ANNUAL REPORT OF THE

AUDITOR GENERAL

2017

AUDITOR GENERAL'S DEPARTMENT

Official Emblem of the National Audit Office

Symbols used in this Official Emblem reflect the following.

- The Lion at the top of the emblem depicts Sri Lanka.
- The weighing scales at the Centre reflects independence and impartiality.
- The two olive branches surrounding it reflects peace and prosperity.
- The “palaa pethi” designs surrounding it reflects the national culture.

Our Vision

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

Our Mission

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

Our Objective

1. To carry out an independent examination whether the managements of the institutions to which the custody of the resources are entrusted have discharged the public accountability devolved on them and report to Parliament.

2. Assist two oversight Committees of the Parliament namely Committee on Public Accounts (COPA) and Committee on Public Enterprises (COPE) to examine the performance of the public entities.

3. Assist the auditee institutions to improve their accountability by making recommendations through issuing management reports.

Our Values

- Excellence
- Innovation
- Leadership

Auditor General's Message

I am pleased to present my report for the year 2017 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 examinations on the effective and efficient maintenance of the Parliamentary control on the Public Finance devolved on Parliament in pursuance of provisions in Article 148 of the Constitution. The Annual Report is presented as the seventh installment of my report presented to the Parliament and arrangements have already been taken to table the other reports under the following eight installments.

First Installment	-	Ministries and Departments
Second Installment	-	Public Corporations, Authorities, Boards and Statutory Funds
Third Installment	-	Non – Statutory Funds
Fourth Installment	-	Foreign Funded Projects
Fifth Installment	-	Provincial Councils
Sixth Installment	-	Local Authorities
Eighth Installment	-	Special Audit Reports
Ninth Installment	-	Public Companies

According to the Nineteenth Amendment to the Constitution it was accepted by the Government that the Auditor General and his staff should be given more powers and to secure his independence not only in the operational aspect but also in the context of financing and administration. The long awaited Audit Service Commission was established in December 2015 and the appointments, promotions, transfers, disciplinary control and dismissal of staff of the Sri Lanka State Audit Service should have been done by that Commission. As the National Audit Bill has not been presented to Parliament for assent, it had not been possible to establish the Sri Lanka State Audit Service even by the end of the year under review. As such the affairs of the Sri Lanka Audit Service and the Audit Examiners' Service had to be handled by the Public Service Commission in the year under review. The Cabinet of Ministers had recognized the valuable contribution of the service performed by the members of the Sri Lanka Audit Service and the Audit Examiners' Service and approved the establishment of a new service called the Sri Lanka State Audit Service. The absorption of the officers of the above two services to the new unified service has been entrusted to the Audit Service Commission. The other major change was that Companies incorporated under the Companies Act with 50 per cent or more shareholding by the Government or a Corporation or a Local Authority were brought under the Auditor General's scope.

The long awaited National Audit Bill which was drafted in consultation with the Attorney General, the Legal Draftsman and a number of other professionals in different fields was passed in Parliament on 17 July 2018 as the National Audit Act, No. 19 of 2018 and its effective date was 01 August 2018 as published in a Gazette Notification by His Excellency the President. The said Act provides for the powers, duties and functions of the Audit Service Commission, the establishment of the office of the National Audit Office and the Sri Lanka State Audit Service, to specify the role of the Auditor-General over public finance and to make provision for matters connected therewith or incidental thereto. Establishment of the National Audit Office to meet the challenges emerging in a constantly changing and more demanding environment, including the pressure arising from being a part of the accounting and auditing professions, is vital. The organization structure of the Department has already been prepared and the audit and supportive services will be organized under 59 Divisions to enable the expansion of the audit scope and to ensure close supervision and review.

The National Audit Office expects to implement a range of initiatives to ensure that it well understands the key issues facing the public sector as well as important concerns of the Parliament. The National Audit Office is also committed to continually reviewing and improving its operations which support the effective and efficient delivery of our audit reports. Finally the audit independence provided under the Constitution is recognized explicitly as the key of the Office's effectiveness.

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

Moreover, the dedication of and service rendered by the officers of the Legal Draftsman's Department and the Attorney General's Department in drafting the National Audit Act and making the amendments from time to time is highly appreciated.

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

H.M. Gamini Wijesinghe
Auditor General
30 **October 2018**

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Our Organization

Our History

The beginning of the present Auditor General's Department of Sri Lanka then known as Ceylon, can be traced to early British times. From the records available it would appear that there had been an Accountant and Auditor General by the name of Cecil Smith as far back as the early 1799 just three years after the British occupation of the Island in 1796. Since then, the existence of the Auditor General's Department continues to function as an independent organization under forty Auditors General as the Supreme Audit Institution of Sri Lanka.

Our Authority to Audit

The authority for the Auditor General to audit the accounts of Public Sector Institutions is primarily derived from Article 154 of the Constitution.

Under the Nineteenth Amendment to the Constitution the authority has been further extended to cover Companies incorporated under the Companies Act in which the Government or a Public Corporation or Local Authority holds fifty per centum or more of the shares of that company as quoted below.

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

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

- Part II of the Finance Act, No. 38 of 1971 which provides for audit of Public Corporations.
- Provincial Councils Act, No. 42 of 1987 – (Section 23) which provides for Audit of Provincial Councils.
- Section 219 of the Municipal Councils Ordinance – (Cap. 252) which provides for Audit of Municipal Councils.
- Section 181 of the Urban Councils Ordinance – (Cap. 255) which provides for Audit of Urban Councils.

- Pradeshiya Sabhas Act, No. 15 of 1987 – (Section 172) which provides for Audit of Pradesiya Sabahs.
- Agrarian Development Act, No. 46 of 2000 – (Section 58) which provides for Audit of Agrarian Development Councils.
- Sports Act, No. 47 of 1993 - (Section 9) which provides for Audit of Sports Associations.

The Constitution also empowers the Auditor General to carry out any other duties as specified in any law passed by the Parliament as required. In the performance and discharge of his duties and functions, the Auditor General has been given powers under the Constitution to engage the services of qualified auditors to assist him in his work. He has also the power to obtain the Examination of any technical, professional or scientific problems relevant to the audit. In Article 154(5) of the Constitution empowers the Auditor General to have access to all books and records, to stores and other property of Public Institutions or Entities as stated above, conduct audits and furnish with information and explanations as may be necessary, for the performance and discharge of his duties and functions.

Our Clients

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

Ministries	51
Departments	95
District Secretariats	25
Corporations	204
State Companies (Brought under the scope of the Auditor General under the Nineteenth Amendment to the Constitution)	111
State Banks	07
Statutory and other Funds	62
Foreign Funded Projects	127
Other Independent Institutions	19
Provincial Councils	09
Local Authorities	335
Agrarian Service Canter’s	561
Sport Associations	62
Total	1,668

Our Scope

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

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

- 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.

Our Independence

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

"***There shall be an Auditor General who shall be a qualified auditor and subject to the approval of the Constitutional Council, be appointed by the President and shall hold office during good behavior"***

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

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

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

Legal Reforms

The Requirement for Legal Reforms

Though the functional independence of the Auditor General has been hitherto safeguarded by the Constitution, financial and administrative independence of the Auditor General had been constrained by the Executive due to Constitutional and legislative provisions on the subject. However, those constrictions have been obstructed by the provisions of the National Audit Act, No.19 of 2018, from 01 August 2018. It is also of the view that the dependence of the Auditor General on the Executive for his resources in terms of both manpower and finance would harm the truly independent nature of the audit performed on behalf of the Parliament as he must be completely free from all obligations to any individual or institution and must be free from arbitrary retaliation. Elaborate safeguards have to be provided by the Parliament through legislation to ensure the Auditor General's independence, including functional and financial. The Auditor General depended on the General Treasury for his budget up to the year under review, and the resource allocation for his department was not linked to fiduciary risks. Unlike in other advanced Commonwealth Countries, the budget of the Auditor General in Sri Lanka is neither approved by a legislative committee after being subjected to scrutiny nor safeguarded against Executive control as allocated by provisions of the National Audit Act, No.19 of 2018 thereby confirming the independence of the Auditor General in discharging his duties and functions.

The administrative independence of the Auditor General and his staff also needs to be secured. Control over administrative matters relating to the promotion, transfer, disciplinary action, salaries and other administrative matters of staff of the Auditor General's Department shall be vested in the National Audit 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 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 XXX .

Congress of INTOSAI (2007 in Mexico) defined these requirements in more concrete terms and identified following eight major requirements for the independence of the Supreme Audit Institution which has already been recognized by the United Nations on 22 December 2011 at their 66th General Assembly by adopting a resolution A/RES/66/209, "promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening Supreme Audit Institutions (SAIs)".

Principle 1

The Existence of an appropriate and effective constitutional/statutory/legal framework and of de facto application provisions of this framework.

Legislation that spells out, in detail, the extent of SAI independence is required.

Principle 2

The independence of SAI heads and members (of collegial institutions), including security of tenure of tenure and legal immunity in the normal discharge of their duties.

work.

The applicable legislation specifies the conditions for appointments, re-appointment, employment, removal and retirement of the head of SAI and members of collegial institutions, who are

- Appointed, re-appointed, or removed by a process that ensures their independence from the Executive (see ISSAI 11 Guidelines and Good Practices Related to SAI Independence);
- Given appointments with sufficiently long and fixed terms, to allow them to carry out their mandates without fear of retaliation; and
- Immune to any prosecution for any act, past or present, that results from thenormal discharge of their duties as the case may be.

Principle 3

A sufficiently broad mandate and full discretion, in the discharge of SAI functions

SAIs should be empowered to audit the

- Use of public monies, resources, or assets, by a recipient or beneficiary regardless of its legal nature;
- Collection of revenues owed to the government or public entities;
- Legality and regularity of government or public entities accounts;
- Quality of financial management and reporting; and
- Economy, efficiency, and effectiveness of government or public entities operations.

Except when specifically the laws enacted by the Legislation, SAIs do not audit government or public entities policy but restrict themselves to the audit of policy implementation.

While respecting the laws enacted by the Legislature that apply to them, SAIs are free from direction or interference from the Legislature or the Executive in the

- Section of audit issues;
- Planning, programming, conduct, reporting, and follow-up of their audits;
- Organization and management of their office; and
- Enforcement of their decisions where the application of sanctions is part of their mandate.

SAIs should not be involved or be seen to be involved, in any manner, whatsoever, in the management of the organizations that they audit.

SAIs should ensure that their personnel do not develop too close a relationship with the entities they audit, so they remain objective and appear objective.

SAI should have full discretion in the discharge of their responsibilities, they should cooperate with governments or public entities that strive to improve the use and management of public funds.

SAI should use appropriate work and audit standards, and a code of ethics based on official documents of INTOSAI, International Federation of Accountants, or other recognized standard-setting bodies.

SAIs should submit an annual activity report to the Legislature and to other state bodies-as required by the constitution, statutes, or legislation – which they should make available to the public.

Principal 4

Unrestricted access to Information

SAIs should have been adequate powers to obtain timely, unfettered, direct and free access to all the necessary documents and information, for the proper discharge of their statutory responsibilities.

Principle 5

The right and obligation to report on their work

SAIs should not be restricted from reporting the results of their audit work. They should be required by law to report at least once a year on the results of their audit work.

Principle 6

The freedom to decide the content and timing of audit reports and to publish and disseminate them

SAIs are free to make observations and recommendations in their audit reports, taking into consideration, as appropriate, the views of the audited entity.

Legislation specifies minimum audit reporting requirements of SAIs and,where appropriate, specific matters that should be subject to a formal audit opinion or certificate.

SAIs are free to decide on the timing of their reports except where specific reporting requirements are prescribed by law.

SAIs may accommodate specific requests for investigations or audits by the Legislature, as a whole, or one of its commissions, or the government.

SAIs are free to publish and disseminate their reports, once they have been formally tabled or delivered to the appropriate authority – as required by law.

Principle 7

The existence of effective follow-up mechanisms on SAI recommendations

SAIs submit their reports to the Legislature, one of its commissions, or an auditee's governing board, as appropriate, for review and follow-up on specific recommendations for corrective action.

SAIs have their own internal follow-up system to ensure that the audited entities properly address their observations and recommendations as well as those made by the Legislature, one of its commissions. Or the auditee's governing board, as appropriate.

SAIs submit their follow-up reports to the Legislature, one of its commissions, or the auditee's governing board, as appropriate, for consideration and action, even when SAIs have their own statutory power for follow-up and sanctions.

Principle 8

Financial and Managerial/ administrative authority and the availability of appropriate human, material, and monetary resources

SAIs should have available necessary and reasonable human, material, and monetary resources – the Executive should not control or direct the access to these resources. SAIs manage their own budget and allocate it appropriately.

The Constitution refers only the Auditor General and not his staff and therefore it is required that the authority and function of the staff of the Auditor General be amplified through a separate Audit Act like other countries.

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

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

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

- *Auditor General shall be a qualified auditor and subject to the approval of the Constitutional Council, appointed by the President and shall hold office during good behavior.*

- *To form an **Audit Service Commission** which will be chaired by the Auditor General. The other members are two retired officers of the Auditor General's Department who have held office as a Deputy Auditor General or above and a retired Judge of the Supreme Court, Court of Appeal or the High Court of Sri Lanka and a retired Class I Officer of the Sri Lanka Administrative Service. The members of the Commission will be appointed by the President to a fixed term of 3 years on the recommendation of the Constitutional Council.*

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- *The power of appointment, promotion, transfer, disciplinary control and dismissal of the members belonging to the Sri Lanka State Audit Service is vested with the Commission with a view to secure the administrative independence of the Auditor General.*

- *Audit of all the public institutions including public resources provided wholly or partly and whether directly or indirectly by the Government is brought under the Auditor General's purview.*

- *The Auditor General is excluded from the definition of "Public Officer" to secure his independence.*

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The annual budget estimates of the National Audit Office to be prepared by the Commission, reviewed by the Parliament and submitted to the Minister in charge of the subject of Finance to incorporate in the National Budget to make sure that adequate funds are provided to carry out the Auditor General's functions without any interference from the Executive.

National Audit Act, No.19 of 2018

The National Audit Act, No.19 of 2018 provides for the powers, duties and functions of the Audit Service Commission, the establishment of the National Audit Office and the Sri Lanka State Audit Service, specify the role of the Auditor General over public finance and to make provision for matters connected therewith or incidental thereto.

Significant Features cited in the National Audit Act are as follows.

- Expansion of the scope of an audit carried out by the Auditor General in a manner to enable examining the accounts, finances, financial position and financial control of public finance and properties of auditee entities, a performance audit, an environmental audit, a technical audit and any other special audits.
- The Auditor General will be given the discretion to inquire into any matter relating to an audited entity brought to his notice in writing by any member of the public with adequate evidence to prove that matter, and report thereon to Parliament.
- The Sri Lanka Auditing Standards determined by the Auditing Standards Committee established under the Sri Lanka Accounting and Auditing Standards Act, No.15 of 1995 are applicable to all audits undertaken by the National Audit Office.
- Where there are no auditing standards specified in the Sri Lanka Auditing Standards for performance audit, environmental audit, technical audit and any other special audit, the Audit Service Commission may, by order published in the Gazette, specify the provisions of the International Standards of Supreme Audit Institutions which shall apply to such audits, with necessary amendments to suit local requirements.
- The Auditor General shall issue a Summary Report within five months after the closure of each financial year to an auditee entity in respect of any financial statements or any account submitted by such entity, other than a public corporation or company.
- The Auditor General shall within three months of the receipt of the approved

annual financial statements and other relevant documents and information of a public corporation or a company in which the Government or a public corporation holds 50 per cent or more of the shares, present a report for publication in its Annual Report.

- The Auditor General shall present an Annual Detailed Management Audit Report to the Governing Body of each auditee entity within the five months after the end of each financial year with a copy each to the Minister to whom the respective auditee entity is assigned and the Minister assigned a subject of finance.
- The Secretary to the Treasury shall submit the financial statements of the Government to the Auditor General not later than three months after the closure of each financial year of the Government.
- The Auditor General shall charge a fee for conducting an audit from public corporations Statutory Funds or Boards, businesses and other takings vested in the Government by or under any written law and any company registered or deemed to be registered under the Companies Act, No.7 of 2007 in which the Government or a public corporation or local authority hold 50 per cent or more of the shares of that company.
- The appointment, promotion, transfer, disciplinary control and dismissal of the members belonging to the Sri Lanka State Audit Service recruited by the Audit Service Commission shall be vested in the Commission.
- The salaries and other allowances and any other benefits of persons recruited by the Commission, shall be determined by the Commission, after having obtained the views of the Salaries and Cadres Commission, and shall be charged on the Consolidated Fund.
- All auditee entities shall cooperate with the Auditor General and any officer deployed by him and shall provide a safe and secure working environment to facilitate the carrying out of an effective audit.
- The Audit Service Commission shall prepare the annual budget estimate of the National Audit Office within the period as specified by the Minister assigned the subject of Finance. The said estimates shall be submitted to the Speaker on such date as may be decided by the Speaker.
- At least sixty days before the beginning of each financial year, the Auditor General shall prepare and

submit to the Speaker a draft annual work programme that describes the Auditor General's proposed work programme for the forthcoming year.

- The Speaker shall appoint an independent qualified auditor to carry out the audit of the financial statements, accounts and other information relating to the financial year of the National Audit Office and for this purpose the Audit Office shall be deemed an auditee entity under the said Act.
- The establishment of an Audit Fund to which shall be paid 15 per cent of the audit fees, all payments credited by the Government with the concurrence of the Parliament and any cost recovered in suit or prosecution.
- The responsibilities of Chief Accounting Officer or the Accounting Officer shall be cited.
- An Audit and Management Committee shall be appointed by the Chief Accounting Officer or Accounting Officer or the respective Governing Officer.
- Failure to assist the Auditor General or any person authorized by him to be an offence.
- Influencing or attempting to influence a decision of the Commission or any Officer of the Sri Lanka State Audit Service, to be an offence.
- Any person who contravenes the provisions of the Act or any rule made thereunder, commits and offence and shall on conviction after summary trial before a Magistrate be liable to a fine not more than one hundred thousand rupees or to imprisonment for a term not exceeding one year or to both such fine and imprisonment.
- A Centre for Public Audit Training and Development shall be established under the National Audit Office with a view to enhancing the capacity of human resources in the field of public finance and auditing.

Our Organizational Structure

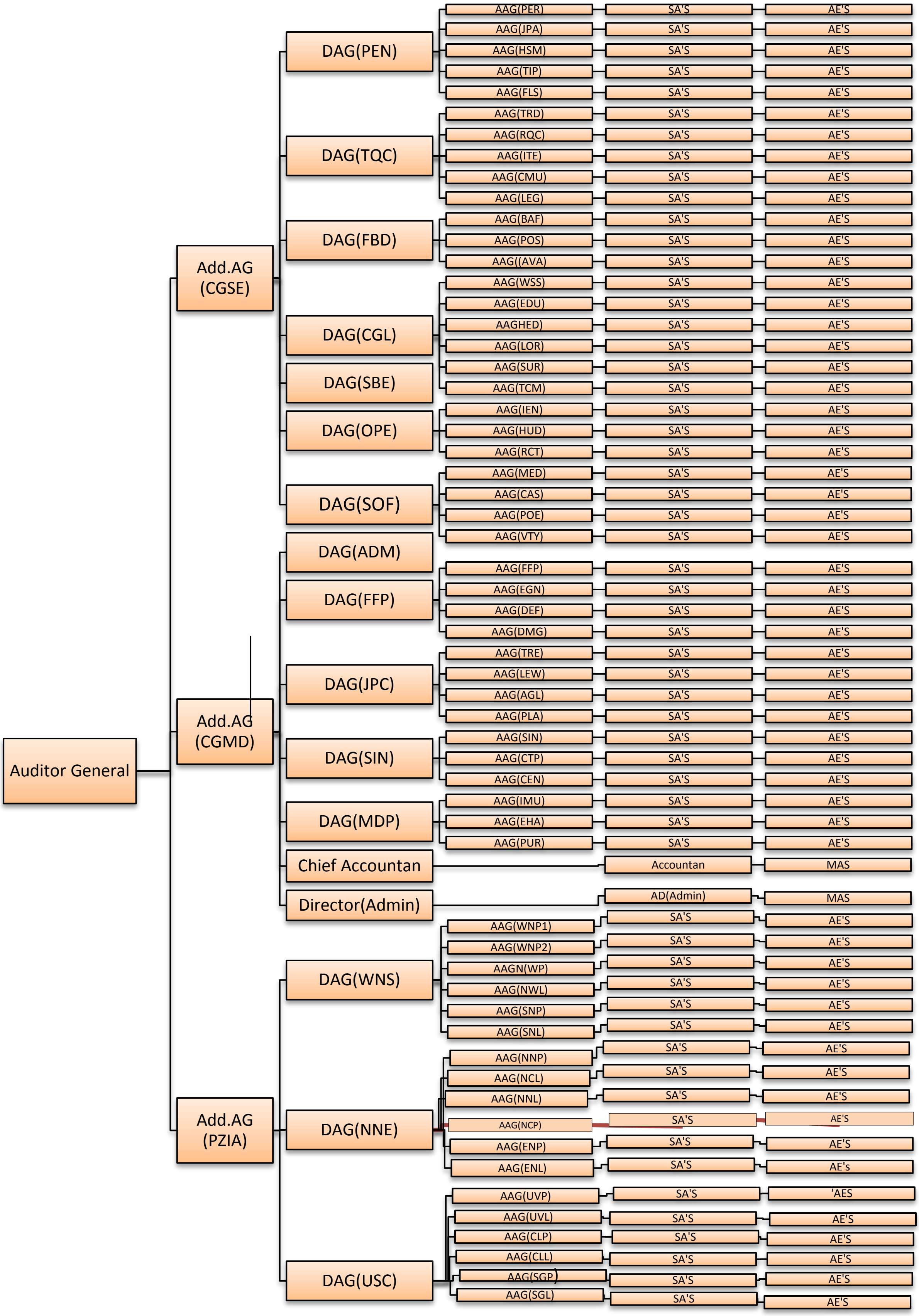
The Auditor General is the Head of the Auditor General's Department and he functions as a Chief Accounting Officer as well in terms of the Financial Regulation 124(2) in respect of financial activities of the Department. The present organizational structure of the Department comprises four levels in its hierarchy with specified numbers of officials in each level, in conformity with the cadre as approved by the Department of Management Services of the General Treasury.

The first layer comprises of three Additional Auditors General who supervise the audit functions of the Central Government and the Provincial Councils. The second level comprises of 60

Divisions, each headed by 15 Deputy Auditors General and 44 Assistant Auditors General. These Divisional Heads are assigned with full responsibility to manage and supervise the functioning of a specified number of Branches assigned to them with a specified number of auditee institutions in a specified sector under the charge of a "Branch Head" who is a Superintendent of Audit or a senior officer of the Audit Examiners' Service and represent third level. They are charged with the responsibility for execution of the audits of Public Institutions assigned to them by deploying the supportive field officers of the Audit Examiners' Service assigned to them, efficiently and effectively. Accordingly, the fourth level comprises those field officers who assist Branch Heads by conducting audit of the affairs of Public Institutions assigned to them through carrying out examinations, making field visits, etc., in conformity with Sri Lanka Auditing Standards, statutory and other regulatory requirements and best practices as programmed. The above mentioned second level comprises 60 Divisions and 18 Divisional Heads of 18 Divisions out of them, are in charge of Regional Sub-offices at Provincial level and they are supervised by three Deputy Auditors General.

The administrative activities of the Department are carried out under the purview of the Director (Administration) of the Establishments Branch and the financial activities are carried out under purview of the Chief Accountant of the Accounts Branch.

The Organizational Structure is given below.


Auditor General
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Director(Admin)
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AAG(CEN)
AAG(IMU)
AAG(EHA)
AAG(PUR)
Accountan
MAS
AD(Admin)
AAG(WNP1)
AAG(WNP2)
AAGN(WP)
AAG(NWL)
AAG(SNP)
AAG(SNL)
AAG(NNP)
AAG(NCL)
AAG(NNL)
AAG(NCP)
AAG(ENP)
AAG(ENL)
AAG(UVP)
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AAG(CLP)
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According to the cadre approved on 14 November 2011 by the Department of Management Services after an evaluation of the responsibility and role of the Auditor General's Department, the total number of officers in the Sri Lanka Audit Service stands at 350 and the officers in the Audit Examiners' Service stand at 1,200. The Sri Lanka Audit Commission established in terms of the Nineteenth Amendment to the Constitution of the Democratic Socialist Republic of Sri Lanka could not come into operation as the Draft National Audit Bill has not been passed by Parliament. As such, it was not possible to obtain approval for the Draft Service Minute prepared for the Department staff and the filling of vacancies is carried out by the Public Service Commission according to the old Service Minute.

The vacancies in the respective posts in the Department that existed as at the beginning of the year 2017, as at the end of year 2017 and as at 31 May 2018 under such circumstances are given in the Table 01 below.

Post	As at 01 January 2017			As at 31 December 2017			As at 31 May 2018		
	Approved Cadre	Actual	Vacancies	Approved Cadre	Actual	Vacancies	Approved Cadre	Actual	Vacancies
Audit Staff									
Additional Auditor General	03	02	01	03	01	02	03	01	02
Deputy Auditor General	15	04	11	15	11	04	15	11	04
Assistant Auditor General	44	29	15	44	22	22	44	22	22
Superintendent of Audit	288	227	61	288	223	65	288	223	65
Audit Examiner	1,200	922	278	1,200	1,137	63	1,200	1,126	74
Non-Audit Staff									
Director Administration	01	01	-	01	01	-	01	01	-
Chief Accountant	01	01	-	01	01	-	01	01	-
Other Staff Officers	16	10	06	16	10	06	16	11	05
Public Management Assistants' Service and allied Grades	127	94	33	128	98	30	128	115	13
Report Processor	48	48	-	48	48	-	43	43	-
Junior Employees	188	154	34	213	184	29	213	187	26
Total	**1,931**	**1,492**	**439**	**1,957**	**1,736**	**221**	**1,952**	**1,741**	**211**

Table 01 – Cadre Position as at 31 December 2017 and 31 May 2018

As per the above Table, the existence of a large number of vacancies in the cadre ranging from 439 to 221 from 01 January 2017 to 31 December 2017 of every post of the Department was an impediment to discharge the statutory function of the Department. However, the said number of vacancies could be reduced up to 211 by 31 May 2018. As such, the necessary steps have been already taken to make recruitments for 04 posts of Deputy Auditor General, 11 posts of Assistant Auditor General, 59 posts of Superintendent of Audit, 69 posts of Audit Examiner and the post of Technical Officer existed further as vacancies.

Approval of the Service Minute

The audit staff of the Auditor General's Department consists of officers of the Sri Lanka Audit Service and Audit Examiner's Service. Under the circumstances at that time, even though separate Service Minutes were formulated in respect of these two Services in terms of Public Administration Circular No.6/2006, a

Committee was appointed by the Secretary to the President to look into the various proposals and requests made by the staff in this connection. That Committee was chaired by the Auditor General and it consisted of two former Auditors General and an Additional Secretary to the President. Considering the recommendations made by the Committee, approval had been granted on 23 December 2014 for the Cabinet Memorandum submitted to the Cabinet of Ministers with a view to establishing a new service named "Sri Lanka State Audit Service" by combining the Sri Lanka Audit Service and Audit Examiners' Service and the Cabinet Memorandum on the establishment of a new service under the name "Sri Lanka State Audit Service" has been approved on 23 December 2014".

The establishment of "Sri Lanka State Audit Service" proposed to be set up by combining the Sri Lanka Audit Service and Audit Examiners' Service in accordance with the aforesaid Cabinet Decision had been accepted by the Government as a policy. Accordingly. A Service Minute for the new Service was formulated Even though the Audit Service Commission has been appointed, Accordingly a Service Minute for the new service was formulated and after the approval of the National Audit Act on 2018 of No. 19 the Adudit Sevice Commission is in the process of approring it. The approval of the new Service Minute will pave the way for the maintenance of a staff of more extensive professional level for the efficient performance of duties and functions assigned to the Auditor General. Moreover, the Audit Service Commission is the Appointing and Disciplinary Authority of the new service and as such the capability of discharging those functions without delay will be immensely helpful for the upliftment of the performance of the Department.

Staff Training

It is examined that the Auditor General's Department has correctly performed the responsibility of accounting for the institutions to guarantee the providing of a quality and reliable public service to the Sri Lanka nation by providing the necessary contribution and the guidance to strengthen the utilization of state resources in an economic, efficient and effective manner and reported to parliament.

At present, the Auditor Generals' Department makes use of the contribution of the staff of 1,397 Audit Officers and officers 344 offices in Supporting Services to fulfil this statutory role.

Hence, it is an essential element to empower the Audit Staff with adequate knowledge and skills to meet the statutory functions efficiently and effectively with the aim of achieving this goal the Department had emphasized the necessity of the completion of local or foreign training courses for not less than 80 hour per annum by each Officer in the Department for ensuring his Continuous Professional Development (CPD).

The Training Division of the Department has organised local and foreign training programmes in keeping with the requirements of the Officers, to encourage them by way of providing necessary assistance. It is expected to obtain assistance from competent and qualified Officers of the Department as well as Resource Persons and lectures, discussions, practical training and field

performance of the financial and performance functions of the public

visits will be used as training methods to achieve the following objectives.

- Development of knowledge and technical skills of the Officers.
- Enhancement of efficiency and the performance of the Officers.
- Improvement of management skills of the Officers.
- Dissemination of knowledge, tools and technical knowledge required for the performance of duty.
- To impart knowledge on Service Rules and Finance.
- Development of team spirit.
- Conduct programmes for attitudinal improvements of the officers.

Local Training Programme

In order to achieve the above objectives, the Training Division of the Department had conducted 48 training programmes under 11 topics in the year 2017 covering all Audit Officers. In addition, training facilities had been provided for officers of the non-audit staff.

Foreign Training

With the objective of providing a foreign training on performance audit to all audit officers, it had been participated 560 audit officers during the year under review for the started Malaysia Performance Audit Training Workshop and being participated 39 audit officers for 27 foreign training programme covering 10 other topics.

Details of local and foreign training programmes attended by officers of the Department during the year under review are given in the table 02 below.

	Details of the Programme	No.of Programmes	Officers involved in the Programme					No. of Training Hours
			Divisional Heads	Superintendent of Audit	Audit Examiners	Non-Audit Officers	Total	
	Local Training Programmes							
1	Financial Audit	1	-	19	11		30	310
2	Performance Audit Training	7	2	45	213		260	5,616
3	Training of New Officers	3	-	6	248		254	21,091
4	Procurement and Construction Audit	8	13	157	823		993	28,240
5	Investigation Audit Training	3	3	37	146		186	4,228
6	Surcharge Process and Local Government Audit	3	4	28	86		118	4,046
7	Training on Accounting and Auditing Standards	6	6	51	392		449	12,374
8	Computer Training	2	1	13	37		51	1,071
9	Training on Taxation	6	4	48	286		338	2,280
10	Positive Thinking Development Programme	8	37	221	891		1149	31,599
11	Other Training Programmes	1			1		1	7
	Total	**48**					**3,826**	**110,862**
	Foreign Trainings							
1	Performance Audit	9	28	114	421		563	47,292
2	Audit of Embassies	6	4	6	5		15	1,029
3	IT Training	1		1			1	84

4	ASSOSAI/ SAI Training Programme i. ASSOSAI - workshop on Performance Audit ii. ASOSAI - Seminar on Improvement and Innovation of Audit Process- iii. SAIS - Workshop for Engaging with Stakeholders iv. SAI PMF Training Course	4	2	3			5	180
5	State Audit Management	2		1	1		2	315
6	Public Accounting and Financial Management	4	2	3			5	448
7	Anticorruption Strategies	2		1			1	126
8	Financial and Economic Administration for the Developing Countries	1		1		1	1	140
9	Post Graduate	1		1			1	
10	Environmental Audit	1		1			1	35
11	Other Programmes	4		4	2		6	1,372
	Total	**34**					**599**	**50,981**

Table 02- Local and Foreign Trainings attended by the Department during the year under review

Deployment of Qualified Auditors

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

Sums amounting to Rs. 38.38 million and Rs. 61.24 million are due to be paid for the years 2017 and 2016 respectively to the relevant Audit Firms for the audit services rendered on the approval of the Audit Fees Committee of the Department comprising representatives of the Ministry of Finance, Auditee Institution, line Ministry and the Audit Firm. In obtaining the service of qualified auditors, the factors such as the quality of the services rendered by them in the past, the number of partners engaged in the firm concerned, and the number of audit trainees working with them had been considered. In addition, international affiliation of the firm serving as a factor to consider the standard of the Firm and the quality of professional services rendered by them had been included in the selection criteria.

Generally a particular audit assignment is entrusted to a particular Audit Firm to continue only for a maximum period of five consecutive years.

Twenty seven and Eighty seven Audit Firms engaged in Public Practice assisted me in the audit of 72 Institutions and 180 Institutions in the years 2017 and 2016 respectively, which consisted of 3 major State Commercial Banks and Companies with State Shareholding of 50 per cent or more brought under the scope of the Auditor General through the Nineteenth Amendment to the Constitution. The amount of assisted audit firms had been reduced in 2017 than 2016, due to the decision of not appointing qualified auditors to audit the branches of two major commercial banks and the Department directly audited related companies as the recruitement of new Audit Examiners.

Assistance to Parliament

As per Article 148 of the Constitution, the Parliament shall have full control over public finance. The Auditor General's Department makes a key contribution to the system of public accountability, serving as the external auditor of the Government with a duty to report directly to Parliament on the financial stewardship and the economy, efficiency and effectiveness of the operations of the public entities. Auditor General's reports tabled in Parliament are then taken up by two Parliament oversite committees setup under Standing Orders 125 and 126 named Committee on Public Accounts (COPA) and Committee on Public Enterprises (COPE). The role of these two Committees is to assist the legislature in holding the Executive to account for its use of public funds and resources through the examination of public accounts. As such, the two Committees have a critical role in ensuring public sector accountability and effective governance. In simplistic terms, the COPA and COPE have some similarity to an audit committee in a corporate or pubic enterprise.

As per Standing Order 125, it shall be the duty of the COPA to examine the accounts showing the appropriation of sums granted by Parliament to meet the public expenditure and such other accounts laid before Parliament as the Committee may think fit, along with the reports of the Auditor General. The COPA shall time to time, report to the Parliament on the accounts examined, the finances, financial procedures, performance and management generally of any department, local authority and on any matter arising therefrom.

The duty of the COPE established under Standing Order 126 is to examine the accounts of public corporations and of any business or other undertaking vested under any written law in the Government laid before Parliament, along with the reports of the Auditor General thereon. The COPE shall, from time to time report to Parliament on the accounts examined, the budgets and annual estimates, the finances and management on such public corporations or of any business or other undertaking vested under any written law in the Government as the Committee may direct. The COPA and COPE have the authority to appoint sub committees of its own members and also have the power to summon before them and question any person and call for and examine any paper, book, record or other document and to have access to stores and property.

Each Committee consists of twenty six members at present to make them sufficient size to accommodate proper representation of both ruling party and opposition in the parliament. The real test of the influence of COPA or COPE is not simply whether its recommendations are accepted by the Executive but whether they are implemented, effectively and in full, and, most importantly, whether they make a positive difference to financial efficiency and quality of service. The Auditor General often involve in reporting back to the committees on the process of implementation.

The two Committees are assisted in its work by the Auditor General or his deputies along with the Audit Officers who directly involved in that particular audit. Auditor General performs an important role in the work of the Committees and help to ensure that the Committees have before them all necessary information and opinion on the matters under review.

The Auditor General's role is to assist the Committee in its work by providing background information and comment relevant to the subject being considered. During the course of the examination, Auditor General is expected to offer information and comment to the Committee and provide information and comment in response to questions from Committee members. The Auditor General may suggest a line of possible questioning or offer background information about any of the issues being discussed.

One month notice is normally being given by the Committee to the respective public institution appear before the Committee to examine them of the performance of the operations based on the Auditor General's report. Auditee institutions are required to provide a progress update to the Committee with a copy to the Auditor General within a specified period of time. Auditee institution must prepare a written response to enable the Auditor General to prepare the brief note for discussion at the Committee. All written responses submitted by auditee institution are reviewed by the Auditor General's Department to confirm the fairness of information about the progress made in implementing the recommendations contained in the Auditor General's report. After completion of the review, Auditor General's Department prepares a brief discussion note based on all important audit issues those were reported to Parliament through the audit report after taking into account of the comments and observations made by the respective Chief Accounting Officer, Accounting Officer or the Governing Body. Therefore the members of the Committee are well informed the current position of the audit issues. Furthermore, the performance of the implementation of the directives given by the previous meetings are also included separately in the said discussion note.

During the year 2017, the COPA has held 71 secessions to examine 67 institutions and the COPE held 46 secessions to examine 44 institutions.

The officers of the Auditor Generals have assisted the COPA to develop a IT based questioner with a view to rate the institutions coming under the Committee specially Ministries, Departments, Provincial Councils and Local Authorities. The audit officers have further assisted to the Committee by validating the answers given by each and every institution after ensuring their accuracy.

Surcharges imposed by the Auditor General

There are 335 Local Authorities in Sri Lanka comprising 23 Municipal Councils, 41 Urban Councils and 271 Pradeshiya Sabhas. These Local Authorities are audited by the Auditor General in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka and the respective Statutes and Acts.

The Auditor General is vested with the power to surcharge items contrary to law, losses due to negligence and misconduct and items which should have been brought to account but not brought to account by the provisions in the said Statutes and Acts.

In terms of the said power, 122 Surcharge Certificates valued at Rs.69.36 million had been issued during a period of 11 years from the year 2007 up to 2017 on 843 parties related to the Local Authorities. Out of that, a sum of Rs.3.93 million or 5.66 per cent had only been recovered by 31 July 2018. Due attention had not been paid to the recovery proces of surcharges by the authorities concerned.

Performance Audit of the Auditor General

Performance Audit deals in the evaluation of the economy, efficiency, effectiveness and the environmental impact of the performance of the activities of selected areas of a State Institution, Programme, Project or an expenditure unit and issue a report containing the recommendations on the improvements need to be made based on the relevant observations made by the Audit.

The performance and environmental audits are carried out on the basis of proposals made by other Audit Branches on different Sectors of State Institutions and also on special sectors with economic, social and environmental impacts selected by the Performance and Environmental Audit Division. In addition to the reports on the financial audit, the reports on the performance and environmental audits are also tabled in Parliament. The training of officers in the Department who involved in this field is also undertaken.

The implementation of results based budgeting system and the determination of key performance indicators for each institution are special factors of importance in carrying out performance audits. Nevertheless, the results based budgeting system and determination of performance indicators are not in operation in Sri Lanka at present. In the circumstances, the performance indicators relating to each sector is determined by us in carrying out performance audits. A summary of the significant observations made during the course of the performance audits carried out during the year under review is given below.

Preparedness of Sri Lanka for Sustainable Development

The 2030 Agenda for Sustainable Development had been introduced at the United Nations Sustainable Development Summit held in New York City in United States of America in the year 2015. Sustainable development is to meet the needs of the present without compromising the ability of future generations to meet their own needs.

The United Nations Organization has introduced three dimensions of economic, social and environmental in the sustainable development and those dimensions had been stated under 17 goals and 169 targets. Furthermore, 244 indices have been identified to review the progress of the sustainable development. As a member country of the United Nations, Sri Lanka is bound to achieve those goals by the year 2030. The following steps had been taken by Sri Lanka to achieve the sustainable development goals.

- Establishment of the Ministry of Sustainable Development and Wildlife in the year 2015 to adopt the sustainable development goals by Sri Lanka.
- Enactment of the Sustainable Development Act, No.19 of 2017 for the formulation, development and implementation of National Policy and Strategy on Sustainable Development.
- Establishment of a Parliamentary Select Committee on Sustainable Development.
- Conducted the Rapid Integrated Assessment to understand the current status of the sustainable development goals.
- Establishment of a Presidential Expert Committee on Sustainable Development.
- Draft the "Vision 2030" on Sustainable Development.
- Draft the mapping of 425 State institutions regarding the implementation of responsibilities of sustainable development by the Ministry of Sustainable Development.
- Launched a Report on the Sustainable Development Indicators by the Department of Census and Statistics.
- As the leading institutions for carrying out key operations in achieving the sustainable development goals in Sri Lanka, Assigning the responsibilities to the Ministry of Sustainable Development , Wildlife and Regional Development, Ministry of National Policies and Economic Affairs, Department of National Planning, Department of National Budget, Department of Census and Statistics, Department of Project Management and Monitoring and the Department of Treasury Operations.

