the Puttalam Coal Power Plant had lost 1,394.33 MWh costing Rs. 25,098 million due to breakdowns and inefficiency during the years 2012 and 2013.

- The value of 35 reported frauds committed in the year 2013 due to weaknesses in the internal control amounted to Rs. 49 million.

- Sub- loan agreements had not been entered into with the General Treasury in respect to 04 loans amounting to Rs. 128,240 million granted by the Treasury. As such, the repayment schedule and the interest on those loans had not been furnished to audit.

- Contrary to the decision of the Cabinet of Ministers dated 13 December 2007 to shift the Pay As You Earn Tax to the employees from the next salary revision, that is in the year 2009, the Board had paid the PAYE Tax of its employees from the Board funds. The PAYE Tax paid by the Board as at 13 December 2013 contrary to the Cabinet decision, amounted to Rs.1,312 million.

- Thirty nine different staff allowances had been paid from time to time to the staff by the Board on the approval of the Board of Directors without obtaining the approval of the Cabinet of Ministers or the Ministry of Public Administration and Home Affairs or the General Treasury as specified in the Public Enterprises Circular No 95 of 04 June 1994. Audit test checks revealed that such allowances amounting to Rs. 642 million had been paid in the year 2013.

- Certain Independent Power Producers undertake maintenance contracts of other Independence Power Producers resulting in related party transactions among them. As such the appropriateness of reimbursement of the expenditure including taxes without verifying whether imported materials had actually been used for the maintenance of power plants could not be ascertained in audit. The reimbursements made in the year 2013 amounted to Rs. 78,356 million.

- Ceylon Electricity Board had paid a fine amounting to Rs. 208,283,881 imposed by the Sri Lanka Customs due to an error in classification of imported goods without making an appeal to the Minister of Finance for revision or waiver of the fine imposed by the Sri Lanka Customs in terms of the powers devolved on him under Sections 164 and 165 of the Custom Ordinance (Cap 235)

- The number of vacancies in the Executive, Middle Level Technical Service, Skilled Technical Service, Semi- Skilled Technical Service, and Other Skilled S Grade of the Board as at 31 December 2013 had been 2,486.

- Board prepares its consolidated financial statements together with the subsidiaries and sub-subsidiaries in each year. It should be stated that the Board had not exercising its control and as such those subsidiaries had incorporated sub-subsidiaries like LTL Transformers (Pvt) Ltd, LTL Galvanizing (Pvt) Ltd, LTL Energies (Pvt), Pawan Danavi (Pvt) Ltd etc. without the consent of the Board. As the Ceylon Electricity Board is not represented in the Boards of the Sub-Subsidiaries, the Board control over the subsidiaries diluted.

Ceylon Petroleum Corporation (CPC)

The Ceylon Petroleum Corporation (CPC) was set up as a State Enterprise by Ceylon Petroleum Corporation Act, No. 28 of 1961 in Parliament and further amendments were carried out subsequently. The vision of the CPC is to be the premier customer driven, environmental friendly, enterprise in the petroleum and related industries in the region while contributing towards the prosperity of the Nation. Main objectives of the CPC are to carry on business as an importer, exporter, seller, supplier and distributor of Petroleum products, and to carry on business of exploring for the exploiting, producing, and refining of petroleum and to carry on any such business as may be incidental or conducive to attainment of the objectives.

The total cost of importation of petroleum products for the year 2013 was Rs. 535 billion and representing approximately 6.2 per cent of the Gross Domestic Product (GDP) of Rs. 8,674 billion in 2013 valued at current market price. It represented approximately 23 per cent of the total imports of Rs. 2,323 billion in 2013.

Financial Result

The Corporation had sustained net loss of Rs. 7,984 million for the year 2013 and had a negative net assets position of Rs. 236,529 million as at the end of the year under review, and also, the negative impact of Hedging transactions had caused to increase the net loss of the Corporation for the year 2012. Even though there was an increase of Rs. 89,324 million in the financial results for the year 2013 compared to the net loss of Rs. 97,308 million for the previous year, occurring heavy losses since 2008 had resulted in the further erosion of the net assets position of the Corporation. Thus, the ability of the Corporation to continue as a going concern without the financial assistance from the General Treasury and other financial institutions is doubtful. The net profit/(loss) and the net assets position of the Corporation for the year 2013 and previous six years are depicted in the Figure 7 given below.

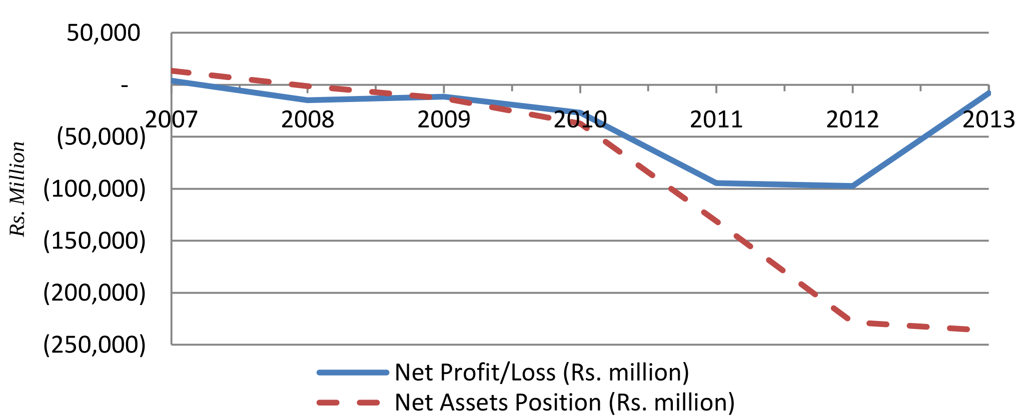


Figure 7 : Net assets position of the CPC for the period of 2007 - 2013

Domestic retail prices of petroleum products had been revised upward in 2011, 2012 and 2013 in order to address these financial difficulties of the Corporation. In the meantime, the prices of both high sulfur and low sulfur fuel oil, used by the Ceylon Electricity Board for power generation had been increased by Rs. 25 per litre reaching the prices at Rs. 90 and Rs. 100 per litre_respectively with effect from 01 April 2013. Major changes made by the CPC in retail prices of petroleum products during the year 2013 as compared with the previous year are given in Table 6 below.

PETROLEUM PRODUCTS	PRICE PER LITRE – (EFFECTIVE DATE)			PRICE INCREASE (PER LITRE) DURING THE YEAR			
	12 Feb. 2012	14 Dec. 2012	22 Feb. 2013	2012		2013	
	Rs.	*Rs.*	*Rs.*	*Rs.*	*Percentage*	*Rs.*	*Percentage*
Petrol 95 Octane	167.00	167.00	170.00	12.00	7.7	3.00	1.8
Petrol 90/92 Octane	149.00	159.00	162.00	22.00	16.1	3.00	1.9
Lanka Auto Diesel	115.00	115.00	121.00	31.00	36.9	6.00	5.2
Lanka Super Diesel	142.00	142.00	145.00	35.70	33.6	3.00	2.1
Lanka Industrial Kerosene	111.00	111.00	115.00	35.00	46.1	4.00	3.6

Table 6 : Major changes made by the CPC in retail prices of petroleum products

Sector-wise Performance

According to the Annual Report of Central Bank for the year 2013, international crude oil prices remained low in the year 2013 as compared with the previous year. The average international crude oil price (Brent) stood at US $ 109.56 per barrel in the year 2013, as compared with US $ 112.41 per barrel in the year 2012. In line with international price trends, the average price of crude oil imported by the Corporation declined by 3.6 per cent to US $ 109.84 per barrel in the year 2013 from US $ 114.00 per barrel in the year 2012.

Even though the average price of crude oil imported had declined and the domestic retail prices of petroleum products had been revised upward, the Corporation had continuously sustained losses according to details given in Table 7 below.

SECTOR	TOTAL LOSSES FOR THE YEAR ENDED 31 DECEMBER		
	2013 Rs. Mn	2012 Rs. Mn	2011 Rs. Mn
Transport			
Lanka Auto Diesel	(6,235)	(29,654)	(62,045)
Power Generation			
Naphtha	(1,081)	(1,048)	(798)
Fuel Oil - 3500	(1,184)	(8,718)	(9,206)
Fuel Oil - 1500	(1,231)	(23,223)	(18,313)
Fuel Oil - 1500 (L/S)	(9)	(11,733)	(5,764)
Aviation			
Avteur - International	(1,251)	122	114
Industries			
Fuel Oil - 1500	(350)	(2,003)	(4,248)
Fuel Oil - 800	(333)	(904)	(1,790)
Ind. Kerosene	(126)	(364)	(832)
Lubricant Oil and Grease	(271)	46	217
Domestic			
LP Gas (K.G)	(436)	(377)	(224)
Kerosene	(2,449)	(3,525)	(6,886)
Farmers			
Agro Chemicals	(70)	(2)	(5)
Export			
Naphtha	(976)	(43)	(675)
Furnace 1500	(2,690)	(70)	(329)
Bunkering			
Diesel	(67)	-	-
Fuel Oil 1500	(729)	-	-

Table 7 :Product – wise Losses sustained by the CPC

The above Table presents loss making products of the Corporation for the year 2013 as compared with previous two years. Accordingly, it was revealed that, other than Avteur – International in Aviation sector, and Lubricant Oil and Grease in Industries sector, all other products had been making losses continuously.

Contributory Factors for the continuous Financial Losses

The main contributory factors for the continuous financial losses of the Corporation were revealed as inefficiency in refinery operations and falling refinery margins due to the change in sources of crude oil due to US sanctions on Iran and as a result increasing importation of refined petroleum products to meet the supply shortage, the provision of furnace oil at a highly subsidized rate to Ceylon Electricity Board (CEB) prior to the price revision, selling aviation fuel to Srilankan Airlines Ltd and Mihin Lanka (Pvt.) Ltd at concessionary rates which were lower than the contract customer price, heavy losses incurred on Hedging settlement, CPC's increased borrowings from the Banking Sector to finance its oil bills and inefficiencies in procurement process of petroleum products of the Corporation, etc.

Inefficiency of Refinery Operations

Out of the country's current petroleum products demand, approximately one third is expected to be met from imported crude oil which undergoes the refining process locally in the refinery owned by the CPC at Sapugaskanda. The lower refinery yields and operational failures associated with the delays in modernization and lack of expansion of the refinery had negatively affected the financial performance of the Corporation.