Even though the major steps mentioned above had been taken, it was revealed that there are sectors to be further improved in the sustainable development due to the following regressive situations.

- Out of the three dimensions of economic, social and environmental in the sustainable development , more attention had been paid only to the economic and social dimensions in the "Vision 2025" or the long term development plan prepared for the period from the year 2018 to 2025.

- Steps had not been taken to formulate the National Policy and Strategy on Sustainable Development.

- According to the Rapid Integrated Assessment conducted on the alignment of sustainable development goals with the Public Investment programme , out of the 169 sustainable development goals, 64 goals were fully aligned while 45 goals were partially aligned. Sixteen goals not relevant to Sri Lanka and 44 goals not aligned with the Public Investment programme existed.
- Adequate provision for the achievement of sustainable development goals had not been made by the Budget Estimate 2017.
- Adequate awareness programmes had not been conducted on the implementation of concepts of participation by all and leaving no one behind which are very important in the sustainable development.
- A mechanism had not been developed to solicit the active participation of private sector.
- The Department of Census and Statistics had formulated data only for 46 indices out of the 244 indicators required for the assessment of progress of the sustainable development. Data for another 29 indicators and 131 indicators should have been formulated by the Department of Census and Statistics and by other institutions respectively.
- A mechanism for the evaluation of progress, monitoring, review and follow- up on Sustainable Development could not be formulated in national level even by the end of the year under review.

The following remedial measures should have been taken to overcome the said regressive situations and direct the sustainable development activities to a correct path.

- Formulation of policies and strategies on Sustainable Development and alignment of sustainable development goals with development programmes.
- Make all parties aware on the sustainable development goals and increase of financial and physical facilities.
- Capacity building.
- Provide relevant guidance on formulation of indicators and compilation of data, to the line Ministries and other institutions thereunder.
- Formulation of a mechanism for monitoring, review, follow up actions and reporting on sustainable development goals.

Installation of High Quality Linear Accelerator for Cancer Patients

Radiotherapy is being undergone for nearly 80 per cent of the cancer patients. Instead of the old fashioned radiotherapy presently being undergone in Sri Lanka, a project for giving radiotherapy had been implemented in the year 2010 and equipment were purchased thereunder while necessary bunkers had been constructed for the installation of those equipment. The project for the installation of Linear Accelerators in respect of 10 hospitals in 10 Districts

- covering all the Provinces in Sri Lanka, had been implemented under 2 Phases. Four equipment required by 04 hospitals had been purchased at a cost of Rs.1,087.6 million under the first Phase. Out of that, one equipment was installed at the Apeksha Hospital in Maharagama during the year 2014 and the patients were being treated thereby. Even though other equipment were provided to the hospitals in the year 2016, those had not been installed even by May 2017. As CT Simulators which are used to operate the said equipment had not been purchased, treatments could not be undergone only by installing the equipment. Further, the construction work of bunkers required for the installation of those equipment had been assigned to the Central Engineering Consultancy Bureau at an estimated value of Rs.813.7 million. However, the said construction work had not been completed even by 31 May 2017.

Picture No 01- Linear Accelerator used to examine Cancer Patients

Even though minimization of time for the patients in waiting lists was expected by this project, the objective of the project had not been achieved due to the failure to undergo treatments by installing 03 equipment out of 04 equipment purchased. Five such equipment was required further to minimize the time for the patients in waiting lists at the Apeksha Hospital in Maharagama. Moreover, the Medical Officers had recommended that the said requirement will be increased to 09 equipment by the year 2020. The Government had expected to provide latest and high quality radiotherapy for cancer patients by supplying that equipment to hospitals. It is recommended that such equipment should be installed in a timely manner and fulfilled the expectations of patients.

Vehicle Emission Programme

The increase in releasing poisonous gases such as Carbon Monoxide (CO), Nitrogen Dioxide (NO_2), Sulphur Dioxied (SO_2), Hydro Carbon (HC) and Micro particles (pm_{10}) to the atmosphere due to the fuel consumption after the industrial revolution had affected the increase of temperature in the atmosphere. The fuel consumption had increased due to the increase in using motor vehicles and that situation had caused the environmental changes. As a remedial measure therefor, the Government had introduced the Vehicle Emission Programme.

Picture No02 - Vehicle Emission Testing Center

The poisonous gases are emitted from motor vehicles, the Vehicle are among air pollutants in the Sri Lanka the Emission Programme had been commenced in the year 2008 with a view to minimizing the poisonous gases emitted due to the fuel combustion by maintaining the high level of efficiency in fuel consumption through the maintenance of motor vehicles as per the standards. The authority to carry out vehicle emission tests through 2 private companies had been vested by the Commissioner of Motor Traffic. Environmental Conformity Certificates had not been obtained for certain Vehicle Emission Testing Centers established in the Western Province. Even though the standards of maximum air pollutants to be existed in the atmosphere had been prepared, the technical facilities to compare the actual quantity of existing air pollutants with the standards and to provide updated information were not available in the Central Environmental Authority. The provision made therefor had not been utilized effectively and efficiently, thus the qualitative change in circulating air after implementing the Vehicle Emission Programme could not be measured. The air quality test carried out by the National Building Research Organization in 19 locations selected in the Western Province in the months of December from the year 2012 to 2016 had revealed that the quantity of Sulphur in the atmosphere had gradually increased.

Picture No 03- Motor vehicles run on roads with heavy smoke

An analysis of medical data from the year 2012 to 2016 revealed an increase of patients suffering from respiratory diseases and the deaths caused by respiratory diseases. Air pollution also may affect the respiratory diseases. Even though instructions had been given by the Public Finance Circular No.454 of 02 December 2011 that the Vehicle Emission Test Certificate should be obtained compulsorily for the motor vehicles owned by the Government institutions, instances where the said instructions were not followed in respect of certain Government owned vehicles including buses of the Sri Lanka Transport Board, were observed.

The Vehicle Emission Test Trust Fund had been established in the year 2009 and out of the money belonging to the Fund, a significant amount had been invested in the Treasury without being utilized for the achievement of objectives of the Fund. The Information and Communication Technology Agency of Sri Lanka had submitted the updated data to this Fund but no such reports had been prepared or analyzed the data in an updated manner.

The expected results had been at a weak level due to the reasons such as, less number of technicians properly trained in the Vehicle Emission Testing Centers, short period of service by the trained staff and the poor state of welfare facilities for those staff. As such, the objectives of the vehicle emission programme should have been achieved and created an environment free from air pollution through a proper supervision of vehicle emission testing centres. It is recommended that a positive attitude on the programme can be fostered by exhibiting the updated status on atmosphere at vehicle emission testing centres and making the general public aware that the air pollution is being controlled through the money they paid.

Road Safety of Sri Lanka

The period of 2011-2020 had been named as the Decade of Action for Road Safety by the proposal No.64/255 at the United Nations General Assembly held in March 2010. Sri Lanka was also a member of the party who signed in passing this proposal. National Council for Road Safety is the institute who take action for the road safety in Sri Lanka. The said National Council comprising the representatives of 17 Government and Non-governmental institutionals, is performing its functions. The frame of Decade of Action for Road Safety comprised of five main sectors and they are building road safety management capacity, designing safe roads and impact on system management, developing the safety of vehicles, enhancing the behaviour of road users and improving post-crash response.

The following weaknesses were revealed in the functions performed by each Government institution regarding the said main sectors within the five preceding years of the Decade of Action for Road Safety.

Picture 04 -Road accidents

Picture 05 -Road accidents

- Inadequacy of powers of the National Council for Road Safety and also the physical and human resources.
- Failure to follow the Traffic Management Course by 72 per cent of the officers attached to the Motor Traffic Division of the Police Department. Further, the space and equipment for its Training Unit was not sufficient.
- Failure to establish a data base on road accidents by the National Council for Road Safety and even though such a data base had been maintained by the Traffic Police Headquarters it was not connected with the National Council for Road Safety, Department of Motor Traffic, Ministry of Health and Insurance Companies.
- Audit on road safety should have been carried out in designing safe roads. Even though the number of training programmes conducted thereon and the number of Engineers participated had increased annually, the audit on road safety had not been carried out in the years 2016 and 2017. Even though the engineering faults had caused road accidents, such faults had not been rectified by relevant institutions.
- Tests on the standards and the running condition of school vans, carried out by the Traffic Division were not adequate. Failure to properly illuminate the A1,A8 and A33 roads and unsafe railway crossings had caused road accidents.
- Instances where the registration of motor vehicles not in use was not cancelled were observed. Even though the motor vehicles not in running condition were identified by

the Police officers and examiners for motor vehicles and the injunctions were issued, the instances where the faults were rectified and the injunctions were not withdrawn had been observed.

- Failure to renew the registration in driving schools and adequate equipment had not been provided to the Traffic Police Officers to identify the weaknesses in driving motor vehicles.
- Lack of required facilities to ensure the safety after accidents. Accordingly, the required human resources for accident service , facilities for treatments and ambulance service were not adequate.

As such, proper identification, assignment and supervision of the functions of all institutions related to the road safety and also the awareness and contribution of drivers and general public are essential factors to minimize the road accidents.

Semi Luxury Bus Service in Long Distances in Sri Lanka

The function of the National Transport Commission is to operate an efficient bus service in Sri Lanka. The objective of the Semi Luxury Bus Service is to make opportunity for passengers of long distance service to reach the destination comfortably by agreeing with the Conditions such as transport only the seated passengers by charging a bus fare of 1.5 times of the normal bus fare, comfortable travelling for passengers, limited stop at approved bus halts.

The objective of the audit is to evaluate whether an efficient and effective service is provided to the passengers by the Semi Luxury Bus Service under the National Transport Commission established by the National Transport Commission Act, No.37 of 1991. The National Transport Commission had issued passenger service permits for the semi luxury private buses. In case of violating the Conditions in the permit, administration fees had been charged from permit holders based on the nature and the number of instances of such violations. The provisions therefor had not been made available in the said Act and provisions for imposing fines against the persons not paying charges had also not been made available in the said Act. As such, the Act should be amended by including such provisions. The audit test check carried out on Mobile Test Reports revealed that, legal proceedings had been initiated regarding 08 private buses run without a valid passenger permit. Further, instances of delays in taking action against the permit holders for offences such as many times of violating the Conditions in the passenger service permit and instances of doing the same offence in several times and also for the delay in attendance of drivers and conductors.

Out of the public complaints received to the National Transport Commission during the first 04 months of the year 2017, forty seven per cent were regarding the semi luxury buses. A sample audit test on 142 passengers in 08 semi luxury buses revealed that 51 passengers had got into the bus without identifying it as a semi luxury bus.

Even though a Global Positioning System (GPS) had been introduced for interprovincial buses, it had been introduced only to 08 buses out of 448 semi luxury buses. Even though private vehicles had increased by 67 per cent during the period from the year 2009 to 2015, the increase of buses for public transportation had been only 16 per cent.

It is recommended to update the rules for a qualitative Semi Luxury Bus Service, make the bus owners, drivers and conductors aware of such rules and the importance of following the same, take legal action immediately against the persons violating the rules to be followed, expand the Mobile Testing Service and to run the buses according to a joint time table.

Investigation Audit and Audits on Public Petitions

An investigation audit expects to examine the roots of a possible risk in regard to a person or a group trying to gain a favor or benefit contrary to the Law, or in an unfair manner. The investigation audit considers to strengthen the system of control so as to disclose and prevent frauds.

In order to ensure the proper management of public financing, the state audit has been strengthened through the 19th Amendment to the Constitution of the Democratic Socialist Republic of Sri Lanka. In addition to examining the official documents of the auditees, and with a view to enhancing the investigation, it is expected to take action through investigation audit to ensure the efficiency in the management of public financing by taking into account the public petitions, requests of the Commissions, representations of the working committees relating to public accounts and public enterprises, representations of the Heads of Institutions, and information revealed through media. In parallel therewith, the Department has taken measures to improve a methodology for the enhancement of knowledge and skills of the officers, provide necessary training, and improve the physical resources, hotline number and electronic mail.

The Special Investigation Unit had paid attention on important and urgent petitions in the year under review, and examined expenditures of Rs. 17.38 billion relating to 35 representations, thereby reveling an estimated loss of Rs. 14.44 billion sustained by the Government. The observations of importance relating to investigations carried out in the year 2017, are put in a nutshell below.

Appointment of an under qualified person as a Director General

Applications had been called through newspaper advertisements for the post of Director General of the National Institute of Business Management. It had been planned to conduct the interview by appointing a board of interview as well. The Scheme of Recruitment approved by the Department of Management Services had stated that the minimum qualification required for the said post should either be a service experience of 5 years after completion of the doctorate, or a 20 year service experience after obtaining post-graduate qualification. An applicant who had not earned the said service qualifications of 5 or 20 years, had been appointed to the post of Director General with effect from 06 March 2017.

The procurement of obtaining the building on rent.

The Chairman of the National Institute of Business Management had also been appointed in acting capacity for the post of Director General of the institute from 31 October 2016 to 20 May 2017. During the said period, 22 decisions relating to procurements with the financial value of Rs. 178.25 million had been taken. Accordingly, an agreement had been entered into on 21 February 2017 to obtain a 7 storied building with an area of 22,000 square feet located on Elvitigala Mawatha, Colombo 05 on lease for a period of 2 ½ years at a monthly rental of Rs. 2.50 million. No provision had been made in that connection through the annual budget, and it was revealed in accordance with the following observations that the said procurement process lacked formality.

- Notices published in newspapers for obtaining the building on lease, and the procurement documents had not been approved by the Procurement Committee.
- Although the period of lease is a main criterion in deciding on the lease rent, the notices published in newspapers had not mentioned the period of lease expected.
- In terms of Guideline 2.8.1 (a) of the Government Procurement Guidelines, not any of the members of the Procurement Committee should be a member of the Technical Evaluation Committee. Contrary to that, the Chairman of the Institute who had officiated in acting capacity at the post of Director, had also acted as the Chairman of both the Technical Evaluation Committee and the Procurement Committee appointed for obtaining the building on lease.
- As mentioned in the unnumbered report of the Procurement Committee relating to the leasing of the building, dated 01 February 2017l, evaluations had been carried out on the basis of obtaining the building on lease for a period of 05 years. Accordingly, it had been recommended to pay an advance equivalent to total lease rent for one year, and recover that advance within a period of 5 years in installments. According to the agreement entered into with the owner of the building on 21 February 2017, a condition had been set out to obtain the building on rent for a period of 2 ½ years. The approval, obtained formally in that connection, had not been made available to audit.
- It had been agreed to pay an advance of Rs. 30 million in terms of the relevant agreement, and that advance had been paid on 31 February 2017. Hence, 40 per cent of the agreed value had been paid as advance in contravention of the decision of the Procurement Committee and Guideline 5.4.4 of the Government Procurement Guidelines.

- The bids had been evaluated under the condition that the building would be obtained on rent for a period of 05 years. As such, by taking into account the period of 05 years, the value of the Procurement becomes Rs. 150 million. Contrary to provisions of the Government Procurement Guidelines, the procurement had been executed by the Procurement Committee of the Department.
- The Technical Evaluation Committee had recommended the monthly rental for the building as Rs. 2,500,000 together with Value Added Tax thereon for a period of 05 years. However, without being recommended by the Technical Evaluation Committee, agreement had been entered into by deciding the monthly rental for the last 06 months from 01 May to 31 October, 2019 as Rs. 2.75 million. As such, conditions relating to the overpayment of Rs. 1.50 million had been included.

Accordingly, the Institute had entered into an agreement in a manner ensuring economy and securing the rights of the Government. Approval of the Department of Attorney General had not been obtained as well.

Soil mining at Mahaweli lands by the private sector

A special investigation was carried out on allowing the private sector for soil mining at the lands belonging to the Mahaweli Authority of Sri Lanka in Mayurapura division of Walawa special zone for the Southern Expressway extension project. The Mayurapura division in the special zone of Walawa had been declared under the Mahaweli Authority of Sri Lanka by the Minister in charge of the land and Mahaweli development through the Gazette Notification, No. 137 dated 16 April 1981 published in accordance with Section 3 (1) of the Mahaweli Authority of Sri Lanka Act, No. 23 of 1979. Having surveyed 671 acres of land at the area of Mayurapura division in the special area of Walawa , it had been planned to issue licenses to 29 institutions from the private sector for soil mining during the period 2015-2016. Certain areas so identified, had located close to the hot water springs in Madunagla, and in the proposed wild elephant management areas in Hambanthota. The manager of Mayurapura had identified lands for soil mining at his own discretion contrary to the internal instructions relating to the removal of minerals from the lands belonging to Mahaweli Authority, and without preparing and implementing a plan by conducting a proper environmental evaluation to identify lands. Issuing licenses for the locations identified informally had been halted after being pointed out by the Audit that , if soil mining had continued, many environmental issues would arise such as, impact on wild animals and the sustainability of environment, wild animals losing their habitats, and impact on the groundwater.

According to the following observations, the soil mining had been carried out contrary to the provisions of the Acts passed in the Parliament and the Gazette Notifications.

- The Minister of Environment, through the Gazette Notification, No. 772/22, dated 24 June 1993 published in terms of provisions of Section 23 (7) of the National Environmental Act, No. 47 of 1980, had directed to obtain approval under Section IV (c) of the National Environmental Act for a project to make use of lands located in non-forest areas over 01 hectare in extent, and another project for mining minerals on the surface of areas in extent of over 10 hectares. According to Sections 23 b (1) and (2) of Part IV (d) of the National Environmental Act, it is stated that an initial environmental report, or an environmental impact analysis report should be obtained thereby requesting for public opinion. However, those provisions had not been complied with when those lands had been released.

Photo 06: A location where soil had been mined by a licensee contravening the conditions.

- According to the survey reports obtained for audits with expertise from the Department of Survey relating to 02 locations relevant to those projects, an area of 20 acres had been mined illegally. For the soil removed illegally from those 2 locations, a sum of Rs. 95.08 million remained payable to the Mahaweli Authority of Sri Lanka as charges for using lands whilst a royalty of Rs. 2.71 million remained payable to the Geological Survey and Mines Bureau. Instructions had been issued to take legal action in that connection under the Offences Against Public Property Act, No. 12 of 1982. Nevertheless, the Audit had been informed on 07 April 2017 by the Director General of Mahaweli Authority of Sri Lanka that action would be taken to recover a sum of Rs. 95.08 million from the Road Development Authority that had obtained soil from the said 2 institutions. But, the said amount had not been recovered, nor had the legal action been taken even up to June 2018.

- In terms of Section 61 (1) of the Mines And Minerals Act, No. 33 of 1992 as amended by the Act, No. 66 of 2009, the holder of a license shall restore and rehabilitate the land on which such exploration or mining had been carried out. Once produced before a Magistrate in terms of Section 63 (3) (a) thereof, any person who contravenes any provision of the Act is liable to be ordered to restore or rehabilitate the land to its former state. It had been proposed to rehabilitate such areas by creating a small lake for use of wild animals. However, the criteria such as depth, slope, and area that should be adhered to in creating the small lake had not been recommended. According to the reply sent by the Chairman of Geological Survey and Mines Bureau with respect to the audit query issued in that connection, the renovation plan related to that license described the creation of a pond as ordered by the Mahaweli Authority of Sri Lanka, and supervising, setting additional conditions, and issuing instructions thereon were beyond the purview of the Bureau. Although recommendations had been provided by the Mahaweli Authority of Sri Lanka, Department of Wildlife, and Central Environmental Authority on the process of issuing licenses, none of those institutions had described as to how those rehabilitation activities should be carried out.

Photo 07 : A location where a license holder had carried out soil mining by contravening the conditions.

- Under one license issued, mining had been carried out on 05 acres in excess of the approved area by exceeding the approved depth. Furthermore, 14 out of 36 conditions mentioned in the license had been contravened, and another area of 05 acres close to that location had illegally been mined. Under another license issued, 18 acres in excess of the approved land, had been mined by contravening 7 out of 33 conditions set out in that license. According to the reply sent on 22 November 2017 for the audit query issued to the Geological Survey and Mines Bureau in that connection, it was stated that action was being taken to recover the relevant monies, but those monies were not recovered up to June 2018. Legal action had not been taken on illegal mining even up to 01 August 2018 in terms of Section 63 of the Mines and Minerals Act, No. 33 of 1992.

Photo 08 : A location where a license holder had carried out soil mining by contravening the conditions.

- It is stated in Section 12 (a) of the National Environmental Act, No. 56 of 1988 that the validity of a license issued in regard to environmental protection, should not exceed 12 months. An environmental recommendation had been given by the Central Environmental Authority for the said location on 01 September 2014. As the period of validity thereof had expired, the Geological Survey and Mines Bureau had been informed on 12 September 2016 by the Central Environmental Authority that mining licenses should not be issued. Accordingly, action had been taken to temporarily suspend the mining license, and the holder of license had filed a case at the Court in that connection. In that context, the Central Environmental Authority had agreed with the Court to revalidate the license that had been suspended by the Geological Survey and Mines Bureau, by 18 February 2017. Accordingly, action had been taken to extend the environmental recommendation to be valid for 2 years and 5 months. No legal action had been taken in terms of National Environmental Act, No. 56 of 1988 on carrying out mining by contravening the conditions set out in environmental recommendations.

Photo 09 : A location where a license holder had carried out soil mining by contravening the conditions.

- The Ranger in Hambanthota had given recommendations without proper authority for soil mining within the proposed Wild Elephant Management Zone. Mining had been carried out in 18 acres at the said zone to a depth of 15 meters, thus endangering the wildlife by causing a detrimental impact on the environment. The audit query submitted in that connection on 28 December 2017, was not replied by the Department of Wildlife Conservation even up to 30 June 2018.

Unauthorized Soil Mining at a Land Owned by the Government

In the year 2016, the villagers had lodged complaints with the Police in Angunakolapelassa from time to time on illegal soil mining taking place at a Government-owned land belonging to the Mahaweli Authority of Sri Lanka and located in the Police division of Angunakolapelassa in Hambanthota district. Furthermore, in the same year, 05 complaints had been made by the villagers from time to time to the Divisional Manager of the Mahaweli Authority of Sri Lanka, and the Regional Mining Engineer of the Geological Survey and Mines Bureau. The said institutions had not produced the culprits before the Court by conducting investigations properly in that connection. Despite the availability of adequate evidence with respect to the violation of conditions in the mining licenses, and breaching the provisions of Mines and Minerals Act, No. 33 of 1992 and Offences against Public Property Act, No. 12 of 1982, no action had been taken to produce the responsible license holder before the Court. As such, due to illegally mining an area of about 6 acres to a depth of 30 feet, the environment had been affected detrimentally whilst causing the Government to sustain a financial loss of Rs. 23 million. The audit query issued to the Inspector General of Police in that connection on 13 December 2017, was not replied even up to 30 June 2018.

Transportation of Soil Removed in the Renovation of Tanks

In terms of Section 30 (1) (c) of the Mines and Minerals Act, No. 33 of 1992 as amended by the Act, No. 66 of 2009, the Bureau shall not issue a license to any person to explore for, or mine any minerals upon any land situated within such distance of a lake, stream or a tank or bund within the meaning of the Crown Lands Ordinance (Chapter 454), as may be prescribed, without the approval of the Minister and the Minister in charge of the subject of Lands. The Director General (Acting) of the Geological Survey and Mines Bureau had sent a letter to the Assistant Commissioner of Agrarian Services, Hambanthota on 09 November 2016 stating that no licenses would be required for mining tanks. Based thereupon, the Assistant Commissioner of Agrarian Services, Hambanthota had granted approval for Farmers' Associations to carry out renovations of 14 tanks. It had been planned for the removal of 272,299 cubes of soil during the renovation of the said 14 tanks. The Regional Mining Engineer of Hambanthota had been furnished a letter in view of obtaining licenses for the Farmers' Associations to sell the soil so removed, for the construction of expressway.

Issue of Explosives for Quarries and Recovery of Land Use Charges

The District Secretary is authorized to issue licenses for explosives within the relevant district in terms of Section 37 of the Explosives Act, No. 21 of 1956. The said powers should be exercised subject to the provisions of the Controller of Explosives in terms of Section 52 of the Act. According to Paragraph 3 of the Circular, No. CS/7/EX/1/38 of the Secretary of Defence, dated 25 August 2010 relating to explosives, the Assistant Controller of Explosives is responsible for issuing permits and licenses for explosives. The said Circular had described the procedure relating to the issue of permits for explosives. However, the requirement of issuing a certificate as to the quantity of stones quarried from the explosives issued under the procedures mentioned therein, had not been stated. In spite of that, the Assistant Controller of Explosives, Hambanthota had calculated the quantity of stones that could be quarried with the amount of explosives being issued, and informed the Government institutions owning lands in that connection. However, explosives used in rock blasting, and ammonium nitrate had not been taken into account. A criterion had been set out by the Geological Survey and Mines Bureau to determine the quantity of stones that can be quarried with a certain amount of explosives. As such, relating to the 07 year period 2010-2016, an estimated income of Rs. 2,152.36 million had remained recoverable from 95 lands that had been given on lease for quarrying.

Supply of Raw or Dry Rations for the Tri Forces

The raw or dry rations had been supplied to the tri forces through Standing Cabinet Appointed Procurement Committee. Action had been taken to pay a sum of Rs. 18.23 million in the year under review with respect to a price increase of Rs. 152 per kilogram in total of 119,934 kilograms of milk powder supplied by the contractor in the year 2014 based on prices decided by the said Committee. The following irregularities were observed with the said recommendation and the composition of the Technical Evaluation Committee that had paved way for the said decision.

- Section 2 of the agreement entered into with the supplier states " The contractor hereby agrees to supply the rations within 24 hours after being ordered at the prices mentioned in the schedule irrespective of the increase of the prices at the market ". Without considering the possibility of refusing the payment of increased price in accordance with the said conditions set out in the agreement, the Technical Evaluation Committee had recommended paying for the increased price. As such, the Government had incurred an additional expenditure of Rs. 18.23 million.
- This decision had been arrived at in the wake of appointing an Additional Secretary of the Ministry of Defence as a Chairman by removing the Chairman and a member appointed to the Technical Evaluation Committee by the Department of Public Finance.
- Based on the request of a supplier, the relevant decision had been implemented in a manner personal to him, and hence, the transparency and impartiality of the procurement process had not been ascertained.

Commencement of a Parallel Class for Grade 01 and Admission of Students.

It had been decided to commence a new parallel class for Grade 01 at 19 schools in the Western Province solely for the year 2016. Action had been taken to admit 342 students based on a register submitted to the Director of Education, Western Province under the signatories of Private Secretary and Coordinating Secretary of the Ministry of Education Cultural & Arts Sports & Youth Affairs & Information Technology - Western Province. Irregularities in the admission process were revealed according to the following observations.

- A number of 156 students had not even submitted applications to those schools in the year 2016.
- The decision to commence a new class had been taken without taking into account the physical and human resource requirements. Accordingly, Principals of 12

schools, had admitted children irrespective of the limit on the number of students in the existing classes without commencing a new class.

- The Director of Education, Western Province had informed the Principals through a letter allowing them to admit students without adhering to provisions set out in the Circulars issued on the admission of students to Grade 01.
- The said letter had allowed the Principals to contravene the provisions set out in Circulars on the admission of students to Grade 01 issued in accordance with Cabinet Decisions and Judgement, Nos. 235/2011, and 232/2011 of the Supreme Court.
- The said letter had been issued for admission of students in spite of the instructions issued in writing to the Provincial Director of Education by the Secretary to the Provincial Minister of Education.
- The admission of students in that manner had caused injustice to the students in waiting list.

Failure in Taking Disciplinary Action on Irregularities

Despite being revealed that a Principal had been involved in irregularities in accordance with the following observations, no disciplinary action whatsoever had been taken in that connection even up to the end of the year under review.

- Provision amounting to Rs. 2 million had been made per school under the programme '*Lagama pasala, hodama pasala*', (The nearest school, the best). In the utilization of those provision, re-fixing the doors and windows, and painting of the laboratory had been carried out, rather than paying attention on simple and essential repairs that should have been prioritized.
- Subcontracts had been awarded for the said work by Schools Development Society in contravention of provisions set out in the Circular, No. 07/2013 of the Ministry of Education, dated 28 November 2013. There had been instances in which materials had been purchased at prices more than double the then average market prices.
- Raw materials had been purchased in excess of the requirement without forecasting the materials required and labor. Payments had been made excessively for labor.
- Physical inspections revealed that repairs on buildings had been carried out without complying with the standards.

Photo 10 : Repairs carried out at the school sans compliance with the standard.

- Contrary to provisions of the Circular, No. 5/2015 of the Secretary to the Ministry of Education, dated 29 January 2015, relating to the stoppage of collecting money irregularly at schools, committees had been appointed at schools in order to repair desks and chairs, and conduct *Dansala* thereby collecting a sum totalling Rs. 1.49 million.
- Inventories of the school had not been maintained
- properly, and the security thereof had not been verified.
- The School Development Society had acted in a manner contrary to provisions stated in the Circular, No. 7/2013 of the Ministry of Education, dated 28 November 2013.

The aforementioned observations pointed out by the Audit had been acknowledged by the Chief Accounting Officer through his reply. Nevertheless, no disciplinary action had been taken in terms of Chapter XLVIII of Volume II of the Establishments Code against the Principal and the other officials responsible.

Investigation of Petitions Received in regard to National Schools

The following deficiencies were observed in the investigation carried out on the petitions received in the year under review regarding the irregularities of the national schools.

- **Admission of students to Grade 01**

  An investigation was carried out on the petitions submitted to the Audit on irregularities relating to the admission of students to Grade 01 of 02 national schools. The investigation revealed that 202 students had been admitted to one of those national schools contrary to provisions of the Circular, No. 17/2017 of the Ministry of education, dated 16 May 2016. As for the closeness to another national school from the place of residence relating to the period 2002-2015, marks had been deducted with respect to the schools located within the radius being formed between the said school and the place of residence, but 419 students had been admitted in contravention of that basis.

- **Admission of students to intermediate classes**

  Vacancies for students in schools should be filled under consent of the Secretary to the Ministry of Education in accordance with the verdict returned by the Supreme Court relating to 2 fundamental rights cases. Accordingly, a class had been limited to 40 students for the period 2016-2021. However, by exceeding that limit, 02 national schools had admitted 78 and 104 students.

- **Failure to implement the national teacher transfer policy**

  The Circular, No. 2007/20 of the Ministry of Education, dated 13 December 2007 stated that the maximum period of service relating to a school of the category - " most comfortable", should be 06 years. However, 134 and 130 teachers had served at the Sujatha College, and Rahula College, Matara respectively exceeding 6 years.

Appointment of advisors for the Chief Minister of Uva Province

Cabinet Decision, No. 12/විවිධ (79), dated 23 September 2015 stated that there was no necessity to appoint advisors for the Chief Minister of the Province as an expert service on any subject can be obtained from the officers with expertise employed at the Line Ministry or Government institutions, on secondment basis. By disregarding the said Cabinet Decision, 06 advisors were appointed for the Chief Minister of Uva Province, and a sum totalling Rs. 4.19 million was paid as allowances from the date of appointment up to February 2017. It was further observed that the advisors so appointed did not possess any expertise relating to their respective areas.

Officers recruited on temporary basis proceeding abroad on academic affairs

Four officers recruited on temporary basis had been allowed to proceed abroad on an academic tour organized for the public representatives of the Uva Province and the staff grade officers of the island wide service upon request of the Chief Minister. A sum of Rs.2.13 million had been spent for 04 of those officers on air tickets, Visa, and incidental allowances.

Obtaining financial sponsorship for preschool bags

Due to inadequacy of provision allocated to the Uva Provincial Council, 03 Government banks had been requested for sponsorship to provide healthy school bags for preschool children through the letters dated 10 November 2015 using letterheads of the Chief Minister's office and under the signatory of Chief Minister of

Uva Province. Accordingly, 02 Government banks had given 02 cheques valued at Rs. 3.50 million. Those 02 cheques, without being deposited to the bank account of the Provincial Council, had been deposited to a bank account opened for a "foundation under the name of a person". Although one of the banks had requested that the name of an account of that bank be printed on the bags purchased by utilizing the funds from the said bank, bags with such a name printed had not been distributed. Only the bags purchased by utilizing Rs. 3.06 million out of the funds granted in the years 2015 and 2016 by 17 Local Authorities for the preschool children in Uva Province, had been distributed. Hence, it was observed that the monies granted by banks had been deposited to an account maintained by a private foundation instead of being utilized on the intended purpose.

Electricity meter testing facility of the Department of Measurement Units, Standards & Services

With the objective of approving models of electricity meters and calibrating electricity meters of the private sector, an electricity meter testing facility had been established at the district office in Gampaha in the year 2007 by the Department of Measurement Units, Standards & Services incurring a sum of Rs. 25.7 million. That facility had remained non-functional since the year 2009 due to a technical glitch. The said glitch had occurred during the warranty period of the relevant equipment, but no action had been taken even up to October 2017 to remedy the problem through the relevant suppliers.

Photo 11 : The non-functional electricity meter testing facility.

Simdzu gas analyzer

In order to analyze the air in main cities under the vehicle emission testing programme, the Department of Measurement Units, Standards & Services had purchased a Simdzu gas analyzer by incurring a sum of Rs. 5.86 million. The said instrument had been purchased to be used for analyzing samples of gasses, testing the gas emissions of vehicles, calibration and testing the precision of equipment being used in analyzing the exhaustive gasses of the vehicles running on petrol or natural gasses, examining the clarity of standards relating to gasses, and examining the composition of fuel and various vaporous solutions being used in the industrial sector. A proper evaluation had not been carried out on the possibility of installation prior to purchasing that instrument and hence, the instrument could not be made use of after being installed even after a period of 05 years since the date of purchase.

Construction of a building for the National Measurement Laboratory

The Department of Measurement Units, Standards & Services, without conducting a feasibility study, had commenced the project to construct the laboratory at the premises of Head Office in Colombo by obtaining approval of the Cabinet. However, having been informed by the Director of Standards and Services through his letter, dated 24 November 2009 that construction of the laboratory at the said location had been inappropriate, the construction had been halted. As such, the sum of Rs. 15.33 million spent up to then had become economically futile.

In order to carry out the constructions of the building, an agreement had been entered into with the Central Engineering Consultancy Bureau, but agreement had been cancelled. By the time of cancellation, an advance totalling Rs. 12.48 million had been paid to the Central Engineering Consultancy Bureau on 10 December 2014 and 27 April 2015. That advance had not been recovered even up to the end of the year under review.

Action had later been taken to construct the building complex on a 06 acre land in Homagama that had been vested in the Department by incurring a sum of Rs. 329.16 million. Nevertheless, the tests carried out by the National Buildings Research Organization (NBRO) on the premises connected to the laboratory revealed that the constituents of gasses allowed inside the laboratory had exceeded the maximum amounts allowed, and hence, the atmosphere prevailed in the laboratory had not been suitable for conducting scientific tests. As such, 66 rooms in the laboratory had been abandoned without being used for scientific activities.

According to the report furnished on 17 February 2017 by the *Fraunhofer wki material analysis & indoor* *chemistry (MAIC), Bienroder weg 54 E* of Germany in that connection, the said issue had occurred due to substandard HPL boards fixed in the laboratory. Action had not been taken even up to 31 December 2017 to rectify the fault through the relevant contractor.

It had been planned to install an air-condition system with ultra-precision in view of the safety of instruments and maintain the indoor air quality level of the laboratory. However, due to failure of the Department in carrying out procurement activities properly in that connection, a supplier had filed a case at the Appellate court, thus preventing the constructions.

Livelihood grants programme – Musali Divisional Secretariat

The following deficiencies were observed in the investigation carried out on the provision of livelihood grants for the people in the area of Divisional Secretariat, Musali under the project for expedited resettlement in North Eastern Province.

- A sum of Rs. 10.53 million had been paid by the Divisional Secretariat to a broker company selected under the procurement process for the purchase of cattle, goats, and chickens to be distributed among the beneficiaries. Of the said amount, the broker company had deducted Rs. 500 per cow and Rs. 500 per beneficiary family owning goats thereby depositing the balance amount of Rs. 9.10 million to the personal bank account of the Public Management Assistant in charge at the Divisional Secretariat. Furthermore, a sum of Rs. 765,000 had also been deposited to the personal bank account of the then veterinary surgeon. Having purchased cattle and goats from the monies so received, they had taken action to distribute them among the beneficiaries.
- The secretary to the Ministry of Prison Reforms, Rehabilitation, Resettlement and Hindu Religious Affairs had stated in his letter dated 09 February 2016 that animals should be purchased and supplied to the beneficiaries. However, without purchasing animals in that manner, a sum of Rs. 270,000 at Rs. 90,000 per three of 08 beneficiaries, and a sum of Rs. 500,000 for five beneficiaries at Rs. 100,000 each, thus making a total of Rs. 770,000 had been paid in cash.
- Having been stated by 05 beneficiaries that the milch cows received by them were of substandard quality, the milch cows were returned to the Divisional Secretariat. The Public Management Assistant in charge paid a sum of Rs. 175,000 to 03 of those beneficiaries from his personal funds. Accordingly, of the provision made for the beneficiaries, a sum of Rs. 325,000 was retained in hand by the officer in charge.

- A beneficiary should be provided with only one fishing net as per instructions issued by the Line Ministry. However, having recorded in documents that fishing nets worth Rs. 6.40 million had been given to 64 of 69 beneficiaries at Rs. 100,000 each, fishing nets worth Rs. 5.81 million had been granted.
- According to payment vouchers, 6448 items of equipment used in agriculture, small industries, and self employment had been purchased. According to the reports obtained by Grama Niladharis in charge of each division by examining those equipment physically, only 3834 items valued at Rs. 11.66 million had been distributed among the beneficiaries. As such, 2614 items worth Rs. 1.35 million had not been distributed.
- Agricultural equipment worth Rs. 282,833 given to 03 beneficiaries had not been made use of on any purpose whatsoever even up to 15 June 2017. Equipment worth Rs. 111,433 that had been granted to 2 beneficiaries, were not in their possession at the time of physical inspection. Furthermore, a beneficiary not residing within the relevant Grama Niladhari division, had been granted a refrigerator and a glass rack worth Rs. 74,274. Those items had not been made available for physical inspection.
- It was revealed in the sample test carried out on the items and animals given to 64 beneficiary families that, along with the documentary statements provided for the Audit, certain acts of irregular nature had taken place such as, distribution of underweight goats, sale of animals, not granting animals with proper health, not granting cattle selected personally, granting equipment less than requirement, and obtaining other equipment from the institutions of purchase instead of what had been given.

Photo12 : A cow given to a beneficiary.

Photo 13: Misuse of equipment given to a beneficiary

Photo14 : The unused electronic scale received under USAID Project made available by a beneficiary for physical inspection.

Supply of dietary supplements to the National Hospital

When bids had been invited to purchase dietary supplement of the brand *Impact* for the National Hospital, it had been informed that price per tin can be mentioned without specifying a weight. The supplier had quoted Rs. 1,390 per tin can. However, the dietary supplement had been supplied to the Hospital in containers with 05 sachets each weighing 74 grams. The suppliers of the preceding years had also supplied containers with 05 sachets, but the price agreed per container (05 sachets) had been paid. Nevertheless, payments had been made on 23304 sachets each weighing 74 grams at Rs. 1,390 per sachet for the supplier selected for the years 2016/2017, thus causing the Government to sustain a loss of Rs. 25.91 million.

Making payments contrary to the provisions.