The quantity of crude oil imported by the Corporation had decreased from 2,070,000 metric tons in the year 2011 to 1,486,720 metric tons in the year 2012 or by 28.2 per cent and as a result, the quantity of refined petroleum products imported by the Corporation had increased by 460,000 metric tons from 3,501,000 metric tons in the year 2011 to 3,961,000 metric tons in the year 2012 or by 13.1 per cent.

Even though the volume of crude oil refined (intake) by the Corporation had increased to 1,643,218 metric tons in 2013 as compared with 1,596,058 metric tons in the year 2012, the processing levels had not reached the production capacity of 6,900 metric tons per stream day or 2,415,000 metric tons in the year 2013. The Crude Oil intake per annum for the year 2013 and previous ten years as compared with the production capacity for the relevant years appear in the Figure 8 below.

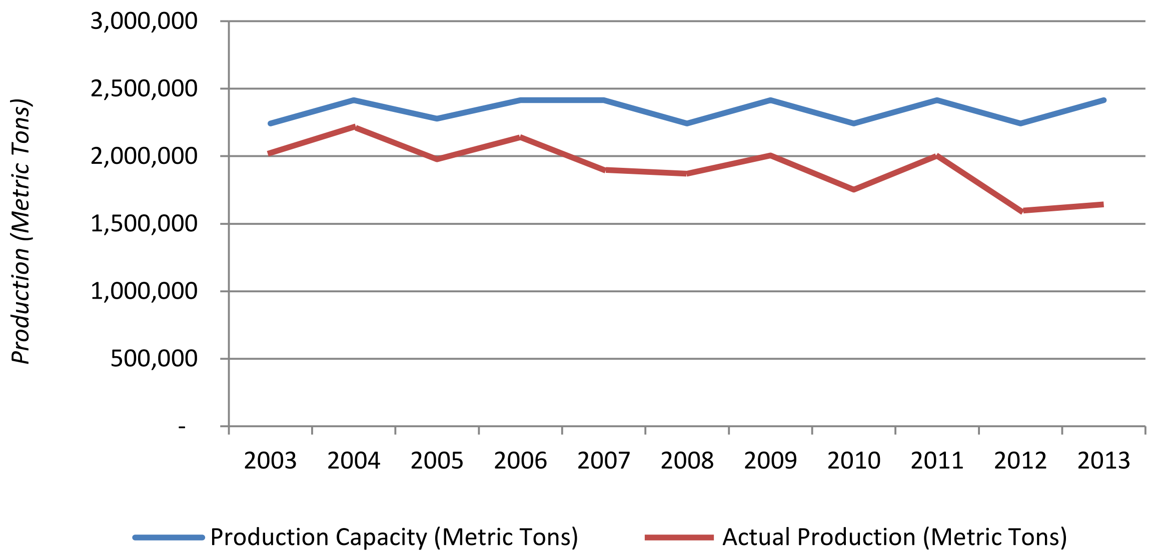


Figure 8 : Refinery operations for the period of 2003 - 2013

The existing 45 years old refinery, which was commissioned in 1969, is not able to cater to the increasing demand of petroleum products in the country and this refinery is operating with low margin as compared with the modern world refineries operating with advanced technologies including facilities to produce petroleum products at lower cost whereby maximizing the refinery operating efficiency. However, the Corporation has not yet been able to implement the proposed Sapugaskanda Oil Refinery Expansion and Modernization (SOREM) Project in order to ensure that petroleum products are supplied to the market in a cost effective manner.

Provision of Fuel to SriLankan Airlines Ltd (SLA) and Mihin Lanka (Pvt) Ltd at Concessionary Rates

Even though SriLankan Airlines Ltd. (SLA) and Mihin Lanka (Pvt) Ltd. were contract customers, fuel had been issued to them at concessionary prices which were lower than the contract customer price and as compared with the contract customer price, the Corporation had incurred losses of Rs. 2,009.7 million and Rs. 456.6 million respectively, during the years of 2013 and 2012 on sale of Aviation Turbine Fuel to the above companies at extraordinary concessionary prices. Details are depicted in the following table.

NAME OF THE COMPANY	LOSS INCURRED DURING THE YEAR					
	2013		2012		2011	
	US$ Mn	*Rs. Mn*	*US$ Mn*	*Rs. Mn*	*US$ Mn*	*Rs. Mn*
SriLankan Airlines Ltd	14.10	1,866.39	3.29	423.97	5.47	627.16
Mihin Lanka (Pvt.) Ltd	1.08	143.29	0.25	32.58	0.38	42.61
Total	**15.18**	**2,009.68**	**3.54**	**456.55**	**5.85**	**669.77**

Despite providing fuel at concessionary prices to these two companies, the settlement of outstanding fuel bills were very poor due to their weak financial performance i.e. according to the Central Bank Annual Report for the year 2013, SLA recorded an operational loss of Rs. 28.6 billion meanwhile Mihin Lanka recorded an operating loss of Rs. 1.5 billion in 2013. The outstanding balances as at end of the year 2013 and preceding three years are given below.

NAME OF THE COMPANY	OUTSTANDING BALANCE AS AT 31 DECEMBER			
	2013 *Rs. Mn.*	2012 *Rs. Mn.*	2011 *Rs. Mn.*	2010 *Rs. Mn.*
SriLankan Airlines Ltd	29,520	25,890	12,351	542
Mihin Lanka (Pvt.) Ltd	4,314	3,416	1,227	361

More than 63.6 per cent of total trade receivables of Rs. 53,190 million as at 31 December 2013 was represented by trade receivables from above two companies, and it shows an increasing trend as compared with the preceding three years.

Increase of Borrowings from the Banking Sector

The Corporation had increased its borrowings from the Banking Sector to finance its oil bills and it had resulted in the increase of the sustained losses and to erode the net assets position of the Corporation. Further, it was observed that the Corporation had incurred a huge finance cost for the year ended 31 December 2013 as compared with the preceding years as depicted in the Table below and which shows an increasing trend.

YEAR	BANK BORROWINGS FOR THE YEAR ENDED 31 DECEMBER	FINANCE COST	ANNUAL LOSS ON ORDINARY ACTIVITIES	FINANCE COST AS A PERCENTAGE OF LOSS FROM ORDINARY ACTIVITIES
	RS. MN.	*RS. MN*	*RS. MN*	
2013	406,850	18,539.85	7,732.82	239.8
2012	399,520	18,359.68	89,569.18	20.5
2011	310,060	9,000.57	94,503.45	9.5
2010	168,020	6,858.90	26,922.82	25.5

The Corporation had exceeded the limits of the General Treasury indemnity issued to the Commercial Banks on behalf of the Corporation to secure the foreign currency loans as shown in the details given below.

NAME OF THE BANK	OUTSTANDING AMOUNT AS AT 31 DECEMBER 2013		SECURITY – GENERAL TREASURY INDEMNITY		EXCEEDED AMOUNT OVER THE SECURITY	
	US$ Mn.	*Rs. Mn.*	*US$ Mn.*	*Rs. Mn.*	*US$ Mn.*	*Rs. Mn.*
Bank of Ceylon	1,810.62	239,617	900	119,106	910.34	120,512
People's Bank	1,318.16	174,415	650	86,021	668.16	88,424

Accounts Receivable

Total trade receivables as at 31 December 2013 amounted to Rs. 53,190 million with splitting of Rs.15,416 million and Rs. 37,774 million due from Government institutions and private institutions respectively, out of which a sum of Rs. 340 million had been outstanding for more than 2 years.

Hedging Transactions

According to the Hedging transactions of the Corporation, the Corporation was cited as a party in the arbitration proceeding pertaining to Hedging contracts entered into with several commercial Banks. As such a sum of US Dollars 60 million (Rs. 7,612 million) had been paid to the Standard Chartered Bank (SCB) on 3 June 2013 under the Deed of Settlement entered between the parties. Further, a sum of US Dollars 15.3 million had been incurred by the Corporation as legal and other charges. In the meantime, an arbitration award given in favor of the Corporation amounted to US Dollars 1.3 million (Rs. 153 million) with regard to the transaction with the Citi Bank.

Pipeline Network for Oil Transportation

Refined petroleum products are stored at Kolonnawa and Muthurajawela Terminals and there is a pipeline network running between Colombo Port and the Kolonnawa to transfer imported petroleum products to Ceylon Petroleum Storage Terminal Limited (CPSTL).

The pipelines installed several decades back for the transport of finished petroleum products such as petrol, diesel, kerosene and furnace oil from the Colombo Port to the Kolonnawa Petroleum Installation are in a state of disrepair and it was revealed that some of them have already been abandoned due to its' deteriorated condition beyond repairs. Renovation and modernization of those pipelines have been a very urgent need, as a large quantity of the national requirement of the petroleum products is being carried into Kolonnawa fuel storage terminal through those deteriorated pipelines. Due to country's demand for finished petroleum products is mainly imported through those deteriorated pipelines, the risk of any possibility to paralyze the whole country with a severe fuel crisis cannot be disregarded in audit.

The Muthurajawela installation is fed through a Single Point Buoy Mooring (SPBM) facility located in the mid sea about 6 km from the shore and 7.2 km from Muthurajawela Terminal and there was no alternative supply source in case of rough sea conditions or when the SPBM is under maintenance. At the same time there was no linkage between the Muthurajawela Terminal and Kolonnawa Installation for inter-terminal product transfers and, which had also hampered the optimum utilization of those terminals due to those constraints.

Even though, the approval of the Cabinet of Ministers for the implementation of "Cross Country Pipeline Project" had been granted on 13 September 2012, such project had not yet been implemented.

Human Resource Management

Out of approved cadre of 3,284 of all categories of staff for the year 2013, vacancies in 713 posts of different categories, including 153 vacancies in the senior staff category (comprising Manager Internal Audit, Commercial Manager, DGM Marketing, etc.), were observed as at 31 December 2013. Meanwhile, 10 posts in all categories of the staff had been filled on contract basis and the Chief Internal Auditor has been working as the Deputy General Manager Finance on acting basis since the mid of the year 2011.

Education

Several institutions are affiliated to the Ministry of Education functioning with stated objectives of the Ministry. They are the Provincial Departments of Education, the Department of Examinations, the Department of Educational Publications, the National Institute of Education, the National Library and Documentation Services Board, the Sri Lanka Book Development Board and the Sri Lanka National UNESCO Commission. In addition the foreign funded Project had constructed to the discharge of the functions of the Education Sector.

The recurrent expenditure of the Rs. 85,198 million and capital expenditure of Rs. 7,511 million provided for the Education in the year 2009 had improved to Rs. 115,525 million and Rs. 39,135 million respectively by the year 2013. In addition, a sum of Rs. 2,427 million by the Ministry of Economic development for the 5,000 Primary School Development Project, a sum of Rs. 1,373 million by the Education for a Knowledgeable Society Project and a sum of Rs. 242 million by the Reconstruction of the schools system as the Basics of the Knowledgeable Central Project had been spent for the development of education in the year 2013.