In terms of Section 13 (2) (b) of the Board of Investment of Sri Lanka Law, No. 4 of 1978, salaries, wages, and other remuneration for the staff should have been fixed subject to general or special direction of the relevant Minister. Likewise, in terms of Public Enterprises Circular, No. 95, dated 14 June 1994, the benefits for the employees of corporations and statutory boards should be paid only under the approval of Ministry of Public Administration or Treasury together with the approval of the Boards of Control of the relevant institutions. However, the Board of Investment had paid a sum totalling Rs. 512.54 million in the year under review contrary to those provisions including transport allowance, performance incentives, payments on unavailed leave, arduous allowance, allowance for the 40th commemoration of the Board, and special allowance.

Financial Statements of

Year 2017

Annual Financial Statements

It should be noted that the incorporation of the assets generated from the annual budget estimates into the financial statements through the introduction of this process would provide for their control, as well as the computation of the 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 2017 amounted to Rs.1,593 million as compared with the provision of Rs. 1,390 million for the preceding year.

A sum of Rs.145 million was credited to the Consolidated Fund in the year 2016 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.125 million, collection of audit fees during the year under review increased the estimate by a sum of Rs.20 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 24th 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.

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 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 2017.

2. Reporting Period

Reporting period is the calendar year commencing on 01st January and ending on 31st 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 disposal 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 rate prevailing on the date of transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in the Statement of Financial Performance.

7. Cash and Cash Equivalents

Cash and Cash equivalents 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 01st 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 disposal are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposal 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 Property, Plant and Equipment, at cost less estimated residual values of the Property, 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
Building	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.

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 2017

Estimated 2017 Rs.'000	**Revenue**		2017 Rs.'000	2016 Rs.'000
125,000	Audit Fees	1	127,780	136,504
661	Rent		661	493
9,000	Interest		9,258	8,957
-	Fines and Forfeits		666	21
7,000	Other		4,777	8,152
-	Profit on Disposal Assets	2	19	20,808
141,661	**Total Operating Revenue**		**143,161**	**174,935**
1,399,704	Treasury Grant for Recurrent Expenditure	3	1,394,119	1,025,749
1,541,365	**Total Revenue**		**1,537,280**	**1,200,684**
	Expenditure			
1,129,600	Personal Emoluments	4	1,062,212	960,036
90,500	Staff Travelling	5	90,496	29,935
27,691	Supplies	6	19,601	28,154
12,000	Maintenance	7	32,313	12,081
182,250	Services	8	168,456	80,326
13,300	Transfers	9	12,664	11,384
85,500	Training and Capacity Building	-	85,347	26,022
524	Write Off	-	524	-
-	Depreciation	10	51,400	56,050
-	Recurrent Expenditure - Capacity Building Project	11	24,904	24,904
1,541,365	**Total Expenditure**		**1,547,917**	1,22**8,892**
-	**Deficit of Revenue Over Expenditure**		**(10,637)**	(28,208)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	Note	31 December 2017		31 December 2016	
		Rs.000	Rs.000	Rs.000	Rs.000
Current Assets					
Cash Balance				-	
Inventory	12	13,788		6,007	
Advance to Public Officers	13	221,300		214,319	
Audit Fees Receivable	14	167,554		184,299	
Total Current Assets			**402,642**		**404,625**
Development of Audit Methodologies	11		101.572		126,476
Non – Current Assets					
Property, Plant and Equipment	10		1,057,551		1,080,367
Total Assets			**1,561,765**		**1,611,468**
Current Liabilities					
Expenses Payable	15	2,765		1,092	
Deposits Payable		11,358		19,473	
Total Current Liabilities			**14,123**		**20,565**
Accumulated Fund					
Balance as at 01 January		189,214		217,422	
(Deficit) for the Year		(10,637)		(28,208)	
Balance as at 31 December			**178,577**		**189,214**
Contribution					
Treasury	16	643,282		629,448	
Public Sector Capacity Building Project	17	725,783	1,369,065	772,241	1,401,689
Total Tax Payers' Equity			**1,561,765**		**1,611,468**

H.M.Gamini Wijesinghe
Auditor General

S.M.C.Laxmie
Chief Accountant

25 October 2018

NOTES TO ACCOUNTS

Note 01 - Audit Fee

Estimate 2017	Description	2017	2016
Rs.000		Rs.000	*Rs.000*
125,000	**Receipts**		
	Public Corporation, Boards and Other Public Institutions	54,738	63,256
	Local Authorities	27,459	20,985
	Agrarian Service Centre	1,240	1,160
125,000	**Total**	**83,437**	**85,401**
	Receivables		
	Public Corporation, Boards and Other Public Institutions	12,229	34,661
	Local Authorities	30,058	15,334
	Agrarian Service Centre	2,056	1,108
-	**Total**	**44,343**	**51,103**
125,000	Grand Total	**127,780**	**136,504**

Note 02	Disposal of Assets		
Estimate 2017	Description	2017	2016
Rs.000		*Rs.000*	*Rs.000*
	Disposal of Furniture and Office Equipment		
-	Sale Value of Furniture and Office Equipment	6	18,558
-	Net book value	0	0
-	**Profit on disposal of Furniture and Office Quipment**	6	**18,558**
	Disposal of Computer and Hardware		
-	Sales value of computer and hardware	**13**	2,250
	Net book value	**0**	0
-	**Profit / (Loss) on disposal of Computer and Hardware**	**13**	**2,250**
-	**Profit / (Loss) on disposal of Assets**	19	**20,808**

Note 03	Treasury Grant for Recurrent Expenditure		
Estimate 2017		2017	2016
Rs.000		Rs.000	Rs.000
1,399,704	Imprest received from treasury- for recurrent Expenditure	1,317,815	940,762
-	Imprest receivable for depreciation	51,400	56,050
-	Cost of the development of audit methodology	24,904	24,904
1,399,704	**Treasury Contribution for Recurrent Expenditure**	**1,394,119**	**1,021,716**

Note 04	Personal Emoluments		
Estimate 2017	Description	2017	2016
Rs.000		*Rs.000*	*Rs.000*
641,500	Salaries and wages	590,968	447,334
8,000	Overtime and holiday payments	7,606	4,619
480,100	Other allowances	463,638	508,083
1,129,600	**Total**	**1,062,212**	**960,036**

Note 05	Travelling Expenses		
Estimate 2017	Description	2017	2016
Rs.000		Rs.000	Rs.000
13,500	Domestic	13,498	10,488
77,000	Foreign	76,998	19,447
90,500	**Total**	**90,496**	**29,935**

Note 06	Supplies		
Estimate 2017	Description	2017	2016
Rs.000		*Rs.000*	*Rs.000*
13,091	Stationary and office requisites	5,439	16,989
14,000	Fuel	13,562	10,665
600	Diets and Uniforms	600	500
27,691	**Total**	**19,601**	**28,154**

Note 07	Maintenance		
Estimate 2017	Description	2017	2016
Rs.000		Rs.000	Rs.000
5,000	Motor vehicles	5,368	5,970
6,000	Plant, machinery and equipment	6,275	5,114
1,000	Building and structures	20,670	997
12,000	**Total**	**32,313**	**12,081**

Note 08	Services		
Estimate 2017	Description	2017	2016
Rs.000		*Rs.000*	*Rs.000*
21,000	Transport	20,504	18,707
20,000	Postal and communication	20,018	16,806
15,500	Electricity and water	16,444	13,410
17,500	Rent and local taxes	17,099	608
62,250	Operation Leasing	48,817	-
46,000	Other	45,574	30,795
182,250	**Total**	**168,456**	80,326

Note 09	Transfers		
Estimate 2017	Description	2017	2016
Rs.000		Rs.000	Rs.000
800	Subscription and contribution fees	**556**	**650**
12,500	Interest on loans to public officers	**12,108**	**10,734**
13,300	**Total**	**12,664**	**11,384**

Note 10 Property Plant and Equipment

	Land	Buildings	Motor Vehicles	Computer and Hardware	Furniture and Equipment	Mini Press	Passenger Lift and Generator	Total
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Cost								
Balance as at 1 January 2017	256,147	781,203	119,513	133,787	112,477	26,023	15,830	1,425,386
Additions	–	–	–	16,647	11,937	–		28,584
Disposals	-	-	-	(32)	(477)	-	-	(509)
Balance as at 31 December 2017	256,147	781,203	119,919	150,402	123,937	26,023	15,830	1,473,461
Depreciations								
Balance as at 1 January 2017	-	70,999	68,521	126,680	89,850	6,506	2,463	365,019
Depreciations on disposal of assets	-	-	-	(32)	(477)	-	-	(509)
Additions	-	15,624	14,990	5,033	13,660	1,301	792	51,400
Balance as at 31 December 2017	-	86,623	83,511	131,681	103,033	7,807	3,255	415,910
Net value as at 31 December 2017	256,147	694,580	36,408	18,721	20,904	18,216	12,575	1,057,551

Note 11 Cost of the Development of Audit Methodologies

Description	2017	2016
	Rs.000	Rs.000
Balance as at 1 January 2016	126,476	151,380
Amortization cost for the year 2017 (10% of the total cost)	(24,904)	(24,904)
Balance as at 31 December 2017	**101,572**	**126,476**

Note 12 Inventory

Description	2017	2016
	Rs.000	Rs.000
Toner	1,903	3,397
Stationary and requisites	10,706	1,560
Tyre and tubes	844	856
Cleaning Service Goods	335	194
Total	**13,788**	**6,007**

Note 13 Advances to Public Officers

Description	2017	2016
	Rs.000	Rs.000
Total amount due from officers serving in the department	218,917	211,655
Total amount due from officers transferred out of the department	149	330
From retired and deceased officers	1,342	1,339
From officers who vacated their posts	304	662
From service terminated officers	588	333
Total	**221,300**	214,319

Note 14 Audit fees Receivables

Description	2017	2016
	Rs.000	Rs.000
Development Councils	30	30
Municipal Councils	19,641	20,229
Urban Councils	27,418	34,087
Pradeshiya Saba	22,081	17,454
Public Corporations, Boards and Public Institutions	88,458	101,583
Agrarian Service Centers	9,926	10,852
Economic Centers	-	64
Total	**167,554**	**214,429**

Note 15 Payables	2017	2016
Description	**Rs.000**	**Rs.000**
Railway warrant – Leave	750	301
Railway warrant – Travelling Expenses	-	2
Other Expenses	45	270
Postal Charges	11	23
Telephone Bills	632	**330**
Water and Electricity Bills	1,327	112
Vehicle maintenance	-	3
Training and Capacity Building	-	51
Total	**2,765**	**1,092**

Note 16 Treasury Contribution for Capital Expenditure and General Deposit Account

Description	2017	2016
	Rs.000	**Rs.000**
For advance to public officers	**221,300**	214,319
For deposit account	(11,358)	(19,473)
For fixed assets	433,340	434,602
Total	**643,282**	**629,448**

Notes 17 Public Sector Capacity Building Project Contribution

Description	2017	2016
	Rs.000	**Rs.000**
For fixed assets	624,211	645,765
For audit methodology	101,572	126,476
Total	**725,783**	**772,241**

The Summary of Audit Observation according to Special Audit Reports

Special Audit Reort on the Implementation of the Gin Nil Wala Diversion Project of the Ministry of Irrigation and Water Resources Management

This Report was presented on a request brought to my notice by the Committee on Public Accounts to forward a Report on the Gin Nilwala Diversion Project commenced by the Ministry of Irrigation and Water Resources Management. Accordingly, the summary of significant observations revealed during the course of audit test checks, appears below.

The Secretary to the Ministry of Irrigation and Water Resources Management had entered into a Memorandum of Understanding with the China CAMC Engineering Co. Ltd. (CAMCE) on 31 October 2009 relating to 3 Projects, Gin Nilwala, Yan Oya and the Malwatu Oya. The Minister of Irrigation and Water Resources Management had submitted a Cabinet Memorandum on 05 November 2009 by giving reference to the said Memorandum of Understanding. Nevertheless, the approval for the Gin Nilwala Project had not been sought from that Cabinet Memorandum and the recommendations of the Minister of Finance and Planning on that Memorandum had expressed the concurrence for the implementation of the Yan Oya Project. Subsequently, the approval of the Cabinet of Ministers had been granted on 18 November 2009 subjected to the said concurrence. After submitting the Complete Feasibility Study Report by the China CAMC Engineering Company Ltd. in accordance with the approval of the Cabinet of Ministers, the approval had been sought on 02 September 2014 therefor under the Heading of "the Implementation of the Gin Nilwala Diversion Project".

Accordingly, the Cabinet of Ministers had directed to take action by considering the final recommendation of the Secretary to the Ministry of Finance and granted the approval for the above request on 30 September 2014. Accordingly, a decision according to the second proposal in the said Memorandum, had been taken to award an EPC contract to the CAMCE Company and an agreement had been entered into on 05 November 2014.

The audit observations revealed in the implementation of this Project have been summarized and given below.

- After completing all matters stipulated in clause 5 of the Agreement relating to this Project, in case the Project fails to reach the implementing stage without the approval of both parties within one year from the date of signing the Agreement, the Agreement becomes null and void. According to the conditions relating to default, the agreement should have become legally invalid by now.

- Matters which were based for the Memorandum of Understanding entered into with the CAMCE Company on 31 October 2009 relating to 03 Projects, Gin Nilwala , Yan Oya and Malwathu Oya, had not been confirmed adequately through documentary evidence and as such, the transparency of the Agreement entered into, was questionable.

  - Even though the particulars on the Gin Nilwala Project had been mentioned in most documents relating to the Project, the specific consensus, recommendations or approvals with regard to the future action on the implementation of the Project had not been included in those documents.

  - The CAMCE Company had carried out a complete Feasibility Study of this Project in accordance with the approval granted for the Cabinet Memorandum submitted on 18 November 2009. Even though it had been mentioned in the Cabinet Memorandum dated 02 September 2014 that the final Feasibility Report had been forwarded to this Ministry in April 2011, a conflict was observed that such approval had not been granted and that a Feasibility Report had not been either called for from the contractor or obtained a report.

- Even though the Mahaweli Consultancy Bureau had been assigned the task of reviewing the Feasibility Study Report forwarded to the Ministry by the CAMCE Company and presenting a final Report within 04 months, that final Report had not been presented even by October 2017.

- Even though the task of the supply of funds on concessionary basis from the Government of the People's Republic of China should have been assigned to the Department of External Resources on the approval of the Cabinet of Ministers as per the Cabinet Memorandum submitted on 02 September 2014, there was no evidence that the said Department had taken future action therefor with the Government of China.

- Information had not been revealed that action had been taken relating to the final recommendation of the Minister of Finance on the approval given on 30 September 2014 by the Cabinet of Ministers by directing to take action considering final recommendations of the Secretary to the Ministry of Finance in terms of 05(d)

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of the Agreement entered into for the Project, the following requirements should have been fulfilled in granting mobilization advances of 15 per cent of the estimated value of the Project for the commencement of geological investigations relating to the Project.

- Obtaining necessary approvals from relevant institutions of the Democratic Socialist Republic of Sri Lanka and the People's Republic of China;

- Completion of the loan agreement entered into between the Ministry of Finance of the Democratic Socialist Republic of Sri Lanka (User Credit) and the lending agency (Lender) of the People's Republic of China;
  However the above requirements had not been fulfilled even by 15 November 2017.

- Even though the Company concerned had stated that it had commenced the Project after the receipt of the mobilization advances by the Company and requested instructions from the Secretary to the Ministry of Irrigation and Water Resources Management to deploy its Technological Specialists in Sri Lanka to commence the final geological investigations, such instructions had not been provided.

- Even though provisions of Rs.1.5 million and Rs.40.0 million had been made from the Annual Budget Estimates of the years 2014 and 2015 respectively for this Project, contrary to the Financial Regulation 94, expenditure exceeding those provisions had been incurred.

- Even though a sum of Rs.4,011.05 million had been spent exceeding provisions made from the Annual Budget Estimate for the Project, out of that, no benefits whatsoever had been received to the Government of Sri Lanka even by 15 November 2017. Providing Government resources valued at Rs.4,011.05 million for an external foreign party to make use of over a period of 18 months had been attributed to misuse of Government resources.

- Even though the Secretary to the Ministry of Irrigation and Water Resources Management had informed the CAMCE Company to suspend the Project work temporarily as it had been decided to carry out a formal investigation by stopping the Project due to the existing uncertainty about the environmental impacts that could emerge from the Project, to return the mobilization advances granted without being used for the Project and that the said advances will be granted again for the Project activities on the receipt of clearance from the Government, the said advances had not been refunded to the Republic of Sri Lanka.

- Even though the Cabinet of Ministers had granted approval for the implementation of the Project on 30 September 2014, the Ministry had failed to obtain adequate provisions for the year 2015 for the implementation of the Project.

- Even though the Guarantee for the Mobilization Advance produced by the contractor was due to be expired on 08 December 2017, the Ministry had failed even by 15 November 201 to extend or to encash the said Guarantee

- The Minister of Megapolis and Western Development, who is a member of the Officials Committee on Economic Management, had not signed the Report of the said Committee.

Conclusions

- It is concluded that the parties responsible for the matters such as the identification of the Project, the selection of a contractor, grant of advances, implementation and follow-up in connection with this Project had, by a considerable level, defaulted in appropriate planning, protection of transparency, compliance with regulations, etc.

- It is concluded that in view of the non-receipt of any considerable benefits as compared with the money spent by the Government in this process, the officers who opened up ways and means for the uneconomical utilization of Government resources should be responsible for such acts.

- It is concluded that the then Secretary to the Ministry of Irrigation and Water Resources Management should be directly responsible for the release of funds without paying due consideration to the established fact that adequate provision was not available for the payment of the relevant advance.

Special Audit carried out on Misuse of the Villaiththikulam Forest Reserve

The aforesaid report was presented to the Hon. Speaker on 13 December 2017. The summary of the significant observations included therein appear below.

This report was issued for the inquiry in depth into different ideologies arisen among the public on clearing a portion of land vested with the Conservator General of Forests as a forest reserve and constructing houses therein and the matters revealed at the Parliamentary debates in that connection.

The President had appointed a Task Force on 07 May 2009 for the development of Northern Province. The main objectives of that Task Force are the resettlement and rehabilitation of displaced persons and development of infrastructure facilities of the Northern Province. The Presidential Task Force had appointed a Committee on 12 November 2012 for the performance of their functions and called for reports thereon. The Terms of Preference of the Committee are as follows.

- Estimate the number of families and persons displaced from Grama Niladhari Divisions.
- Identify the number of families and persons who have returned to their villages prior to 2009 and thereafter.
- Estimate the number of families and persons yet to return.
- Extent of lands presently available for each village.
- Identify the reasons for the landlessness under each category.
- Assess the availability of lands belonging to the Land Reforms Commission or State lands in the locations outside forest or wildlife reserves.
- Report the nature and present status of the lands identified to be released.
- Suggest other possible solutions to reduce the landlessness in the villages.

A report had been furnished by the Committee on 15 October 2012. According to the Paragraph 4.2.1(v) of this report, it had been proposed to provide land of 1045 acres in extent in the Musali Divisional Secretariat Division to the displaced families. However, it had been recommended that the land could not be provided from the forest reserves. The forests not controlled either by the Forest Department or by the Department of Wildlife are "Other State Forests" controlled under the Divisional Secretaries. If these other forests are required to be deployed in other use, it should be referred to an Inter- Ministerial Committee and if the Proposal is being approved, will be subjected to an environmental assessment under the Environment Act and will be released to the Commissioner of Lands for providing land according to suitable conditions. An Inter- Ministerial Committee Meeting had been held on 30 April 2013 under the patronage of the Secretary to the Ministry of Environment and Sustainable Energy and at the meeting, approval had been given to release land of 1080 acres in extent in Mannar District to the Commissioner General of Lands. The Conservator General of Forests had instructed the Divisional Forest Officers for issuing 1420 acres in extent including 650 acres of the Villaiththikulam Forest Reserve located nearby the "Pichchai Wannikulam" road, to the Divisional Secretaries.

It had been decided to release the area by requesting to the Conservator General of Forests for obtaining the extent of land from the Villaiththikulam Forest Reserve required by 1,371 Muslim families at 80 perches each identified as landless, by holding a meeting with the Secretary to the Presidential Task Force and with the Officers of the Ministry under the patronage of the Minister of Industry and Commerce on 10 October 2012. Moreover, it had been pointed out that the lands of the surrounding villages are suitable for paddy cultivation and that those lands are not suitable to construct houses. The Villaiththikulam Forest of 2,108 hectares in extent located in the Musali Divisional Secretariat Division in the Mannar District had been declared as a forest reserve from 10 June 2012 by a Notice published in the Gazette Extraordinary No.1759/2 of 21 May 2012. The Commissioner General of Lands had informed the Divisional Secretary, Muhudubada Pattuwa on 06 January 2012 that the Cabinet of Ministers had decided to temporarily suspend the distribution of lands in the Northern and Eastern Provinces. Nevertheless, lands had been distributed by the Divisional Secretary, Musali. The following observations are made in this connection.

- Even though the Government had declared the Villaiththikulam Forest as a Forest Reserve, 650 acres in extent from the said Reserve had been released by the Conservator General of Forests to the District Secretary, Mannar for the resettlement of displaced Muslims. However, the Conservator General of Forests had no authority or legal authority to do so.
- An Environmental Impact Assessment Report should have been obtained before clearing the forest reserve of 650 acres in extent in terms of the provisions published in the Gazette Notification No.772/22 dated 24 June 1993, according to the provision of Section 23 (U) of the National Environmental Act, No.47 of 1980. However, such report had not been obtained.
- Decision had been made to inform the Conservator General of Forests to release the lands required for resettlement in the forest reserve at Villaiththikulam at the meeting held on 05 October 2012 under the patronage of the Minister of Commerce and Industry.

The aforesaid Minister had no authority to take such a decision.

- The condition of the settlement in the forest reserve of 650 acres which was cleared by 04 January 2017 as confirmed to audit by the Divisional Secretariat-Musali was as follows.
  - Even though construction of houses for 160 families had been completed, the number of families unsettled had been 33. The number of partly constructed houses was 131. Number of plots of lands on which houses were not constructed but cleared was 706. However, it was confirmed that only 10 per cent of the houses had been occupied out of 160 houses constructed according to the spot test carried out on 23 January 2017.
  - The settlement in those lands which allocated in the year 2013 had been at a very unsatisfactory level and it was questionable whether those plots of lands had been given to the persons who actually lost the lands.
- A spot test carried out again by the Audit Officers with Grama Niladharis on 28 February and 01and 02 March 2017 revealed that houses of 44 families of resettled persons had remained closed. Forty one houses thereof had remained unoccupied over a long period.
- Even though only the displaced families deprived of lands due to war should be resettled, the persons whom the lands were granted to, had not been deprived of lands due to war.
- A plot of 80 perches had been allocated to each person under no basis. Fifty six families had been settled in the Nanatan Divisional Secretariat Division located nearby the Musali Divisional Secretariat Division and a plot of 20 perches in extent had been allocated to each family.
- Even up to the year 2017, no houses had been constructed in 706 plots of land belonging to the area allocated within this forest reserve in the year 2013 for resettlement of the displaced persons indicating 68 per cent of the total number of plots. As such, those lands had not been allocated based on authentic requirements of the people.
- As mentioned in Section 2.2.1.1 of the Land Commissioner General's Circular, No. 2013/01 of January 2013 named "Accelerated Programme on Solving Post Conflict State Lands Issues in the Northern and Eastern Provinces", a policy decision has been taken by the Cabinet of Ministers that lands should not be distributed among the landless persons until the issues relating to lands belonging to the affected persons are settled. Nevertheless, action had been taken to the contrary when granting lands within the forest reserve.
- In accordance with the Cabinet decision dated 12 March 2008 relating to controlling the encroachment of State lands, action should be taken to limit the extent of lands being granted to a person or

a family unit at a Land Kachcheri. Despite that, an area in extent of 80 perches had been granted to such a unit.

- Despite being specifically mentioned in the Circular No. 2008/4 dated 20 August 2008 of the Land Commissioner General, as to how persons who actually do not possess lands within a Divisional Secretariat Division should be identified and the actions to be taken in that connection, the provisions in the Circular had not been followed in respect of the said land distribution in question.
- In accordance with the Electoral List, it was verified that majority of the persons whom 1030 plots of land had been granted to, dwelled in the Puttalam district. Despite being stated that they had not possessed lands in that area, the authenticity thereof had not been checked.
- The constructions of houses and roads required for settlement of the people in the forest reserve were being carried out by the Omega Construction Company (Pvt) Ltd and it was established that Government financial contribution had not been made therefor.
- The timber removed in the clearance of the forest reserve for the settlement of families therein should have been handed over to the Timber Corporation. Nevertheless, total of 12.5 cubic meters of Satinwood and Palu timber had been handed over to the Timber Corporation. However, it was observed in the inspection of the uncleared areas of the forest reserve that the above situation would not to have been realistic.

Conclusions

- Although a land area of 650 acres out of the forest declared as the “Villaiththikulam Forest Reserve” by the Extraordinary Gazette No.1759/2 dated 21 May 2012 had been released by the Forest Conservator for the settlement of people, it is concluded to be contrary to the existing law.

- In connection with the environmental damage that may occur as a result of clearance of a part of the forest reserve, an Environmental Impact Assessment should be carried out in pursuance of the existing law. Nevertheless, action had not been taken accordingly. Therefore, it is concluded that measures had not been adopted in respect of the damages caused to the forest reserve and the environmental damages that may occur in the days to come.

- In taking into consideration the position of dwelling in the homes constructed in the forest reserve and failure in constructing houses in the plots of lands allocated for the families over a long period of time, it is concluded that this project had not been implemented for the sake of landless and displaced families.

- Although the main objective of the Presidential Task Force is to provide the families displaced and lost their lands due to the war in the North and East with their originally occupied lands, contrary to that, granting lands in this forest reserve to the families who had not lost their lands and to their second and third generation by citing the fact that they are lack of adequate lands is concluded as the step taken contrary to the above objective.

- As this report has been compiled within the limitations of the powers, resources and time available to the Auditor General, in case illegal activities or crimes deemed to have taken place beyond the scope of the Auditor General, it is concluded that obtaining the assistance of the institutions specialized therein is suitable.

Report on the Special Audit conducted on the Procurement relating to the Print and Delivery of Lottery Tickets in the year 2016 to the National Lotteries Board for the Computerized Draws

This report was issued on 17 April 2017 according to the audit examinations conducted in response to a request made to me by the Committee on Public Enterprises at the meeting held on 05 December 2016 in Parliament to conduct an investigation into the Procurement relating to the printing of Lottery Tickets for the computerized draws of the National Lotteries Board. The summary of significant observations included in that report appears below.

The number of computerized lottery draws conducted by the National Lotteries Board stood at 09 and the number of instant lotteries stood at 02 by the end of January 2017. Out of the lotteries issued by the Board, 16.5 per cent of the income earned from lotteries such as Mahajana Sampatha and Wasana Sampatha, should be credited to the Consolidated Fund. Moreover, only 10 per cent of the income earned from other lotteries such as Mega Power, Sampath Reka and Supiri Delakshapathi should be credited to the Consolidated Fund. Ten per cent of the income earned from lotteries conducted on behalf of other institutions, should be provided to the relevant Funds or Ministries. Out of 12 lotteries, 1,007,169,000 lottery tickets had been printed in the year 2016. Out of those, 915,657,869 lottery tickets had been sold and accordingly, 91,511,131 lottery tickets had remained. A sum of Rs.2,808.83 million had been spent by the National Lotteries Board for printing of lottery tickets during the period of 06 preceding years.

The summary of audit observations revealed during the course of Audit thereon appears below.

- An approximate cost estimate of Rs.338 million for the printing of Lottery Tickets for 02 years had been prepared and according to that estimated cost, the Procurement work should be carried out by a Cabinet Appointed Procurement Committee. Nevertheless, in the selection of the printers for the year 2016, the relevant contract had been split under each Lottery whilst the contract period as well had been reduced to 01 year. This procurement had been carried out by a Department Procurement Committee from the inception.
- Even though the contracts for the printing of Lottery Tickets in the preceding years had been awarded for a period of 03 years, it had been decided to reduce the contract period to 02 years in the year 2016 with the concurrence of the Department of Public Finance. Even though the contracts for the

Prining of Lottry Tickets for the year 2016 had been awarded for duration of 01 year, specific approval had not been obtained therefor.

- According to Guidelines 7.8.6 and 7.8.7 of the Government Procurement Guidelines, all substantially responsive bids and all bids substantially responsive to the scope, quality or performance of the works should be evaluated. Nevertheless, out of the printers which had submitted quotations, the Technical Evaluation Committee had eliminated the quotations submitted by MBA Systems Printers and the Aqua Flex Printers, reported as having fulfilled all requirements in the specifications, from the evaluation process. The reason adduced in that connection is that the quotations submitted by them were very high. Therefore, the exclusion of those institutions in the initial stage itself is not in compliance with the Government Procurement Process.

- Even though taking action based on the primary policy of creating a pool of printing institutions and limiting the number of lotteries assigned to each institutions to 03 had been a primary objective of this Procurement Process, it was observed that the Technical Evaluation Committee had not paid attention to that matter. Moreover, recommendations had been made by the Technical Evaluation Committee to entrust all the printing works to one of the two institutions, which had been confirmed of having fulfilled the qualifications.

- Even though the Technical Evaluation Committee had rejected the Print Solution Institution for being a partner institution of another institution, the Bid Documents prepared for the procurement had not specified partnership as a disqualification.

- The printing work of two lotteries had been awarded to the Tharanjee Prints which did not comply with the specifications or recommended by the Technical Evaluation Committee. Further, that institution had stated in the Bid Documents that it did not have an Inline Printing Machine and such a machine had not been produced to the Evaluation Committee for on the spot inspection as well. Moreover, this institution had purchased a Laser Printing Machine instead of the Inline Printing Machine requested by the Board on 10 October 2016 through technical specifications. Therefore, the acceptance of the Bid submitted by this institution as a substantially responsive bid is considered as a case of non-compliance with the Procurement Process.

- In terms of the Guideline 7.12.4 of the Procurement Guidelines, the Procurement Committee should keep a record of matters agreed with the bidder during negotiations and execute a Memorandum of Understanding with the bidder relating to the agreed negotiated terms and conditions. It was observed that this procurement had not been carried out in accordance with that requirement.

- Even though the Technical Evaluation Committee had recommended the award of the Lottery printing works to one institution out of the 04 institutions subjected to evaluation based on the lowest cost, the Procurement Committee disregarding that recommendation, had decided without a fair basis to select only 03 institutions as printers out of 04 institutions which had been evaluated by the Evaluation Committee. The following matters were further observed in this connection.

  - Even though the Printing of two lotteries had been awarded to the Tharanjee Prints, the DPJH Printers had submitted the lowest quotations therefor. However, the Procurement Committee had disregarded the quotations of that institution.

  - Even though the Tharanjee Prints had submitted the lowest quotations for the Govisetha Lottery, the printing of that had been awarded to the DPJH Printer.

  - Even though the Toppan Forms Printer had been selected for the Printing of the Supiri Wasana Lottery, the first two institutions which had submitted the lowest quotation had been disregarded and negotiated with the institution that submitted the third lower quotation and awarded the contract at the second quotation.

- According to the Technical Specifications issued by the National Lotteries Board in inviting quotations, 10 Lottery Tickets should be printed on an A4 sheet of standard length of 29.8 cm. Moreover, the size of a Lottery Ticket should be 10.5 cm x 5.6 cm. Nevertheless, the length of the paper used by the DPJH Printers for 10 Lottery Tickets was 27.6cm and the size of a Lottery Ticket printed and supplied had been 10.5cm x 5.5 cm. Accordingly, the institution could accrue a saving of the cost of printing paper due to the space benefit of 2.2 cm from a single A4 paper. However, instances of distorted print of the variable data, serial numbers, Bar Code, etc. were observed due to this reason.

- The number of Lottery Tickets printed by the DPJH Printers during a period of two months from November 2016 to 31 December 2016 for 34 Draws had been 39,970,000 and the number of A4 papers used for that had been 3,997,000. Accordingly, it was observed that the institution could have accrued a cost benefit of Rs.354,097 from the saving of 295,081 A4 papers.

- Even though the relevant printing contracts had been awarded to the suppliers selected by the Procurement Committee with effect from 31 October 2016 subject to a probation period of 3 months, the written agreement with that institution had been entered into on 25 November 2016. Attention had not been paid to the experience in the printing industry in the award of these bids, whilst a proper methodology as well had not been followed. In such circumstances, the existence of a period without an agreement and the possibility of taking action on any damage occurring during such period, was questionable in Audit.

- Attention to this situation was paid at the meeting of the Committee on Public Enterprises held on 23 July 2016 as well and the reason for the award of the contracts to the selected contractors subject to a probation period of 03 months not included in the bid conditions and the agreement conditions, had not been explained to Audit.

Conclusions

- It is concluded that the Procurement Process for the printing and delivery of Lottery Tickets for the Govisetha, Wasana Sampatha, Supiri Wasana Sampatha, Jathika Sampatha and the Supiri Delakshapathi Lottery draws in the year 2016 had not been directed in a manner to ensure the prompt supply of services of high quality at minimum cost with high economic benefits adhering to prescribed standards, specifications, laws, rules and regulations, providing fair, equal and maximum opportunity for eligible interested parties to participate in the Procurement and ensuring transparency and consistency in the evaluation and selection procedure included in the main objectives of the Procurement Process.

- It is concluded that in passing the responsibility of printing of Lottery Tickets and the quality checks thereof to the printers themselves, the Board had not taken action to pay adequate attention to ensure the quality of Lottery Tickets and for the destruction process of the Lottery Tickets printed with defects.

- It is concluded that the Board had not taken action to hold prompt investigations into instances of damage caused to the image of the Board and reached conclusion thereon.

- It is concluded that the Board had not taken prompt legal action on the grant of sub-contracts and the breach of agreements by the Printers.

- This report was prepared within the limitations of the powers, resources and the time available to the Auditor General and the examination did not go beyond its scope and examine whether there were illegal or criminal activities on which the Auditor General cannot make any conclusions and if it is perceived that such inquiry should be carried out, I conclude that it is appropriate to seek the assistance of institutions specialized in such fields.

The Summary of Audit Observation according to Sectors

Consolidated Fund

In pursuance of provisions in Article 14 of the Constitution of the Democratic Socialist Republic of Sri Lanka, Parliament has the full control over public finance. According to Article 149 of the Constitution the revenue collected by the Government should be credited to the Consolidated Fund and the manner of payments made from the Consolidated Fund is provided to in Article 150 and 152 of the Constitution.

According to the Appropriation Act, No. 24 of 2016 as amended by Appropriation (Amendment) Act No 32 of 2017, provisions for the year under review for the Government expenditure had been made. Accordingly, the total provision of Rs. 3,860,318 million including the supplementary provisions had been made in the year under review. Details appear in Table 03

Source	Capital Provision Rs. Million	Recurrent Provision Rs. Million	Total Provision Rs. Million
Government Supplies and Services	879,681	1,233,229	2,112,910
Special Law Services	801,402	713,798	1,515,200
Government Supplies and Services (Additional)	53,000	-	53,000
Special Law Services (Additional)	97,919	81,289	179,208
Total	1,832,002	2,028,316	3,860,318

Table 03- Provisions made for year 2017

Source: Department of State Accounts

According to the provisions in Sub Section 6 (1) of the Appropriation Act, No. 24 of 2016, provisions are made to relevant expenditure units after a need assessment made by the Department of National Budget for 08 tasks mentioned in para 2.2.3 of annual budget estimate in 2017 under supplementary support services and contingent liabilities project under the Development Programme of the Department of National Budget. Accordingly, particulars on net recurrent and capital provisions and utilization under the aforesaid project in the year under review are given in Table 04 below.

Nature of the Expenditure	Net Provision Rs. Million	Provisions for Other Heads Rs. Million	Savings Rs. Million	Savings as a Percentage of net Provision
Recurrent	193,592.53	192,978.76	613.77	0.32
Capital	294,485.00	292,267.49	2,217.51	0.75
Total	**488,077.53**	**485,246.25**	**2,831.28**	**0.58**

Table 04 –Provisions made by supplementary allocation
Source – Department of National Budget

A provision amounting to Rs. 3,860 billion had been made for the year under review as per the revised annual budget estimate and the provision for the previous year was Rs. 3,899 billion. Accordingly, the amount of provisions had been reduced by Rs. 39 billion in the year under review when compared to the previous year. Only an amount of Rs. 3,471 from the total provision made for the year under review had been utilized and accordingly, an amount of Rs. 389 billion or 10.07 per cent from the total provision made had remained unutilized.

The net provision made for recurrent expenditure was Rs. 2,028,316 million and an amount of Rs. 82,741 million, which was 4.08 per cent from the provisions made for recurrent expenditure, had remained unutilized as a result of utilizing only a sum of Rs. 1,945,575 million out of the above. An amount of Rs. 1,832,002 million had been provided for capital expenditure for the year under review and out of that only an amount of Rs. 1,525,014 had been utilized. Accordingly, an amount of Rs. 306,988, which was 16.76 per cent from the provision made, had been saved. Savings from the provisions as per the object codes are as follows.

- The total of Rs. 56,095 million had remained unutilized, which was the aggregate of Rs. 1,567 million for 140 object codes of recurrent expenditure relevant to 55 Heads and Rs. 54,258 million for object codes of capital expenditure relevant to 91 Heads.

- The total amount of Rs. 155,039 had remained unutilized, which was the aggregate of Rs. 18,223 million made under object codes of recurrent expenditure and, Rs. 136,816 million made under object codes of capital expenditure. It covered a range from 50 per cent to 90 per cent from the net provision made for object codes.

- The total amount of Rs. 56,134 million, which was the aggregate of Rs. 5,069 million from the provision made under vote of recurrent expenditure and Rs. 51,065 million from the provision made under object codes of capital expenditure, had remained unutilized and it covered a range from 25 per cent up to 49 per cent from the net provision made for the votes.

Even though an imprest of Rs. 2,198,023 had been requested from the General Treasury for utilization of provisions made in the year under review, the General Treasury had to confine the release of imprest to each expenditure units up to Rs. 1,785,494. However, the General Treasury had not released an amount of Rs. 253,335, which could have been released to expenditure units within the limits of imprest. Details appear in Table 05

	For Recurrent Expenditure Rs. Million	For Capital Expenditure Rs. Million	Total Expenditure Rs. Million
Imprest requested during the year under review.	1,334,466	863,557	2,198,023
Limit of the annual imprest	1,201,380	584,114	1,785,494
Imprest released during the year	1,131,340	400,819	1,532,159
Releasing imprest below the annual limit	70,040	183,295	253,335

Table 05 – Imprest requested from General Treasury by Expenditure Units and imprest released by General Treasury

Source: Department of Treasury Operations

The total expenditure of the year under review except payment of loans was amounted to 19.59 per cent from Estimated Gross Domestic Product. When it compared with the ratio of 23.17 per cent of year 2010, it had become possible to reduce the amount by 3.58 per cent by the end of the year under review. When it compared with the amount of 19.98 per cent of the previous year, a slight decrease was observed in the year under review.

The gradual decrease in the total expenditure as a percentage of gross domestic product except the payment of loans appear in Figure 01

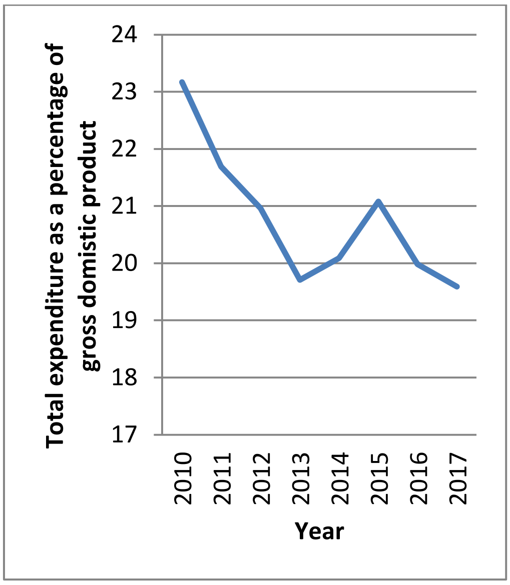


Figure 01–Total expenditure as a percentage of the Gross Domestic Product except payment of loans

Source – Financial Statements of the Republic

An amount of Rs. 736 billion or 37.84 per cent from total recurrent expenditure had been spent for the payment of interest on domestic and foreign loans and payment of discount on Treasury Bills and Treasury Bonds in the year under review. It was an increase by Rs. 125 billion or 20.45 per cent comparing with the previous year. In addition to that, Rs. 464 billion for salaries and wages, Rs. 581 billion for grants and subsidies and Rs. 164 billion for other goods and services had been spent. The above expenses had made a great contribution to the total recurrent expenditure and the revenue collected during the year under review was not sufficient to cover the total recurrent expenditure. Further, Rs. 658 billion had been spent during the year under review for capital expenditure and it had to obtain domestic and foreign loans and grants to settle a part of the recurrent expenditure and public investments (Capital expenditure) and, to pay loan installment. Accordingly, a considerable amount had to be paid as annual installments and interest on loans and, it had become an incremental cost annually.

The aggregate of recurrent and capital expenditure and payment of loans of year under review has amounted to Rs.3,471 billion and 24.97 per cent and 21.20 per cent have been paid from the total expenditure for payment of interest of loans and discounts. The division of total expenditure among 16 identified sectors appear in Figure 02

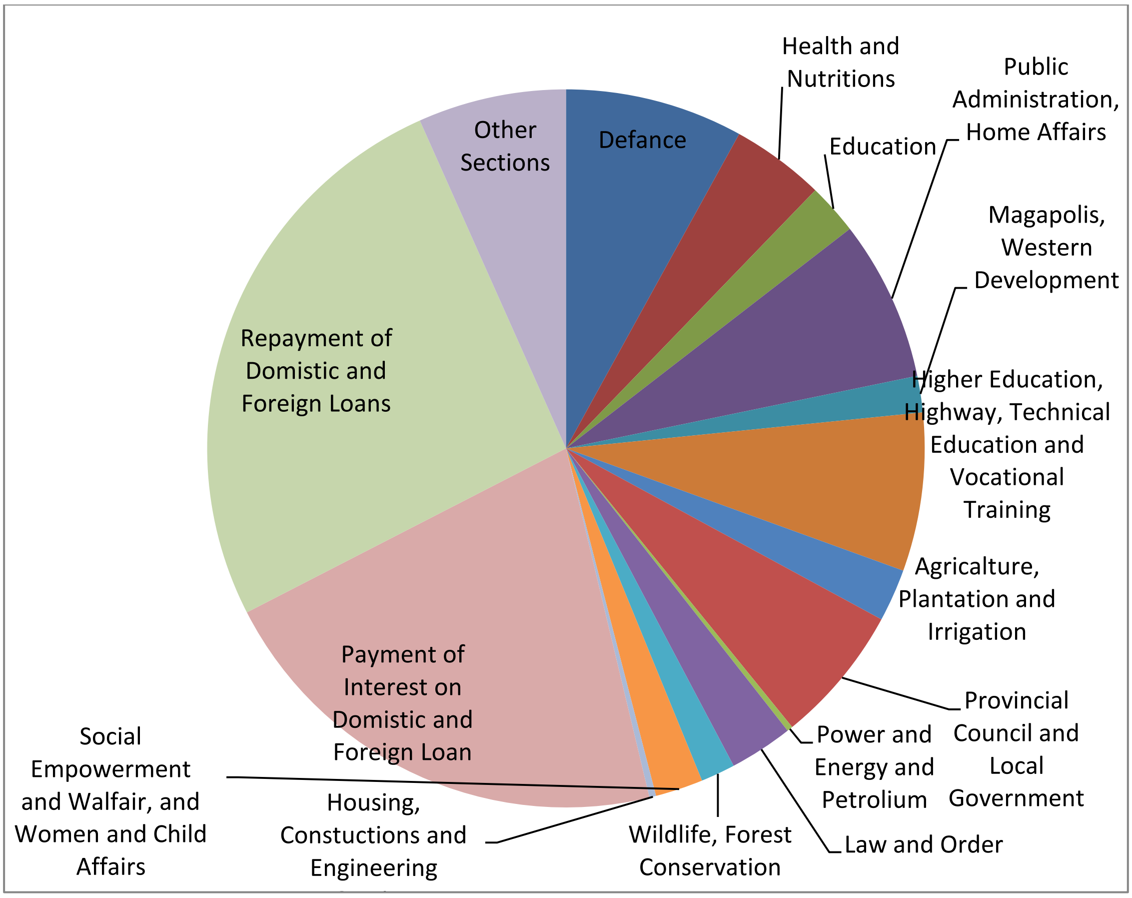


Figure .... – Division of the total expenditure among identified 16 sections
Source – Financial Statements of the Republic 2017

Revenue of the Government

According to the annual budget estimate of 2017 approved by the Parliament of the Democratic Socialist Republic of Sri Lanka, the total revenue of the Government had been estimated as Rs. 1,914 billion by categorizing as tax revenue, non-tax revenue and other revenue. When it compared with the estimated revenue of Rs. 1,668 billion of the previous year, it had shown an increase of Rs. 246 billion or 14.75 per cent. The revenue collected in the year under review was amounted to Rs. 1,845 billion and, when compared to the estimated revenue it had shown a decrease by Rs.69 billion or 3.60 per cent than the estimated revenue. When compared to the collected revenue of Rs. 1,699 billion of the previous year, the collected revenue of the year under review had marked an increase by Rs. 146 billion or 8.6 per cent. Even though the collected public revenue (revenue of the Government) in year under review was 13.88 per cent of Gross Domestic Product, the same revenue in previous year was Rs. 14.35 per cent. Accordingly, the public revenue in year under review had decreased as a percentage of gross domestic products as compared with the previous year. The variance of the percentage during the past 07 years appear in Figure 03

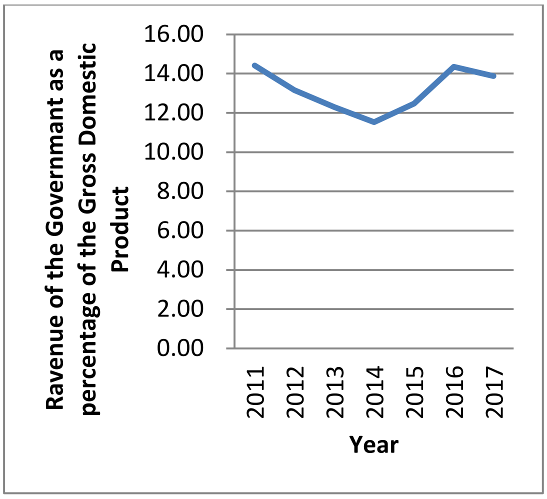


Figure 03 – Revenue of the Government as a percentage of Gross Domestic Product
Source – Financial Statements of the Republic

The Government revenue had been classified under two main categories of "Tax Revenue and Non-Tax Revenue" whilst the Tax Revenue had been further classified as "Income Tax, Taxes on Domestic Goods and Services and Tax on International Trade" and, it had been shown in the financial statements of the Democratic Socialist Republic of Sri Lanka. Even though the collection of Rs. 308 billion as Income Tax had been expected for the year under review, Rs.275 billion out of that only had been collected. Even though it had been expected to collect Rs. 1,052 billion from the Taxes charged on Domestic Goods and Services, Rs. 1,024 billion out of that only had been collected. Even though it had been expected to collect Rs. 390 billion from the Taxes charged on International Trade, Rs. 371 billion out of that only had been collected by the end of the year under review. Accordingly, out of Rs. 1,750 billion expected for collection from the Tax Revenue, 95.43 per cent out of that or Rs. 1,670 billion had been collected. Even though the collection of Rs. 164 billion from the other Non-tax revenue had been estimated for the year under review, Revenue amounting to Rs. 175 billion which exceeded the estimated target by Rs. 11 billion had been collected. Particulars of the Revenue Estimates for the year under review and revenue collected appear in Figure 04

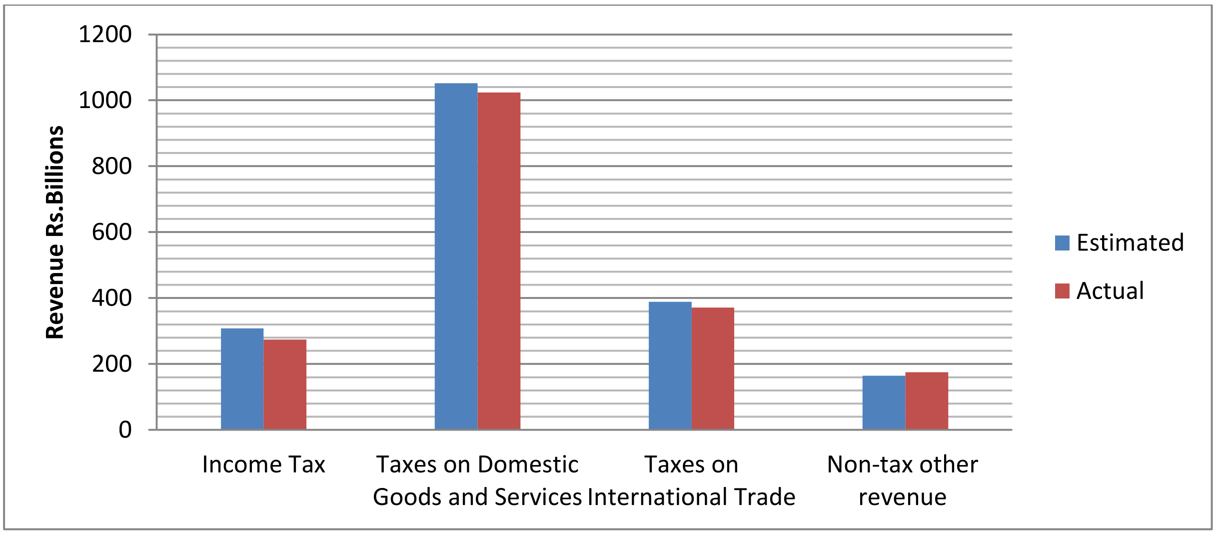


Figure 04 – Estimated and Actual Revenue
Source – Financial Statements of the Republic 2017

Budget Deficit

According to the Section 3(a) of the Fiscal Management (Responsibility) Act, No. 03 of 2003, the budget deficit should be limited to 5 per cent of the Estimated Gross Domestic Product and, it should be maintained at the same position continuously as a basis of fiscal management responsibility objective of the Government. However, during the year under review and the past seven years, it had failed to maintain the budget deficit at the end of the year not exceeding 5 per cent of the Estimated Gross Domestic Product. According to the Financial Statements of the Republic for the year under review, the estimated budget deficit was Rs. 1,049 billion and it had decreased by Rs. 439 billion or 29.50 per cent with compared to the estimated budget deficit of the previous year. According to the financial statements for the year under review, actual budget deficit was Rs. 758 billion and it had decreased by Rs. 291 billion or 27.74 per cent with compared to the estimated budget deficit. Estimated budget deficit of the year under review was 7.89 per cent of the Estimated Gross Domestic Product. From year 2010 to 2013, the budget deficit had decreased from 9.78 per cent to 7.65 per cent. Nevertheless, that percentage had increased from the year 2014 to 12.57 per cent in the year 2016, and again that percentage had decreased to 7.89 per cent in the year under review. Details appear in Figure 05

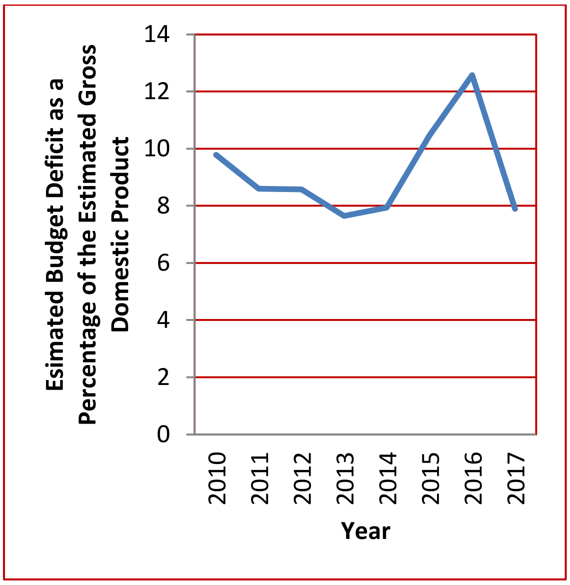


Figure 05 – Estimated budget deficit as a percentage of estimated gross domestic product.
Source: - Financial Statements of the Republic and Reports of the Central Bank of Sri Lanka.

Accordingly, the General Treasury had failed to maintain the estimated budget deficit so as to not exceeding 5 per cent of the Estimated Gross Domestic Product in relation to any year falling within the past eight years.

Even though the actual budget deficit in year 2010 was Rs. 473 billion, it had increased up to Rs. 962 billion by year 2015 and it had decreased to Rs. 666 billion in the year 2016. However, it had again increased up to Rs. 758 billion by the year under review. Details appear in Figure 06

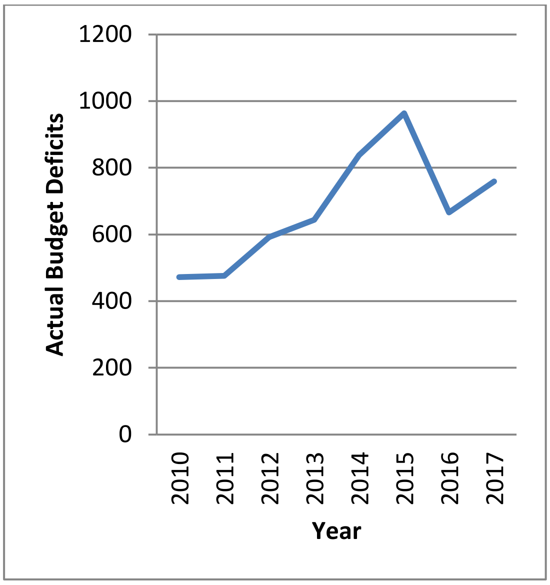


Figure 06 – Actual budget deficit
Source: – Financial Statements of the Republic

Inadequacy of Revenues for Settlement of Recurrent Expenditure

According to the Financial Statements of the Republic, the total expenditure of the Government for year under review amounted to Rs. 2,603, comprising the recurrent expenditure amounted to Rs. 1,946 billion and the capital expenditure amounted to Rs. 657 billion. Nevertheless, the overall revenue earned by the Government amounted to Rs. 1,845 billion and as such that was not adequate even for the settlement of the recurrent expenditure of the year under review. Accordingly, recurrent expenditure of Rs. 101 billion exceeding the overall revenue had been made. The Government revenue and recurrent expenditure from the year 2010 to 2017 are depicted in Figure 07

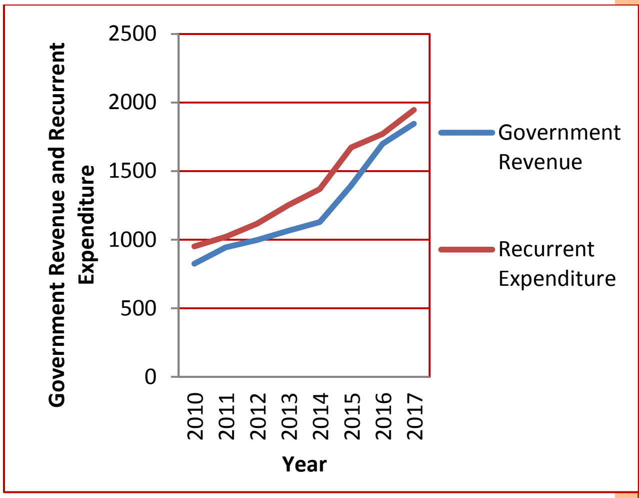


Figure 07 – Government Revenue and Recurrent Expenditure
Source – Financial Statements of the Republic

Public Debt

In terms of the 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 and the approval of Parliament should be obtained for all borrowings of the Republic. In terms of Section 2.1(b0 of the Appropriation act, No. 24 of 2016 as amended by the Appropriation (Amendment) Act, No. 32 of 2017, Parliamentary approval has been granted to raise loans in or outside Sri Lanka for and on behalf of the Government.

According to the Financial Statements of the Republic, the loans amounting to Rs. 3,150 billion comprising foreign loans amounting to Rs. 601 billion and domestic non-banking loans amounting Rs. 59 billion or 1.90 per cent. The Government had shown a greater attention to the domestic borrowings, the domestic borrowings amounting to Rs. 3,150 billion obtained in the year under review, as compared with the domestic to Rs. 2,549 billion had been obtained during the year under review. That, as compared with the loans amounting to Rs. 3,091 billion obtained in the preceding year, indicated an increase of borrowings amounting to Rs. 2,517 billion obtained in the preceding year, indicated an increase of Rs. 32 billion or 1.27 per cent. The particulars of Public Debt obtained from the year 2010 to 2017 appear in Figure 08

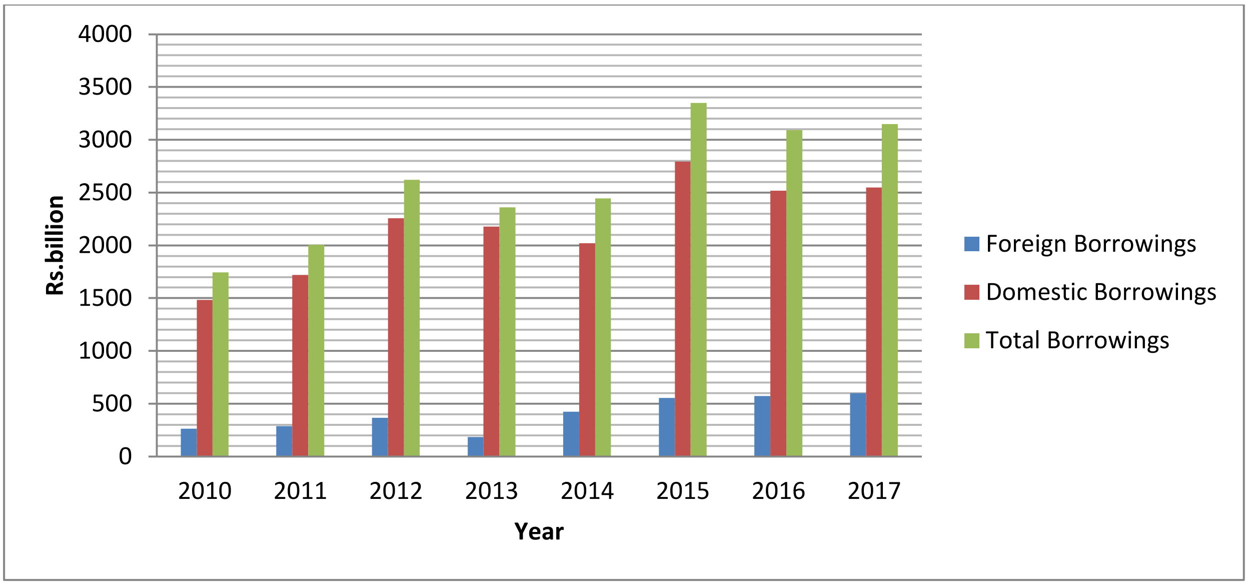


Figure 08 – Local and foreign loans obtained
Source – Financial Statement of the Republic

According to the Financial Statements of the Republic, the total balance payable by the Government as at 31 December 2017 amounted to Rs. 9,588 billion and that as compared with the loan balance of Rs. 8,794 billion as at 31 December 2016, indicated an increase of Rs. 794 billion or 9.02 per cent. The particulars of Public Debt obtained by the preceding year and the year under review appear in Table 06

Subject	Balance as at 31 December	
	2016 Rs. Billion	**2017** Rs. Billion
Treasury bills	792	725
Treasury bonds	3,567	3,754
Rupees loans	24	24
Sri Lanka Development Bonds	572	638
Local Loans in Foreign Currency	42	65
Foreign Currency Banking Unit (Projects)	-	14
Lease Creditors	16	12
Total Domestic Loans	**5,013**	**5,232**
Foreign (Projects)	3,676	2,664
Foreign Currency Timely Loans	105	217
International Sovereign Bonds	-	1,475
Total Foreign Loans	**3,871**	**4,356**
Total Public Debt Balance	**8,794**	**9,588**
Estimated Gross Domestic Product	11,839	13,289
Total Public Debt Balance as a percentage of Estimated Gross Domestic Product	74.28	72.14

Table 06 – Composition of the total loans to be settled
Source – Financial statements of the Republic

Even though the unsettled Public Debt balance of the year 2017 according to the Financial Statements of the Republic, had been Rs. 9,588 billion, the loan balances as at 31 December 2017 relating to 08 foreign loan agreements wherein the Government of Sri Lanka had obtained by entering into agreements and transferred to 3 institutions and brought to account outside the balance sheet amounting to Rs. 330 billion and the balance of Treasury Bonds amounting to Rs. 433 billion had been understated. Accordingly, the total unsettled Public debt as at 31 December 2017 amounted to Rs. 10,351 billion. That amount as a percentage of Estimated Gross Domestic Product was 77.89 per cent.

The particulars of total loan balance as at 31 December 2017 and 4 previous years, mid-year population and per capita debt appear in Table 07

Description	2012	2013	2014	2015	2016	2017
Balance of Public Debt as at 31st December (Rs. billion) *	5,520	6,106	6,721	7,830	8,860	9,776
Mid-year Population (‘000)	20,425	20,585	20,771	20,966	21,203	21,444
Per Capita Debt (Rs.)	270,257	296,624	323,576	373,462	417,865	455,885

Table – 07 – Mid-year population and per capita debt of Sri Lanka

Source – Financial Statement of the Republic of Sri Lanka and Annual Report of the Central Bank

* Public Debt balance (including Advance of Central Banks and excluding Lease Creditors)

The total public debts as at 31 December 2017 as compared with the midyear population indicated a per capita debt of Rs. 455,885 and that, as compared with the per capita debt of Rs. 417,865 for the preceding year indicated an increase of Rs. 38,020. Further actual value of the per capita debt will still be a higher amount as a result of devaluation of Rupee and as a result of holding 45 per cent of the public debts represented by foreign loans. An additional amount of Rs. 5,291 million had to be born in year under review in settlement of loan installments and interests, due to depreciation of the value of Rupee.

Inadequacy of the Revenue for Settlement of Public Debt Instalments and Interests

Even though the revenue earned by the Government amounted to Rs. 1,845 billion, a sum of, Rs.3,294 billion had been paid in year under review as the loan installments and interest and, as such that the revenue was not adequate even for the settlement of loan installments and interest of the year under review. Accordingly, it was required further amount of Rs. 1,449 billion in addition to the revenue earned by the Government to settle the loan instalments and interest. With the view of settlement of above-mentioned loans and to bear Government expenses, the Government had borrowed amounting to Rs. 3,150 billion comprising domestic loan amounting to of Rs. 2,549 billion and foreign loans amounting to Rs. 601 billion during the year under review.

Details appear in Table 08

Description	2012 Rs. billion	2013 Rs. billion	2014 Rs. billion	2015 Rs. billion	2016 Rs. billion	2017 Rs. billion
Domestic Loans obtained during the year	2,256	2,178	2,020	2,793	2,517	2,549
Foreign Loan obtained during the year	366	183	423	556	574	601
Total of the Domestic and Foreign Loans obtained	**2,622**	**2,361**	**2,443**	**3,349**	**3,091**	**3,150**
Payment of Domestic Loan Installment	1,980	1,696	1,583	2,265	2,072	2,340
Payment of Foreign Loan installment	153	93	107	187	145	219
Payment of Interest for local Loans	351	401	376	450	510	597
Payment of interest for Foreign Loans	158	63	69	77	101	138
Total of loan installments and Interest	**2,642**	**2,255**	**2,135**	**2,979**	**2,828**	**3,294**
Revenue of the Government	997	1,066	1,128	1,394	1,699	1,845
Amount of payment of Loan Interests and Installments exceeding Revenue of the Government	**1,545**	**1,189**	**1,007**	**1,585**	**1,129**	**1,449**
Balance of the Public Debt as at 31 December	**5,520**	**6,106**	**6,721**	**7,830**	**8,860**	**9,776**

Table 08 – Payment of loan installments and interest exceeding the revenue of the Government
Source – Financial statements of the Republic

Liabilities

The total of the liabilities of the Government as at the end of the year under review including the balance of the total non-settled loans is Rs. 10,702 billion and it is 80.53% of the estimated gross domestic product, which is Rs. 13,289 billion for year 2017. When it is compared with the 83.32 per cent of the previous year, it has marked a decrease by 2.79 per cent. As per the Section 2 (b) of the Fiscal Management (Responsibilities) Act No 03 of 2003 amended by the Fiscal Management (Amendment) (Responsibilities) Act No 15 of 2013 this amount shall not exceed

80 per cent but during the year under review it has exceeded the limit by 0.53 per cent.

The composition of the liabilities of the year under review is given in Table 09 comparing it with previous year.

Liabilities	Balance as at 31st December	
	2016 Rs. Billion	2017 Rs. Million
Bank over draft	165	151
Advance of Central Bank	83	200
State loan	8,794	9,588
Liabilities which were not accounted in financial statements		
- Foreign loans accounted out of the balance sheet	332	330
- Under accounting of balance of treasury bonds	487	433
Total liabilities	**9,864**	**10,702**
Estimated gross domestic product	**11,839**	**13,289**
Total liabilities as a percentage of the estimated gross domestic product	**83.32**	**80.53**

Table 09 – Composition of liabilities
Source – Financial statements of the Republic

(Rs. 652,214 million, which is the value of securities and letters of concession provided to Banks for the loans obtained by State owned businesses on the guarantee of the General Treasury and the value of liabilities indicated in appropriation accounts have not been included in the above liabilities.)

Audit observations revealed at sample audit investigations made on revenue of the Government and state loans are summarized and given below.

Revenue in arrears

The revenue on tax in arrears, which should have been recovered by Sri Lanka Customs by the end of the year under review, has amounted up to Rs. 19,484 million. 80% out of the above amount is the revenue on tax, which is in arrears, in year 2015 and years prior to that year. Arrears on the revenue on tax to the amount of Rs. 16,864 million has been reported from the taxes such as import tax, petroleum production tax, special trade tax, and ports and airports development taxes and it held 86% from the total amount in arrears.

Department of Inland Revenue has not followed a proper methodology to settle the taxes in arrears and penalty charges, which were due from tax payers. Therefore, the revenue on tax, which was to be recovered by the end of the year under review, has amounted up to Rs. 323,732 million. According to the information provided for the audit, it has become possible to recover Rs. 32,070 million, which is 10 per cent, from the revenue in arrears and recovery of the remaining 90 per cent in arrears, which is Rs. 291,662 million, has been

Temporarily suspended. The Department has implemented a methodology up to 31st March 2012, to calculate arrears in tax and penalty charges issuing assessment reports automatically through computer system based on the tax reports submitted by tax payers on value added tax and nation building tax, whenever tax payers do not pay their taxes but that system has been suspended from 01t April 2012. Accordingly, no payment has been made for tax reports for the total amount of Rs.15,283 million, which were submitted by tax payers for the tax term from 01 April 2012 up to 31st December 2015 in relation to value added tax and nation building tax and further assessment reports relevant to them have also not been issued. Therefore, a balance of Rs.24,521 million, which was the aggregate of this tax in arrears and the penalty charge of Rs. 9,238 million calculated on the tax in arrears, has remained unrecovered by the Department of Inland Revenue by 31 December 2017. No action has been taken by the Department at least to report them as taxes in arrears.

As per the reports on revenue in arrears submitted by the Department of Excise as at 31t December 2017, the total revenue on tax in arrears, which was to be recovered by that date including delay charges, was Rs.2,123 million. 68 per cent out of that amount in arrears remained as tax not paid for more than five years.

The Commissioner General of Excise has informed to an institution to pay a tax of Rs.50.62 million before 31t December 2015 regarding the offences revealed at an inquiry made by the Department. However, the Department could not recover that tax even by the June of 2018.

Penalty for arrears

Rs. 570 million including penalties, which are remaining for more than 5 years, were in arrears by the end of the year under review out of the penalties imposed by Sri Lanka Customs for various offences.

Revenue on tax

As per the provisions of the Value Added Tax Act No 24 of 2002 amended by the Value Added Tax (Amendment) Act No 20 of 2016, the value added tax of Rs. 25 determined for one garment unit for the garments supplied to local market by Garment Industries, which have been registered under Board of Investment of Sri Lanka, should have to be revised as Rs. 75 and recovered from 01 November 2016.

Sri Lanka Customs has recovered taxes as per the provisions of the amendment act to be effective from 14 June 2017. Accordingly, Sri Lanka Customs has recovered taxes for nearly 8 months as per the old ratio of Rs 25 per unit. Therefore, the loss of taxes incurred to the Government during that period is Rs. 166.58 million.

As per the Economic Services Charge Act No 13 of 2006 amended by the Economic Services (Amendment) Charge Act No 7 of 2017, an economic service charge of 0.5 per cent should have to be recovered from the vehicles imported from 01st April 2017. However, the Department of Public Fiscal Policies has informed Sri Lanka Customs on 15th June 2017 to recover that economic services charge. Accordingly, a delay in 76 days was observed between the date of recovery of charges as per the provisions of the Act and the date on which the notification for recovery was sent. During that delayed period 17,142 vehicles have been imported and accordingly the loss incurred to the Government was Rs. 153.48 million.

33 Mazda RX8 petrol motor vehicles (CC1300), which are older than 03 years and to be imported under Customs Tariff Harmonized System No 8703.22.69, have been imported under Customs Tariff Harmonized System No 8703.90.99 causing a loss of custom tax of Rs. 114.6 million to the Government.

Since necessary actions have not been taken by the Department of Inland Revenue to implement the provisions of certain Acts passed by the Parliament, instances were observed where losses of taxes incurred to the Government or where delays occurred in the recovery. An amount of Rs. 3,215 million, which was to be recovered from Casino business as per the Finance Act No 10 of 2015, has not been recovered and further that amount has not been reported as tax in arrears.

It has been informed that a stamp duty of Rs. 10,000 and Rs. 20,000 shall be recovered from January 2008 and January 2013 respectively for the issuance of a permit to maintain a business or trade for selling alcohol as per the provisions of the Stamp Duty (Special Provisions) Act No 12 of 2006 and the Gazette notification published relevant to the Act. In terms of the provisions of the Stamp Duty (Special Provisions) Act, the Minister of Finance shall prepare orders and publish them in an Extra Ordinary Gazette Notification in order to release a certain stamp duty. However, the Department of Inland Revenue has not taken action to recover stamp duty from year 2008 up to 2017 for permits issued to maintain a trade or business of Bottled Toddy and 4 brands of alcohol, without such release. Due to such situation, a huge amount of tax revenue has lost during the period of 10 years. It was revealed at the sample inspections that revenue on stamp duty to the value of Rs.2.74 million has lost exclusively in year 2017 for permits issued by 19 regional offices.

Inspection of containers

During the year under review, Sri Lanka Customs has taken actions to release 221,503 containers under light, deep, high risk and red inspection categories. In the meantime, 2,268 containers have been released without inspection. Further 9,262 containers were subjected to scan test and the number of containers referred to the institutions registered under Board of Investment is 18,689. Accordingly following weaknesses were revealed in relation to the clearance process of Sri Lanka Customs.

- Sri Lanka Customs should have obtained assistance from responsible institutions to ascertain that the items imported to Sri Lanka are

Conforming to the standards. Even though such items are released to the premises of the importers on personal guarantees until the certification of such institutions are received, such items should not be released to the market. However, the supervision of Sri Lanka Customs to verify the fact that such items released on personal securities are not released to the market was not at a satisfactory level.

- Due to not conducting a thorough inspection on the containers in which items are imported to Sri Lanka, it has been confirmed also by the investigations conducted by Custom officers that number of custom offences such as importation of illegal drugs, committing tax frauds by way of importing non declared items, committing tax frauds by way of importing more items than the declared amount, committing tax frauds by way of importing items under wrong categories, importing other items instead of declared items, importing items without standards, and importing items without necessary appliances or with more appliances are committed .
- No suitable methodology has been introduced by the responsible parties to monitor the prices of items sold at Duty Free Shops at the Airport. Therefore it was observed that the prices are determined on the discretion of the shop owners. Due to non-recovery of custom duties for the items sold at these shops, a great loss in tax revenue has incurred to the Government. Further there was no proper methodology to confirm that the benefit of the tax relief goes to the air travellers.
- There were instances where no proper supervision was made by responsible parties on duty free foreign liquor shops established at Colombo Port, Katunayaka Airport and State Trading Corporation. Under such circumstance it has been pointed out by the audit regarding the influx of duty free foreign alcohol to the open market and the effect caused to the tax revenue to be recovered by the Government on local alcohol. However no proper action has been taken to rectify the situation.

Revenue Administration Management Information System (RAMIS)

Department of Inland Revenue has taken action to establish and implement a revenue administration management information system from year 2016 spending more than Rs. 4 billion in order to perform administration of tax affairs effectively. Due to non-making of the development activities of the system on timely requirement and non-adherence of the officers to the system in the performance of their works, following weaknesses have been revealed in relation to the administration of taxes.

- It was confirmed as per the information of the tax administration system that 312,507 tax reports relevant to the tax categories of value added tax, income tax, pay as you earn tax, and nation building tax, which were to be submitted by tax payers as per provisions of Value Added Tax Act No 14 of 2002, Inland Revenue Act No 10 of 2006 and Nation Building Act No 9 of 2009, have not been submitted to the Department of Inland Revenue by 31December 2017. That amount covered 30 per cent from the report issued. Efficient action has not been taken by the Department to call those reports and further to recover taxes on such reports. There were 222,069 reports relevant to value added taxes and nation building taxes out of the reports, which were submitted.

- The work subjects relevant to the weakness, which are identified through the system in respect of the information and reports submitted by tax payers on tax categories governed under revenue administration management information system and the matters ,which are to be further examined, are referred to the officers by the system itself. However the objective of the establishment of a computer system has not been gained due to non-completion of 34 per cent of work subjects, which is 346,645 work subjects, referred to the officers during the year under review. 144,337 work subjects out of those non-completed work subjects are connected to the works relevant to value added tax. Due to non-performance of works subjects the works of the computer systems has also not carried out timely.
- Assessment Reports have not been submitted in year 2016 and 2017 relevant to the taxes governed under new tax administration system and assessment reports for those years have been issued in year 2018. Due to non-issuance of assessment reports on timely requirement, it has become impossible to recover ,in year 2017, the taxes in arrears and penalty charges of Rs. 17,805 million for year 2016 and 2017.

Lethargy in the recovery of money for dishonored cheques

The trend of submitting cheques by tax payers to the Department of Inland Revenue to become dishonored on the payment date is growing annually. No sufficient actions have been taken to rectify such practice and further lethargic attitude is seen in the recovery of money for such dishonored cheques. By the ending date of the year under review, there were 7,175 dishonored cheques to the value of Rs. 2,255 million.

Value added taxes paid by public institutions

With the increase of the limit for recovery of value added tax in year 2013, the Department of Inland Revenue has taken action to remove more than 17,000 tax payers from the tax base and to make those files set aside temporarily. However action has not been taken by Commissioner General of Inland Revenue to cancel the registration of those tax payers and to call back the registration certificates on value added taxes issued to them. According to the revelation made in sample audit inspections conducted during past few years, 77 tax payers, whose files were set aside, have collected nearly value added taxes of Rs.63.6 million from government institutions. Further instances were reported where certain tax payers prevent from revealing value added taxes collected from Government Institutions in tax reports. No methodology has been introduced even by the new tax administration system to confirm that the tax payers reveal the tax paid by the Government institutions in tax reports properly.

Taking action in violation to the provisions of the Acts

At an inspection held by the Department of Excise, it has been decided in year 2016 to recover a tax of Rs. 588.90 million from a company, which imported spirit illegally. The Department has recovered Rs. 127.16 million out of this amount in January 2017. Approval has been granted contrary to section 7 and 32(2) of Excise Ordinance amended by Excise (Amendment) Ordinance of No 8 of 1912 to pay the remaining amount by 30 installments of which the value is Rs. 15.39 million each.

In terms of the section 2 of the Tobacco Tax Act No 8 of 1999, there shall be charged, levied and paid on every cigarette, cigar, beedi and every kilogramme of pipe tobacco manufactured in Sri Lanka a tax at such respective rates as may be fixed by the Minister by Order published in the Gazette. However the Department of Excise has recovered tobacco tax only for cigarettes without following the provisions of the Act.

Procurement for safety stickers

The Department has carried out procurement activities to supply safety stickers for liquor bottles and liquor related products establish and maintain a safety sticker management system and further a supplier has been selected to supply 1000 stickers to the value of 3.19 USD. Since this supplier has not satisfied legal requirements to be considered him as a joint venture, this procurement was cancelled by a decision taken by the Cabinet of Ministers and accordingly procurement procedure has again been followed by the Ministry. Accordingly the same rejected supplier has been selected again to supply 1000 stickers to 5.99 USD and the price submitted for the second time was higher than the previous price by 2.8 USD. Therefore it has to pay an additional amount of 1,075,200USD for 384 million of stickers obtained in the first year.

Running of vehicles without following standards on air emission

31,329,486 Air emission tests have been conducted by two private companies from year 2008 up to 31 December 2017 and 5,802, 365out of the above have failed at the first emission test (19 per cent). Further in terms of the results of the air emission tests conducted from year 2008 up to 2017, the percentage of failed vehicles was in the range between 13 per cent and 26 per cent. Accordingly 13 per cent up to 26 per cent out of the vehicles running on roads in Sri Lanka were running without satisfying the prescribed air emission standards.

Under accounting of the value of Treasury Bonds

The accounting policy of the General Treasury on treasury bonds included in the financial statements has been rectified from year 2016. Accordingly it has started to account the face value of the bonds instead of the net value. However according to the financial statements as at the 31 December 2017, the total liability relevant to treasury bonds has been understated by Rs.433 billion due to not adjusting further the face value of treasury bonds issued before year 2016.

Under accounting of loan balances under contracted liabilities

The loan balance of Rs. 330 billion as at 31st December 2017 out of the loans obtained in relation to 8 loan agreements under contracted liabilities made by the Government has not been included in the financial statements of the republic. Rs. 151 billion out of the loan balances included in 08 loan agreements mentioned above is a balance to be paid by the Government for the loans obtained to build Hambantota harbor. Approval has been granted by the Cabinet of Ministers on 04 August 2017 to the Cabinet Memorandum No MPS/SEC/2017/32 dated 20 July 2017 submitted by the Ministry of Ports and Shipping Affairs in this respect. Accordingly the General Treasury should have taken the responsibility to pay back the balances of loans which are to be settled by Sri Lanka Ports Authority out of the loans obtained by it to build Hambantota Harbor with effect from the effective date of the said concessionary agreement. That loan balance has not been included in the Financial Statement of the Republic even though the Cabinet of Ministers has determined in that manner.

Further the loans of Rs.40 billion realized in 2017 in relation to 65 foreign loan agreements have not been included in the Financial Statement of the Republic.

Construction of secretariat of Personal Identification

The value of the installment and interest to be settled further from the loans of Rs.7.55 billion obtained by the Ministry of Defense from 04 commercial banks to construct Secretariat of Personal Identification is Rs.7.39 billion and that balance has not been indicated in the Financial Statements of the Republic.

Loan Obtained to pay the pension gratuity

The balance of the loan to be settled as at 31 December 2017, which has been obtained by the Department of Pension from 03 commercial banks to pay pension gratuities from year 2014, has amounted up to Rs. 45.7 billion. That balance of loan has not been indicated in the Financial Statements of the Republic.

Indicating as contingent liabilities without accounting as state loans

The value of the guarantees and letters of concession issued by the General Treasury to banks for the loans obtained by public institutions and enterprises as at 31st December 2017 is Rs. 652 billion. Since the General Treasury pays back the loan of Rs. 185 billion in relation to 04 bank guarantees provided for the loan obtained by the Ministry of Defense and Urban Development, 02 bank guarantees provided for the loan obtained by the Sri Lanka Land Reclamation and Development Corporation, 90 bank guarantees provided for the loan obtained by the Road Development Authority, and 04 bank guarantees provided for the loan obtained by the National Water Supply and Drainages Board out of the above, the value of that loan should be accounted under state loans. However, that value has been indicated further in the Financial Statements as contingent liabilities.

National Security

The objectives of the Ministry of Defence are the maintaining the territorial integrity of Sri Lanka and ensure the defence of air, sea and land zones of the Island. The following activities are carried out by five Departments and eight Statutory Bodies under the purview of the Ministry to achieve the said objectives.