Schools, Students and Teachers

The number of schools which had been 10,737 in the year 2012 had increased by 115 schools by the end of the year 2013. The number of students in the Government Schools which had been 4,004,059 in the year 2012 had increased to 4,037,001 in the year 2013 and 342,450 new students had been admitted to Government Schools in the year 2013.

The Ministry of Education and the Provincial Ministries of Education had recruited 36,616 Teachers from the year 2009 to the year 2013 and the total number of Teachers in the Government Schools by the end of the year 2013 had been 226,983 and as compared with the year 2009 indicated an increase of 16 per cent.

Transfer and Attachment of Teachers

Test checks revealed that 653 Teachers of 24 National Schools had been serving in the same school over periods ranging from 10 years to 30 years due to the non-implementation of the National Policy on Teacher Transfers in accordance with the provisions in the Circular No. 2007/20 dated 13 December 2007 of the Secretary to the Ministry of Education.

In the attached of Teachers holding the Special Educational Teaching Diploma 176 such Teachers had been attachmed to 162 schools without students needing special requirements whereas such Teachers had not been attached to 128 Schools with 1,145 students needing special requirements.

Supply of Uniforms free to Students

The number of packets of uniforms supplied free to the students by the Ministry and the expenditure incurred thereon from the year 2009 to the year 2013 are given in the following Table. The expenditure incurred in the year 2013 as compared with the year 2012 had increased by 1.2 per cent.

YEAR	NUMBER OF PACKETS	EXPENDITURE ON PACKETS (EXCLUSIVE OFF TRANSPORT AND OTHER EXPENSES)
		Rs.
2009	6,633,850	1,176,772,857
2010	6,127,502	1,137,958,013
2011	6,393,990	1,421,641,647
2012	7,089,500	1,698,944,372
2013	6,809,370	1,719,549,886

Expected Objectives and the Objectives Achieved

The position of the achievement of the expected objectives in the year under review is given below.

Thousand Schools Project

Even though construction of 817 laboratories under Stage I and Stage II of the construction of Mahindodaya Technological Laboratories under the Thousand Schools Project by 31 December 2013 had been planned, the construction of 349 laboratories at a cost of Rs.4,274,077,350 only had been completed by the end of the year. Out of the 817 laboratories planned, furniture only for 171 laboratories had been purchased at a cost of Rs.223,374,489.

Isolated Schools

Even though the development of 1,347 schools with less than 50 students or geographically isolated had been identified under the Education for a Knowledgeable Society Project that development project had not been implemented.

Nenasa Project

A donation of 1,962 television sets made by the private institutions for the Nenasa Distant Education Project launched on 05 July 2009 had been distributed to 1,962 schools. Though plan had been made for broadcasting of courses in mathematics and science for Grades 10 and 11 and courses in mathematics, mother tongue and second language for Grade 5 the class timetables had not been prepared to coincide with the broadcasting times of the respective subjects.

Use of Information Technology by Schools

Out of the overall number of 10,852 Government Schools in the Island as at 31 December 2013, facilities had been supplied only to 5,824 or 58 per cent of the total number of schools. The establishment of the Schools Computer Networks was commenced in the year 2006 with a view to providing internet facilities to the schools with computer facilities. Even though Rs.37,090,000 during the years 2006 to 2008 and a sum of Rs.579,140,248 from the year 2008 to 31 December 2013 had been incurred in this connection, only 1,724 institutions including schools had been linked to this service by 31 December 2013. Out of the 1,724 schools from which information was called for, 414 schools which responded had confirmed that they were not satisfied with the effectiveness and efficiency of the utilization of the service. The Educational Management Information System installed at a cost of Rs.16,122,312 as at 31 December 2013 as well had become inactive due to the non-operation of the computer network.

Passing Standard 5 Scholarship Examination and Difficulties in Admission to Popular Schools

A test check revealed that in 31 National Schools, there were 1,250 students more than the specified number in Standard 5 as at 31 December 2013 due to the admission of Students to Grades 1 to 5 from time to time exceeding the maximum number of 42 students per class as approved by the Cabinet of Ministers. In view of such situation, 1,250 who had passed the Grade 5 Scholarship Examination had been deprived of the opportunity of being admitted a popular school according to their skills. The particulars of the number of students admitted to popular schools out of those who passed the examination are given below.

YEAR	NUMBER WHO SAT FOR THE EXAMINATION	NUMBER OF STUDENTS PASSED THE SCHOLARSHIP EXAMINATION	NUMBER OF PASSED STUDENTS ADMITTED TO POPULAR SCHOOLS	NUMBER OF STUDENTS PASSED THE EXAMINATION NOT ADMITTED TO POPULAR SCHOOLS	PERCENTAGE OF PASSED STUDENTS NOT ADMITTED TO POPULAR SCHOOLS
2012	310,327	33,383	25,837	7,546	22.60
2013	322,455	32,517	27,415	5,102	15.69

Results of the General Certificate of Education (Ordinary Level) Examination

The particulars of the results of the General Certificate of Education (Ordinary Level) Examination for the 04 years from the year 2010 to the year 2013 are given below.

YEAR	NUMBER OF STUDENTS SAT THE EXAMINATION	NUMBER OF PASSED STUDENTS	NUMBER PASSED AS A PERCENTAGE OF NUMBER SAT	NUMBER WITH DISTINCTIONS IN ALL SUBJECTS	NUMBER WHO FAILED ALL SUBJECTS	NUMBER WHO FAILED ALL SUBJECTS AS A PERCENTAGE OF THE TOTAL
2010	271,644	164,527	60.57	3,057	14,411	5.3
2011	270,032	164,191	60.80	3,908	12,795	4.7
2012	268,995	174,160	64.74	4,509	11,100	4.1
2013	264,772	176,534	66.67	5,737	9,444	3.6

Though the number of students who sat in General Certificate of Education (Ordinary Level) Examination in the year 2013 as compared with the year 2010 had decreased by 6,872, the percentage of passing the examination had increased from 60.57 per cent to 66.67 per cent. The number of students who obtained distinction passes in all subjects in the year 2013 as compared with the year 2010 had increased by 88 per cent while the number who had failed all subjects had decreased by 34 per cent.

General Certificate of Education (Advanced Level) Examination

The particulars of the results of the General Certificate of Education (Advanced Level) Examination for the years 2011 to 2013 are given below.

YEAR	NUMBER OF STUDENTS SAT THE EXAMINATION	NUMBER OF PASSED STUDENTS	NUMBER OF STUDENTS WHO FAILED ALL SUBJECTS	NUMBER WITH DISTINCTION PASSES IN ALL SUBJECTS	NUMBER ADMITTED TO UNIVERSITY	NUMBER ADMITTED TO UNIVERSITY AS A PERCENTAGE OF PASSED STUDENTS
2011/2012	239,755	141,411	23,237	3,707	28,937	20.4
2012/2013	233,634	144,745	18,485	9,057	22,943	15.8
2013/2014	241,629	140,993	27,924	4,999	--	--

Though the number of students who sat the examination in the year 2013 as compared with the year 2011 had increased by 1,854 the total number of students who passed the examination in the year 2013 as compared with the year 2011 had decreased by 418. The number of students who had failed all the subjects in the year 2013 as compared with the year 2011 had increased by 4,687. As such a setback in the overall results of the examination was observed. In view of the increase in the number of students admitted to the Universities based on a decision of the Supreme Court an increase in the number of students admitted to the Universities for the Academic Year 2011/2012 was indicated.

Health Services

The Ministry of Health functions according to its stated objectives for the building of a healthy nation contributing to the socio-economic, mental and intellectual development of the country.

The sum of Rs.119,530 million spent in the year 2013 on the Health Sector indicated an increase of 21 per cent as compared with the expenditure of Rs.98,999 million spent in the year 2012. The increase in the expenditure during the past 04 years was as follows.

Particulars	YEARS 2013	2012	2011	2010
Expenditure of the Ministry of Health (Rs. Million)	92,994	71,506	63,353	53,730
Capital – Actual (Rs. Million)	17,435	13,647	10,359	8,622
Recurrent (Rs. Million)	75,559	57,859	52,994	45,108
Total Expenditure on Health	119,530	98,999	89,217	73,835
Recurrent (Rs. Million)	99,609	81,946	74,443	60,506
Capital (Rs. Million)	19,921	17,063	14,774	13,329
Per Capital Expenditure on Health (Rs.)	5,836	4,870	4,274	3,573
Total Expenditure on Health as a Percentage of the Gross Domestic Product	1.38	1.31	1.36	1.32

Source :Ministry of Health / Annual Report of the Central Bank of Sri Lanka

Health Sector

The total capital and recurrent expenditure incurred on the Health Sector in the past 05 years amounted to Rs.77,741 million and Rs.375,293 million respectively totaling Rs.453,034 million. The per capita expenditure of health amounting to Rs.3,496 in the year 2009 had increased by 67 per cent to Rs.5,836 in the year 2013.

The contribution to the Health Sector from the Private Hospitals as compared with the 2009 indicated an increase of the number of beds in the Private Hospitals. Similarly, increase in the number of Government Hospitals and the number of beds as well as an increase in the labour force had also indicated.

Registration of Private Medical Institutions

The Private Medical Institutions Regulatory Council had been established in the year 2006 in terms of the Registration of Private Medical Institutions Act, No. 21 of 2006. In terms of Section 13(1) of the Act, "the Minister may, on the advice of the Council, by Order published in the Gazette formulate and schemes of accreditation for private medical institutions. Such Order shall carry all the details specifying the facilities, services and any other factors constituting the Criteria for accreditation. But those schemes had not been made despite the elapse of 8 years after the Act coming into operation. Though all private medical institutions should register with the Council in terms of Section 4(1) (i) and (ii) of the Act, due to various deficiencies a large number of medical institutions had been running their businesses from the year 2007 to the year 2013 without obtaining registration. Though 50 per cent of the registration fees should be paid to the respective Provincial Councils, a sum of Rs.26,552,000 had not been paid to the Provincial Councils from the year 2008 to the year 2013. In addition, the financial statements for the years 2006 to 2013 had not been prepared and furnished to audit.

Cosmetics, Devices and Drugs Authority

According to the Cosmetics, Devices and Drugs Act, No. 27 of 1980, publicity of any kind of cosmetic or device can be done only under the prior written approval of the Authority. Though 420 applications for such advertisements had been received in the year 2013, only 206 applications had been registered. As such an advertisements on 214 unregistered cosmetics had been given publicity.