- Ensure the maintenance of the territorial integrity and defence of Sri Lanka.
- Maintain the defence of the air, sea and land zones.
- Directing the research and development activities related to defence.
- Assist in maintaining the dignity and majesty of Sri Lanka.
- Implementation of the policies on programmes and project related to defence.
- To assist the Police in the maintenance of law and order when required.
- To ensure the security of life and property.
- Regulations of Small Arms.

The matters observed at the audit test check carried out on the Ministry of Defence and the institutions functioning under the purview of the Ministry are summarized below.

Activities in the Action Plan not implemented

The revision of charges under the Private Security Services Regularity Act, No. 45 of 1998 and Firearms (Amendment) Act, No. 22 of 1996 which was the activity included in the Action Plan of Ministry of Defence for the year 2017 had not been implemented. Further, there was no revision whatsoever had been done after the year 2000 relating to charges on firearm license to be recovered under the Firearms Act . According to the Revenue Account of the Ministry of Defence related to charges on licenses, total arrears of license charges amounted to Rs.1.50 million as at 31 December 2017. In addition, no mechanism had been implemented to communicate the respective officers in charge of the subject on 22 activities are being implemented by the Ministry of Defense at present on Firearms and Explosives Acts, through internal procedures or internal circulars

The Operations of the Internal Funds

It was observed in audit that the internal funds are being implemented by the various regiments and units of all three armed forces . Further, the human and physical resources of all three armed forces are being utilized for the operating activities of such internal funds and profit earning projects implemented by the respective funds. It was further observed that such internal funds had not been established as the statutory funds, as per the Financial Regulation 170 and therefore, it was not subjected to controls stipulated either by the

Parliament or the General Treasury. This matter was examined by the Committee on Public Account and issued orders to the Ministry of Defence to take decision to apply a common policy by ensuring audit of the operations of the funds and continue the operation of such funds.

Deployment of Officers for Peace Keeping Operations

The officers of the Sri Lanka Army and Sri Lanka Navy had been deployed for peace keeping purpose in the Republic of Mali under the supervision of United Nations Organization. According to the letter No. SA/MA/AA/02/2016 of Secretary to the General Treasury of 26 April 2016, it was informed to the Secretary of the Ministry of Defence that the income generated through the respective sources are required to be accounted under a separate code of revenue and reported to the General Treasury. However , the Sri Lanka Navy had taken action to record the revenue generated thereon under a separate code of revenue.

The Welfare Facilities Provided to the Deceased,Disabled War Heroes and their Families

There were three main institutions called Sri Lanka Ranawiru Authority, National Defence Fund and Api Wenuawen Api Fund under the Ministry of Defence established with the objective of providing welfare facilities to the deceased and disabled war heroes and their family members. The cash balances amounting to Rs 997.30 million and Rs 1,116.47 million had remained in the National Defence Fund and Api Wenuawen Api Fund as at 31 December 2017. However, the National Defence Fund had engaged only on providing benefits for the children of the officers of armed forces who passed the Grade 05 Scholarships examination during the period from 2013 to 2017 . The activities of the Api Wenuwen Api had been limited to award housing loans for the Ranawiru families. Further the Ranawiru Seva Authority is required to prepare a list of deceased officers in action and their family members and maintain continuously in updated manner in terms of the Section 06 of the Ranawiru Seva Authority Act, No 54 of 1999. However, such a completed record had not been prepared and maintained even as at 31 December 2017. For that purpose, 269 Ranaviry Societied had been established and a sum of Rs 12.98 million had been spent as at 31 December 2017.

The Defence Headquarters Construction Project

The information contained in the Auditor General's Reports on construction of building complex for of Security Forces Headquaters in the Akuregoda area are summarized and given below.

- According to the decision of the Cabinet of Ministers on 25 January 2011, it was planned to construct a building for Security Forces Headquarters with 211,500 square metres at an estimated cost of Rs 25 billion and scheduled to be completed in 02 stages.

However. the designs thereon had been changed subsequently and increased to size of the building upto 411,915 square metres and as a result, the estimated cost of the construction had been increased up to Rs 55.60 billion. Further, a sum of Rs 19 billion had been spent as at 31 December 2017.

- The physical progress of the construction works of three buildings identified on priority basis had remained over 60 per cent. However, the overall `physical progress of all construction works as at 31 March 2018 had remained at 48 per cent , Further, the completion date of the construction works had been extended up to 30 June 2020, according to the revised work plan.
- Since 2011, the offices of the Sri Lanka Army had been located in the buildings owned to the government institutions and private sector organizations within the Colombo City and suburbs , after removing the Headquarters of Sri Lanka Army from the premises at Gall Face area. Therefore, the 10 buildings with 555,036 square feet had been hired for that purpose as at 31 December 2017 and rents amounting to Rs 1,293million had been paid as at that date.

Personal Identity Secretariat Building

A loan amounting to Rs 7,550 million had been obtained from 02 Banks in private sector as well as 02 other government owned banks to construct a Secretariat building for Personal Identity and expected to be repaid within 15 years since August 2015. The total loan amounted to Rs 7,395 million as at 31 December 2017 including the interests aggregating Rs 1,272 million capitalized subsequently. The objective of the construction of the building was to facilitate to establish offices of Department of Immigration and Emigration, Department of Personal Identification, Register General's Department and the Consular Division of the Ministry of Foreign Affairs. However, contrary to the above mentioned specific objective, the office facilities have been provided for various government institutions on hiring basis .

Strategic Defence Communication Network

With the objective of providing continued and secured alternative communication network similar to the modern communication system existed between the zones of tri forces, the Strategic Defence Communications Network consists of 37 microwave links connecting 22 terminal points in the island wide had been planned to complete under the mid-term expenditure framework implemented during the period from 2014 to 2016 . However, the term of the Project had been extended upto 2018. Further the initial estimated cost of Rs 1,192 million had been revised as Rs 1,854 million without obtaining the approval from relevant parties. It was observed that 22 electricity generators including generators procured and installed at a cost of Rs.15.70 million in 2016 and other 12 generators procured at a cost of Rs 10.80 million in 2017 had remained idle at the premises without being utilized for intended purposes and expiring the guarantee periods.

Payments made exceeding the Agreed Amounts

The Secretary of the Ministry of Defence had taken action to increase the price of coconut up to Rs 65 per kilogram on 16 June 2017, under the procurement contract to supply coconuts for 92 camps of Sri Lanka Army, 25 camps of Sri Lanka Air Force and 25 cams of Sri Lanka Navy. As a result of this decision a sum of Rs.171.73 million had been paid as at 31 December 2017, exceeding the agreed amount.. Even though the respective price increase had been made in 2017, the relevant approval had been made by the Cabinet Appointed Procurement Committee appointed for the year 2018.

Procurement of High Leg Boots for Sri Lanka Army

The procurement procedure had been commenced in 2016 to procure 75,000 pairs of High Leg Boots for Sri Lanka Army and international competitive bidding process had been applied at the first instance. However bids received had been subsequently cancelled as the samples thereon was not agreed with the specifications. However the national competitive bidding process had been applied at the second instance and noticed had published it in 02 national news paper on 08 January 2017. However 02 bids had been received at the date of closing of bids on 31 January 2017 and it was decided to award the contract to the bidder who quoted the higher price .However , the bidder with the lowest price had made an appeal and the Board of Arbitration thereon had directed to award the contract for the bidder who quoted lowest price. According to the information received to audit, the selected bidder had amended its Article of Association on 25 January 2017 and proved that respective company had not engaged in boot manufacturing or any other related works before submission of bids.

Procurement of Medical Equipment for the Teaching Hospital of Sir John Kotawala Defence University.

It was decided to complete the construction works of the Teaching Hospital of Sir John Kotawala Defence University under 04 stages and cost of US$ 39,629,000 had been estimated for each stage. However, 51 equipment identified to be procured and installed had not been supplied even as at 31 December 2017 Further, 13 units had been identified to establish to provide necessary services within the hospital and such units had remained underutilized due to lack of required skilled staff and necessary medical equipment not installed.

Establishment of an Advanced Training Centre and Construction of a Building for Apprentice Sailor for residential purposes

Action had been taken by the Department of Coast Guard in January 2017 to establish an Advanced Training Centre and construct a building for Apprentice Sailor for residential purposes at an estimated cost of Rs. 87.70 million. However, the construction works had been suspended by an order issued by the Secretary of the Ministry of Defence on 09 October 2017. A sum of Rs. 34.19 million had been spent thereon as at that date.

Misplace of Radar Receiver (LRU 02) and Antenna Scanner

A Radar Receiver (LRU 02) and Antenna Scanner (LRU 01) of the Air Craft Spare Part Section of Base Camp of Sri Lanka Air Force in Katunayaka had been sent to China on 25 April 2014 , for repairing purposes. However, the respective equipment had been misplaced while transporting and as a result , a loss of Rs 74.46 million had been occurred to the Sri Lanka Air Force. a primary investigation report in this regard had been issued on 31 August 2015 and no action had been taken to identify the responsible parties and recover the losses incurred thereon.

Procurement of 02 Vessels

According to the agreement entered on 13 May 2013, 02 Vessels constructed in an Indian Dock Yard as per the needs specified by the Sri Lanka Navy under the provision made in Indian Loan Scheme valued at Rs 133 million had been received to the Sri Lanka Navy during the year under review. The value of such Vessals amounted to US$ 133 million equivalent to Rs. 19,950 million. It was observed that thee space were allocated to park 02 small air crafts. Hoerver it was revealed that there is no any small scale air craft belongs o to Sri Lanka Air Force. Further no evidence had been received on inquiries had been made from the Sri Lanka Air Force in this regards at the designing stage.

Public Enterprises

A public enterprise is an entity with the power to contract in its own name, has been assigned the financial and operational authority to carry on a business, sells goods and services in the normal course of its business to other entities at a profit or full cost recovery and is controlled by a public sector entity. The commercial enterprises and financial institutions which providing utility services are also include in the public enterprises. The public enterprises generally operate to make a profit, although some may have limited community service obligations under which they are required to provide some individuals and organizations in the community with goods and services at either or charge or a significantly reduced charged. 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
- Statutory and Non statutory funds
- 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 291 Public Enterprises other than Government owned Companies incorporated under the Companies Act as at 31 December 2017 as compared with that as at the end of the preceding year is depicted in the Figure 09

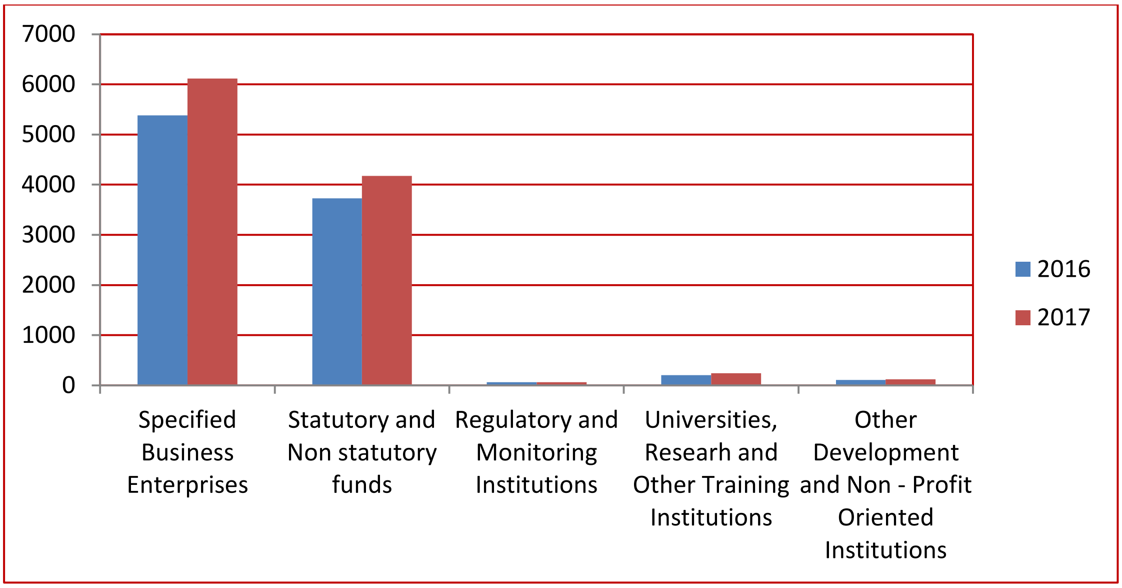


Figure 09- Total Assets of public Enterprises in the year 2017 as compared with year 2016

Recurrent grants of the Government granted in the year 2017 to the Public Enterprises amounted to Rs. Rs.55.4 billion and that represented 2.85 per cent of total Government Recurrent Expenditure as compared with the corresponding figure of Rs. 52.4 billion and 2.96 per cent respectively. In addition to that, capital grants accounted for Rs. 29.26 billion in the year under review and representing 4.45 per cent of total Government Capital Expenditure as compared with the corresponding figure of Rs. 36.25 billion and 6.1 per cent respectively.

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 is 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. Utilization 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 utilization, 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.

Performance audit is a timely requirement. In the financial audit, it is certifying the financial controls and accuracy of the accounts. However, in the performance audit, it is expected to examine whether the resources have been economically, efficiently and effectively utilized. In addition to above three factors, the impact on the environment is also examined at present. Several names are used for performance audit such as,

- Value for money audit
- Management audit
- Operation audit
- 3 “E” s audit

By giving an equal state to the performance audit as well as the financial audit through present audit reports of the Auditor General’s Department, it is analyzed in detail as to whether the financial and other resources provided for the public enterprises have been utilized for the achievement of its expected objectives.

An important place has been given for the performance audit in the audit reports issued during the year 2017 as compared with the previous year. Further, by selecting several controversial incidents which created serious social and economic impacts and fallen to public consideration, several performance audit reports have been issued with regard to the adverse effects to the general public and environment thereof.

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, regulations, etc. and by analyzing causes of non-attainment 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 management of the Public Enterprises to adverse findings of the Auditor General.

Financial Performance

According to the information made available, the particulars relating to 446 public enterprises are shown in the Table No. 10

Name of the Institution	Number of Institutions	Number of Loss Making Institutions	Number of Profit Making Institutions	Number Institutions not Provided the Information
Other Development and Non-profit Oriented Organizations	**61**	**20**	**23**	**18**
Statutory and Non-statutory Funds	**62**	**06**	**24**	**32**
Regulatory and Monitoring Organizations	**25**	**3**	**11**	**11**
Specified Business Enterprises	**55**	**8**	**24**	**23**
Universities, Research and other Training Institutions	**70**	**25**	**26**	**19**
Government Owned Limited Liability Companies	**111**	**27**	**59**	**25**
Sports Association	**62**	**-**	**-**	**-**
Total	**446**	**89**	**167**	**128**

Table 10 – Information of 446 Instituts of Public Enterprises

According to the above information, 89 public enterprises had shown a deficit totaling Rs. 57,158 million in their financial results in the year 2017. The Ceylon Electricity Board, Sri Lanka Rupavahini Corporation, Sri Jayawardanapura General Hospital, and 12 Universities were with considerable financial deficits. As compared with the financial results of able to reduce their financial deficits during the year under review.

In addition to that, 167 institutions had recorded the financial surplus of Rs. 453,936 during the year under review. The financial surplus of the Land Reform Commission and Tourism Promotion Bureau as compared with the previous year had shown an improvement. In the Meantime, the financial results of the National Gem and Jewelry Authority, Sri Lanka Institute of Development Administration and Export Development Board had deteriorated as compared with the preceding year.

Sustainable development

The rapid consumption of natural resources paves way for the future generations to face a scarcity of resources. It is also seen that the waste being generated as a byproduct of the consumption of resources, threatens the equilibrium of the environment. The linking of mandatory economic development and the sustainability of the environment is centralized in the concept of sustainable development. It is emphasized that economic development and environmental conservation should exist mutually and the entire world should be made aware thereof.

As stated by the Global organization on environmental development, the primary objectives of the sustainable development include : to satisfy the basic human needs, to improve quality of human life, to safeguard the environment, and increase productivity. As such, the concept of sustainable development involves the utilization and management of biosphere by humans while maintaining the potential for the future generations to meet their requirements.

The sustainable development goals have been introduced with a view for the UN member countries of different economic, social, and environmental time frames to be brought to an equal time frame by the year 2030. The state leaders who had taken part in the sustainable development summit of the UN taken place in September 2015 , had expressed their agreement thereon. The 2030 agenda for sustainable development is based in that connection, and it is a universal expression that should be implemented by all the member countries targeting humankind, the earth and the prosperity. Being a member of the UN, Sri Lanka is abide by this universal expression. As such, the progress in the implementation of this universal expression is examined with respect to the auditees from the year 2017. The sustainable development has been identified as a specific observation that draws attention when carrying out state audits and reporting with respect to the preparedness of the state institutions for achieving the sustainable development goals and the progress thereof.

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. These are expressed in instances of material misstatements or noncompliance, management disagreements or limitations of work. The said four types are as follows.

Unqualified Opinion

This opinion is expressed when there are no material misstatements or non-compliance reported in the financial statements.

Qualified Opinion (Subject to Opinion)

Reported the material misstatements or non-compliance in the financial statements but not pervasive to the financial results.

Adverse audit opinion

The pervasiveness of the disagreement relating to the matters such as the accounting policies followed, methodology of application, and adequacy of the disclosures in the financial statements, would lead to express an adverse audit opinion

Disclaimer of opinion

The pervasiveness of the scope limitation would lead to express disclaimer of opinion.

In expressing an audit opinion the assistance of the computerized audit software is obtained in view of express a fare opinion. The audit opinion is decided based on the results arrived after adjusting the total uncorrected misstatements as a percentage of audit samples selected during the course of audit and their materiality level.

The audit opinions expressed on 446 Public Enterprises on which the Audit Reports have been issued for the year 2017 as compared with the preceding year are given in the Table 11

Audit Opinion	2017	2016
Unqualified	80	70
Qualified	113	108
Disclaimer	20	06
Adverse	05	09
Not Yet Decided	228	144

Table 11. -Auditor General's Opinion on the Financial Statements furnished by the Public Enterprises

Maintaining records on Fixed Assets

Property, Plant and Equipment is a term for assets being used in production and supplying of services, given on lease, or administrative purposes. Those assets are tangible and expected to be used for more than one period of reporting. Furthermore, current assets are the assets expected to be sold or utilized within the normal operating cycle, or realized within a period of 12 months after the period of reporting.

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. Computation of depreciation ensures the accurate value of assets paving way for taxes and insurance policies. The Register of Fixed Assets generates complete and accurate reports suitable for managerial requirements. The accounting officers should be satisfied that proper and adequate provisions are set out to preserve and safeguard the funds, goods and other assets owned by or under the custody of the Government , such items are verified from time to time, and the regulations and instructions are adhered to.

It was observed that, in certain cases, Annual Boards of Survey had not been conducted in terms of provisions in Financial Regulation 756 and Public Finance Circular No. 05/2016 of 31 March 2016 whilst Register of Fixed Assets are not maintained by many an institution

Preparation and submission of Annual Financial Statements

The financial statements of 215 Public Enterprises, except for public corporations, for the year 2017 had been presented to the Auditor General for audit by 30 September 2017. However it was observed that 61 Institutions had not submitted their financial statements for the year ended 31 December 2017 even after the lapse of 9 months after the end of the financial year.

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.

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. Especially 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.

Local Government

A number of 335 Local Government Institutions 23 Municiple Councils as per the terms of Municiple Ordinance (Chapter 252) , 41 Urban Councils as per the terms of the Urban Council Act (Chapter 255) and 271 Pradeshiya Sabhas as per the terms of the Pradeshiya sabha Act No.15 of 1987 were established and implemented in Sri Lanka. A summery of presentation of financial statements of those Local Government Institutions for the year 2017 and audit opinion expressed were shown in the table 12

Category of Local Authority	Number of Accounts	Number of Accounts furnished by 30 September 2018	Number of Audit Reports issued	Audit Opinions expressed on the Reports issued up to 30 September 2018			
				Qualified	Clear	Disclaimer	Adverse
Municipal Councils	23	23	18	17	-	01	-
Urban Councils	41	41	35	34	-	01	-
Pradeshiya Sabhas	271	271	249	246	-	01	02
Total	**335**	**335**	**302**	**297**	**-**	**03**	**02**

Table 12- presentation of Financial statements by the local government institution and audit opinions expressed

A summery of important observations disclosed in audit reports on the financial statements of Local Authorities are shown below.

- It had been planned to construct a physical exercise lane on the side of the road runs from Punchi palama to Maha Palama of Thalgasgoda in the jurisdiction of Ambalangoda Urban Council. However the Road Development Authority had informed that this lane has to be removed in expansion of the road.without considering the matter, a physical exercise lane had been constructed incurring a sum of Rs. 2.10 million in the year 2014.It was observed in physical audit examination held on23 May 2018 that the physical exercise lane had been descended and become wilderness and soil had been collected in some places.

- Construction of a building complex for waste management had been commenced by the Alpitiya Pradesheeya Sabha in the year 2008 in 2 acers of Igalkanda land incurring a sum of Rs.2.06 million under the aid of the Pilisaru Project of the Central Enviorement Authority.Aulthough a period more than 10 years had been lapsed as at 5 March 2018,constructions had not been completed.

- The main bus stand nearby the Kakanadura junction of Matara pradeshiya sabha had been constructed by the Urban Development Authority incurring a sum of Rs.7.20 million. A sum of Rs.1.00 million had been spent by the Matara Pradesheeya sabha funds as well in this regard..However it had not been used for any fruitfull activity even up to the end of the year under reeview.

- A tipper valued at Rs.4.50 million had been received to the Mathara Thihagoda Pradeshiya Sabha on 17 March 2015. The tipper had met with an accident on 23 June 2017 when running out of the jurisdiction of the Council. The damage had been estimated as Rs.3 million.However action had not been taken by the Council to reimburse the damage from the insuarence cover or to recover from the responcible parties for the accident. The tipper had been remained idle in the garage of the Pradesheeya Sabha.

- Under the provision of the central Envioremeent Authority to construct a bio gas unit for waste management. However the unit had been abandaned even up to 12 June 2018 without obtaining expected outcome.

- The crematorium constructed by the Puranaguma Project in the year 2016 incurring a sum of Rs.15.42 had been handed over to the Wilgamuwa Pradeshiya Sabha. Only 6 boddies had been cremated up to December 2017 and after that it was out of order.

- A vehicle service unit had been constructed in the Siyabalaanduwa Pradeshiya Sabhain the year 2014 incurring a sum of Rs. 1.16 million. Nevertheless the unit had not been utilised for the intended purpose even up to the end of the year under review.

- It had been confirmed in the water sample test that there were harmfull colifaom bacteria in water supplied by 5 water projects which had been implemented by the Waligepola Pradeshiya Sabha. The Medical Health Officer had emphasized that water supplied from those water projects should be clorinated daily and training had been given to the officers of the Council for clorination.However chlorination of water had not been implemented continiously.

- The cinema hall belongs to the Rathnapura Municiple Council which was situated at the Rathnapura city had been leased and lease rent of Rs.1.95 million for the period from May 2001 to April 2010 had been remained outstanding. The Municipal Council was failed to recover the outstanding money even up to May 2018.

- Vehicles and water pump equipment valued at Rs.7.40 million had been remained idle over a number of years in 4 Pradeshiya Sabha in Puttlam

District. Further 75 tube wells constructed in Wanathawilluwa jurisdiction had been abandoned without carrying out necessary maintenance.

- A land had been purchased at a cost of Rs.6 million by Ibbagamuwa Pradeshiya Sabha on 16 May 2017, for construction of solid waste management system. However the constructions of the center had not been planned even after the end of the year under review and degradable waste were being buried in a private land.

- Constructions of the Ganewatta - Nalawa road belong to the Ibbagamuwa Pradeshiya Sabha had been completed incurring a sum of Rs.4.42 million out of the provision provided from the Ministry of North West Development after a period of almost one month of which the construction was completed, it was observed in audit tests carried out on 29 August 2017 and 25 September 2017 that sand and stones were surfaced. However when examining the concrete there was a situation of separation of stones and sand.

- Rate tax and rent amounting to Rs.198.06 million and Rs.87.25 million respectively had been remained outstanding as at 31 December 2017 relating to 02 Municipal Councils and 09 Pradeshiya Sabhas of Puttalam District. Collection of outstanding revenue of those Councils was proceeded slowly.

- Fifteen dopm cars, one kangaroo rider sports machine and a children coach had been purchased at the total cost of Rs.27.24 million by the Colombo Munucipal Council for the "Sathutu Uyana" on 18 April 2018. However the kangaroo rider sports machine and the children coach was not complied with the specification and it was revealed that the kangaroo rider sports machine was out of order welded at the time of installing. Nevertheless the Municipal Council had rendered the quality assurance certification and paid the total amount to the supplier. Further a handle and few seats was broken in public use and the machine was in a dangerous condition, within a short period of one month.

- A machine had been purchased incurring a sum of Rs.7.4 million in the year 2015 to test and measure the condition of the roots of the trees older than 100 yers sitated in the city. Due to the absence of professionally experienced officers (as arborists) in the council. The new machine had been remained in the Vihara Maha Devi Park office without taking into using up to 13 July 2018.

- In the year 2017, 493.62 tons of separated garbage and 9,653.27 tons of mixed garbage had been handed over to the Karadiyana garbage yard by the Boralasgamuwa Urban Council. The said separated garbage was 5.1 percent of the mixed garbage. Separation of garbage was not in a optimum level and a sum of Rs.7.24 million had been over paid because the collection of garbage was not managed properly.

- Actions had been taken to lease the land in which the Walisingha Harischandra cricket play ground is situated, to the Gampaha district association for 30 years according to the agreement entered into on 01 November 2002. The agreement had been cancelled on 27 October 2007 , due to the development activities not being done, non-payment of due portion of the income received for the playground to the Council, giving sub lease and receiving only the initial payment of Rs.180,000. Nevertheless the relevant sports club had carried out their activities during a period of almost 10 years, after the agreement was cancelled without making any payment to the council and actions had not been taken by the Council against this activities. Further any development activity had not been carried out in the land in the total extent of 8,8527 hectares with the playground of 5,5840 hectares in extent. Hence the opportunity of gaining a huge income had been lost to the Council.

- According to an information obtained from the internet, there were 153 hotels, lodges and cafeterias which were approved by the Tourist Board in the Jurisdiction of the Negombo Municipal Council. License had not been issued by the Council for 81 out of those hotels, lodges and cafeterias.

- A land 01 acre and 31.90 purchase in extent had been purchased by the Wattala Urban Concil in the year 2013. Institutions had been issued by the Commissioner of Local Government to take immediate actions to construct a waste separation yard in that land and dispose garbage systematically. Although a sum of Rs.1 million had been provided by the Ministry of Provincial Council and Local Government, on o2 April 2016 only a wall around the land had been constructed.

- As per the financial regulation 571 actions had not been taken to credit the total sum of Rs.18.73 million deposits to the income which had been brought forward more than a period of 02 years in 12 Local Government Institutions of Ampara District.

- A water tank had been constructed in the Siripura water project by the Dimbulagala Pradeshiya Sabha by incurring a sum of Rs.8.18 million under the Puranaguma Project in the year 2015. The concrete slab in which the filter of the tank was fixed had been broken down in February 2018 due to the construction of the water tank not been made in the due standard. Hence the water project had been abandoned without being used. Further the non- return valve of the fixed new motor of the project was out of order and remained in an unusable condition.

- The weekly fare building and the toilet handed over to the Galnawa Pradeshiya Sabha in the year 2014 incurring a sum of Rs.14.80 million under the "Puranaguma" project had been remained idle without using for the intended purpose. Further the common auditorium constructed in the Galnawa town at a cost of Rs.28.50 million had not been used for public work even up to 20 June 2018.

- Constructions of the Isipathana children's park of the Thamankaduwa Pradeshiya Sabha had been completed incurring a sum of Rs.21.22 million on 17 February 2017 under the project for improvement of Local Government Services of North Eastern Province. Play items valued at Rs.4 million had been purchased by the funds of the North Eastern Provincial Council. Even though a period more than a year had been lapsed for these purchasing, the park had not been socialized.

- The Gateway National water Project of the Horowpathana Pradeshiya Sabha commenced under the Jathika Sawiya Gamanaguma programme in the year 2011 had been completed incurring a sum of Rs.3.54 million. However actions had not been taken to fulfill the water requirements of the people lived in the area even up to the end of the year under review. Although the activities of the Pilisaru project had been completed in the year 2017 incurring a sum of Rs.3.95 million it had not been socialised even upto 20 April 2018 due to lack water and electricity.

Foreign Funded Projects

According to the Annual Report of the Ministry of Finance for the year 2017, sums of Rs.294.3 billion and Rs.439.2 billion respectively had been obtained as loans from the local sources and from the foreign sources by the Government by settling the Total Budget Deficit amounting to Rs.733.4 billion in the year under review. An improvement of 12 per cent indicated in obtaining foreign loans as compared with the net amount of foreign loans amounting to Rs.391.9 billion obtained from foreign sources in the preceding year.

Fifty- two New Foreign Financial Agreements had been entered into with Foreign Development Parties and with Lending Implementation Agencies by the Government in the year under review and it had been scheduled to obtain USD5,022.1 million in the forthcoming years by those agreements. It consisted of USD240.7 million scheduled to be received in the forthcoming years by 24 Loan Agreements. It had been expected to invest 29 per cent and 18 per cent respectively of this amount received as Loans and as Assistance for the Water Supply and Sanitation Improvement and for the Development of Roads and Bridges.

Presentation of financial statements of the Foreign Funded Projects to the audit

One- hundred and fifty- three Foreign Funded Projects remained in the Implementation Stage by the end of the year under review and the Annual Financial Statements of 123 Foreign Funded Projects out of them had been furnished to audit. As such, loans amounting to USD1,638.2 million and Grants amounting to USD30.5 million received from Development Projects and Programmes by Foreign Development Parties and by Lending Implementation Agencies had been utilized in the year under review. The financial statements of those projects had not been furnished to audit due to not being stated that the conditions stated that the Annual Financial Statements in the Indian Loan Scheme, assistance of the Chinese Government and other Bilateral Agreements should be subjected to the examination of the Auditor General should be a mandatory requirement. Position on the Foreign Projects implemented by Foreign Development Parties and Lending Implementation Agencies and on furnishing their financial statements to the audit appear with the Figure 10 below.

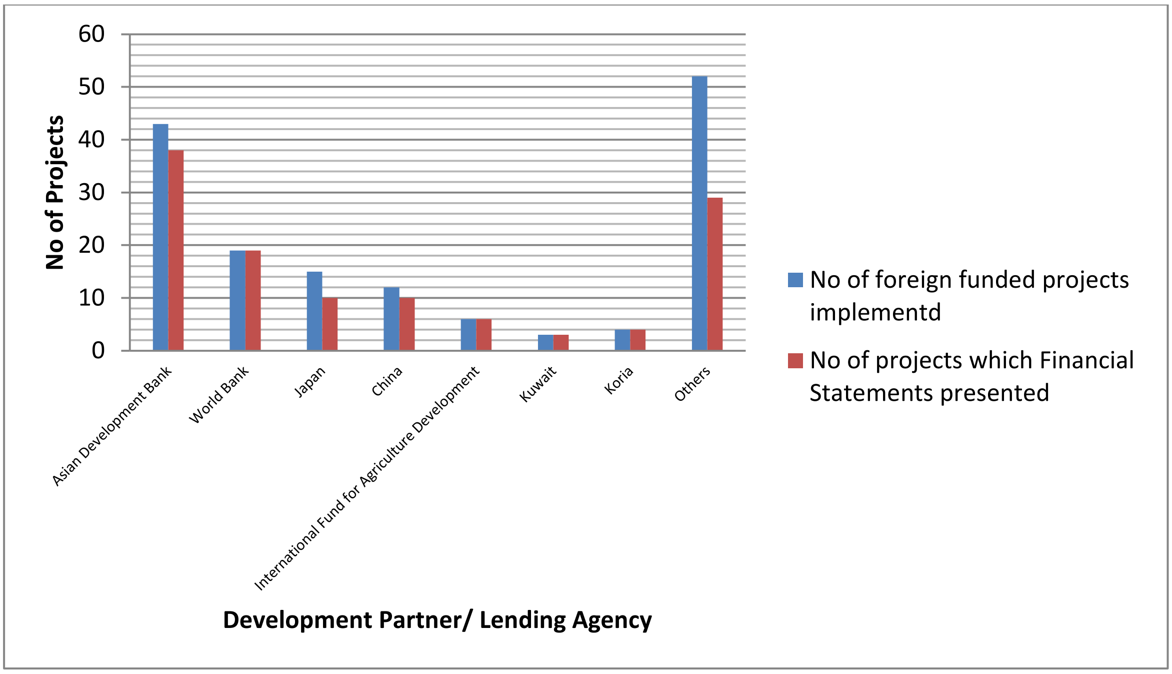


Figure 10- Foreign Projects implemented by Foreign Development Parties and Lending Implementation Agencies and on furnishing their financial statements to the audit

Not following uniform accounting policies relating to their financial statements by the Foreign Assistance Project Management Unit had been a main deficiency observed in audit. Even though it had been a necessity to follow Sri Lanka Public Sector Accounting Standards relating to the financial statements of the Foreign Funded Projects, it had been stated that the Generally Accepted Accounting Principles had been followed for the financial statements of many Foreign Funded Projects. As such, it was observed that only the statement of financial position of the projects is being furnished as at the last date of the year, as Annual Financial Statements. The value represented by that in the financial statements had been over- calculated due to not separately identifying and accounting the money invested for the projects by Foreign Implementation Agencies and by the Government of Sri Lanka as Capital and Recurrent Assistance and acting, considering the total amount received as investments in the year as Capital Assistance.

It was observed in the audit that some Project Management Units had furnished financial statements based on the concept of Going Concern, even after the completion of the active period of the Foreign Funded Projects. The condition being occurred due to not giving proper instructions on the manner that the financial statements should be prepared in the closing Financial Year of the Project by the Ministry of Finance and Mass Media. Moreover, follow- up action for confirming that the assets such as property, plant and equipment purchased by utilizing the Foreign Funds had been utilized for the intended objectives after the handing over of the Project to the relevant Implementation Agencies after the completion of the active period of the Project, not being carried out by the Line Ministry had been a main deficiency.

Not having a proper co-ordination between various Public Institutions that implement Projects

Ceylon Electricity Board had acted as the Implementation Agency of 11 projects of which the financial assistance being provided by the Asian Development Bank in the year under review and various parameters of those projects had been implemented by various Divisions of the Board. However, it was observed in the audit that the presentation of financial statements of the projects had been delayed due to not having a proper co- ordination between those Divisions and that the physical progress of those projects not being attained up to the intended level. The Skills Sector Development Project had been implemented from the year 2014 through 09 Institutions under the Ministry of Vocational Training on the loan assistance of the Asian Development Bank and of the International Development Association with the objective of improving the quality and the international recognition of the field of vocational training in Sri Lanka.

Some functions under the Project had to be either suspended or to be altered due to not having a proper co- ordination between the Institutions of the Ministry of Town Planning and Water Supply, Colombo Municipal Council and the Urban Development Authority relating to the Greater Colombo Wastewater Management Project. Some functions which had planned in the Initial Stage of the project had been altered due to the Colombo Port City Project and due to the timely development activities carried out on the Colombo Fort area. As such, delays had been occurred in the implementation of the activities of the project.

Under- utilization of Foreign Assistance

It was observed in the audit that the utilization of funds provisioned for Foreign Funded Projects by the Foreign Lending Institutions remained at a low level. As such, an additional interest had to be paid for the funds not utilized as intended and it was observed that adverse effects such as project activities not being able to execute on the estimated cost due to the risk remaining in the extension of the period of the Project and due to the inflasive effects. Main Projects of which the utilization of funds remained at a low level appear in the Table No 13 below.

Name of the Project	Foreign Implementation Agency	The amount agreed to finance under the Loan Agreement	As at 31 December 2017	
			The amount being utilized	**Period lapsed after the initialization of the Project**
		USD	USD	Years
1. Climate Resilience Improvement Project (CRIP)	IDA	110.0	49.52	3
2. Water Supply and Sanitation Project, Jaffna-Kilinochchi	ADB	76.45	28.55	7
3. Water Supply and Sanitation Improvement Project	IDA	165	23.70	2
4. Integrated Road Investment Program	ADB	800	291.42	3 1/2
5. Metro Colombo Urban Development Project	IDA	213	87.70	5 1/2
6. Kandy City Wastewater Management Project	JICA	14,087 (Japanese Yen)	3,414.52 (Japanese Yen)	7

Table No 13- Project which the utilization of funds remained at a low level

Many projects of which the physical and financial progress remained slow, remained and many reasons such as weaknesses in planning, the scope of the projects being revised in later years, public protests, delay in acquiring lands, incompetencies of the construction contractors, weaknesses in the Procurement Procedure, not having sufficient inspection and difficulties in recruiting persons with technical knowledge for project management had affected in this connection.

Weaknesses in financial control systems in Foreign Funded Projects

It had been stated that external persons should be recruited for the staff of the Operating Divisions of the Foreign Funded Projects including the Project Director in terms of the Paragraph 2.2.4 of the Management Services Circular No.01/2016 of 24 march 2016 and it had been instructed to call for applications on Open Advertisements as much as possible, in this connection. However, the Project Directors in the projects operated by the Road Development Authority, National Water Supply and Drainage Board and the Ceylon Electricity Board consisted of the officers released from the internal staff of those Institutions. As such, the inflow of new technical and management knowledge for the efficient execution of the functions of the projects, to the relevant project remained at a weak level.

Even though the financial control systems should be strengthened by executing the internal audit activities efficiently for the projects of which the total project cost being USD 10 million or, for the projects of which the project cost exceeded that amount in terms of the provisions in the Management Services Circular No.02/2016 of 10 June 2016, separate Internal Auditors had not been appointed for 89 Foreign Funded Projects implemented by the Road Development Authority, National Water Supply and Drainage Board and by the Ceylon Electricity Board. Deficiencies relating to the financial control remained without being rectified due to not taking action to audit the transactions and the functions in the relevant Foreign Funded Projects even by the Internal Audit Units of the above Institutions.

Not carrying out either the verification of the Fixed Assets in the Projects by the Project Management Units or not timely carrying out the Boards of Survey had been a common feature. As such, problems had been arisen in the management of assets in projects and in handing over the relevant assets and goods to the Implementation Agencies after the completion of the period of the project.

The function of the Department of Project Management and Monitoring

The Department of Project Management and Monitoring, which was operating as a Department under the Ministry of Finance had been entrusted under the Ministry of Development Assignments from the year 2016 and as such, the function of the Department had been restricted only for the activities of the co-ordination of the relevant Lending Institutions and of the Project Directors. Moreover, the monitoring activities of the projects remained at a weak level due to the correlations with the other Departments under the Ministry of Finance and Mass Media such as the Department of External Resources, the Department of National Budget, with the above Department being distant. Further, it had also been revealed in the audit that this Department had not maintained sufficient co- ordination relating to the project monitoring activities with the Internal Audit Staff operating in the Project Monitoring Ministries.

Banking

Banking Sector consists with Licensed Commercial Banks (LCBs) and Licensed Specialized Banks (LSBs). By the end of 2017, the banking sector consisted of 25 LCBs and 7 LSBs. There were 12 foreign banks within the total number of LCBs. The banking sector continued to contribute to economic activity and development throughout the year by enhancing banking services and expanding its networks and accessibility throughout the country. Accordingly, 43 new branches were opened and 684 new ATMs were installed during the year 2017. Distribution of Banks and Branches by the end of 2017 in table 14

Category		Banks	Branches	Student Saving Units	ATMs
LCBs	Domestic banks	13	2816	2639	4083
	Foreign banks	12	53		
LSBs	National Level Regional Development Banks	1	265	28	333
	National Level Saving Banks	1	259		
	Housing Finance Institutions	2	64		
	Private Savings and Development Banks	3	103		

Table 14 - Distribution of Banks and Branches by the end of 2017
Source – Central Bank of Sri Lanka (Revised or Provisional Data)

Assets

The banking sector asset base surpassed Rs. 10 trillion by end of 2017; with year-on-year growth reaching 13.8 per cent by end 2017 from 12 per cent by end 2016.The asset portfolio mainly consisted of loans and advances, which accounted for 62.5 per cent of the banking assets. Assets of the main two state banks, Bank of Ceylon and People's Bank were Rs.1952 bn and Rs.1467 bn respectively which accounted for 33.2 per cent from the total assets of the banking sector.

Figure 11-Distribution of Banks and Branches by the end of 2017

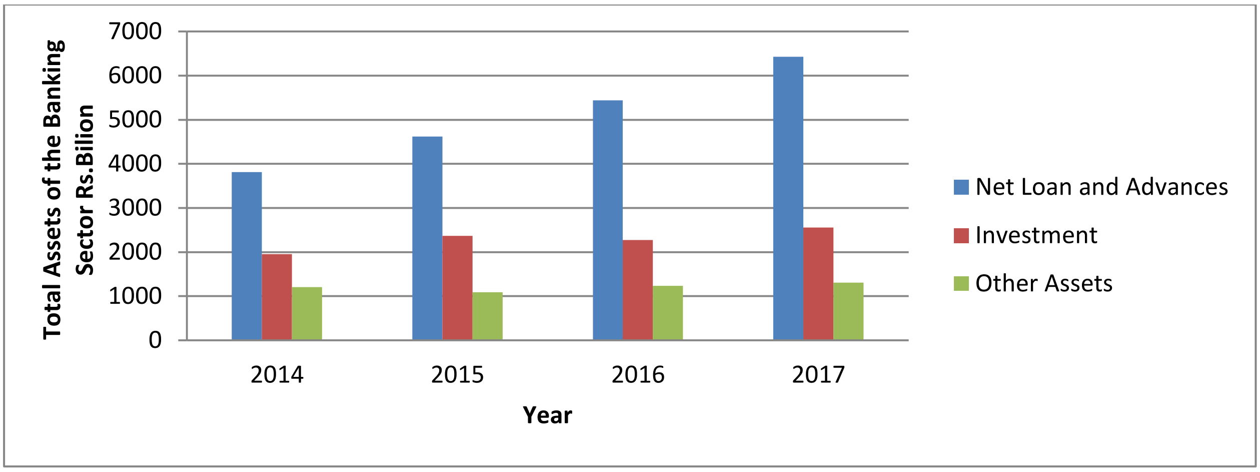


Figure 11-Distribution of Banks and Branches by the end of 2017
Source – Central Bank of Sri Lanka (Revised or Provisional Data)

Non - Performing Advances

The overall NPL ratio of the banking sector declined further to 2.5 per cent in 2017 from 2.6 per cent in 2016 despite an increase in NPLs of Rs 18.3 billion during 2017. NPLs of the main two state banks, Bank of Ceylon and People's Bank were Rs.34 billion and Rs. 19.5 billion respectively by end of 2017 and accordingly NPL ratio reported as 2.8 per cent and 1.9 per cent respectively. Figure 12 Non – Performing Advances of the Banking Sector

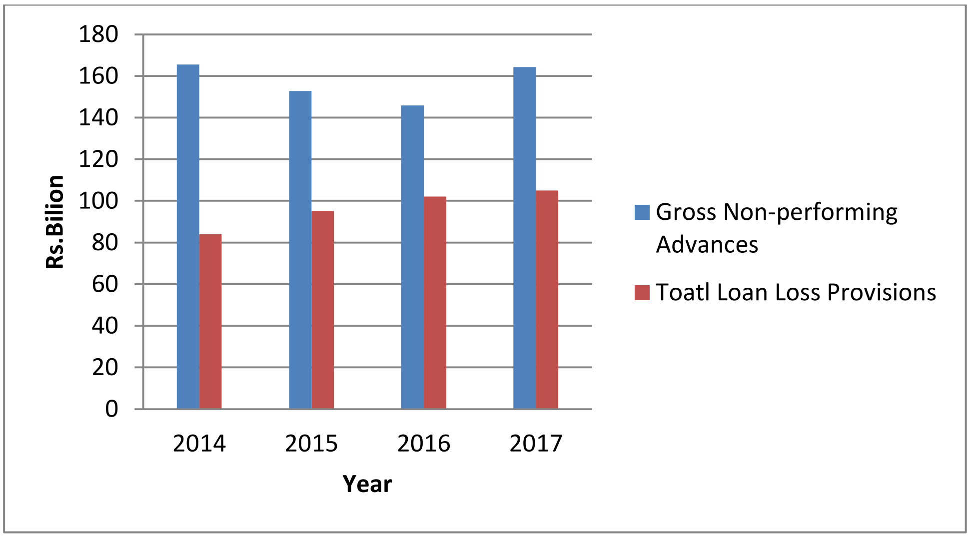


Figure 12 - Non – Performing Advances of the Banking Sector
Source – Central Bank of Sri Lanka (Revised or Provisional Data)

Banking

Liabilities and Capital

The customer deposits continued to be the major source of liabilities which accounted for 71.9 per cent of the total liabilities and Capital of the banking sector. Deposit of the main two state banks, Bank of Ceylon and People's Bank were Rs.1,511 billion and Rs.1,244 billion respectively as at the end of the year 2017 which accounted for 37.2 per cent from the total deposits of the banking sector.

Total borrowings of the banking sector displayed a negative growth of 5.3 per cent by end of 2017 due to foreign borrowings declined by Rs. 290.7 billion and rupee borrowings declined by Rs. 66 billion. Nevertheless, foreign currency borrowings accounted for major share of total borrowings representing 62.6 per cent. Borrowing of the main two state banks were Rs.370 billion. It represented foreign currency borrowings of Rs 254.3 billion and rupee borrowing of Rs.114.76 billion by end of 2017. Table 13 - Liabilities and Capital of the Banking Sector detail

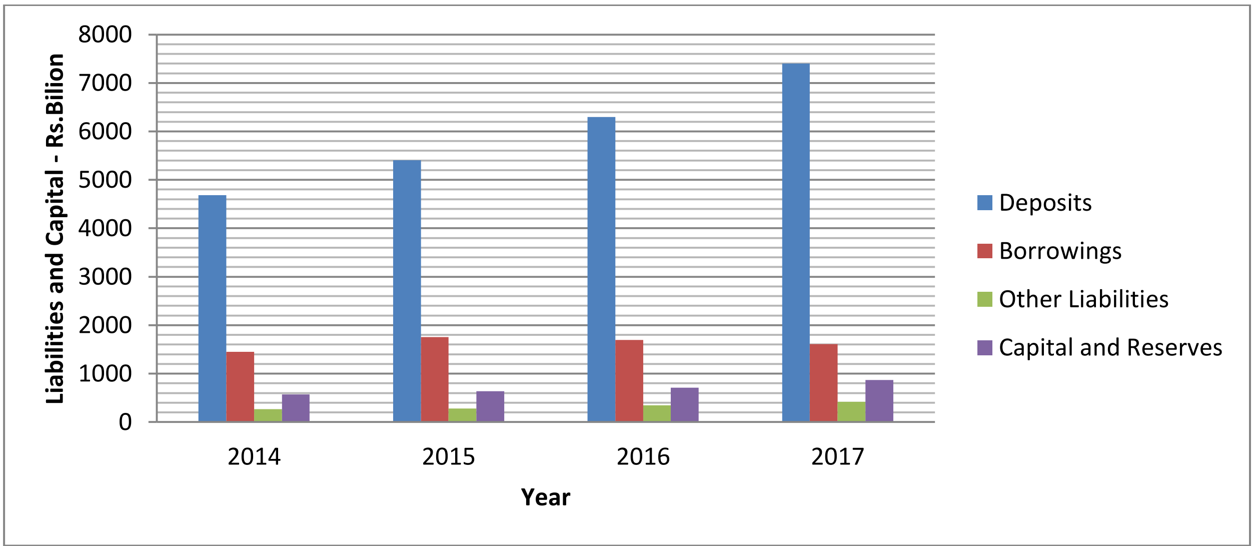


Table 13 – Liabilities and Capital of the Banking Sector
Non – Performing Advances of the Banking Sector

Deposit

The deposit base of the banking sector increased during the year mainly due to the increase in time deposits denominated in Sri Lankan rupees. Time deposits reported an increase of 23.3 per cent in 2017 compared to an increase of 23.8 per cent in the previous year. Time Deposits of the main two state banks were Rs.1683 billion by the end of 2017. As a consequence, the share of time deposits as a percentage of total deposits increased to 63.6 per cent in 2017 from 60.6 per cent in 2016. Detail in Figure 14

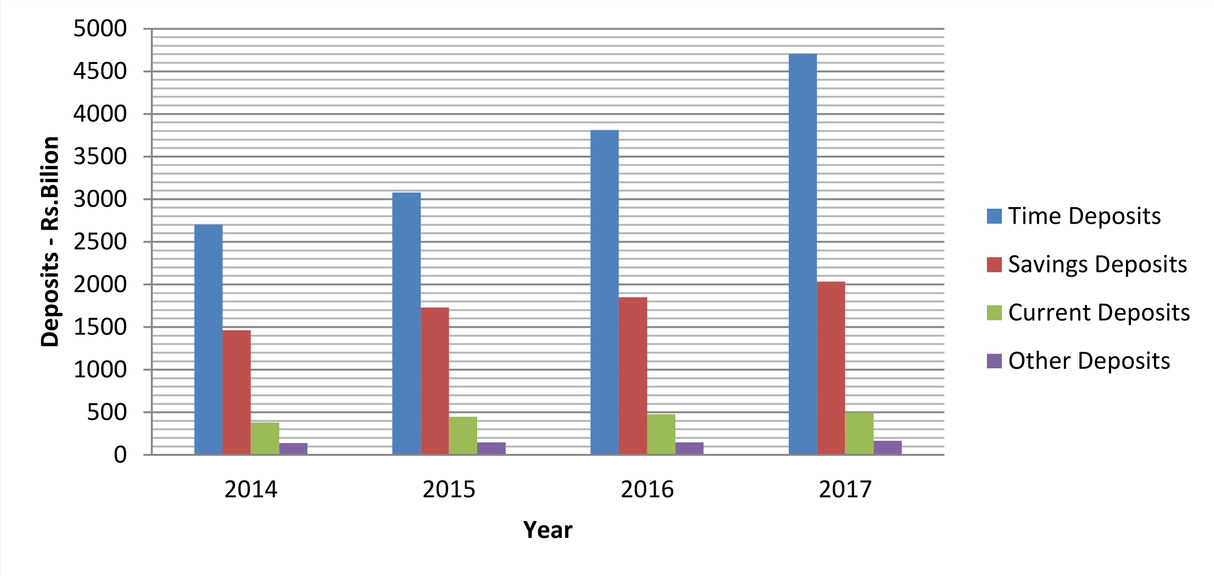


Figure 14 – Deposits of the Banking Sector
Source – Central Bank of Sri Lanka (Revised or Provisional Data)

Central Bank of Sri Lanka

The Central Bank of Sri Lanka (CBSL) is an institution established under the Monetary Law Act No.58 of 1949 of Sri Lanka as amended, as the authority responsible for the administration, supervision and regulation of monetary, financial and payment system of Sri Lanka.

The Monetary Board of the CBSL shall endeavor so to regulate the supply, availability, and cost of money as to secure, so far as possible by action authorized by the Monetary Law Act to determination of domestic monetary policy for domestic monetary stabilization. The changes in money supply are a primary causal factor affecting price stability. Price stability is to be achieved by influencing changes in broad money supply which is linked to reserve money through a multiplier. Reserve money is the operating target of monetary policy. The main monetary policy instruments currently used are policy interest rates, open market operations (OMO) and the statutory reserve requirement (SRR) on commercial bank deposit liabilities.

Policy rates such as Standing Deposit Rate and Standing Lending Rate had been increased to 7.25 per cent and 8.75 per cent from 7per cent and 8.5 per cent respectively during the year 2017. Reserve money expanded only by Rs.83.6 billion during 2017 to reach Rs.939.8 billion by the end of the year, compared to the notable expansion of Rs.182.7 billion in 2016. Commercial banks' deposits included in the Reserve Money increased by Rs.38.5 billion to Rs.341.73 billion by end of the year 2017 compared to the significant increase of Rs.121.5 billion in 2016 resulting from the upward adjustment to SRR. As well as currency in circulation included in the Reserve Money increased by Rs. 45.3 billion to Rs. 598.1 billion by end of the year 2017

Based on the assets side of the Central Bank Balance sheet, the expansion in reserve money during 2017 was entirely driven by the increase in Net Foreign Assets of Central Bank. In contrast to the developments in 2016 where reserve money expansion was driven entirely by the increase in Net Domestic Assets, Net Foreign Asset of the Central Bank increased substantially by Rs.287.5 billion to Rs.846.1 billion in 2017, compared to the decline of Rs.17.6 billion in 2016. This was mainly as a result of the increase in reserve assets of the Central Bank in terms of investments in foreign securities and increase in cash and balances abroad held by the Central Bank.

The external value of the Sri Lankan rupee continued to depreciate in 2017. the rupee depreciated by 2 per cent against the US dollar from Rs.149.8 as at the end of 2016, to Rs.152.85 as at the end of 2017. Depreciation of rupee against US dollar was 3.8 per cent from Rs.144.1 to Rs.149.8 during the year 2016.

Reflecting movements in cross currency exchange rates against the US dolor in international markets, the rupee depreciated markedly against all other major currencies in 2017 in comparison to the previous year.

Bank of Ceylon

Bank of Ceylon is a licensed commercial bank established under the Banking Act No. 30 of 1988 and duly incorporated on 1 August 1939 under the Bank of Ceylon Ordinance No. 53 of 1938.

The vision of the bank is to provide highly efficient, customer focused, technologically sophisticated, resilient and innovative financial services to the nation with global access, empowering employees and enhancing value to the stakeholder.

To achieve the above objectives, the bank has distributed their services through 578 branches, 168 CDM machines and 764 ATM machines during the year 2017. In addition, 7581 numbers of staff had been involved.

According to the financial statements presented, total interest income of the bank had been increased by 27.2 percent or from Rs.134,685 million to Rs.171,343 million during the year 2017. Total loans and advances had been increased by 16.5 percent or from Rs.1,047,190 million to Rs.1,219,914 million as at the end of the year under review compared with the previous year. In addition, total deposit base of the bank had been increased from Rs.1,256,589 million to Rs.1,546,832 million at the year end.

The operations of the bank had recorded a pre-tax net profit of Rs.30,343 million for the year under review as compared with the corresponding pre-tax net profit of Rs. 31,189 million for the preceding year, thus indicating a reduction of Rs. 846 million or 2.7 per cent in the financial results. Return on Average Asset (ROAA) and Return on Average Equity (ROAE) had been decreased by 0.2 and 7.5 percent respectively when compares with previous years.

Further, in the local banking sector, Fitch Ratings Lanka Limited reaffirmed the Bank's National Long Term Rating as "AA+ (lka) with stable outlook" and ICRA Lanka Limited awarded a credit quality rating as "(SL) AAA with stable outlook" during the year 2017.

People's Bank

People's Bank was established by the People's Bank Act No. 29 of 1961, as a Licensed Commercial Bank ,with the aim of channeling banking services in to the rural economy and comprises three subsidiaries as People's Leasing & Finance PLC , People's Travels (Pvt) Ltd and People's Merchant Finance PLC.

Bank

Bank reported a profit of Rs.18.2 billion for the year 2017 representing a 21.7 percent increase as compared with the previous year and ROE has recorded at 26.6 percent in 2017. Total assets base of the bank had been increased up to Rs.1467 billion as at the end of year. Gross loans & advances and total deposits had been increased by 13 percent and 15.4 percent respectively as compared with the year 2016. Bank was able to maintain Non performing Loans ratio at a rate of 1.9 percent. The Bank maintains a healthy and well diversified funding profile, reaching a deposit base of Rs.1.0 trillion by end of December 2017.

Group

Group reported a profit of Rs. 20.5 billion for the year 2017 representing a 14.2 percent increase as compared with the previous year. Total assets base of the Group had been increased up to Rs. 1,619 billion as at the end of year representing a 12.1 percent increase as compared with previous year end. Gross Loans & advances and total deposits had been increased by 12 percent and 16.6 percent respectively compared with the year 2016 and the group was able to maintain Non performing loans ratio at a rate of 2.0 percent. The Group also passed the Rs.1 trillion milestone in customer loans & advances during the year 2017. The group's asset composition was relatively unchanged compared with the previous year with credit assets dominating the asset base with a share of 69 percent by end of December 2017.

Regulatory requirements on licensed banks necessitate the maintenance of a Tier I (core) Capital Adequacy Ratio (CAR) of not Less than 5 percent and an overall CAR of not less than 10 percent. As at the end of December 2017, the Bank's Tier I and an overall CAR declined to 10.8 percent and 13.5 percent respectively, compared to 9.8 percent and 12.1 per cent in the year 2016 reflecting the portfolio growth during the year.

National Savings Bank

National Savings Bank , as a government owned bank was incorporated in Sri Lanka by National Savings Bank Act No.30 of 1971 and was granted the status of the licensed Specialized Bank in terms of the Banking Act No 36 of 1988. The objective of the bank in terms of section 2 (a) of the act and amendments thereto shall be the promotion of savings among the people of Sri Lanka particularly among those with limited means and the profitable investment of savings so mobilized .

National Savings Bank had established three new branches in the year 2017 and accordingly total branches stood at 253 at the end of the year 2017. In addition, out of total School bank units of 2858 in 2016,619 branches had been closed during the year. Total deposit base of the bank expanded by Rs.79.9 billion or 12 per cent during the year reaching to Rs.737.2 billion by the end of the year 2017.

Total asset base of the bank expanded by Rs.101 billion or 11 per cent surpassing Rs.1,012 billion by end of December 2017. The increase in assets was mainly attributed to increase in loans and receivables to banks and other customers of Rs.64 billion which was primarily funded by a growth of deposit of 12 per cent during the year. The asset Quality of the bank improved during year recording the Non-performing loan ratio of 1.6 per cent compared to 1.7 per cent reported in 2016.

Bank reported the profit before tax of Rs.14 billion which was 5.5 per cent increase against the previous year. However Net interest income of the bank declined by Rs.0.5 billion or 6 per cent compared to year 2016.

The capital adequacy ratios of the bank continued to be a level higher than the minimum regulatory requirements. The core capital adequacy (CAR) ratio and total CAR stood as 11.93 per cent (minimum 7.75 per cent) and 15.31 per cent (minimum 11.75 per cent) respectively.

State Mortgage and Investment Bank

State Mortgage and Investment Bank was established by the State Mortgage and Investment bank law No 13 of 1975 and amendments thereto and according to section 2 of the Law, the purpose of the Bank shall be to assist in the development of agriculture, industry and housing by providing financial and other assistances in accordance with the provisions of this law.

Total deposits of the bank at the end of the year 2017 surpassed Rs.33 billion and it was an increase of 16.5 percent compared with the year 2016.

Total assets of the bank expanded by Rs.7 bilion 18.9 per cent surpassing Rs.42 billion by the end of the year 2017.The increase in assets was mainly attributed to increase in loans and receivables to customers of Rs.4.8 billion.

The Bank reported the profit before tax of Rs.379 million which was 46.3 percent decrease against the previous year. However net interest income of the bank declined by Rs.172 million or 9.5 percent compared to year 2016.

Housing Development Finance Corporation Bank

Housing Development Finance Corporation Bank as a government owned bank was incorporated in Sri Lanka by Housing Development Finance Corporation Bank Act No.07 of 1997(amended by Act No. 15 of 2003 and Act No. 45 of 2011) and was granted the status of the Licensed Specialized Bank in terms of the Banking Act No 30 of 1988. The objective of the bank in terms of section 12 (a) of the act and amendments thereto, become the undisputed market leader in providing housing related finances; to realize the dream of shelter for all in Sri Lanka.

Housing Development Finance Corporation Bank had not established new branches in the year 2017 and accordingly total branches stood at 39 at the end of the year 2017. In addition, Loans granted were expanded to Rs.34.97 billion in 2017, compared to Rs.30.26 billion in 2016 which was 15.5 percent increase. Hence during the year interest income increased by 21 percent, reaching Rs.6.6 billion, from Rs. 5.4 billion in the previous financial year. Further the bank successfully expanded its deposit base from Rs. 32.12 billion to Rs. 36.65 billion during the year and it was 14.1 per cent increase.

Total asset base of the bank expanded by Rs.4 billion or 8.78 percent surpassing Rs.49.7 billion by end of December 2017. The increase in assets was mainly attributed to increase in loans and advances and receivables which was 15.5 percent growth. Non-performing loan ratio of the bank had increased from 17.58 percent in year 2016 to 18.7 percent in year 2017.

Bank reported the profit before tax of Rs.557 million in 2017 which was 15.6 percent decrease against the previous year. Further, net interest income of the bank declined by Rs.91 million or 4.7 percent compared to year 2016.

Capital adequacy and minimum capital requirement, value creation for shareholders was top priority and shareholder funds increased by 9.1 percent in 2017. Asset value per share grew from Rs. 59.05 to Rs.64.90 in 2017 which marks a 10 percent increase. However, earning per share declined from Rs. 7.47 to Rs. 6.31 during the year 2017 due to weakened earnings. Core Capital Ratio (Tier 1) and total Capital Ratio (Tier 2) remains above the minimum requirement at 13.52 percent, as against the regulatory requirements of 7.25 percent and 11.25 percent .However, as per the Central Bank (CBSL) direction No. 02/17/402/0073/002, issued in conjunction with the Master Plan on Consolidation of the Financial Sector, dated 17 January 2014, the bank should maintain Rs. 5,000 million as its core capital balance as on 1st January 2018.

The Central Bank has granted a further extension of six months to comply with this direction in consideration of the ongoing proceedings to obtain government approval to the proposed source of the long term capital qualified as core capital under the Basal 111 guideline.

Regional Development Bank

Regional Development Bank had been established by amalgamating six provincial development banks in 2010 with the objectives of facilitating overall regional economic development of Sri Lanka by promoting the development activities and empowerment of women mainly by granting financial assistance to micro financial institutions and small and medium scale enterprises.

Lankaputhra Development Bank

The **Lankaputhra Development Bank** Limited, is a Licensed Specialized **Bank** fully owned by the Government of Sri Lanka established under the Banking Act No 30 of 1988.

Major Audit Findings

Central Bank of Sri Lanka

Regulating and Supervision of Financial Companies

Financial Companies are regulated and supervised under the Financial Business Act, No.42 of 2011 by the Monetary Board of Sri Lanka. As per the Section 12 (1) of the Finance Business Act, the Monetary Board may give directions to finance companies regarding the manner in which any aspect of the business and corporate affairs of such finance companies are to be conducted. It was observed that any directions had not been made on the table 15 clauses of the Section 12 (1) of the Finance Business Act even up to the end of April 2018.

Clause No	Clause
B	- The maximum rates of interest that may be charged on loans, credit facilities or other types of financial accommodation granted by such companies. - The maximum periods for which any such loan, credit facility or other type of financial accommodation.
J	Conditions which should be applicable to withdrawal by depositors of deposits before maturity.
L	Fixing the limits to the rate at which the amount of any loans, investments or financial accommodation made or granted by such companies may be increased within specified periods.
N	The maximum percentage of the share capital in a finance company which may be held by the persons specified in this clause.
O	The margins to be maintained by such companies in respect of secured accommodations.
Q	The payment to directors or employees of such companies by way of salary, allowance, perquisites, reimbursement of expenses, terminal benefits, gratuity and other superannuation payments.
W	Terms, conditions and procedures to be followed by such companies in the acquisition of real estate, and pricing thereof.
Y	Submission of a bank guarantee by a finance company for such value and on such terms as may be determined by the Board to ensure the payment of any penalty that may be imposed by the Board under this Act.

Table 15 - Directions had not been made of the Section 12 (1) of the Finance Business Act

In this connection the Secretary to the Monetary Board of the Bank had informed me that "there are situations where it is not prudent to issue directions on business operations of finance companies by adopting a generalised approach. The decision taking authority has been given to the Board of Directors of the respective companies as they operate with different risk management frameworks and business models."

Unsound Practices

The Bank had invested its funds in tradable reverse Repo investments with a primary dealer. The Lanka Secure System had shown a nil balance regarding these investments since the primary dealer had withdrawn the underlying securities without reassigning any security with respect to the withdrawn securities. Then, Monetary Board of the Bank had decided to rollover the above investment without collaterals as per the Board decision taken on 04 December 2015. The outstanding uncollateralized Repo investments made through Bank's funds and funds managed by the Bank with the said primary dealer was Rs.2.4 billion.

It was observed that even though the Bank had issued warning letters and the Direction dated 06 June 2013 to the said Primary Dealer about its violations (non-allocation of adequate securities to certain customers and using customers' securities for obtaining Intra-day Liquidity Facilities (ILF)) revealed at previous examinations carried out on 10 December 2012 and 14 December 2012. The same unsound practices of the said primary dealer had repeated in 2015 due to not taking remedial action by the Bank. As well as, the Supervision Division of the Public Debt Department of the Bank (PDD) had carried out an on-site examination of the said primary dealer as at 31 March 2015 on 20 May 2015 and 21 May 2015. Violation of the different regulations and directions including the above mentioned violations were observed during the above on-site examinations.

Subsequently, the Governor appointed the Committee to carry out an examination and submit a report on actions and operations of the Bank with respect to the said primary dealer, as decided by the Monetary Board at its meeting No.3/2017 held on 30 January 2017. After the examination, the Committee had arrived to the conclusions of there was supervisory forbearance over the period and prudent investment decisions had not been taken consistently at all levels of the reporting line in certain instances.

Central Counter Party Mechanism

For implementing a Central Counter Party Mechanism (CCP) for Financial Markets to mitigate the Settlement Risk and to strengthen the Clearing and Settlement process, a Consultant firm was appointed for obtaining Consultancy and Project Management Services on the five phases to establish the proposed CCP on a tripartite agreement entered at the end of the year 2014 with the Bank, Colombo Stock Exchange and Security & Exchange Commission jointly shared with 1/3 of the costs of the project including the consultation fees. Accordingly, share of the consultancy fee in relating to the phase I (Business requirement analysis and inception report) amounting to Rs.22.2 million had been paid by the Bank. However the Bank had withdrawn from this tripartite agreement in 2015 and the tripartite agreement was terminated without completing the other four phases for implementation of the proposed CCP. In other words, the tripartite agreement was terminated after incurring expenses on consultation fees of the phase I for implementation of the proposed CCP.

Placing Orders for Minting of Currency Coins for 2016

The decision of the Cabinet of Ministers at the meeting held on 27 June 2012 based on the Cabinet Paper No. 12/0863/504/073 had vested the authority with the Monetary Board to take the final decision to either call International Tender or to place orders with existing suppliers to mint coins.

In considering the stock levels as at 31 October 2015 and lead time constraints to meet the high demand of coins, the Monetary Board at its meeting held on 24 November 2015 had approved for placing of orders with the existing suppliers/mints for a total of 255 million pieces of coins and orders to be placed at prices negotiated taking into consideration that commodity prices had declined significantly from the price levels prevailed in 2013.

Following observations were made in this regards.

- An International Tender had been called in 2012 for minting and supplying of 550 million pieces of coins for the Bank for the period 2013 – 2015 and awarded the contract to the three mints. Procurement process to call International bids for the coins requirement for 2016 and 2016 onward could have been started at the possible time since the awarded contract was only for the period 2013 – 2015. However Monetary Board approval for placing currency coins minting orders for 2016 with the existing suppliers at negotiated prices based on the prices quoted in 2013 International Tender had been sought on 11 November 2015 indicating the stock levels as at 31 October 2015 and lead time constraints to meet the high demand of coins.

- Prices for minting coins for 2016 had been requested on 02 December 2015 from the existing suppliers. Comparison of the prices of the awarded contracts in 2013 and prices of the awarded contracts for 2016 are as table 16

Supplier	Denomination Rs	Prices in 2013 (for 1000 pieces) USD	Prices for 2016 (for1000 pieces) USD	Difference Favourable / (Adverse) USD	Quantity for 2016 (million pieces)	Total Difference Favourable / (Adverse) USD
A	10	34.47	33.50	0.97	115	111,550
B	5	32.77	38.02	(5.25)	40	(210,000)
C	2	31.19	31.08 (EURO 28.32)	0.11	25	2,750
Total					180	(95,700)

Table 16- prices of the awarded contracts

The above information revealed that prices for minting Rs 5 coins for 2016 had increased significantly compared with prices of 2013.

- As higher prices quoted by an existing supplier for Rs. 1 and Rs 5 coins, the Monetary Board had decided to not place order for Rs 1 coins and reduce the orders for Rs 5 coins.
- As stated in Monetary Board decision dated 24 November 2015, commodity prices had declined significantly from the price levels prevailed in 2013. However more gain from declining of commodity prices had not received since prices for minting coins had been requested from the existing suppliers only. In other hand, opportunity of generating competitive between suppliers had been lost due to the aforesaid reason only. It was further observed that the cost of the coin represent the metal cost which range from 42 per cent to 68 per cent generally.
- It was observed that quoted prices for Rs. 2 and Rs. 10 coins by the selected bidder on the new price quotation requested from the all existing suppliers for the balance part of the coins requirement of 2016 on 08 March 2016 had decreased compared with the prices quoted by the existing suppliers on the price request on 02 December 2015 as shown above. Decrease of prices for Rs.2 and Rs. 10 were USD 5.21 and USD 1.13 respectively.

Bank of Ceylon

Total capital written off in the year 2017 was Rs. 1,169 million and it represents 12,014 customers of the Bank. Interest related to above outstanding was Rs. 830 million. Capital written off and interest wave off had been increased by huge percentages of 2,387 and 756 percent compared with the previous year. Out of the above Capital written off amount, a sum of Rs. 936 million is related to 8358 numbers of loans had been granted by Northern Provincial Branches such as Atchchuvely, Chunnakam and Kilinochchi.. Those loans had been granted to refugees in IDP camps after the war in 2009 as housing loans, self-employment loans, agriculture loans and even consumption loans. When granting above loans proper identifications, verification of addresses and other usual credit checks, etc. had not been carried out by the Bank. The Board of Directors (BOD) of the Bank had granted approval to recruit six hundred Trainee Staff Assistants in May 2015. Recruitment process had taken a long period of more than three years. Without approving the exact Scheme Of Recruitment(SOR), a practice of the Bank is getting board approvals regarding the basis and methods of recruitments at each point of recruitment. In above recruitment process Bank had changed the number of vacancies time to time in the board meetings from 600 to 1500. However, without shortlisting of candidates who passed from the competitive examination, the bank has interviewed 11,520 candidates for recruitments of 1800 employees under the interview ratio of 1: 6.5. The Bank has spent Rs.4.10 million as sitting allowance for the members of interview panels and Rs.3.39 million as other expenses.

People's Bank

According to People's Bank Act No. 29 of 1961, authorized share Capital of the Bank was limited to 20,000,000 ordinary shares. Although the Bank had issued only 999,960 shares, the capital pending allotment amounting to Rs. 12,202 million was equal to 143,040,000 shares which exceeds the authorized share capital as mentioned in the Act. However, a sum of Rs.12,202 million was held in a capital pending allotment account as authorized share capital which is yet to be increased by amending people's Bank Act.

Financial fraud of withdrawing cash from fixed deposits of Postgraduate National Saving Bank

Fraudulent withdrawals amounting to Rs. 94.7 million were outstanding as at 31 December 2017 and it indicates Rs.0.7 million or 0.81 per cent decrease compared with the previous year. The above total balance had remained outstanding for more than one year and a sum of Rs. 11.2 million had remained outstanding for over five years.

Institute of Science (PGIS) Peredeniya University.

As per the General Instruction Circular No.381/76, repayment of deposits of Co-operative Societies, Companies, Firms, Clubs, Associations and Similar Institutions or bodies including deposits held in trust or by Trustees should be made through an Account Payee only cheque favouring the depositor as mentioned in the deposit receipt. Cash should not be paid on such deposits under any circumstances nor should the Account Payee instructions on cheques issued on account of such deposit be cancelled without the permission of the Regional Manager. However, it was observed that 14 number of fixed deposit certificate of PGIS (Postgraduate Institute of Science Peradeniya University) amounting to Rs.93.29 million were uplifted & paid by cash violating the instructions specified in the circular No.381/76.

According to the Section 47(4) of the National Savings Bank Act No.30 of 1971,Payments made to customers out of deposits transferred to unclaimed deoposit reserve shall be paid as soon as possible by the Secretary to the Treasury out of the Cosolidated Fund to the bank. Although the bank had paid Rs. 275.42 million during the period from 2012-2017 , the Secretary to the General Treasury had not reimbursed aforesaid amount as at 31 December 2017.

Though total deposit base of the Banking Sector had improved by 141 Per cent from year 2011 to 2017, NSB achieved a growth of only 79 per cent during the said period resulted in declining the Market share of the NSB from 13.4 per cent to 9.9 per cent during the seven years period. Further, Market share of the bank in terms of total assets in the banking sector, was above 11 per cent in year 2014 but below 11 per cent thereafter showing a declining trend. However, bank had maintained above 75 per cent market share in the licensed specialized Banking sector in years 2015 and 2016 and it had been decreased to 74 per cent in the year 2017.

The overall investments in shares of 43 quoted companies as at 31 December 2017 amounted to Rs.6,249,271,030. The market value of the investments made in 32 companies amounting to Rs.4,350.50 million had diminished in value by Rs.1,449.08 million or 31 per cent as at 31 December 2017.

With respect to the above bond proceed, the total amount of the proceeds had been invested in Treasury bonds and fixed deposits from the date of bond proceed received without complying the requirement of disbursement of loans to state own enterprises and government own or control projects primarily in the infrastructure sector as per the Offering Memorandum.

Bank had granted loan facilities amounting to Rs. 299,304 million and out of that Rs. 4,987 million or 1.7 per cent shown as non-performing loan balances as at 31 December 2017. Further, Out of total pawning loan, Rs 410 million or 1.88 per cent was reported as non performing as at 31 December 2017.

A sum of Rs.35.23 million had been spent since 2008 to build 18 storied building for the Head office of the Bank. This had been shown in the work in progress as at 31 December 2017 without any construction carried out during the previous years since this area is vested under high security zone.

State Mortgage and Investment Bank

An amount of Rs.24,23 million was shown as an un-reconciled control account under the other assets in the Financial Statements as at 01 January 2017. A sum of Rs.5.66 million and Rs.7.54 million had been debited and credited to this account respectively during the Year.

Accordingly a debit balance of Rs.22.35 million was shown under other assets in the Financial Statements and the recoverability for this amount was uncertain due to lack of adequate information.

According to the schedule furnished to the audit of With Holding Tax (Head Office) payable was Rs.1.15 million at the end of month of December 2017. However it was shown in the Financial Statements as an abnormal debit balance of Rs.2.80 million as at 31 December 2017. Further, there were abnormal debit balances of Rs 204,488 observed of the With Holding Tax of branches.

There was an abnormal debit balance of Rs.14.26 million in Cheques on Realization account as at 31 December 2017 and thus, the other debtors shown in the financial statements had been overstated by similar amount.

Liquidity of the bank was table 17 the licensed specialized banking sector both in year 2016 and 2017.

	2017		2016	
Liquidity Rations	SMIB	LSB Sector	SMIB	LSB Sector
Liquid Assets/ Deposits	22.10	61.6	22.82	61

Table 17- Liquidity of the bank was the licensed specialized banking sector

Market share based on deposits of the Bank based on licensed specialized banking sector had increased by 2 basis points from year 2013 to 2017. Further market share based on assets of the bank based on licensed specialized banking sector had increased by 17 basis points from year 2013 to 2017.

Total outstanding loans as at 31 December 2017 was Rs.33,577 million and out of that a sum of Rs.7,469 million was identified as non-performing loans and it represented 22 per cent of the total outstanding loans.

Though a credit balance should be appeared in the branch advice account according to the accounting method maintained by the Bank, an abnormal debit balance of Rs. 7,529,740 in branch advice account was observed as at 31 December 2017.

There was a long outstanding balance of Rs.1.79 million as un presented cheques in bank reconciliation which are 0001630270 and 0001630478 being carried forward without being cleared.

There was an abnormal credit balance of Rs.23.59 million in the branches as at 31 December 2017 as claim vouchers and due to that, the creditors shown in the Financial Statements had been overstated by same amount.

Housing Development Finance Corporation Bank

According to the Section 16(2) Part IV of Housing Development Finance Corporation Act, No 7 of 1997, issued capital of the bank should be Rs. 1,000 million. However, stated capital of the bank as at 31 December 2017 was Rs.962.09 million.

As per the Central bank (CBSL) direction No.02/17/402/0073/002,issued in conjunction with Master plan on Consolidation of the Financial Sector dated 17 January 2014 ,the bank should maintain Rs.5,000 million as its core capital balance as on 1t January 2018. However any action had not been implemented to adhere to it.

Bank had paid Rs.3.83 million for a consultant –Human Resource Development and Administration from September 2016 to March 2018 for the purpose of upgrading the human resources process of the bank. However, he was unable to fulfill the required duties and the unnecessary cost had been incurred during that period.

Additional interest expense of Rs.110.23 million was incurred for 15,404 fixed deposits which have been granted above the normal rate during the period under review.

The bank highly depended on high cost Fixed deposits where the 84 percent of the deposits base consisted with fixed deposits. Further, it implied that the bank is highly depended on the short term deposit base.

External rating of the bank was significantly deteriorating and as per the Fitch rating report they affirmed National Long Term rating BBB(lka) Negative from BBB(lka) Stable.

The bank had advertised condominium loans and incurred advertising expenditure of Rs. 1,069,505 for the year under review. Further any cost benefit analysis was not carried out in this regard and there was no any progress achieved.

As per the Section 02 of the Public Enterprises Circular No 1/2015(i) dated 27 October 2016, an officer who is entitled to an official vehicle has the option either to use the official vehicle or to avail monthly transport allowance of Rs.50,000 and monthly fuel allowance applicable to the post. Contrary to that the bank had approved to pay the such allowance as per the Human Resource & Remuneration Committee H.R.S.C.P No 15/47/HR/2016 dated 23.08.2016.Further bank had paid excess vehicle allowance Rs.300,000 for the year 2017 on behalf of 04 officers.

Bank Government Loan Interest Control Nominal (G/L Account 1420100004) Account balance should be zero as at end of the year. During the year only 1% was cleared and balance of Rs 9,238,545 had remained without clearing.

Regional Development Bank

According to the financial statements presented in 2017, the operations of the Bank for the year ended 31 December 2017, had resulted in a pre-tax net profit of Rs.2, 190,725,745 as compared with the corresponding pre-tax net profit of Rs.1,255.60 million for the preceding year, thus, indicating an improvement of Rs.935.12 million or 74 per cent in the financial results for the year under review.

Increase in interest income on loans and advances by Rs.4, 573 million during the year under review which is followed by increase in loans and advances by Rs.22, 222 million and Increase in interest income on fixed deposits by Rs.2, 179 million which is followed by increase in fixed deposits by Rs.7, 844 million as compared with the previous year were the main reasons attributed for this improvement.

However the bank has failed to maintain minimum Capital Adequacy Ratio of 10 per cent for the second quarter of 2017 and stood at 9.26 per cent as at 30 June 2017. The Capital Adequacy Ratio stood at 8.67 per cent in the third quarter of 2017 though the minimum requirement is 11.25 per cent. At the end of year 31 December 2017, the Ratio was recorded as 11.27 per cent which is very much closer to the minimum statutory requirement of 11.25 per cent.

A high net interest margin of 6.45 per cent was observed for the year 2017 as compared with the average licensed specialized bank ratio of 3.2 per cent.

The staff cost to operating expenses of the Bank for the year 2017 was 72.70 per cent as compared with the sector ratio of 54.4.

The total gross loans and advances as at 31 December 2017 was Rs.130,325 million and out of that, loans and advances aggregating to Rs.4,191 million or 3.22 per cent was in non performing category as at the end of the year under review. The Non-performing loan ratio of the Bank has increased from 2.86 per cent to 3.22 per cent in 2017 as compared with the preceding year.