Spread and Eradication of Dengue

Statistics of the past 05 years on Spreadng of dengue in different regions of Sri Lanka are as follows.

YEAR	NUMBER OF PATIENTS	DEATHS
2009	35,095	346
2010	34,188	246
2011	28,473	186
2012	44,461	181
2013	31,876	89

Though a decrease in the spread of the disease in the year 2013 as compared with the year 2012 was indicated the risk of a reversion exists due to the backward nature of the disease eradication methodologies. The effectiveness of the action taken by the Dengue Eradication Units for the control of dengue mosquito breeding had faced various problems. The provision of Rs.42,125,195 made for the year 2013 had been made without giving priority to the areas which had larger number of patients and deaths. The monthly reports on the activities done under the control programmes had not been furnished to ascertain the success or failure of the programmes. Though 125,000 BTI tablets purchased for Rs.31,250,000 under the Mosquito Dunk Pilot Project, the desired results had not been achieved as those had been issued without giving necessary instructions. The shelf life of 69,970 (60 per cent) unused tablets had expired the July 2014. Though the objective of the pilot of project was to use both liquid and tablet BTI to study the mosquito eradication the Pilot Project had not used the liquid BTI.

Transport

Passenger transport service provides very important share in the Transport Sector in Sri Lanka and is mainly operated by the Public and Private Sectors. Public Transport Service is operated by Sri Lanka Transport Board while the private transport service is operated by private bus owners.

Sri Lanka Transport Board

The Sri Lanka Transport Board has been re-incorporated under Act, No. 27 of 2005 and it becomes the owner of the Public Sector buses as well as the runner. The Sri Lanka Transport Board functions with the vision of being the excellent passenger transporting service in the region and its mission is the provision of a safe, reliable and comfortable road passenger transport system for the general public at a reasonable system of fares and the balanced maintenance of such service through the maximum utilization of resources of the Board by a dedicated and effective staff. Sri Lanka Transport Board at present has 104 Main Depots 16 Sub-depots, 11 Regional Workshops, 07 Driver Training Schools in addition to the Head Office and 12 Regional Offices Island- wide. According to the information furnished by the Board, the performance of the Board for the year under review and the 3 preceding years is given below.

Running Position

	2013	2012	2011	2010
Bus fleet (Average)	7,607	7,756	7,821	8,403
Timetable requirement – Buses (Average)	7,174	7,172	7,131	7,129
Number of buses in running condition (Average)	4,720	4,694	4,933	5,119
Number of average buses run per day	4,373	4,314	4,365	4,441
Number of buses run as a percentage of timetable requirement	61	60	61	62
Scheduled number of Kilometers	603,004,472	609,651,210	611,411,135	616,363,455
Total Kilometers run	343,691,735	337,830,439	340,840,718	341,617,984
Number of Employees	33,168	34,092	34,263	34,772
Number of employees per bus in running condition	8	8	7	7

Source : Planning and Research Division – Sri Lanka Transport Board

According to the above table the total bus fleet belonging to the Sri Lanka Transport Board in the year 2010 amounted to 8,403 and it had decreased to 7,607 buses by 15 per cent in the year 2013. The timetable requirement in the year 2010 amounted to 7,129 buses out that it had risen to 7,174 buses by 0.6 per cent in the year 2013. Accordingly, the Sri Lanka Transport Board could achieve only 61 per cent of the timetable requirement. Number of kilometers run in the preceding years from the targeted running kilometres had been 55 per cent but it had increased to 78 per cent in the year 2013 and as such an adequate fleet of buses to fulfill the timetable requirement.

Income, Expenditure and Profitability

According to the information furnished by the Planning Division of the Sri Lanka Transport Board and the accounts presented to audit particulars of income, expenditure and profit and loss in the current year 2013 and the preceding 4 years are given below.

	2013 *Rs.*	2012 *Rs.*	2011 *Rs.*	2010 *Rs.*
Income				
Income from passenger transport	19,430,655,484	18,209,846,344	15,085,144,469	14,588,374,538
Other Income	8,018,965,187	2,095,904,299	2,079,969,382	2,545,970,515
Government Grants	2,741,785,656	5,997,619,174	5,353,866,486	5,616,459,435
Total Income	**30,191,406,327**	**26,303,369,817**	**22,518,980,337**	**22,750,804,488**
Income from passenger transport per Kilometer run	56.54	53.90	44.26	42.70
Total Income per Kilometer run	87.84	77.86	66.07	66.60
Expenditure				
Operating expenditure of buses	26,416,646,151	23,852,905,514	19,476,472,376	18,480,336,180
Other expenditure	5,307,753,254	4,946,753,969	4,319,067,869	4,408,086,757
Total Expenditure	**31,724,399,405**	**28,799,659,483**	**23,795,540,245**	**22,888,422,937**
Bus operating expenses per Kilometer run	76.86	70.60	57.14	54.09
Total expenditure per Kilometre run	92.30	85.25	69.81	67.00
Operating Loss before Government Grants	4,274,778,734	8,493,908,840	6,630,426,394	5,754,077,884

Operating loss after Government Grants	1,532,993,078	2,496,289,666	1,276,559,908	137,618,449
Loss per Kilometer run before Government Grants	21.44	25.14	19.45	16.84
Loss per Kilometer run after Government Grants	4.46	7.39	3.74	0.40

According to the above table, income from passenger transport had been gradually enhanced. This enhancement as compared with the year 2010 represented 31 per cent and it was 6.7 per cent as compared with the preceding year. However, the total expenditure as compared with the year 2010 had increased by 38 per cent and it was 10 per cent as compared with the preceding year. Accordingly, the expenditure has increased more than the increase of income and as a result the Board continuously incurs losses. By 2010 the Sri Lanka Transport Board had to earn Rs.65.54 per kilometre to reach break-even point and it had increased to Rs.90.30 by the year 2013. If the Board incurs losses continuously there would be an uncertainty to continue the Sri Lanka Transport Board as a going concern without getting any financial assistance from the Government or the General Treasury.

Common weaknesses observed and steps to be taken to preclude such weaknesses.

- **Inadequacy of the bus fleet of the Sri Lanka Transport Board**

The total bus fleet of the SLTB as at 31 December 2013 amounted to 7,143, out of which 4,245 buses had been over10 years old and the number of buses in running condition amounted to 4,699. However, the timetable requirement planned at present amounted to 7,174 buses. Accordingly, the bus fleet of the Board is insufficient to meet the timetable requirement and it had failed to supply 40 per cent bus requirement to implement the proposed unified timetable. As such prompt action should be taken to increase the bus fleet of the Board. The Board had added 233 new buses to the fleet during the year 2013 and planned for the purchases of another 2,200 buses in the year 2014.

- **Reduction of number of running routes**

Due to insufficient bus fleet and the removal of old buses from running, running routes are gradually being decreased and the running of Sri Lanka Transport Board Buses in certain roads had completely come to a standstill. Route No. 103 Borella – Fort, route No. 173 Narahenpita – Fort can be cited as examples. As a result many buses of the Board are limited to operate on uneconomic routes. Accordingly steps have to be taken to increase the bus fleet so that the Board can re-commence running on routes deprived of and to create new bus routes by the maximum utilisation of the Board's resources.

- **Increase of annual bus running costs**

Expenditure of the Board relating the past several years had been increasing and the main reasons for this increase observed was increase of fuel cost, cost of tyres and tubes, repairs and spare parts, etc. The pattern of certain main expenditure items is shown in the following table.

	2013 *Rs.*	2012 *Rs.*	2011 *Rs.*	2010 *Rs.*
Fuel and Lubricants	12,544,928,647	11,405,107,132	8,118,487,323	7,650,699,703
Tyres and Tubes	1,799,416,147	1,421,908,482	1,588,854,899	1,196,568,809
Bus repairs	168,930,616	125,423,630	122,304,598	165,836,532
Spare Parts	1,098,627,197	879,514,919	1,200,417,694	1,172,902,212
Total	15,611,902,607	13,831,954,163	11,030,064,514	10,186,007,256
Number of Buses run	4,720	4,694	4,933	5,119
Expenditure per bus	3,307,607	2,946,731	2,235,975	1,989,843

Even though the number of kilometers run by buses during the past several years had not been considerably increased, fuel cost had increased by about 64 per cent by the year 2013 as compared with that of 2010 and the fuel cost in the market had increased by about 17 per cent. Wastage of fuel excessive fuel consumption, improper maintenance of buses and fuel frauds had been the reasons for this increase. Further massive expenditure on bus repairs and spare parts had been incurred. Even though the assistance of a private company had been obtained for the purchase of spare parts under a concessionary duty system, it had also failed. Accordingly, attention has to be paid to prepare a proper plan to purchase high quality spare parts economically, control of fuel consumption of buses and removal of old buses from the fleet and to add new buses to the fleet.

- **Insufficient Supervision over Bus Operations**

As a sufficient supervision over the operation of buses in accordance with a timetable were not carried out by the Head Office or at the regional level or depot level, it was observed that the bus operating responsibility had been assigned to drivers and conductors. It is important to supervise bus operation under GTS technology.

- **Handing over the daily income with shortages by conductors**

As conductors handover daily revenue collections with shortages conductors' outstanding amount is gradually increasing and there is a delay in recovering those outstanding amounts. As such, it is important to supply ticket machines to every depot and to strengthen the flying squad in order to minimize cash frauds from bus ticket cash collection.

Other course of action to be taken by the Board for its enhancement

– Implementation of 60 to 40 per cent policy on private and public sector transport.

– Introduction of a pre-paid card system for passengers.

– Improvement of Drivers' Training Schools of the Board and creation of disciplined and useful drivers to the country.

– Increase the capacity of Ampara Tyre Factory to fulfill the tyre requirement of buses of the Board.

– Utilization of unutilized land and buildings belonging to the Board for effective purposes.

– Reformation of the Internal Control Systems to suit the present situation after a revew of the existing systems in operation.

– Training of staff, motivate them and paying attention of the top management on the safety of employees of the Board.

– Preparation of annual financial statements in accordance with Sri Lanka Accounting Standards, presentation of accounts for audit without delay and the introduction of a Computerized Accounting System.

– Strengthening the Internal Audit Division and intervention of the top management for the rectification of deficiencies reported by the Internal Audit Division.

– Compliance with internal and external laws, rules and regulations by all staff including top management.

National Transport Medical Institute

Health problems of the drivers directly affected the increase the road accidents. Therefore, the authority to determine whether all the persons who expect to apply their vocation as drivers in Sri Lanka are physically and mentally fit for driving vehicles is vested in the Institute.. Accordingly the National Transport Medical Institute contributes to minimize the road accidents by issuing medical certificates only for applicants who are physically and mentally fit. The National Transport Medical Institute had been established on 01 May 1999 by the Act, No. 25 of 1997 and is at present, operated under the Ministry of Transport as a self-income generating Statutory Body. This Institute is operated with the vision of "sitting down a healthy driver behind every steering wheel" and its mission is to certify physical and mental pertinence of all drivers who apply driving licences by carrying out physical and quality medical tests in pioneering the Transport field within Sri Lanka. Nineteen Branch Offices including the Head Office have been established with the vision being the foremost Institute in transport medicine in the country by conducting piritual and quality medical examinations for all candidates for driving license and certifying their Physical and Mental fitness and to achieve the main objective it has a staff of 251 employees including Medical Officers. The total income of the Transport Medical Institute and its Branches in the year 2013 amounted to Rs.328,962,497 whereas the total expenditure amounted to Rs.217,481,289, thus showing a surplus of Rs.111,481,209. Statistics of the performance of the Institute relating to the number of medical tests and accidents medical tests carried out during the year under review and 3 preceding years are given in the following Table.

	2013	2012	2011	2010
Total number of medical tests	371,796	164,652	274,605	302,214
Number of failures due to illness	29,593	12,146	18,019	19,278

Particulars of the number of accident medical tests carried out by the National Transport Medial Institute

	2013	2012	2011	2010
Number of Medical tests carried out	2,494	2,343	1,960	1,315
Number of physically fit cases	2,295	2,192	1,826	1,210
Number of physically unfit cases	199	151	134	105

National Heritage and Religious Affairs

Ministry of National Heritage

The culture of a country plays a pivotal role in a world that is past-faced and closely intertwined, says the UNESCO. The identity of a country is defined by national heritage whereas, the factors enriching the cultures are ranging from archeological monuments and museums to other incalculable aspects such as conventional morality and contemporary artworks. Moreover, the development of a society that is based on vibrancy, creativity and prosperity , is contributed by factors such as national heritage and creativity.

In Sri Lanka, every activity related to national heritage, is performed by the Ministry of National Heritage.

It is the mission and vision of this Ministry to be the proud nation in the region in pioneering the conservation of national heritage through effective contribution to socio-economic development process and conservation of tangible and intangible heritage so as to be passed down to future generations in such a manner that the national heritage will be projected in a global context.

Main objectives of the Ministry includes : paving way for a strong foundation towards the promotion of tourism through attention of global citizenry on the supreme national heritage, which is indigenous and unique, to instill youth into the national heritage, traditional custom and social values, empowering the people with morality in order to amend the factors affecting the deterioration of national heritage and spearheading the achievement of development goals through patriotic psyche.

Estimated and actual costs in the achievement of objectives with regard to the Ministry and institutes under its purview for 2013 and the preceding year are as follows.

INSTITUTION	2013 Recurrent *Rs. M.* **(a)**	2013 Capital *Rs. M.* **(a)**	2013 Recurrent *Rs. M.* **(b)**	2013 Capital *Rs. M.* **(b)**	2012 Recurrent *Rs. M.* **(a)**	2012 Capital *Rs. M.* **(a)**	2012 Recurrent *Rs. M.* **(b)**	2012 Capital *Rs. M.* **(b)**
Ministry of National Heritage	152.3	176.9	98.6	97.3	120.5	248.2	97.8	98.6
Department of Archeology	572.7	172.5	571.7	124.0	501.4	185.1	474.5	111.8
Department of National Museums	112.8	92.4	105.9	45.3	101.4	76.2	92.1	29.7
Department of Archives	81.9	294.2	77.4	67.5	60.9	316.9	59.7	240.4
Galle Heritage Foundation	5.5	7.5	5.4	7.5	7.5	15.7	5.3	2.5
National Folk Art Centre	12.7	10	11.0	6.7	9.5	10.0	9.4	4.5

(a) Estimate (b) Actual

Progress of the year 2013.

Although it was decided to conclude the projects such as, conservation of Mumtaz Mahal , the old official residence of the Speaker , into a center for tourism cum an archeological museum owing to its architectural value, and converting the old Dutch Naval Commissioner's Official Residence in Trincomalee into a museum in the year 2012, those projects had not been completed even by the end of the year 2013. Moreover, the old Dutch Fort in Jaffna had been completed on aid from the Netherlands at a cost of Rs. 124.5 million. A program under the theme of "Our heritage to the children" had been conducted by the Department of Archeology in conjunction with the National Institute of Education.

The Central Cultural Fund had allocated a sum of Rs. 117 million for the conservation of Deeghawapi Stupa, Kalugal Pokuna near IndikatuSeya, Thiwanka Image House and the Museum in Thantirimale and, the conservation had been initiated. Nevertheless, such activities had not been under the supervision of the expertise of the Ministry and the Department of Archeology owing to absence of a national level plan for archeological conservation.

National Heritage.

Acts of vandalism on Artefacts

A tendency of vandalizing the artefacts for various benefits has arisen over the previous decades. Particulars reported to Police Division in charge of Protection of Antiquities on the incidents under Antiquities Ordinance such as thievery of artefacts at the sites near archeological monuments, illegal excavations and destruction of artefacts, are as follows.

NATURE OF OFFENCE	2009	2010	2011	2012	2013
Theft of Artefacts	17	12	32	74	43
Destruction of Artefacts	31	42	25	67	70
Excavations for Artefacts	95	145	135	216	216
Other offences under Antiquities Ordinance	92	95	28	13	11
Total	**235**	**294**	**220**	**370**	**340**

The Number of incidences of the destruction of artefacts reported during the year 2013 had decreased as compared with the previous year. However, number of instances of excavations to unearth artefacts, the highest Number of incidents on the destruction caused to artefacts, reported during the year under review had been as same as the previous year equaling to 216.

As for the instances of vandalism in terms of provinces, the number of such incidents as compared with the year 2012, had increased from 8 to 18 and 82 to 116 in North and North Central Provinces respectively. The number of incidents reported during the year 2013 in North Central Province , where a highest number of archeological monuments are situated and a highest number of acts of vandalism is reported yearly , had increased by 41 per cent as compared with the previous year.

Out of 1,459 incidents of damage reported from 2010 to 2013, investigations had been concluded for 1,060 incidents whereas, 399 cases were underway.

Non-encouragement of those who contribute to avert vandalism on artefacts.

Antiquities Reward Fund had been established under Antiquities Act (Amendment) No 24 of 1998 with several objectives including rewarding the officers of the Department of Archeology, informants, and the Police Officers who help protect artefacts. The balance of the fund being contributed by the fines sent to the Director General of Archeology imposed by courts on the cases involving vandalism of artefacts, amounted to Rs. 44,619,540 at the end of 2013 but ,nonetheless, the cash had not been spent on the objectives of establishing the fund.

Damage caused to the Artefacts by Metal Quarries.

A sharp increase in issuing licenses for quarrying to obtain granite stone used in rapid development process in the country had taken place. However, due to reasons such as, weaknesses in issuing licenses and follow-up actions, failure to examine the archeological importance of those places and non-coordination with the Department of Archeology prior to issuing licenses, the quarrymen had destroyed the archeological monuments, as reported during the year 2013.

Archeological traces including 8 monuments dating back to 12^{th} century that pertained to the Paludeniya Monument in Siripura, Polonnaruwa and remnants of a foundation of a Stupa at the archeological monument in Seenukgala, Hambanthota, had been destroyed.

Religious Affairs

Events related to Buddha Sasana and other religions are coordinated by the Ministry of Buddha Sasana and Religious Affairs.

In becoming the pioneering facilitator to foster a society respecting moral values by centering around places of religious worship under a long-drawn-out vision based on all religious doctrines including Buddhism, the Ministry of Buddha Sasana and Religious Affairs functions under the mission of nurturing a society that encourages ethics enabling a virtuous life style by compiling and implementing policies and programs with the involvement of all stakeholders.

In order to achieve those objectives effectively, Departments representing all religions such as, Buddhist Affairs, Muslim Religious and Cultural Affairs, Christian Religious Affairs, and Hindu Religious and Cultural Affairs had been established under the purview of the Ministry. Additionally, the Public Trustees Department also functions hereunder.

Performance

In order to achieve the objectives by coordinating the Departments under its purview, the Ministry of Buddha Sasana and Religious Affairs had implemented 13 programs in the year 2013 inclusive of, 5 programs on physical development, 5 programs on spiritual development , 2 clergy oriented programs, and a program for sacred areas development at a cost of Rs. 344 million. However, the Ministry had failed in achieving the progress of those programs as expected.

Even though it was necessary for the Ministry of Buddha Sasana and Religious Affairs to conduct certain activities in proper coordination with Ministry of National Heritage and other institutions thereunder, such a coordination had been unheeded.

Ministry of Buddha Sasana and Religious Affairs

Even though Rs. 451 million equivalent to 93 per cent of the provision for the year 2013 had been spent on the development of places of religious worship attention had not been drawn to the inspection of physical performance.

Plans had been made to conduct the program for promoting other languages with a view to encouraging the unity among other ethnicities and disseminating Buddhist Philosophy locally and globally by improving the knowledge of Buddhist monks on other languages. Despite the allocation of provisions amounting to Rs. 5 million during the year under review, the program had not been implemented. Furthermore, provisions amounting to Rs. 7.9 million allocated during 3 previous years , had not been utilized.

According to the Section 6 of the Act governing the Buddha Sasana Fund established under the Ministry of Buddha Sasana and Religious Affairs, cash received from whatever source , be it local or international, should be accepted and action should be taken to protect and foster the Buddha Sasana according to the most suitable way the Board reckons. Nevertheless, the Fund had not taken action under a well-planned program with proper awareness of its main function. For instance, despite the receipt of income exceeding Rs. 664 million in the years 2012 and 2013, Rs. 6 million only had been spent for the achievement of the objection for which its find had been established.