According to the Pradeshiya Sanwardhana Bank Act, No. 41 of 2008, the main objectives of the Bank were to facilitate the overall regional economic development of Sri Lanka by promoting the development of agriculture, industry, trade, commerce, livestock, fisheries activities and empowerment of women and granting financial assistance to Micro Finance Institutions and Small and Medium scale Enterprises. However it was observed that only 50 per cent from the total loan target for 2017 has been focused on the specially recommended areas by the Pradeshiya Sanwardhana Bank Act. The balance 50 per cent was allocated for areas such as housing, consumption, loans against deposits, leasing, pawning advances and staff loan.

Lankaputhra Development Bank

Fixed deposit investments of the Bank represent 56 per cent of the total assets of the Bank. The loans and advances represent only 44 per cent of the total assets. The Bank has invested a larger proportion of it's money in fixed deposits at a risk free interest rate without granting loans to its customers. This is contradicted with the primary objective of the Bank of assist in the promotion, establishment, expansion, modernization and development of the industrial, agriculture, commercial, construction and other enterprises.

Out of total interest income of Rs.834 million, interest income earned through granting loans and advances was only 49 per cent or Rs.405 million for the year 2017. As well the foreign currency gain earned through revaluation of US dollar loan and deposit was Rs.12 Million. Without having the above income, the Bank may have been sustained an operational loss of Rs.62 million'

Deposit base of the Bank had decreased by Rs.22 million or 6 per cent for the year under review as compared with the previous year. The deposit base of the Bank is very marginal, which represents 9 per cent of gross loans and advances.

The total outstanding loans and advances as at 31 December 2017 was Rs.4, 037 million and out of that Rs.1, 502 million or 37.2 per cent was categorized as non-performing. The Non Performing Ratio of 37.2 per cent is far above the LSB average ratio of 3.22 per cent.

A high net interest margin of 8.51 per cent and net profit ratio of 35.74 per cent had been reported in the year under review as compared with the average licensed specialized bank (LSB) ratio of 3.76 per cent and 9.3 per cent respectively.

Total Capital Adequacy Ratio of the Bank is 83.96 per cent as at 31 December 2017 which is excessively high level than the minimum requirement of 11.25 per cent.

The Liquid assets ratio of the Bank was further increased to 1,429.62 per cent as at 31 December 2017 as compared with the minimum requirement of 20 per cent.

The Board approved Bank's strategic objectives and corporate values were not available due to expectation of merger with Pradeshiya Sanwardhana Bank.

The annual targets were given through business plan in 2017 for the areas such as loans and advances, pawning, fixed deposits, saving deposits, establishing link with educational institutions and sign MOUs to promote educational loan schemes, lending to micro finance institutions as innovative investment, granting credit facilities to dairy farmers for cultivation of vegetable and fruits and promoting tourism industry by granting credit facilities. However it was observed that the actual performance of above areas were far below the target by Rs.163 million, Rs.31million, Rs.319 million, Rs.24 million, Rs.45million, Rs.950 million, Rs.28.58 million and Rs.390.4 million respectively.

Plantation Industry

Improvement of productivity, profitability, and sustainability of targeting the export market with the objective of achieving an accelerated economic development of the country is expected from the Plantation Sector. The Ministry and 14 Statutory Institutions should have performed the following functions in order to achieve the expected results set out above.

- Formulation of policies, programmes and projects, and projects relating to plantation industry, taking follow-up action, and evaluation.
- Providing support and other facilities needed for increasing the productivity of plantation crops.
- Enhancing the international competitiveness for the productivity of Plantation Industry.
- Taking necessary steps for uplifting the industry for enhancing the value addition of the plantation crops.
- Issue of licenses relating to Tea and Rubber.
- Issue of permits for the export of Tea.
- Issue of licenses for fragmentation of Tea and Rubber, and Coconut estates, and control.
- Optimum use of plantation lands through multi-crop cultivation and collective farms and thereby achieving increased production and employment.
- Supervision, coordination, and guiding the enterprises under purview of the Ministry, and introducing the structural changes required thereto.
- Introduction of enterprise and structural changes to industries affiliated to the Ministry.

A summary of audit observations revealed in connection with execution of the said activities by the Ministry and the Statutory Institutions is given below.

The produce of three main plantation crops

Comparing the produce of the year 2017 relating to tea, coconut and rubber pertaining to the plantation sector in Sri Lanka, with the year 2016, the produce of tea and rubber had increased by 5.16 per cent and 5.06 per cent respectively whereas the produce of coconut had decreased by 18.63 per cent. Particulars are shown in Table 18 Furthermore, the produce of coconut in the preceding year had contributed to the Gross Domestic Product by 0.7 per cent , but that had decreased to 0.6 per cent in the year under review.

Crop	Produce		(Decrease)/Increase in Produce as Compared to 2016	(Decrease)/Increase in Produce as Compared to 2016 as a Percentage
	2016	2017		
Tea Millions of Kg	292.6	307.7	15.1	5.16
Rubber Millions of Kg	79.1	83.1	4	5.06
Coconut in Millions	3011	2450	(561)	(18.63)

Table 18 Comparison of the produce of three main plantation crops with the preceding year.
Source : Annual Report of the Central Bank – 2017

Failure to recover the lease rent

A number of 571 estates belonging to the Janatha Estate Development Board and State Plantation Corporation of Sri Lanka had been given on lease to 23 divisional plantation companies in the year 1995. As for 3 of those plantation companies, the value of net assets had not exceeded Rs. 200 million as at 31 December 1994, and hence, lease rents could not be recovered since 1995 from those companies in terms of the lease rent agreement. However, by the year 2011, it had been identified that the value of net assets of those companies had been over Rs. 200 million, but due to failure in taking action to revise the lease rents stated in the agreements, no lease rent whatsoever had been recovered by the Government from 45 estates under the said 3 companies. Of the lease rent amounting to Rs. 175,481,744 recoverable from Kurunegala Plantation company as at 31 December 2017, a sum of Rs. 129,760,612 had remained due from the year 2009. Taking action to recover that lease rent remained inefficient.

Progress of the foreign aid projects

Under the Smallholder Tea and Rubber Revitalization (STARR) Project, provision amounting to Rs. 810.89 million had been made for the year under review in view of market diversification for the tea smallholderes, production assistance targeting the market, and providing loan facilities for the tea smallholders and rubber smallholders. No financial or physical progress thereof had been achieved by the end of the year under review.

Weligama coconut leaf wilt and pot disease control programme

A sum totaling Rs. 475.36 million had been spent on the 03 districts of Galle , Matara, and Hambanthota during the period 2008 – 2017 with respect to Weligama coconut leaf wilt and pot disease control programme. The number of trees felled due to being infected had been 293,306, and a sum of Rs.327.73 million had been paid as compensation thereon. Although a coconut species that could withstand the disease had been identified, the disease could not be eradicated fully.

Implementation of the Sri Lanka rubber industry master plan

The Cabinet had given approval for the commencement of Rubber Secretariat on 26 July 2016 with a view to implementing the Sri Lanka rubber industry master plan. The staff for 05 posts approved for the said office had not been recruited even by the end of the year under review. As such, the implementation of Sri Lanka rubber industry master plan had been delayed for a period of more than one year.

Buildings obtained on lease

A lease rent of Rs. 2.49 million had been paid without making use of the buildings obtained on lease for 02 institutions under the Ministry during the period from August 2016 to 31 December 2017. Although the land in extent of 75 perches purchased in Battaramulla on 27 February 2009 at the price of Rs. 59.3 million had remained idle, action had not been taken to construct the Head Office of the Rubber Development Department; instead, a building of 13,157 square feet had been obtained on lease from the same area by entering into a lease agreement for 03 years from February 2017 for a sum of Rs. 95.32 million at the monthly rental of Rs. 2.65 million.

Fragmentation of Tea, Rubber, and Coconut lands

Lands belonging to the Local Authorities had been fragmented without obtaining approval of the Board for controlling the fragmentation of Tea, Rubber and Coconut lands. In terms of Sections 12(8) and 24 of the Tea, Rubber, and Coconut estates (control of fragmentation) Act, No. 2 of 1958 as amended by the Tea, Rubber, and Coconut estates (control of fragmentation) (amendment) Act, No. 20 of 2005, the Board for controlling fragmentation of Tea and Rubber lands had not obtained approval of the Parliament by publishing the regulations relating to the relevant activities, in the Gazette.

Decline in the export of Domistic Tea

The overall export of Tea in the year under review had increased as compared with the preceding year though, the export of locally tea produced had dropped by 2,679,128 Kg whilst the quantity of re-export tea had increased by 2,892,715 Kg representing 36 per cent. That situation had been attributed by the 65 per cent increase in the quantity of Tea imported for re-export as compared to the preceding year. The increase in the quantity of imported Tea in comparison with that of exported Tea with respect to the year under review and 2 preceding years is shown in Figure 15

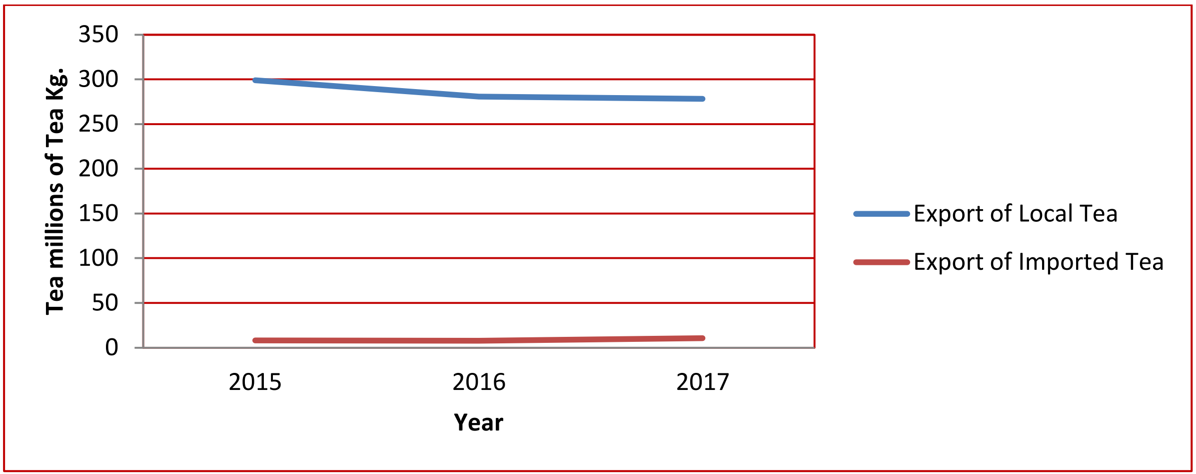


Figure 15: Export of domistic and imported Tea.

Promoting the sale of Tea

Under the "Ceylon Tea Global Promotional Programme", the Sri Lanka Tea Board had entered into an agreement with a private company on 06 November 2015 at a contact value of US $ 2.26 million or Rs. 328.42 million for activities relating to production and creativity with respect to the period 2015-2018. By the end of the year under review, a sum of Rs. 195.52 million had been spent thereon. Due to failure in selecting a media institution in conjunction with execution of the said activity, the expected activities could not be fulfilled. As such, the creative part of the TV commercial had been completed by the said company by April 2016 though, the advertisement could not be aired even up to 31 August 2018.

Operating Activities

Action had been taken in the year under review to cease the operations and close down the tea stall established at the Colombo Racecourse at the expense of Rs. 58.37 million in the year 2013. Since the inception of this project commenced as a strategy to promote tea, the Board had not possessed a methodology that could have productively been implemented in the future by taking into consideration the target market and the oncoming trends. Hence, the project could not be implemented in a productive manner, and the Board had to sustain a financial loss of Rs. 42.99 million due to that Center by the end of the year under review.

Payment of re-planting subsidy

Of the 1040 hectares of re-planting target for the year under review, Tea had been re-planted only on lands in extent of 748 hectares. Since the year 2015, the number of permits issued by the Authority to obtain the Tea re-planting subsidy had annually increased, but due to failure of the Authority in taking action adequately to direct the beneficiaries, the tea farmers had lost interest in the re-planting of Tea after processing the ground and soil conservation.

Payment of subsidy for rehabilitation of crops

A sum of Rs. 11.70 million had been paid in the year under review as subsidy for rehabilitation of crops representing an increase of 40 per cent as compared with the preceding year. Nonetheless, 912,500 plants had been targeted for the year under review in view of desolation supply though, only 564,145 plants had been provided, thus indicating a performance of 62 per cent.

Dolomite subsidy

Although a target had been set for the year under review that the amount of dolomite to be provided for the farmers should be 1035 metric tons, only 25.3 metric tons had been supplied indicating 2.4 per cent of the targeted amount. Accordingly, despite how important it was to use dolomite for a successful cultivation, the Authority had not taken action adequately to encourage the tea smallholders to use dolomite.

Extention programmes

A sum of Rs. 16.56 million had been spent in the year under review on the implementation of promotional and advisory programmes, and soil management programmes. As compared with the preceding year, the said amount had increased by Rs. 9.77 million representing 143 per cent. According to the progress reports of the Authority for the year under review, performance of the training programmes had decreased by 4 per cent as compared with the preceding year.

Distribution of agricultural equipment

Twenty water tanks of 5000 L capacity purchased with respect to the distribution of agricultural equipment worth Rs. 100.39 million among the farmers in Nuwara Eliya district in the year 2017, had been stored at the centers belonging to the reginal office without being distributed even by 13 March 2018.

Projects for the uplift of Tea industry.

It had been expected to carry out 185 researches in accordance with the Corporate Plan for the period 2013-2017. Twenty seven researches of the said target, equivalent to 16 per cent, had either been postponed or abandoned halfway due to various limiting factors. Moreover, 12 researches commenced by spending a sum of Rs. 12.47 million out of the grants received annually from the Treasury on research and development activities, had been stopped halfway whilst another 15 researches commenced by spending a sum of Rs. 24.35 million had been postponed. Although a period of 3 years had elapsed since the abandonment or postponement of those researches, the Board had not taken measures to continue them even up to the end of the year under review.

Due to failure in taking action to commercialize 10 value added products developed by the Bio-chemical Division namely, *Tea Wine, Instant Black Tea, Carbonated Tea, Scented Tea, Instant Milk Tea, Tea Sauce, Tea Baby Soap, Tea Seed Oil, Tea Protein Catching Extract,* the result of the researches could not be made use of in the industry.

Manufacture and sale of Sri Lankan C. T. C. and cortholder Tea

All the Tea factories functioning under Kalubowitiyana Tea Factory Limited such as, Kallubowitiyana C. T. C. Tea Factory, Darangala Tea Factory, Hiniduma Hills Tea Factory, and Manikdiwela Tea Factory had run at less capacity in the year under review whereas only the Kalubowitiyana Tea Factory had generated profits. According to the criterion of the Board, a minimum production level of 21.5 Kg of produced Tea should be maintained from an input of 100 Kg of raw Tea leaves. However, 04 Tea factories being maintained by the Corporation had not maintained their production at an optimum level in the year under review.

Tea Shakthi Fund

Fourteen factories, and fertilizer and local tea sales divisions belonging to the Fund had sustained losses giving rise to serious financial crisis. A methodology comprising 09 proposals had been implemented in accordance with the Cabinet Decision taken on 09 August 2016 relating to restructuring of the Fund, and accordingly, the factories had been given on lease.

Leasing out of Tea factories

Prior to commencing the leasing out of factories and properties, action had not been taken to identify and evaluate the assets of each factory, and

Prepare a schedule of Procurement Including cash flow estimates on tax Income. Cabinet approval including cash flow estimates on tax had been received to vest the management of 12 factories in external parties on tax basis, but according to the agreement entered into, those factories had been given on lease in accordance with the procedure followed in leasing out of general properties. The management fee / monthly lease rent recoverable in terms of the lease agreement and the memorandum of understanding entered into as the factories had been given on lease, had been calculated and shown to be effective from the date of signing that agreement as per Condition No. 02 of that agreement. Condition, No. 03 had stated that a grace period of 02 months shall be given for the payment of lease rents in the event of delays in commencing the production activities of the factories. However, it had not been stated that no lease rents shall be recovered for the grace period though, the lessees of any factory had not paid the lease rents with respect to the grace period. Accordingly, the Tea Shakthi Fund had lost a monthly rental of Rs. 10.85 million with respect to 11 factories and the fertilizer store relating to the grace period.

As mentioned in Section 7 of the agreement entered into on the leasing out of factories, a bank surety or an insurance cover should have been produced under the name of the Tea Shakthi Fund in a manner equivalent to the value of monthly capacity of green Tea leaves. Nonetheless, action had not been taken to obtain sureties valued at Rs. 156.61 million that should have been obtained in accordance with that Section when 11 factories had been given on lease.

Harvest of Coconut

Various programmes had been implemented so as for the Coconut industry to provide the highest contribution to GDP from the plantation industry, and to become the global leader in sales diversification of products. However, in the year 2016, the Coconut harvest had been 3,011 million Coconuts, but the harvest had dropped to 2,450 million Coconuts in the year 2017. Particulars are given in Figure 16 below.

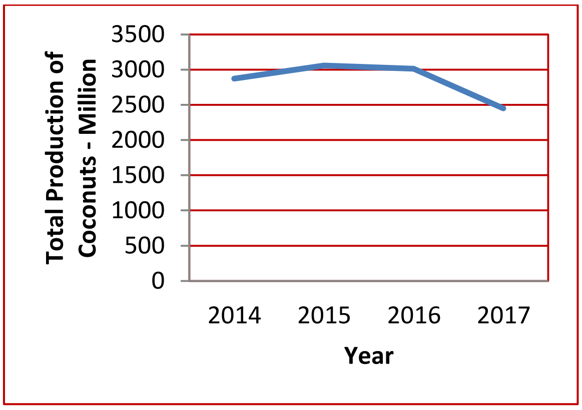


Figure 16: Decline in Coconut harvest.
Source : Coconut Research Institute.

Overpayment of bonus

In terms of Public Enterprises Circular, No. PED 03/12, dated 11 December 2017, bonus totalling Rs. 360,000 should have been paid to 36 permanent officers of the Estate

Management Division affiliated to the Coconut Research Board at Rs. 10,000 each. However, a sum of Rs. 523,272 had been paid in excess as bonus had been paid based on their basic salary.

Introduction of new Coconut species

The Genetics and Plant Breeding Division of the Coconut Research Board had continuously carried out researches relating to the introduction of new species of Coconut. However, after the year 2012, no new Coconuts species had been introduced. Of the new 06 species of Coconut introduced, the species named, *Kapruwana, Kapsetha, and Kapsuwaya* had not become popular among people.

Establishment of a heat protection unit

With the objective of manufacturing copra by using the heat generated in producing Coconut charcoal rather than allowing the heat to be dissipated into the environment, a heat protection unit had been established at the research center in Bandirippuwa in the year 2008 by incurring a sum of Rs. 1.72 million. However, the unit had remained idle since the year 2012 without being utilized.

Construction of a new building at the Coconut Seedling Unit

A sum of Rs. 2.15 million had been paid to the consultancy firm for preparing a cost estimate of Rs. 55 million relating to the construction of a new office building at the Coconut Seedling Unit in Negombo. Due to failure in selecting a suitable contractor for the construction of that building, the sum of Rs. 5 million provisioned in the year under review could not be utilized, and hence, the consultancy fee paid had become futile.

Produce of sugarcane

Forty species of sugarcane had been cultivated over a land of , 15,743 hectares during the period 1986 – 2017 on research related purposes. Of that, 23 species of sugarcane had been introduced whereas 16 species had been cultivated in an area as small as 304 hectares. By the end of the year under review, the species of sugarcane, named SL 96128 introduced in the year 2012 had grown over 58 per cent of the area. The species of sugarcane introduced recently had not gained popularity due to farmers' attitudes, and lack of resistance to diseases and pests. In terms of Section 18 of the Sugarcane Research Institute Act, No. 75 of 1981, the institution had levied a Cess leavy of 10 cents per kilogram of sugar produced by local sugar manufacturing institutes. As the and Sugar Factories in Sevanagala and Galoya had not taken steps to levy the Cess Tax, a sum of Rs. 2.79 million had remained recoverable in the year 2017.

Human Resource Management

Approval of the Treasury should be obtained prior to conducting welfare programmes in terms of Section 9.12 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003. The National Institute of Plantation Management , without obtaining such an approval, had implemented a medical assistance scheme for the officers thereby paying a sum of Rs. 1.81 million in the year under review.

As the Rubber Research Board had not taken into consideration the cost of living allowance when computing the contribution and gratuity allowance relating to the period from 2006 to October 2011 in terms of Section 47 of the Employees' Provident Fund Act, No. 15 of 1958 and Section 16 of the Employees' Trust Fund Act, No. 46 of 1980, a sum of Rs. 933,567 had been paid as surcharges.

Produce of Rubber

A subsidy programme had been implemented by the Rubber Development Department with a view to enhancing the land area of Rubber cultivation and productivity of rubber lands. The overall production of Rubber had continuously been on the decline from the year 2014 up to the year 2016. The production of Rubber in the year 2016 amounting to 79,100 metric tons could be increased up to 83,070 metric tons by the year under review representing 5 per cent despite the unfavorable climatic conditions including severe floods that had prevailed in the conventional Rubber cultivation areas.

In the year 2017, it had been expected to re-planting lands in extent of 2,700 hectares and 1,500 hectares belonging to the small ruber holders and plantation companies respectively. Of that, only 787 hectares and 59.52 hectares of land had respectively been re-cultivated. As such, 70 per cent and 96 per cent of the planned amount could not be fulfilled.

It had been planned to newly planting Rubber in 2,760 hectares of land whilst cultivating mixed crops in 460 hectares at conventional and non-conventional areas in the year 2017. But, Rubber had been cultivated in 327.8 hectares of land whereas mixed crops had been cultivated in 240.71 hectares . As such, 88 per cent and 47 per cent of the planned amount could not be fulfilled.

Export of raw Rubber

The 16,167 metric tons of Rubber exported in the year 2016, had increased up to 17,230 metric tons by the year 2017 representing 7 per cent whilst the income generated through the export of Rubber in the year 2016 amounting to Rs. 4,758 million, had increased up to Rs. 5,920 million by the year 2017 representing 19 per cent. Detail in Figure 17

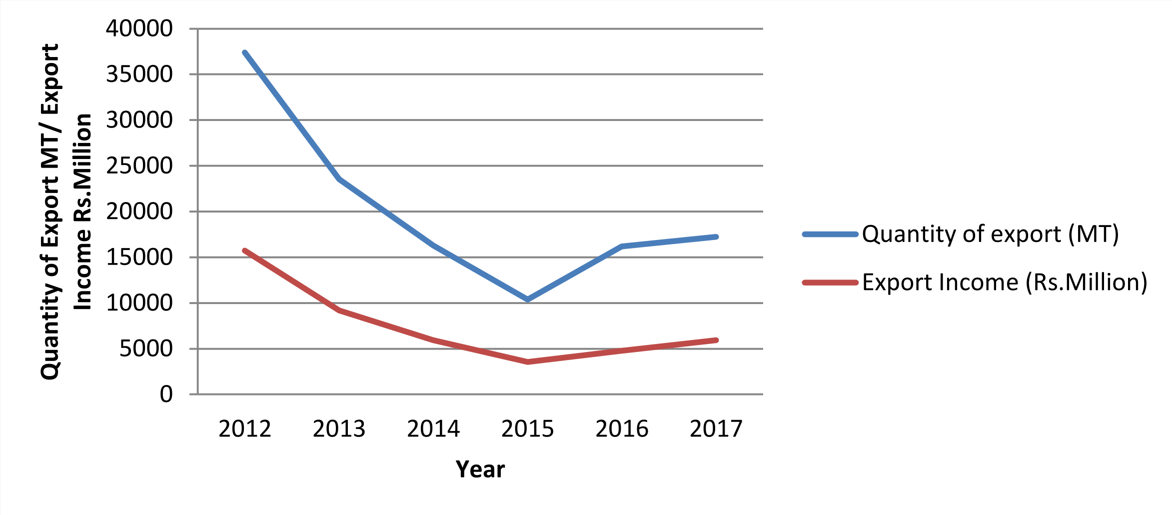


Figure 17- Export of Raw Rubber
Source : Statistics Division of the Rubber Development Department.

Import of Rubber

The import of systhetic and artificial Rubber to Sri Lanka is constantly on the increase. The 72,985 metric tons of Rubber imported in the year 2016 had dropped to 61,802 metric tons by the year 2017.

The areas of re-planting / new planting of Rubber

Re-cultivation of Rubber should be maintained at 03 per cent of the total cultivation , but in the years 2016 and 2017, the areas of re-planting and new planting of Rubber represented 0.43 per cent and 0.63 per cent respectively thus failing to achieve the expected target. Particulars are shown in Table 19 below.

Year	Area of Re-planting /New Cultivation in Hectares	Area of Re-planting in Hectares	Total Areas of Cultivation in Hectares	Re-planted Lands as a Percentage of Total Area Cultivated
2017	1,519	866	136,632	0.63
2016	1,183	538	136,274	0.43
2015	4,241	3,251	136,641	2.3
2014	4,458	2,897	134,137	2.15

Table 19 : Areas of Land Used for Re-planting and New planting of Rubber.
Source : Statistics Division of the Rubber Development Department.

Development of an Information Management System

Rubber Development Department had entered into an agreement with a private company on 02 March 2016 to develop an information management system valued at Rs. 25.43 million. The relevant activity should have been completed by December 2016 in terms of the said agreement, but the development had not been completed even up to August 2018.

Levying of Cess

In terms of Paragraphs 2 (1) (d) and 2 (3) (e) on the Cess Levy stated in Section 7 of the Rubber Replanting Subsidy (Amendment) Act, No. 20 of 2006, a Cess Levy of Rs. 4.00 should be levied per kilogram of raw Rubber, being used for natural Rubber based products manufactured for export or local use, from the suppliers at the time of purchasing raw Rubber, and the industrialists should remit the tax so collected to the Department. Nevertheless, an industrialist exporting Rubber based products who was examined, had paid the Cess levy so collected from the suppliers at the time of purchase in terms of the said Directive, to the Department, by deducting the Cess Levy paid to the Customs at Rs. 4.00 per kilogram. As such, the Cess Levy so deducted during the period 2011 – 2016, totaled Rs. 195.80 million.

Payment of subsidy on rain guards

Despite being planned in the year 2017 to pay subsidy for using rain guards at 3,750 hectares of land belonging to the rubber small holders and plantations companies, rain guards had been used only at 1,235.41 hectares of land. As such, the area where rain guards had not been used, was 67 per cent of the area planned.

Plantation and distribution of Rubber plants

According to the Action Plan of the year under review , it had been planned to produce and distribute 1,650,000 plants of Rubber, but 1,045,956 plants of Rubber had been produced by 31 December 2017 thereby distributing 664,651 plants therefrom indicating 40 per cent of the targeted number.

Foreign training in the Rubber industry

An officer who had not belonged to the Rubber industry had participated in a foreign training relating to Rubber industry in November of the preceding year approval of the Secretary to the Ministry of Plantation Industries. A sum of Rs. 493,883 had been spent by the Department in that connection.

Annual harvest of Rubber

A collection of high yeild clones producing about 3,000 kilograms of annual harvest per hectare, had been introduced by the Rubber Research Board by the year 2009, but the harvest at present day was about 800 kilograms per hectare.

Failure to make use of innovations in the production process

Although a period of 3 – 8 years had elapsed since the date of obtaining Patents for 02 innovations made through researches, no action had been taken to make use of the said innovations in new products.

Unutilized assets

The Rubber Process Analyzer and the accessories purchased by the Rubber Research Board in April 2017 at the price of Rs. 10.96 million, had not been installed even up to June 2018.

Thurusaviya Fund

With the objective of fulfilling the uplift of socio-economic position of the small Rubber holders, 712 Thurusaviya societies had been registered in 14 districts by 31 December 2017. Of that, 329 societies had become non-functional. The Fund had not taken measures even up to the end of the year under review either to make those societies functional or cancel the registration.

Land

The optimum use of the resource of lands for sustainable development is the result expected from the land sector. The following functions were required to be performed by the Ministry of Lands, 4 Departments and 4 Statutory Boards under the purview of the Ministry in order to achieve the above expectations.

- Formulation and Implementation of Polices, Programmes and Projects related to the subject of Lands.
- Giving instructions to the relevant sectors based on the studies conducted in accordance with the Land Use Polices for sustainable development.
- Administration and Management of State Lands.
- Land alienation as determined by Law.
- Land acquisition for national requirements.
- Issue of Land Grants to ensure title to State Lands.
- Lease of State Lands on long term and short term basis for development and residential purposes.
- Registration of Title Certificates to ensure land title.
- Land surveys, mapping and preparation of tracings, targeting national planning.
- Formulation of an Information System on all lands of the country.

The following deficiencies were revealed in the audit test checks carried out relating to the performance of those functions by the Ministry, Departments and the Statutory Boards under the purview of the Ministry.

Land Bank Project

For the purpose of ensuring an effective land management by the Ministry, computerization of the information on the lands presently available in the written form and inclusion the same in the land information system had been the result expected from the land bank project. Accordingly, it had been expected to identify the title of the State Lands as well as the use of unplanned lands and the uneconomical use of land. While giving priority to the above objectives, the Parliament had made provisions of Rs.195 million and Rs.395 million in the year 2016 and 2017 respectively for the land bank project. Out of the provisions made in the year 2017, a sum of Rs.116 million or 29 per cent had been utilized.

According to the Action Plan relating to this project, it had been planned to implement programmes for the scanning of extracts of 22 Land Registries (E-Land Registry), development of data base for the Land Acquisition Division, introduction of the State Land Information Management System (E-Slim) and establishment of Land Information Centre (E-Land Hub).

Due to the matters indicated in the following observations, it had not been possible to achieve the objectives expected from project.

- Since computerization of the data had not been properly carried out during the year under review, it had not been possible to scan the extracts of 7 offices as planned and the software of 06 offices that remained in a feasible level to maintain office activities had not been updated.

- A database had not been developed for the Land Acquisition Division

- The Land Settlement Department and the Land Use Policy Planning Department had not developed computer systems under the E-Land Hub programme. Development of a software only had been done by the Department of Policy Planning.

Bimsaviya Programme

According to the Action Plan of the year 2017, although the number of Title Certificates targeted to be issued during the year under review stood at 48,000, the number of Title Certificates registered stood at 48,240. Nevertheless, 20,151 certificates or 42 per cent of the registered certificates had been issued to the people.

Although the Bimsaviya Programme had been implemented in 3,695 Grama Niladharee Divisions under 57 Divisional Secretariats by 31 December 2017, surveys had been completed only in 1,374 or 37 per cent of Grama Niladharee Divisions of which the surveys should have been completed.

Computerization of Information on the State Lands

The Land Commissioner General's Department had taken action to create the State Lands Information Management System for the easy and efficient performance of the State Lands management functions. The State Land Information Management System had been implemented in 332 Divisional Secretariat Divisions by the end of the year under review. Data of 920,141 land parcels had been computerized under the e-Slims project by the end of the year under review. Even though entering information on 300,000 land parcels had been expected according to the Action Plan for the year 2017, only information on 231,021 land parcels or 77 per cent of the expected target had been computerized.

Underutilized Resources

For the construction of an auditorium and a computer laboratory for training officers relating to entering information on state lands in the Information System and for the landscaping activities, the Land Commissioner General's Department had spent Rs.14.44 million in several instances from the year

2014 to 2017. Similarly, a sum of Rs.5.52 million had been spent for the purchase of furniture and office equipment for the computer laboratory. Although over a period of one year had elapsed form the completion of construction of that building, it had not been utilized even by the end of the year under review. Further, a sum of Rs.3.96 million had been spent for the training of officers in the years 2016 and 2017. Even though the building remained idle, a sum of Rs.4.74 million had been spent for the security expenses and the cleaning activities.

Not Accepting the Land Commissioner General's Quarters

For the construction of the Land Commissioner General's Quarters, a memorandum of understanding had been entered into with the Buildings Department on 12 January 2016 upon an estimate of Rs.36.40 million. According to the above memorandum of understanding, it had been agreed to paid advance of 50 per cent of the total value of the construction with the signing of the agreement. Advance of Rs.10 million had been paid before entering into the memorandum of understanding. The Land Commissioner General's Department did not have the free hold right of the land and the land could not be used without filling up since it was inundated. Even though approval of the Land Reclamation and Development Corporation had been sought to fill up the land, relevant approval had not been received even by 01 May 2018. Although construction of the building had been completed by 01 March 2017, it had not been accepted due to the above reason and it remained unused for more than a period of one year.

Payment of Total Estimated Value for the Uncompleted Building

For the construction of the Land Commissioner General's Quarters upon an agreement to complete the same within 273 days at an contract value of Rs.36.4 million, the Land Settlement Department had entered into a Memorandum of Understanding with the Department of Buildings on 02 February 2016. According to the above memorandum of understanding, although 50 per cent of the total value of the construction could be paid with the signing of the agreement, advance of Rs.10 million had been paid before entering into the memorandum of understanding. The total amount could be paid upon the receipt of the Completion Certificate produced after completion of the building. Although this building should be completed and handed over by 08 December 2016, it had not been completed even by 01 May 2018. Nevertheless, the total estimated value of Rs.36.4 million had been paid on 30 November 2016 for the incomplete building.

Decrease in the Performance of Surveying Order

The Department of Surveys had purchased various modern surveying equipment and software used in the surveying activities at a cost of Rs.323 million during the period of past 10 years. The number of vacancies of the Surveyors remained at a minimum level in relation to the past period. Nevertheless, the performance of the execution of surveying order remained at a minimum level as 39 per cent during the year under review.

Preparation of Legal Background for Land Use and the Policies

With the prime objective of preparing a land use plan and implementing the land use policies, the Land Use Policy Planning Department had been established by the notification published in the Gazette (Extraordinary) No.1654/21 dated 20 May 2010. The Department had not prepare necessary legal background for the preparation of land use plan and implementation of land use policy even by the end of the year under review.

Examination of the acts of misconducts of the Surveyors

With the objective of ensuring proper maintenance of the surveying profession and its practices and the maintenance of standards and procedures relating to land surveying and professional discipline among persons engaged in land surveying, the Land Survey Council had been established in terms of Survey Act, No.17 of 2002. The total number of complaints made by the people against the professional misconducts of the Surveyors had been 125 during the year under review, whereas only 99 complaints or 77 per cent of the above complaints had been settled by the Council.

Recovery of compensation in respect of the lands acquired by the Public Sector

Proper attention had not been drawn on the process of acquiring lands belonging to the Land Reform Commission for the Public sector. According to the following observations, the above process had been delayed.

- About 200 blocks of lands had been referred to the acquisition process from the year 1995 to the year 2017, whereas compensation had been recovered only for 16 of the above blocks.
- It had not been possible to establish the entitlement of the Council with regard to the lands acquired by the Public sector from the year 2005 to 2015 for various purposes. As a result, there were 14 instances where the relevant compensation had been deposited in the Court.

- Despite the lapse of over 40 years from the submission of 230 declarations during the period from 1972 to 1974, it had not been possible to give statutory determinations for 27 per cent of the above declarations due to non-submission of the plans and for 52 per cent of the above declarations due to failure in presenting the declarants.
- Contrary to Section 2 (a) and 3 (1) of the Land Reform Law No.1 of 1972, lands of the persons who had owned lands not exceeding 50 acres in extent, too, had been acquired by the Commission. Nevertheless, the Commission had not taken action to grant those acquired lands or the alternative lands despite the lapse of 45 years by the end of the year under review.
- Six estates had been given on lease basis to the Coconut Cultivation Board during the period from the year 1974 to the year 1984. The methodology adopted in connection with the leasing of estates had not been followed in leasing out of those 06 estates. Completion of relevant surveying activities, obtaining approval of the Commission, obtaining assessments relating to lease rent and entering into lease agreements had not been carried out and 1310 acres of lands had been enjoyed over a period of 40 years without paying lease rents.
- Lands had been leased out without handing over the possession on the recovery of lease rent of 05 years as a lump sum under the normal process of leasing out of lands, revising tax once in 5 years and obtaining relevant approval and as such, a sum of Rs.52.91 million remained outstanding relating to 09 lands over a several years.

Kanthale Sugar Company

A partnership agreement relating to restructuring the Kanthale Sugar Corporation had been signed between the Secretary to the Ministry of Finance and two companies on 11 August 2016. According to the conditions of the agreement, the investor could take action at his discretion with regard to the properties including higher valuable and disposable iron available in the factory premises. Subsequent to consultation with the Attorney General, his approval had been given on 20 March 2017 to the effect that the provisions relating to taking action at the discretion of the investor should be amended and the disposal of assets should be carried out by calling for open bids. Accordingly, the bidder who had presented the maximum bid for the disposal had been selected. However, due to the delay occurred in making payments within the due period by the relevant bidder, the bid had been awarded to the bidder who had presented the second maximum bid.

Notwithstanding the above fact, the investor had imposed an emergency interim relief through the International Arbitrator Centre in Singapore for temporarily suspension of the disposal activities. Accordingly, the Attorney General had granted approval to temporarily suspend the disposal activities. Any production activity had not been carried out by the Company following the year 1994.

Education

The Ministry of Education, 04 Departments and 09 Statuary Boards/ Institutions under its Purview should have performed the following functions with the objective of creating human resources imbued with benevolence, personality and good conduct through the school syllabus in order to achieve qualitative education.

- Creation of a National Educational Methodology which enables to access the global competition with self-confidence and thereby reach success with self- assurance.
- Formulation, follow up and evaluation of policies, programmes and projects relating to the subjects of Education.
- Taking necessary steps to provide physical and human resources required for National Schools.
- Providing free text books, uniforms, shoes and lunch.
- Proper maintenance of the quality of education and discipline within the entire school system.
- Administrative and personnel management affairs of the Sri Lanka Education Administrative Service.
- Promoting Buddhism and Pali Education and upgrading Piriven Education.
- Taking necessary action to preserve historical, archeological and cultural heritages.
- Proper management and preservation of Government documents.
- Ensuring the opportunities for education of students with special needs.

The audit observations revealed in the discharge of the said functions by the Ministry, Departments and the statutory institutions, are summarized below.

Non-utilization of Provisions

Provisions totalling Rs.6,163.56 million comprising Rs.5,957.21 million and Rs.206.35 million made under 15 Items of Capital Expenditure and 10 Items of Recurrent Expenditure respectively for performing the functions of the Ministry of Education for the year under review, had been saved without making any utilization whatsoever.

Providing Tabs to Advanced Level Students

Provisions totalling Rs.10,006 million comprising Rs.5,000 million from supplementary estimates for the purchase of Tabs for Advanced Level students, Rs.6 million for training of the staff and Rs.5,000 million for obtaining computers on hire basis, had been made in the year under review by the Ministry of Education. However, the entire provisions had been saved due to failure in performing of the said function.

Admission of Students to Grade One

In terms of Circular No.37 of 19 September 2008 of the Ministry of Education and the Cabinet Decision dated 14 October 2015, it had been stipulated that the maximum number of students for a parallel class in Primary Grades as 40, the maximum number of students for a parallel class in Secondary Grades as 45 and the maximum number of students selected per class in the admission to Grade One as 39 in a National School. However, 5,504 students had been admitted by 89 National Schools beyond those limits.

Covering up Duties of the Post of Principals

According to the Establishments Code of the Democratic Socialist Republic of Sri Lanka, an acting officer can be appointed on temporary basis until a permanent appointment is made. However, in 259 out of 353 National Schools island wide, officers had been attached to the vacant posts of Principals for covering up duties by June 2018 without taking action to fill vacancies in the post of Principal.

Vacancies of Teachers for the Technological Stream

There were 257 island wide vacancies of teachers for the Technological Stream by the end of the year under review. Out of those vacancies, 85, 142 and 30 vacancies respectively of teachers for the Engineering Technology Subject, Science Subject for the Technology and for the Bio Systems Technology existed. The Ministry of Education had failed to fill those vacancies even by the end of the year under review.

Incompletion of Disciplinary Inquiries

Five hundred and fifty four disciplinary matters relating to the Ministry of Education, National Schools, Teacher Training Colleges and other institutions that come under the Ministry had not been resolved even by the end of the year under review. Among those matters, there were 110 matters relating to the posts of Principals and 444 matters relating to other academic and non-academic posts. Among those unresolved disciplinary matters, there were 101 matters ranging from 2 years to 5 years, 4 matters older than 5 years and less than 9 years and 2 matters older than 9 years. Out of 107 complaints relating to the admission of students to school remaining since the year 2012, only 16 complaints had been settled by the end of the year under review.