Tourism Industry

The programmes for the year under review had been launched for the achievement of tourism income of US$ 2.75 billion by the year 2016 by attracting 2.5 million tourist arrivals as the main target of the Tourism Industry. The Government had established four institutions, namely the Sri Lanka Tourism Development Authority, the Sri Lanka Tourism Promotion Bureau, the Sri Lankan Institute of Tourism and Hotel Management and the Sri Lanka Convention Bureau and the Government had spent a sum of Rs.2,560 million in the year 2013 for the maintenance of the four institutions. Large scale tourism promotion programme had been held for the promotion of tourism in the People's Republic of China, India and Russia at a cost of Rs.814 million and several trade promotion programmes had also been held at a cost of Rs.92.4 million. In addition, the opening of 04 permanent airline services and 5 temporary airline services with Sri Lanka as the destination in the year 2013 has been instrumental in boosting in tourism industry. The improvement of the tourism industry had been maintained unceasingly with the increase of tourist arrivals from 1,005,605 in the year 2012 to 1,274,593 or an improvement of 26.75 per cent in the year 2013. Concurrently the earnings of the tourism industry had recorded a substantial improvement of 65.1 per cent as compared with the year 2012 and that had been a major factor for the surplus in the Services Account of National Income of Sri Lanka.

Western Europe still continues to maintain the foremost place in the region-wise tourist arrivals with 33 per cent of the total arrivals in the year 2013. In addition the highest arrivals had been form South Asia, East Asia, Eastern Europe, Middle East Countries, North America Australia and Africa in that order. The arrivals in Sri Lanka in the year 2013 from the Latin American Countries and the Caribbean Islands not included in the above regions had been 3,166. Nevertheless, that number as compared with the year 2012 recorded and improvement of 94 per cent.

Investments are being made for increasing the facilities commensurate with the number of tourists arrivals and the Government is committed make massive investments in the Tourism Zones located at Bentota, Pasikuda, Kuchchiweli, Kalpitiya, Dedduwa and Yala Palatupana .Thirteen hotels with 854 rooms had been constructed and opened for business at Pasikuda in the year under review and the preceding year. The new programme of Tourist Hospitality Houses introduced by the Sri Lanka Tourism Development Authority had received an immense response from the foreign tourist and 151 Tourist Hospitality Houses had been registered by the end of the year 2013. Nevertheless, out of the lands transferred by the Government to the Sri Lanka Tourism Development Authority and its predecessor since the year 1968 to date, the institutions had not been able to utilize about 2,000 acres for the benefit of the tourism industry.

Several important observations made in the audit of the Sri Lanka Tourism Development Authority are as follows.

- Even though an extent of 15 acres belonging to the Bentora National Holiday Resort had been occupied by a private institution, the Authority had no taken action for the recovery of the possession of the land.

- The loss caused to the Authority from the bogus bills submitted for the water supplied to two hotels in the Bentota Tourist Zone amounted to Rs.9,212,657.

- The erronem payment made to the contractor for the maintenance of the Bentota Sewerage System amounted to Rs. 6,608,749.

- Even though Rs.200 million had been given to 04 Provincial Councils, the progress of the projects had not been followed-up.

- Action had not been taken for the recovery of taxes amounting to Rs.8,802,999 recoverable from 48 institutions in the Bentota Tourist Resort.

- An overpayment of Rs.2,428,613 had been made to the contractor in connection with the construction of the Kataragama Rest House.

- Even though a sum of Rs.3,255,750 had been paid as hire charges on bulldozers and motor vehicles obtained for the construction of the Mohottuwarama Jetty, there was no evidence of the procurement of such services.

- An overpayment of Rs.824,000 for metal and an erroneous payment of Rs.2,549,000 for metal, ABC and gravel had been made in connection with the construction of the Kalpitiya Thoraidiya Jetty and tarring the area near the lagoon.

- A sum of Rs.16,379,700 had been deprived of due to allowing the fee use of floor space of 4,952 square feet of the Sri Lanka Institute of Tourism and Hotel Management to an unidentified person and other institutions.

Diplomatic Relations

The primary objective of the Ministry of External Affairs and the Mission Offices is the promotion and safeguarding of the Sri Lanka National Ambitions in foreign countries by following a non-aligned, free and progressive foreign policy. The Democratic Socialist Republic of Sri Lanka maintain a network of 65 Missions in 50 countries of the World to maintain its Diplomatic Relations.

The home-based staff approved for the maintenance of the Diplamatic Relations by mid 2013 had been 463 and the vacancies had been 32 while the number of local staff had been 494 and the vacancies had been 82.

Income and Expenditure of the Mission

- The Foreign Missions of Sri Lanka had earned revenue amounting to Rs,1,352 million in the year 2013 in the issue of Passports, Police Clearances on behalf of the Government of Sri Lanka and the highest revenue amounting to Rs.181 million had been earned by the Sri Lanka Mission in Italy which the lowest revenue of Rs.0.05 million had been earned by the Mission Ramalla. The revenue earned by the Mission in Paris and London exceeded Rs.100 million each.

- The estimated and the actual recurrent and capital expenditure of the Ministry for the year under review are given below.

	NET ALLOCATION 2013 *Rs.Millions*	ACTUAL EXPENDITURE 2013 *Rs.Millions*
Recurrent	7,718	7,702
Capital	2,421	2,303

- According to the expenditure structure of the Ministry, the highest expenditure, that is, 78.6 per cent had been incurred on the Missions Abroad. The highest expenditure of Rs.1,014 million in the year 2013 had been incurred by the Mission in Washington and the lowest expenditure, other than the recently opened Mission in Uganda, amounting to Rs. 20 million had been incurred by the Mission in Ramalla.

- Out of the total expenditure, the capital expenditure and the recurrent expenditure of the Mission for the year 2013 amounted to Rs.1,149 million and Rs.6,716 million respectively. About 50 per cent of the recurrent expenditure had been spent on the staff and other allowances.

- A sum of Rs.1,047 million or 15.6 per cent of the recurrent expenditure had been incurred on the rent of buildings. The attention of the authorities concerned had not been paid for the formulation and implementation of the long term programme for the construction or the purchase of buildings suitable for this purpose which will be beneficial to the Government to overcome this situation. It was observed that certain action taken in this connection in the past had not yielded the expected result due to different reasons.

Unsettled Advances

The unsettled advances of the Mission as at 31 December 2013 amounted to Rs.333,055,195 and the Ministry had not taken action up to date to settle the advances. The advance balances exceeding Rs. 15 million each of the following Missions had not been settled. Those unsettled advances represented 36.6 per cent of the total unsettled advances.

MISSION	UNSETTLED ADVANCE
	Rs.Millions
Tokyo	15.60
New York	20.08
Washington	20.06
London	36.60
Toronto	29.80
Total	**122.14**

Ministry Imprest Account

The balances of the Imprest Account of the Ministry as at 31 December 2013 did not agree with the unsettled balances of advances and the cash balances of the Mission Abroad. The details appear below.

IMPREST ACCOUNT NUMBER	IMPREST ACCOUNT BALANCE APPEARING IN MINISTRY BOOKS AS AT 31 DECEMBER 2013	UNSETTLED ADVANCES		
		Ministry	Missions Abroad	Total
	Rs.	Rs.	Rs.	Rs.
35/08	63,350,921	4,800,000	61,855,518	66,655,518
35/09	32,271,945		31,146,303	31,146,303
35/10	675,170,151	309,773	38,695,854	39,005,627
35/11	(463,557,480)		38,847,021	38,847,021
35/12	101,950,473		85,555,612	85,555,612
35/13	496,559,214	848,377	76,954,889	104,024,215
Total	905,745,224	11,958,150	333,055,197	345,013,347
Total Balances of unsettled Advances as at 31 December 2013				345,013,347
Closing Cash Balances of Missions as at 31 December 2013				382,965,393
Imprest Balances of the Ministry				727,978,740
Grand Total of Imprest Accounts as at 31 December 2013 according to Ministry books as shown in the Appropriation Account				905,745,224
Difference				**177,766,484**

Accordingly a difference of Rs. 177,766,484 was observed between the Imprest Accounts and the actual imprest balances. As the Treasury Imprest Account balance amounted to Rs. 905,745,224, that difference was also observed between those two accounts.

Water Supply and Sanitation

Through the Earth consists of over 70 per cent water, it is a highly valuable and limited resource as less than 1 per cent is pure water fit for drinking. As fresh and pure water is essential for all living beings and as the supply of pure water as compared with the future demand for water is limited, the supply of pure water for for drinking has become a major challenge.

Pure water has to be protected from the changes occurring due to the rapid urbanization of population industrialization, changes in climate and natural disasters. In view of the lack of any alternative for the water for the existence and the health of all living beings, it is the responsibility of a Government or an organization to maintain its supply according to specific standards. The Ministry of Water Supply and Drainage and the National Water Supply and Drainage Board under the purview of the Ministry are the two major Government institutions vested with that responsibility. The expenditure incurred by the two institutions in the past 05 years is given below.

YEAR	MINISTRY OF WATER SUPPLY AND DRAINAGE	NATIONAL WATER SUPPLY AND DRAINAGE BOARD	TOTAL
	Rs.Millions	*Rs.Millions*	*Rs.Millions*
2009	287	22,930	23,217
2010	1,351	25,091	26,442
2011	439	26,783	27,222
2012	380	30,899	31,279
2013	640	25,436	26,076

Ministry of Water Supply and Drainage

The Ministry of Water Supply and Drainage has been established with the objective of the supply of pure drinking water and adequate sanitation facilities ensuring the equilibrium of sources of water and the environment. The responsibility for providing of guidance to the National Water Supply and Drainage Board for the supply of drinking water and sanitation facilities to all parties by implementing the local and foreign funded projects relating to the supply of water is vested in the Ministry.

National Water Supply and Drainage Board

The National Water Supply and Drainage Board established under the National Water Supply and Drainage Board Act, No. 2 of 1972 is responsible for the development and maintenance of pipe borne water supply and drainage systems for the benefit of the household consumers and the industrial and commercial sectors. A number of projects are implemented by utilizing both local and foreign funds for the continuous maintenance of the water supply and drainage systems. The utilization of foreign funds for that purpose is given in the following Table.

PROJECTS	2011			2012			2013		
	Provi-sion *Rs. Mn*	Utili-zation *Rs. Mn*	Percen-tage	Provi-sion *Rs. Mn*	Utili-zation *Rs. Mn*	Percen-tage	Provi-sion *Rs. Mn*	Utili-zation *Rs. Mn*	Percen-tage
Large Scale	26,632	26,511	99.55	30,265	27,469	90,76	29,218	24,399	83.51
Medium and Small Scale	2,050	1,879	91.66	3,253	2,532	77.83	3,499	2,981	85.19
Tsunami	1,156	947	81.92	1,598	1,644	102.87	902	706	78.27
Community Facilities of Water Sector	--	--	--	210	95	45.23	1,145	405	35.37
Total	**29,838**	**29,337**	**98.32**	**35,326**	**31,740**	**89.84**	**34,764**	**28,491**	**75.44**

The following weaknesses were observed in connection with the projects implemented from local funds and foreign aid.

- Even though the expected period of completion of projects had been determined according to the preliminary designs and studies, 90 per cent of the projects subjected to a test check had not been completed within the expected periods. Even though various reasons had impacted the issue, the delays in completion had resulted in cost escalations due to additional work and price increases.

- The provisions made available by the Treasury for specifically identified projects had been diverted to other projects and for the use of the Board without authority.

- Even though large number of small scale projects financed from local funds had been commenced, many projects had not been completed or abandoned halfway and the non-receipt of funds as expected from the Government had been given as the reason.

- About 308 Community Water Supply and Sanitation Projects had been stopped halfway due to reasons such as the unavailability of the expected water capacity, decreasing community participation, poor financial control of the Community Organizations, defective designs and poor supervision and tendency to obtain water from the supplies made by the National Water Supply and Drainage Board.

Financial Performance

Even though the Board had incurred losses during several preceding years according to the financial statements published by the Board, continuous profits had been earned from the year 2011 to the year 2013. The financial results of the Board for the past 06 years are given below.

YEAR	PROFIT/(LOSS)
	Rs.Millions
2008	(2,914)
2009	(1,425)
2010	(5,955)
2011	684
2012	367
2013	1,003

Even though the gross profit of the Board indicated a gradual improvement, continuous net losses had been incurred in the years from 2008 to 2010 due to heavy overhead costs. The financial position of the Board had improved since the revision of water rates in the year 2012 and as such the income of the Board had improved by19 per cent as compared with the preceding year. Nevertheless, about 46 per cent of the operating expenses had been incurred on the salaries of employees. That as compared with the preceding year had increased by 13 per cent while an increase of 8 per cent was observed in the expenditure on employees directly contributing to the production of water.

The disconnected and the standpipes debtors balance older than two years amounted to Rs.840 million while the debtors balance of the Colombo Municipal Council and the other debtors older than three years amounted to Rs.28.5 million and Rs.8.7 million respectively.

The profit brought to account in the year 2012 amounted to Rs.367 million and that had increased to Rs.1,003 million or 173 per cent in the year 2013. According to the financial information of the Board, the cost of a unit of water purified and distributed and the profit thereon is given below.

	2013		2012		2011		2010		AVERAGE		%
	Rs.	*Rs.*	*Rs.*	*Rs.*	*Rs.*	*Rs.*	*Rs.*	*Rs.*	*Rs.*	*Rs.*	
Average Selling Price		44.72		38.93		33.71		33.28		37.66	
Cost of Production											
Direct Cost	17.14		13.87		11.50		12.27		13.69		
Cost of Non-revenue Water	7.42	(24.56)	5.91	(19.78)	4.86	(16.36)	5.58	(17.85)	5.94	19.63	34.78
Operating Profit per Unit		20.16		19.15		17.35		15.43		18.02	15.10
Other Costs											
Depreciation		(5.23)		(4.58)		(5.94)		(10.83)	6.64		16.88
Administrative Cost		(9.45)		(8.6)		(6.72)		(7.64)	8.10		20.59
Finance Cost		(5.19)		(4.68)		(4.24)		(5.78)	4.97		12.63
Total Expenditure		44.43		37.64		33.26		42.10	39.34		
Profit/(Loss)		0.29		1.29		0.45		(8.82)	(1.68)		

- Apart from the cost of production, about 17 per cent of the overall expenditure represents depreciation. Though there is no financial flow involved through this, the contribution from the assets existing at present had been helpful in enhancing the operations and the heavy cost of the assets of the foreign aid funded projects had an impact in this connection.

- Out of the overall expenditure, 21 per cent is incurred on administrative expenses and a larger portion of that is spent on the salaries and allowances of the staff, specially due to the increase of the salaries of staff in the past.

- A sum of Rs.4.97 out of each unit of water should be spent on interest on loans obtained for the capital expenditure of the Board and that represented 12.63 per cent of the total cost of production.

Water Sales Income

As the provision receivable from the General Treasury for the rebate given to consumers using less than 15 units of water in terms of the Budget Proposals 2009 had not been received and the Board had to meet that expenditure for the year 2012 amounting to Rs.118,614,518 out of its income.

Non-revenue Water Ratio

Even though the Board had planned for reducing the percentage of non-revenue water to 20.08 per cent of the end of the year 2013, the overall non-revenue water remained at 30.24 per cent as at the end of the year 2013 while the non-revenue water of the City of Colombo remained at 47.71 per cent of the water distributed in the city.

Action had been taken to reduce the of non-revenue water

Common stand pipes

Even though the Board had allocated a sum of Rs.3,100,169,648 under six projects for reducing the ratio of non-revenue water and utilized 50 per cent of the allocation the Board had not been able to reduce the non-revenue water by a tangible extent as shown in the following figures.

YEAR	2013	2012	2011	2010	2009	2008
Non-revenue water percentage	30.24	28.29	30.36	31.55	31.06	32.13

Community Water Supply and Sanitation

The Ministry and the National Water Supply and Drainage Board had commenced various projects for the identification of the water and sanitation of the rural areas, and the implementation of Rural Water Supply Schemes. Out of those projects, delays in the award of contracts for the projects relating to the Water for Resettled Persons in the North and the East, the Pilot Project on Sanitation and Health, the Project for the Improvement of Community Based Rural Water Supply and Sanitation in the Jaffna and Kilinochchi Districts, the Project for the Development of Community Infrastructure Facilities in Batticaloa, Mannar and Vavuniya and in Project for Improvement of Community Water Supply and Sanitation in Badulla and Moneragala being implemented in the year 2013 had been delayed.

Quality of Water in the Dry Zone

Even though the irrigation reservoirs had been selected for obtaining drinking water in the Dry Zone of Sri Lanka due to the scarcity of surface water sources throughout the year in those areas, contamination of the water sources is a threat to the supply of safe drinking water. The chronic kidney disease in the North Central Province of Sri Lanka has reached epidemic proportions and it has been found out that the disease can be controlled by the supply of purified water through the pipe borne water schemes of the Board. In view of the difficulties in the supply of pipe borne water to the Northern and the North Central Provinces the Board had adopted short term courses of action such as the construction of rain water tanks, distribution of pure drinking water by bowsers and the supply of water purification plants through community based organizations to the villages.

Sewerage Systems

The Board had commenced the work on 07 sewerage systems receiving foreign aid by the year 2014. In view of the delays in the award of contracts and carrying out the work, the foreign aid and grants received for the Greater Colombo Waste Water Management Project the Moratuwa – Ratmalana – Ekala – Ja-Ela Waste Water Disposal Project, the Kandy City Waste Water Disposal Project, and the Global Partnership on Output Based Aid (GBOPA) Project for increasing the accessibility to the Sewerage Service for houses with cost estimates amounting to Rs.36,018 million had been saved. The Board had not shown an adequate progress in the supply of services through the sewerage systems. The work on the Moratuwa-Ratmalana-Ekala – Ja-Ela Waste Water Disposal Project estimated at Rs.16,300 million had been delayed. As the work had been stopped due to the bankruptcy of the contractor, the work had been further delayed.

Port Services

Sri Lanka Ports Authority had been established under the Sri Lanka Ports Authority Act, No. 51 of 1979 for the maintenance of Port Services in Sri Lanka and for carrying out all activities relating thereto. The five main ports, namely the Port of Colombo, the New Colombo South Port, the Port of Galle, the Hambantota Port and the Port of Trincomalee and the two Ports, mainly Kankesanthurai and Oluvil Ports have been established under Sri Lanka Ports Authority. The Operations of the Kankeshanthurai Port are handed by the Sri Lanka Navy while there were no operations of the Oluvil Port from its inception. According to the information made available, the operating results of the Sri Lanka Ports Authority for the year under review and the 04 preceding years are given below.

YEAR	2013	2012	2011	2010	2009
Total Net Income (Rs. Millions)	36,343	38,098	31,086	28,279	23,831
Total Expenditure (Rs. Millions)	33,916	32,886	30,829	29,530	21,970
After Tax Profit/(loss) Rs. Millions	2,427	4,078	(18)	(1,065)	2,114

Noticeable change observed in the operations of the Sri Lanka Ports Authority in the year 2013.

- The total net income for the year 2013 amounted to Rs. 36,343 million and as componed with the preceding year indicated a decrease of Rs. 1,755 million. That represented a decrease of 4.6 per cent from the income of the preceding year.
- The total expenditure for the year 2013 amounted to Rs. 33,916 million and that as compared with the preceding year indicated an increase of Rs. 1,030 million and that had increased by 3.13 per cent.
- The after tax profit for the year 2013 amounted to Rs. 2,427 million and that as compared with the profit for the preceding year indicated a decrease of Rs. 1,651 million and that as compared with the after tax profit for the preceding year indicated a decrease of 40.5 per cent.

Performance

The number of ship arrivals at all the ports in Sri Lanka and the units of containers and the quantities of conventional cargo handled by all the ports in the year under review and the 04 preceding years are given below.

YEAR	2013	2012	2011	2010	2009
Ship Arrivals	4,799	4,931	5,153	4,657	5,162
Twenty Equivalent Units Containers Handled (Units 000)	2,502	2,317	2,299	2,167	1,714
Conventional Cargo Handled (Metric Tonnes 000)	5,664	6,508	6,265	5,463	4,984

- The total number of ship arrivals in Sri Lanka in the year 2013 had been 4,799 and that as compared with the preceding year indicated a decrease of 2.67 per cent in ship arrivals.

- The Twenty Feet Containers handled during the year 2013 had been 2,502 thousands and that as compared with the preceding year indicated an improvement of 8 per cent. Nevertheless, the conventional cargo handled during the year 2013 amounted to 5,664 thousands of metric tonnes and that as compared with the preceding year indicated a decrease of 12.97 per cent.

Operating Results of Main Ports

According to the information made available by the Authority, the profits and losses of the main ports of Colombo, Trincomalee and Galle for the year under review and the 02 preceding years are given in the following Table.

YEAR	2013	2012	2011
	Rs.Millions	*Rs.Millions*	*Rs.Millions*
Operating Profit – Colombo	2,755	5,499	705.2
Trincomalee	(232)	(240)	(309.17)
Galle	(96)	(47.84)	(139.17)

- The Port of Galle had incurred continuously losses in 06 years and the cumulative losses amounted to Rs.1,314 million.

- The Port of Trincomalee as well had incurred losses in 06 years and the cumulative losses amounted to Rs.1,862 million.

Important Audit Observations

Colombo South Port

The construction of the breakwater, the nautical approach channel and dredging of the Colombo South Port had been done as a Port of Colombo Expansion Project under a loan from the Asian Development Bank and the cost incurred amounted to Rs.42,055 million (Local Funds Rs.9,876 million and foreign funds Rs.32,179 million). Nevertheless, the operations of the port constructions at a cost of Rs.42,055 million had been given on the Build Operate and Transfer basis to a Company called Colombo International Container Terminal Company for a period of 35 years.

According to the agreement entered into between the Sri Lanka Ports Authority and the Colombo International Container Terminal Company, the Sri Lanka Ports Authority receives royalty of US$ 3.9 per container during the initial 05 years. It is observed that even the minimum return for the expenditure incurred on the Colombo Port Expansion Project is not received from the totally so received.

Port of Hambantota

The construction work of the first stage of the Port of Hambantota commenced on 15 February 2008 and the total expenditure on the construction of the port up to the end of the year 2013 amounted to Rs.105,109 million. Even though the construction of the first stage of the Port of Hambantota had been completed by 31 December 2011, the arrival of ships in the port had been limited to the ships transporting motor vehicles only due to the inability to handle containers as the gantry cranes had not been installed. Nevertheless, the installation of the nautical operating equipment and the construction of the operating terminal of the Second Stage of the Port of Hambantota Development Project had been commenced by utilizing a foreign loan of US$ 808 million.

The project is expected for completion by 14 April 2015 and the funds for the Project had been obtained from Exim Bank of China. The interest and loan installments payable on the loan obtained for this purpose up to the year 2016 are as follows.

Year	Interest	Loan Installment
	Rs. million	*Rs. million*
2012	2,208	-
2013	2,479	-
2014	2,233	1,826
2015	1,987	1,827
2016	1,742	1,827

Accordingly, an income adequate for the payment of interest and installments on the loans obtained for the construction of the port had not been earned. The losses incurred by the Port of Hambantota in the years 2011 and 2012 amounted to Rs.11.9 million and Rs.25.5 million respectively.

Oluvil Port Construction Project

The construction of the Oluvil Port with a loan obtained from DANIDA Agency of the Government of 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 in that connection. In addition, the Sri Lanka Ports Authority had spent a sum of Rs.444 million. Even though the nautical port and the fisheries harbor had been separately constructed, the operations of the port on the arrival of ships at the port had not materialized even up to the end of the year 2013. The Oluvil Port is a very shallow port of a depth of 8 metres, only very small ships can call at the port. Nevertheless, the foreign loan obtained for the construction of the Oluvil Port in the ensuing 10 years. In view of the small income that could be earned by the port 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.

PART VI

AUDITOR GENERAL'S COMMENTS ON SELECTED AREAS

Purchase and Storage of Paddy

A loss of Rs.578.4 million had been incurred as shown below in connection with the purchase, storage and issue of paddy during the years 2012/2013.

	RS.MILLIONS
Damaged Stocks	17.4
Stock Shortages	506.1
False information on Pricing Decisions	54.8
Total	**578.4**

Lack of internal control and weak management of the Board on the processes of purchase, storage and issue of paddy had been observed. In view of the failure to adjust the value of damaged stocks (Rs.17.4 million) in the regions subjected to the test check and the uncertainty of the quantities of stocks of paddy in the Northern and Eastern regions which experienced difficulties in maintaining proper stock control systems and the lack of stock verification, it was not possible to be satisfied in audit with regard to the accuracy of the value of stocks of paddy held in the stores of the Paddy Marketing Board reported at Rs.5,638.9 million. The total sum due for settlement by the board as at 31 October 2013 amounted to Rs.10,883.5 million and the imprest on loans payable as at that date amounted to Rs.791.1 million.

Internal Control Weaknesses observed in relating to the purchase and storage of paddy.

- Lack of a Manual on Stores Control
- Instances of assigning the control several stores to one storekeeper and of assignment of duties in writing.
- Lack of an appropriate methodology for the handover and takeover of stocks on transfer of Store keepers.
- Transfer of stocks from one store to another without Transfer Orders.
- Lack of an appropriate methodology for ascertaining the quantity of empty paddy seeds in the purchase of paddy.
- Storage of paddy not done according to circular instructions.
- Failure to maintain stock books properly.
- Lack of good weighing and measuring equipment.
- Purchases exceeding the quantity specified for purchase from each farmer.
- Purchase of paddy with humidity exceeding the maximum allowed.

Recording of the stock of paddy purchased in the detailed statement of paddy purchased and certification recording and certification of Receipt Advice, recording and certification of Payment Advice, maintenance of the Stock Book, checking of standards and weighing of paddy are being by the storekeeper himself without any internal control had provided opportunities to commit malpractices.

Internal Control Weaknesses in the Issue of Stocks of Paddy and Marketing.

- Issue of stocks of paddy without Issue Orders from the Head Office.
- Stores other than those authorized by the Head Office to issue paddy had been issuing stocks of paddy without informing the Head Office.

Weaknesses in Pricing of Paddy

- In terms of Section 4(1) of the Paddy Marketing Board Act, No. 14 of 1971 all powers relating to the purchase, sale, supply and distribution of paddy and rice are vested in the Board of Directors. The Minister should, after being advised by the Board of Directors, publish in the Gazette all provisions relating to his matter together with the effective dates. Nevertheless, the provisions relating to this process had not been published in the Gazette by the Paddy Marketing board since its revival in the year 2008.

- Instead of publishing the Gazette Notification action had been taken to determine the prices by a Pricing Committee. But the Committee had determined without considering the matters relevant to pricing and without obtaining the information required for the purpose. The loss caused by this practice amounted to Rs.54.86 million approximately.

Protection of Fauna and Flora

The protection of the fauna and flora is the management of the use of the biosphere providing benefits to the present generation without being an impediment to the achievement of the needs and objectives of the future generations.

The protection of wildlife resources, that is both fauna and flora is considered an important aspect of the management of the use of the biosphere. The denudation of the forest cover of Sri Lanka from 70 per cent at the beginning of the twentieth century to 22 per cent by the end of that century can be cited as an example for the need for the protection of these resources.

Sri Lanka had signed the International Biodiversity Convention in the year 1992 for the protection of biodiversity and in order to protect the environment, enacted the National Environmental Authority Act, the Forests Ordinance, the Fauna and Flora Protection Ordinance, the Coast Conservation Act, the Fisheries and Aquatic Resources Act, the Plant Protection Ordinance, the Customs Ordinance, etc. during the period 1907 to 2009.

Out of these, the Fauna and Flora Protection Ordinance enacted in the year 1937, contributing directly to the protection of the wildlife resources had been amended in the year 1964, 1970, 1993 and 2009.

The objectives of the Fauna and Flora Protection (Amendment) Act, No. 22 of 2009 are the protection of the fauna and flora of Sri Lanka and their habitats, prevention of the misuse of their habitats commercially or in other manner and the protection of the biodiversity of Sri Lanka.

Past II of the Fauna and Flora Protection Ordinance provides for the protection of elephants and buffaloes outside the National Protected Areas and the Sanctuaries and included a provision that keeping elephants captured from the forests without formal licences is a serious offence.

The audit has issued audit reports on the construction of the elephant fence for the mitigation of the highly environmentally sensitive problems of the human, elephant conflict as well as the unlawful keeping of elephant calves captured from the forests.

According to the information of the Department of Wildlife Conservation, the Department had issued licences for 359 elephants up to the end of September 2014. In this connection, the Department had not maintained separate registers for the elephants kept in temples, zoos and homesteads.

Files relating to the registration of 14 elephants said to be kept in homesteads, maintained for the purpose of the issue of licence were examined in audit and the major irregularities detected are as follows.

- The gestation of a she-elephant kept in a homestead had not been reported to the Director General of Wildlife Conservation in terms of Section 10 and 22(9) of the Fauna and Flora Protection (Amendment) Act, No. 22 of 2009.

- The births of elephant calves had not been registered and the deaths of elephants had not been reported to the Director General as specified in the Act.

- The Certificates of Grama Niladharis confirming the birth of elephant calves had been forged.

- Forged affidavits and documents in support of ownership had been produced.

- The Departmental Officers had not submitted reports by carrying out field inspections while certain fraudulent reports had been submitted.

- Formal and acceptable DNA Reports had not been produced.

- Files relating previous registrations of elephants had been fraudulently altered for the registration of elephant calves.

- The particulars and the medical reports of the Veterinary Surgeon who attended to the birth of elephant calves had not been produced.

According to the above matters, it was observed that the elephants relating to all the files had been illegally captured from the forests and licences had been obtained by registering subsequently.

According to the advice of the Department of Attorney General (Writ 625/09) case and in accordance with the provisions in the Ordinance, legal action should be taken against the persons who keep elephants without being registered while guidelines should be formulated for keeping domesticated elephants. Nevertheless, the internal control procedure implemented by the Department for the registration of elephants, specifically the arrangements made for the safekeeping of the registers and documents had been at a very weak level. In view of this situation, one of the 06 registers maintained for recording the registration of elephants had been misplaced.

The weaknesses in the methodology for the registration of elephants are as follows.

- A methodology for the issue of application forms for registration only after the payment of fees had not been introduced.

- The features required to be included in the photograph that should be produced, for the identification of the elephant had not been specifically stated (Examples clear Identification of the ears, tail and the trunks of the elephants)

- Stamping or other safety measure on the photograph pasted on registration certificate and the annual licence had not been followed to prevent the removal and substitution of another photograph.

- As a considerable time is taken for the issue of licences for the application submitted for registration or the annual licence, the information on the application is included instead of including the actual age, height and the girth of the front leg at the time of registration.

- The names used for the elephants are not included in the registration certificate and the annual licence.

- The annual licence should be renewed annually on the payment of the licence fee. The following weaknesses were observed in this connection.

  - Action had not been taken to obtain an application form along with the information on the height, age, the girth of the front leg and other noticeable features for the annual renewal of licences. An application form for this purpose had not been introduced.

  - The receipt issued for the money collected for the renewal of annual licences or the paying-in-voucher did not indicate the registration number of the particular elephant for which payment is made for identification purposes.

  - The documents that should be produced for the renewal of the licences had not been specifically stated.

- Obtaining DNA Reports.

  An appropriate methodology for obtaining the DNA Reports in the registration of elephants on the renewal of licences had neither been introduced nor followed.

  - Method of obtaining blood samples for DNA tests.

  - Matters that should be included in the reports.

  - Photograph of the elephant to be included in the report and the features of the photograph.

  - Information on the elephant to be included in the report (Height, Age, the girth of the front leg, etc.)

- A methodology as to whether a document or a certificate is issued for the renewal of registration, whether it is noted in the annual licence itself, and the place of renewal had not been introduced.