Obtaining Leave without Approval

Hundred and seven members of the academic and non-academic staff in 27 National Schools had not reported for duty on 3,428 days in the year 2017 without approval. However, disciplinary action had not been taken in terms of provisions of the Establishments Code even by the end of the year under review in that connection.

Payment of Salaries for No-pay Leave

Even though 536 members of the academic and non-academic staff of 111 National Schools had availed of 11,938 days of no-pay leave in the year under review, action had not been taken for the recovery of money for such days of leave from their salaries.

Deployment of Teachers in the same School for a long period

The Circular No.2007/20 dated 13 December 2007 had been issued by the Ministry of Education in order to ensure the functioning of the Education Process more effectively and with the expectation of the formulation and implementation of a Teacher Transfer Policy for the schools to maximize the welfare of the Teachers and Students. However, provisions of the said Circular had not been followed and a number of 4,123 teachers of 127 National Schools had been deployed in the service in the same school continuously by the end of the year under review without being transferred over a period ranging from 08 years to 32 years.

Non-teaching in a trained Subject

A number of 786 Teachers of 118 National Schools had been attached for teaching subjects extraneous to the subjects, for which they were appointed. Specially, 163 Teachers of 40 National Schools, who had not undergone Primary Teacher Training, had been attached to the Primary Grades.

Teaching in a Minimum Period of Time

Even though the Deputy Principals of a National School should be assigned at least a minimum of 10 periods of teaching work per week, 146 Deputy Principals of 71 National Schools had not been assigned even a single period of teaching activities. Periods ranging from 2 to 6 had been assigned to 05 Deputy Principals of 03 National Schools for the purpose of teaching. Even though the Assistant Principals should be assigned at least a minimum of 12 periods of teaching work per week, 58 Assistant Principals of 29 National Schools had not been assigned periods of teaching activities. Teachers engaged in the teaching of subjects should be deployed in a minimum of 35 periods of teaching of 40 minutes duration each per week. Nevertheless, 811 Teachers of 94 National Schools had not been assigned even a single period of teaching. Less than 16 periods of teaching, had been assigned to 699 Teachers of 95 National Schools. Vacancies of Special Education Teachers in 9 Provinces of the Island had been 114, whilst 150 Teachers who had undergone Special Education Teacher Training had been deployed in service in other schools or classrooms.

Failure in balancing Teacher Vacancies and Excess

A number of 1,775 teacher vacancies existed in 123 National Schools by 31 December 2017 and 874 excess was revealed in 93 National Schools. Accordingly, the Ministry had failed to implement the policy of transfer of teachers from schools with excess teachers to schools with teacher vacancies.

Failure to Return Library Books borrowed by Teachers from School Libraries

Seventy three Teachers of 18 National Schools had not returned 175 library books valued at Rs.26,768 borrowed from school libraries who had transferred, proceeded abroad, retired and left the services. However, the Principals had not followed a procedure to recover those books before releasing Teachers from relevant schools.

Operating Private Schools not in compliance with Provisions

In terms of Section 25 of the Assisted Schools and Training Colleges (Supplementary Provisions) Act, No. 8 of 1961, no person shall establish any school for the education of persons who are between the age of 05 years and the age of 14 years. Contrary to that provision, a large number of International and Private Schools had been established. In addition to that, supervision of international schools in compliance with the National Education Policy was one of the main objectives of the Ministry of Education. Even though those schools had been registered under the Companies Act, No.7 of 2007 and under the Board of Investment as private institutions, they had not been registered in the Ministry of Education as schools by which basic education is provided in Sri Lanka. A proper methodology as well had not been prepared by the Ministry for collecting information regarding those schools.

As these schools are also included in the category of registration of business with the objective of earning profits alone, no follow up action had been taken by any Government Institution as to how far the basic rights of students who are in those schools, is covered.

The Ministry had not implemented a process for supervising matters such as whether these private schools are equipped with minimum qualitative and quantitative criteria which should be equipped with Government Schools, with a qualified and experienced staff for providing a qualitative education to students according to each level and whether these schools are updated on changes occurred timely within the education system.

Sisu Aruna Education Fund

The Sisu Aruna Educational Fund had been established in the year 2001. According to the report of the Meeting of the Board of Directors, held on 29 April 2003, it had been decided that necessary steps should be taken to offer scholarships after reaching the value of fixed deposits amounting to Rs.2.5 million of the Fund. The value of relevant fixed deposits by the end of the year 2015 had reached Rs.2.6 million and it had increased up to Rs.3.9 million by 31 December 2017. Even though the limit decided by the Board had exceeded by the end of the year 2015, action had not been taken even by the end of the year under review to offer scholarships.

Delay in Establishment of the Resources and Information Centre

The area, Weniwelkola had been selected in the year 2017 for the establishment of Resources and Information Centres at the national and provincial level in 9 provinces for the development of education of children with special needs. The ownership of the land obtained therefor had not been vested in the Ministry of Education even by the end of the year under review. The Medical Officers' rest room, administrative and assessment building of this Centre had been completed by the end of the year under review and the auditorium, class rooms, library, ICT building, hostel and cafeteria had been partially completed. However, constructions of hostels, official quarters, vocational training buildings, playground and pavilions had not been even commenced. Even though it had been planned to commence this Centre from the year 2007, the Ministry had failed even by the end of the year under review to commence it, despite the elapse of over 10 years.

Education Management Information System

An Education Management Information System (EMIS) had been established with co-operation of the University of Moratuwa with the objectives such as preparing a Data Base of Information of Teachers and the Management of the Teachers' Services affiliated thereto, the supply of the services required for the office system, etc. A sum of Rs.64.06 million out of funds of the Education for a Knowledgeable Society Project (EKSP) had been spent therefor from March 2011 to 31 December 2014. A sum of Rs.900,000 (excluding tax) on 27 February 2012 under the first stage for the creation of the Data Base for the Teachers and a sum of Rs.13.88 million (excluding tax) on 27 June 2013 under the second stage for the creation of Modules based on the data in the first stage, had been paid to the University of Moratuwa. However, the said system could not be operated properly by the end of the year under review. Action had been taken to create a Shadow Data System by the Information Technology Branch of the Ministry after planning the completion of the National Education Management Information System by 31 December 2018. Operation of data relating to the management of human resources of teachers had been commenced by zonal offices by which their personal files are maintained. Further, a new server had been obtained therefor instead of the server operated by the University of Moratuwa and the process of transfer of data to the new server was being carried out.

However, there was difficulty in performing this function as expected due to delays in entering data and due to lack of adequate computers and internet facilities.

Use of State Lands by External Parties

Blocks of land ranging from 20 perches to 939 perches in extent owned by the Ministry of Education had been used by external parties without obtaining the approval. However, the Ministry of Education had not taken action even by the end of the year under review to collect information of those lands and to take necessary legal action thereo.

Labour and Trade Union Relation

The following functions should have been performed by the Ministry of Labour, Trade Union Relations and Sabaragamuwa Development and two Departments and 03 Statutory Boards/Institutions under its purview with the intention of developing effective industrial relations, free of industrial disputes.

- Formulation of policies, programmes and projects related to the subjects of Labour and Trade Union Relations
- Administration of the Employees' Provident Fund, the Private Provident Fund and the Private Retirement Schemes
- Formulation and implementation of policies related to the International Labour Standards, Labour Administration and Welfare
- Maintenance of Inter Co-operation with the International Labour Organization and the International Social Security Organization
- Registration of Trade Unions and the introduction and implementation of practical steps for the activities of all Trade Unions in the State and Private Sectors for the development of the country
- Implementation of the National Manpower and Employment Policies
- Implementation of Vocational and Job Guidance Programme
- Industrial Relations and Settlement of Industrial Disputes
- Formulation of Laws and Rules related to Labour Relations and Regulatory Functions

The following deficiencies were revealed during the course of audit test checks on performing the above functions by the Ministry, Departments and Statutory Institutions.

Increase in the Ratio of Participation of the Labour Force

Ratio of Labour Force which was 53.8 per cent in the years 2015 and 2016 had taken a high ratio of 54.1 per cent in the year under review. However, the ratio of participation of the male labour force which existed in the preceding year had decreased up to 74.5 per cent in the year under review. Even though the ratio of participation of the female labour force in the preceding year had been 35.9 per cent, it had increased up to 36.6 per cent in the year under review. Several major features of the Labour Force relating to Sri Lanka appear in Table 19

	2015	2016	2017
Household Population			
Persons	15,282,000	15,449,000	15,843,735
Labour Force			
Persons	8,214,000	8,311,000	8,567,000
Employment	7,831,000	7,948,000	8,209,000
Unemployment	383,000	363,000	358,000
Labour Force Participation Ratios	53.8	53.8	54.1
Male	74.7	75.1	74.5
Female	35.9	35.9	36.6

Table 19- Major features of the Labour Force

Source – Department of Census and Statistics

Implementation of the National Policy on Human Resources and Employment

The implementation of the National Policy on Human Resources and Employment had been assigned as a key function of the Department of Manpower and Employment established according to a notification published in the Gazette Extraordinary No.1640/31 of 12 February 2010. Hardware and software valued at Rs.8.34 million had been purchased on 08 September 2015 to establish a NHREP Implementation Management and Monitoring System for implementation of the said Policy. However, that System had not been established and operated. As such, the assets purchased had remained idle without being made use of for 2 years and 10 months. Moreover, a practical training had been provided to the officers of the Ministries related directly with the operation of the System by spending a sum of Rs.162,600. Even though it had been intended to connect 25 Ministries contributing to implement the Policy through the said System with each other, only 16 of those 25 Ministries had presented the Action Plans in writing on implementing the Policy relevant to the year 2017. Moreover, the progress in implementing the Policy had not been submitted by any Ministry.

Occupational Safety and Health

Terms of preventing possible accidents to workers of factories in Sri Lanka, had been included by the Factories Ordinance No.45 of 1942. The need for maintaining a national data system relating to workplace accidents had been emphasized under the 06th recommendation of the Technical Memorandum presented by the International Labour Organization for improving the performance of the Department of Labour in the year 2012. A proper data system including information on accidents occurred to workers employed in factories had not been established in the Occupational Hygiene Division of the Department of Labour. As such, there was no methodology in obtaining information on accidents occurred annually in factories. Moreover, the Ministry of Labour and Trade Union Relations had not taken action for improving the occupational safety by ratification of Convention No.155 issued relating to occupational hygiene by the International Labour Organization and by making amendments to local Acts and Ordinances.

Dormant Cases in Labour Offices

The number of dormant cases as at 31 December 2017 of District Offices and Sub-Labour Offices under the Department of Labour stood at 3,750 and the value thereof had been Rs.1,844.46 million. Cases had become dormant in this way due to reasons such as the employer's unavailability at the relevant address, proceeding abroad, death and closing down the institution. The Department had not implemented proper measures to activate those dormant briefs due to weaknesses in implementation and as such, a delay ranging from 16 to 22 years had been taken to activate those cases. Moreover, in the examination of reports submitted by Labour Offices, it was observed that 17 briefs recoverable valued at Rs.3.05 million had been misplaced.

Construction of 'Mehewara Piyasa' Building

'Mehewara Piyasa' building had been planned to be constructed on an estimate of Rs.7,169 million according to the concept of 'bring under one roof all the social protection services for providing efficient productive services", with the objective of supplying an efficient service to the working population. Constructions had been carried out at the initial stage by the provisions of the Employees' Provident Fund of the Central Bank of Sri Lanka. However, the provisions required for utilization of money for construction of immovable property had not been cited in the Employees' Provident Fund Act. As such, approval of the Cabinet of Ministers had been granted on 31 May 2015 for making necessary provisions through the General Treasury for constructions. The General Treasury had to settle the monies by that date, spent by the Employees' Provident Fund for constructions. The Annual Budget Estimate for the year 2017 had made provisions of Rs.200 million for settlement of the said monies and only a sum of Rs.50 million out of that had been reimbursed. Moreover, an additional sum of Rs.377.15 million had to be settled to the Employees' Provident Fund by 25 June 2018.

Computerization of Labour Supervision Reports

The Statistics Division of the Department of Labour had introduced a computer programme in the year 2015 to analyze the data received from forms on the progress on monthly performance of Districts and Sub- Labour Offices under the Department of Labour. The said data system had not been properly operated even by the end of the year under review due to lack of trained officers for computerization of data and failure in filling the forms accurately by including necessary data by Labour Offices.

Moreover, several recommendations had been made in the Technical Memorandum presented by the International Labour Organization in the year 2012 for regularization of labour inquiries for improving the performance of the Department of Labour. Even though it is mentioned that a policy should be formulated mainly in respect of labour inspections, it had not been performed even by the end of the year under review. Labour Inspection System Application for Labour Officers had been introduced in the year 2010. That programme had not been successfully implemented even by the end of the year 2017. Even though the total number of Labour cases stood at 78,769, a number of 22,375 cases had been entered into the system. Accordingly, 71.59 per cent or 56,394 cases out of the number of cases which should be entered into the system, had not been entered into the system. Details appear in Table 29

Details	Physical Number	Number entered into the System	Number not entered into the System
1. Legal Cases	4,225	2,016	2,209
2. Complaints	15,353	14,308	1,045
3. Inspection Reports	59,191	6,051	53,140
Total	**78,769**	**22,375**	**56,394**

Table 29 – Number of cases entered into the system
Source – LISA Computer System of the Department of Labour

Moreover, an Engineer Inspection Module had been introduced to include inspection programmes of officers of District Factories Inspection Engineer's Office and reports on accidents. However, out of 4,835 inspections carried out in the year under review, only 38 reports had been entered into the system by 31 August 2018.

Utilization of the Employees' Provident Fund for the Requirements of the Department of Labour

Adequate imprests required for provisions made for the Department of Labour from the Annual Budget Estimate of the year under review, had not been granted by the Treasury. As such, a sum of Rs.32 million had been obtained for those requirements from the provisions made on behalf of the Employees' Provident Fund. The monies so obtained had been settled by the Department on 28 December 2017.

Trade Union Division

The registration and control of Trade Unions and implementation of Trade Unions according to the Trade Unions Ordinance and the directions thereof after registration and regulation thereon are carried out by the Trade Union Division. The total number of registered unions/associations had been 1,668 by 31 December 2017 from the date of implementation of the Trade Unions Ordinance. Even though the "N" Report should be sent by Trade Unions every year for renewal of registration of those unions/associations, "N" reports had been sent only by 1,437 Trade Unions for the year under review.

Payment of Compensation of Labour for Beneficiaries who had fulfilled Age

Investment of compensations claimed by minors of employees deceased due to fatal accidents while being employed, in fixed deposits and granting those monies to beneficiaries after maturity are carried out by the Office of the Commissioner for Workmen's Compensation. The release of a sum of Rs.10.48 million in 329 fixed deposits for beneficiaries who had fulfilled age had been delayed for a period ranging from 1 year to 25 years.

Delay in Payment of Compensation for Beneficiaries

In terms of Section 13(1) of the Workmen's Compensation Amendment Act, No.10 of 2005, the Office of the Commissioner for Workmen's Compensation should have paid these compensations for the satisfaction of employees by recovering compensation from employers and granting them to employees in injury or death while in employment, to persons who are entitled for those compensations. A sum of Rs.7.76 million recovered as compensation from employers to be paid among 54 beneficiaries had been paid to the beneficiaries with a delay of a period ranging from 3 months to 5 years.

Unsettlement of Monies recovered by filing Cases

A sum totalling Rs.256.27 million recovered since the year 2011 by the Department of Labour by filing cases against the employers who had failed to send contributions to the Employees' Provident Fund, had been retained in the General Deposit Account of the Department of Labour even by 31 December 2017 without being settled.

Obtaining Photographs and Fingerprints

The first and second phases of the Project on obtaining Photographs and Fingerprints of Members of the Employees' Provident Fund had been implemented in the years 2008/2009 and 2010/2011 respectively with the objective of providing an efficient and reliable service to the members through correctly identifying by fingerprints and photographs. The first and second phases of the project had not been implemented with a proper plan by carrying out a Cost Benefit Analysis and a feasibility study on the project. Phase 3 of the project planned to be implemented in the years 2015/2016 as well had not been commenced with a proper plan. As such, presentation of a project report and a project plan to Audit had failed. Evidence had not been made available to Audit whether the progress of the first and second stages had been reviewed before commencing the implementation of phase 3 of the project.

Idle Equipment

Equipment had been purchased in the year under review under phase 3 of the Project on obtaining Photographs and Fingerprints by spending a sum of Rs.16.56 million. As the third phase of the project was not implemented, the equipment so purchased had remained idle in stores throughout a period over one year even by 31 May 2018.

Non-utilization of Provisions

Financial requirements had not been identified and proper plans not prepared since the year 2015 for the Project on obtaining Photographs and Fingerprints and as such, the provisions made by the Annual Budget Estimate could not be fully utilized. Out of the provisions made under 2 Objects in the year 2015, eighty five per cent and 46 per cent had been saved respectively. Out of provisions made for one Object in the year 2016, hundred per cent had been saved and 15 per cent had been saved in the other Object and by transferring 85 per cent to other Objects. The entire provision itself made for Objects in the year 2017 had been transferred to other Objects.

Non-utilization of Capacity of the printing Machine

The Employees' Provident Fund had purchased a printing machine by spending a sum of Rs.21.88 million in November 2007. Printing purposes of the Fund had been fulfilled through external institutions under an annual excessive cost without utilizing the maximum capacity of that printing machine. The printing of ABH Forms during the period from the year 2013 to the year 2016 had been carried out through external institutions by spending a sum totalling Rs.32.32 million.

Mahaweli Development and Environment

The expected result for this section was to be functioned in order to improve livelihood of Mahaweli zone and sustainable environment. To achieve this result the following task had to be fulfilled by the Ministry of Mahaweli Development and Environment together with two departments and eight statutory institutions.

- Implementation of policies and programs for the field of Environment and Mahaweli.
- Implementation of Mahaweli Development program
- Paying compensation for Mahaweli farmers
- Implementation of the Act of Mahaweli Authority
- Conservation of environment for the present and future generation
- Execution of programmes for suppression of pollution of environment and implementation effectively.
- Prevention of sea pollution and solid waste management of urban areas
- Protection and conservation of forests, wildlife, flora
- Promotion of commercial silviculture in order to fulfill timber requirements of the country
- Promotion and monitoring of gem and jewelry industry and trade
- Protection and conservation of beach

The following deficiencies were observed in the audit test carried out in connection with fulfillment of above mentioned functions of the ministry and the institutions under that.

Multipurpose Development Project of Uma Oya

A sum of Rs.62,060.31 million had been spent for the Multipurpose Development Project of Uma Oya as at 31 December 2017. People had to face many hardships as a result of suddenly arisen water leakage. A sum of Rs.896.72 million had been spent for the affected people by local funds during the year under review. Out of that expenses a sum of Rs.744.54 million had been recovered from the contractor and further more a sum of Rs.152.19 million had to be recovered from the contractor. Further a sum of Rs.3.85 million had been spent to assess the damage of the affected houses due to the water leakage. However actions had not been taken to recover the said expenses from the contractor.

Minimization of Performance

The Ministry of Mahaweli Development and Environment and World Food Programme had entered into an agreement on 11 August 2014 for 3 years to implement the project for adopting agricultural community living in areas as Madirigiriya, Lankapura and

Walapane around the basing of the Mahaweli River to adverse resistance of climate changes. This project had been commenced under a foreign aid of US $7.99 million and the financial performance of the project as at the end of the year under review was less than 33 per cent. Although two years had been completed out of the expected period of the project, it was failed to achieve a considerable level of the physical progress.

Project for Construction of Facilities for Disposal of Solid Waste

The total estimated cost for the project for Construction of Facilities for Disposal of Solid Waste under the Korean grant of Economic Development Assistance Project was US $41.89 million. Out of that a sum of US $33.54 million had been given on an annual interest rate of 0.15 percent and it should be repaid in 40 years within a grace period of 10 years. A sum of US $8.35 million should be utilized from local funds for the project. The loan agreement under the project had been signed on 23 July 2013 and the project had planned to construct 4 sanitary garbage bins in places as Anuradhapura, Keerikkulama, Hikkaduwa, Monroviawaththa, Panadura Malamulla, Udunuwara and Gonadhikawaththa within 4 years (48 months) under the clustering system in order to dispose garbage generated in the Jurisdictions of Local Government Authorities finally.

Actions had not been taken to select places for fixing sanitary garbage bins after having a proper feasibility study. It had taken to almost two years from the beginning of the project to install those bins in areas as Jaffna, Keerimale, Madirigiriya and Yudaganawa instead of installing at Panadura Malamulla and Udunuwra Gonadikawaththa. Accordingly it had failed to achieve expected objectives effectively in time through the project and even up to the end of the year under review the activities of the project for constructing garbage bins was in only the planning stage.

Pilisaru Project

The main objectives of the project were conservation of resources properly and confirmation of solid waste management, improvement of knowledge and skills of relevant people and implementation of solid waste management projects, Observation of programs, Supplying of facilities, supply of necessary basic provisions, Installation of bank system for recycling solid waste, taking actions against the Local Authorities which the actions not been taken to manage solid waste properly. According to the fund plan for 6 years the total cost for the project was Rs.5.6 billion. Out of that it was expected to obtain a sum of Rs.2.67 billion from the General Treasury, a sum of Rs.3 billion from the "Haritha Badda" which was introduced from the annual budget estimate for the year 2008.

143 compost yards had been constructed up to the end of the year under review from the beginning of the project. Out of that 20 compost yards was abandoned as at the end of the year under review.

7 new compost yards, a plastic recycle center and 2 units of bio gas had been constructed and 18 yards had been improved. In addition 19 awareness programmes and 7 training programmes had only been conducted.

Foreign Affairs

The result expected from the Ministry of Foreign Affairs is to be a friendly country in the World reaping mutual benefits. The Ministry comprises 19 Divisions for the management of affairs locally whilst a Global Network of 37 Embassy Offices, 13 Offices of High Commissioners, 01 Office of Deputy High Commissioner, 12 Offices of Consulates General, 2 Permanent Representatives for the United Nations and one Agency Office were maintained as at the end of the year 2017 for the performance of following functions abroad.

- Formulation, follow up and evaluation of policies, programmes and projects relating to the subjects of foreign affairs
- Improve the favourable image of Sri Lanka and make positive responses against the international propaganda of adversarial nature
- Establish diplomatic relations with foreign countries and discussion on Agreements and Conventions
- Grant Diplomatic Immunities and Privileges
- Assisting the promotion of foreign trade and tourism affairs
- Study the geopolitical trends and advising the Government on such trends
- Taking necessary action for the welfare of Sri Lankans living abroad

A summary of the significant audit observations made in performing the above functions by the Ministry and the institutions thereunder is given below.

Failure to renovate the Buildings

The official residence of the Ambassador in Stockholm, Sweden which belongs to the Government of Sri Lanka had been withdrawn from use from October 2011 for carrying out renovation work. The necessity of renovating the Embassy had been brought to the attention of the Ministry in 09 instances. Nevertheless, no renovation work whatsoever had been carried out thereof even by the end of the year under review. As such, the Ambassador had to reside in rented houses for a period of nearly 07 years from October 2011 to the end of the year under review. A sum of Rs.11.98 million had been spent as house rent in the year 2017.

Failure to handover the Official Residence after Completion of Renovation

According to the Agreement on the renovation of Official Residence of the High Commissioner in Kuala Lumpur, Malaysia, the official residence should have been handed over after the completion of renovation on 21 February 2016. Nevertheless, that building had not been handed over even by 30 June 2018. As such, a rental totalling RM

532, 000 had been paid for the rented house in which the High Commissioner was residing from March 2016 to 30 June 2018.

Buildings withdrawn from Use

Two buildings valued at Australian $ 2,589,000 owned by the Office of the High Commissioner for Sri Lanka in Canberra, Australia had been withdrawn from use since the years 2007 and 2012 respectively.

Land remaining Idle

A land of 1.681 acres in extent had been purchased in the year 2007 for U.S. $ 1.2 million (RM 3,661,000) for the construction of the Office of the High Commissioner of Sri Lanka in Malaysia. No construction work had been done on that land even by the end of the year under review.

Overpayment of Special Allowances

Special allowances totalling Rs.163,780 had been overpaid to two officers in the Mission Abroad contrary to the Circular No.OM/E7/6/2013 of 01 April 2013 issued by the Ministry of Foreign Affairs.

Failure to hand over the 07 Summit Flats

According to the Cabinet Decision dated 25 October 2000, seven Summit Flats had been obtained by the officers in the Ministry of Foreign Affairs on the basis of handing over to the Ministry of Public Administration for giving those to other eligible officers immediately after the completion of construction work of Government quarters at Elvitigala Mawatha. Even though the construction work of quarters at Elvitigala Mawatha had been completed, 07 Summit Flats belonging to the Ministry of Public Administration had not been handed over even by 28 August 2018.

Non-settlement of Imprest Balance

The imprest balances not settled by the Offices of Mission Abroad as at 30 June 2018 amounted to Rs.318.08 million. Out of those balances, Rs.218.19 million had been brought forward for over a period of 2 years without being settled.

Deposits not taken into Income

The balances in the General Deposit Accounts as at 30 June 2018 totalled Rs.174.2 million. Action in terms of the Financial Regulations had not been taken on deposits amounting to Rs.5.5 million remaining for more than 2 years in the General Deposit Account of the Offices of Mission Abroad out of the said deposits in the Ministry and the Mission Abroad and those had not been taken into income.

Foreign Employment

The expected result of this Sector is the formulation of policies necessary for enhancing foreign employment opportunities and increasing the contribution to the national economy through foreign remittances. In order to achieve the said result, the following functions should be discharged by 02 Statutory Boards/Institutions under the purview of Ministry of Foreign Employment.

- Formulation and implementation of policies, programs and projects relating to foreign employments.
- Welfare of the migrant employees and welfare of the non- resident Sri Lankans.
- Regulation and supervision of registered employment agencies.
- Career guidance for foreign employments.

The audit observations revealed in respect of discharging of the said functions by the Ministry and Statutory Institutions under the purview of it, are summarized below.

Decrease in Departures for foreign employment

Though it was mentioned that promoting foreign employment market as the trust area in Ministry activities, the amount of leaving for foreign employment during previous years had gradually been decreased. The amount leaving for foreign employment in the year 2014 had been 300,703. It was decreased up to 212,162 or 29.44 per cent as at the year 2017. This decrease had been in way of female and male as well. The details in this regard are shown in the following Figure 18

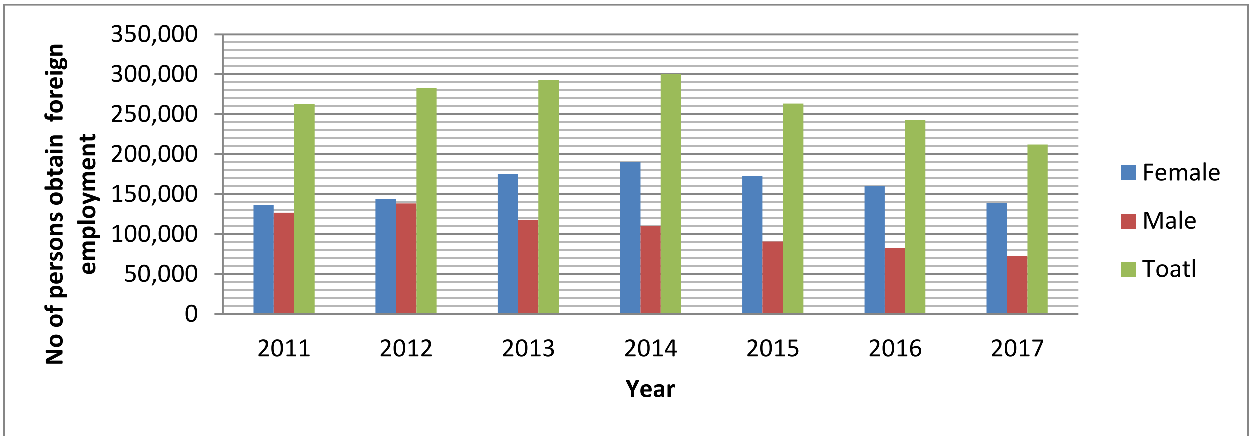


Figure 18 - Amount departures for foreign employment
Source –Annual Report of Central Bank of Sri Lanka

Departures for Foreign Employment in Manpower Level

Departures for foreign employment under housemaid and unskilled manpower level in the year 2011 had been 107,500 persons and 63,642 persons respectively. That had been decreased as at the year 2017 up to 56,057 persons or 47.85 per cent and up to 61,057 persons or 4.06 per cent respectively. Though the amount of departures for foreign employment under housemaid and unskilled manpower level were being decreased annually, it was observed an increase in the amount departures for foreign employment under professional and semi-skilled manpower level. The amount departures for foreign employment under professional and semi-skilled manpower level in the year 2011 had been 3,848 and 6,136 respectively. However it had been increased up to 6,371 persons or 65.57 per cent and up to 7,124 persons or 16.10 per cent respectively as at the year 2017. Details are shown in the Figure 19.

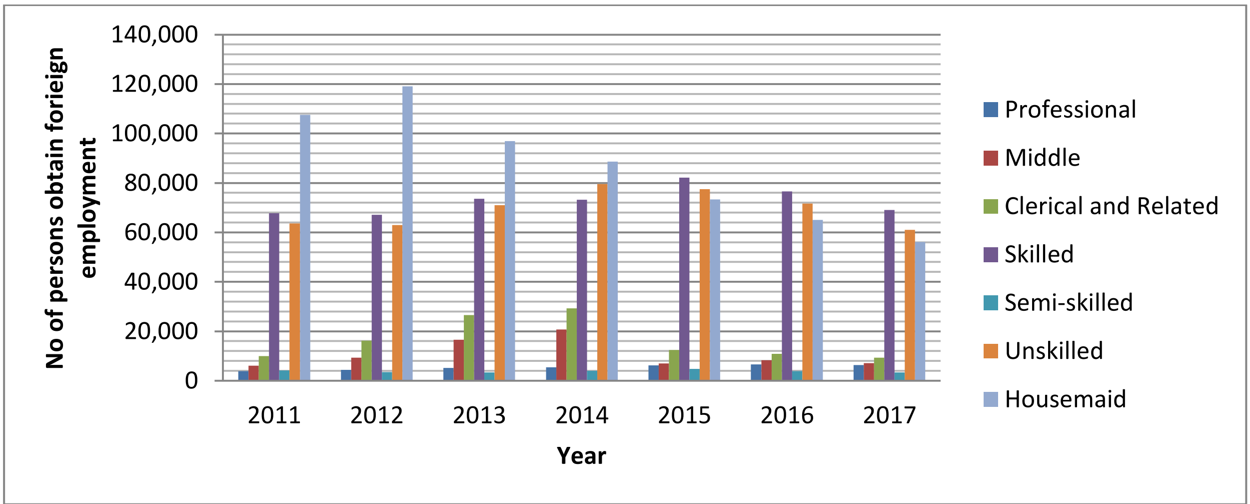


Figure 19 - Amount departures for foreign employment in manpower level
Source –Reports of Central Bank of Sri Lanka

Though the amount of departures for foreign employment had been decreased as compared with the previous year, the rupee value of migrant remittances had been increased. Though migrant remittance in the year 2012 had been Rs. 763,980 million, it had been Rs. 1,091,972 million as at the year 2017. Details are shown in the Figure 20

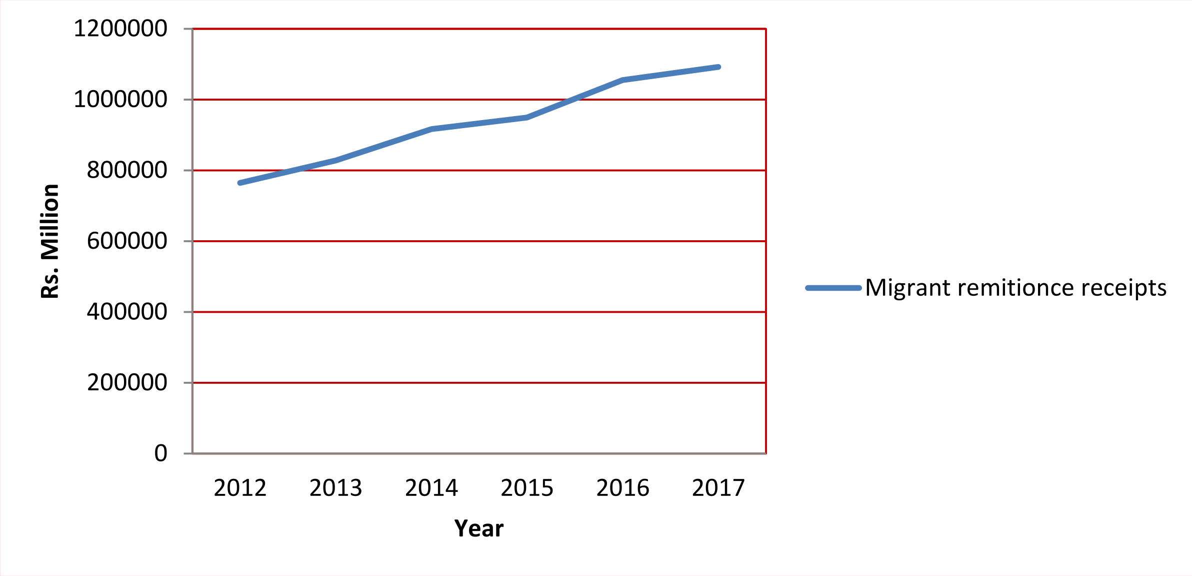


Figure 20 - Migrant remittance receipts
Source – Annual Report of Central Bank of Sri Lanka

Decrease in Foreign Employment from Registered Agency

The amount of foreign employment through agencies registered under Sri Lanka Bureau of Foreign Employment had gradually been decreased and the amount of foreign employment through other sources had been increased annually. Though the 55.63 per cent of the total amount departures for foreign employment in the year 2011 had been through the Agencies registered under Bureau, it had been increased up to 32.32 per cent as at the year 2017. Details are shown in the Figure 21

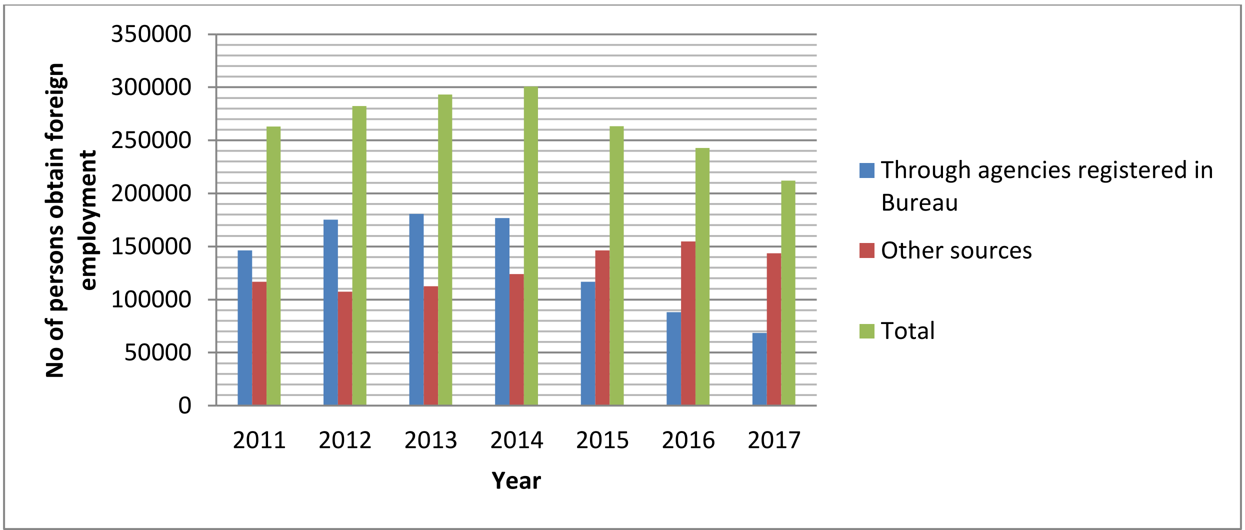


Figure 21 – Departures for foreign employment through agencies registered in Bureau and other sources
Source – Annual Report of Central Bank of Sri Lanka

Memorandums of Understanding for Migrant Employees

Twenty memorandums of understanding signed by the Ministry with relating to migrant employees had been being implemented as at the year 2017. It was revealed in test checks carried out with relating to 12 memorandums of understanding that, updating and follow-up of those memorandums had not been made; and Consolidated Committee Meetings with related Countries had not been conducted.

Non conducting of proper supervision

Ministry had taken actions to Employ Development Officers in Divisional level with a view of implementing programs to collect supervise and follow-up migrating information in Divisional level as well as to uplift economic and social status of migrant employees and employees returning after foreign employment. Out of total recurrent expenditure of the Ministry, 77 per cent or Rs. 470.51 million had been spent for the payment of salaries and allowances for the officers recruited for this in the year 2017. However a proper system had not been prepared by the Ministry to achieve of objectives of the Institute by supervising the activities of those officers properly.

Non-implementing the Proposed Pensions Scheme for Migrant Employees

Though the approval of the Cabinet of Ministers had been granted on 09 November 2016 for the implementation of pensions scheme for migrant employees which was introduce under Government Accelerated Relief Program, the Ministry had failed to implement this even as at 31 July 2018.

Training of the Staff

The staff consisting with 1044 had been assigned to the Ministry for the year under review. The provisions of Rs. 5 million had been provided for training of those officers from annual budget estimate. However training programs had not been implemented by preparing a training plan to cover the whole staff. Fifty two of the cadre had not been given any training in the year under review. Further a sum of Rs. 497,426 from the above provisions had not been utilized for training.

Improper Supervision of the programs received foreign grants

A program was being implemented by the name of "Safety and wellbeing of auspicious job of migrant labours and their families in Sri Lanka" with the view of contributing to safety and prosperity of migrant employees and their families in Sri Lanka through the grant of U.S dollar 3.87 million from Switzerland Government, and proper supervision and monitoring of that program had not been done by the Ministry.

Non achieving the Objective of Establishing the Job Bank

Actions had been taken to operate a job bank with an inclusion of information of people, who are expecting to go abroad for employment, as a strategy in achieving the objectives of Marketing Division in Foreign Employment Bureau. 17,663 persons had been registered there in the year 2016 and 2017; and the information of persons registered in it had been reviewed in 120,462 instances by job agencies. However 1,368 from registered persons had only been received opportunities for foreign employment. The amount registered in job bank had been increased by 8405 (182 per cent) in the year 2017 as compared with the year 2016. However 9 per cent had only been in abroad from the amount registered in the year 2016. That percentage had further been increased up to 07 per cent as at the end of the year 2017.

Complaints Received to Special Investigation Unit

A cadre consisting of 37 had been assigned as at 31 December 2017 by establishing Special Investigation Unit in Foreign Employment Bureau with a view of certifying lawful and disciplinary status of foreign employment sector. 4,341 complains with relating to several matters had been received to the Bureau in the year 2017. Out of them, 2,815 or 65 per cent had been directed to special investigation. It was required to provide solutions within 14 days by registering the complaints received to investigation unit. The complaints, which could not be proceeded accordingly, should be directed to legal unit for legal proceedings. However 345 complaints had been remained in investigation unit as at the end of the year 2017, which could not be either to provide solutions or to direct in to legal unit.

Responsibilities with relating to Recruitment Agencies

According to the paragraph 27 (b) of Bureau of Foreign Employment Act, a license for operating a business relating to foreign employment should not be granted if the applicant person or Business Institute or Company belonging to the owner of that business is illustrious or otherwise. Out of the complaints received to the Bureau in the year 2017, 41 per cent had been the complaints presented for breaching of contracts by recruitment agency. According to the test checks, out of the complaints 805 so presented, 180 complaints had been included in the black list register for over one month without doing investigations and 04 complaints had been lapsed one year. Out of the recruitment agencies black listed during the year 2017, 02 in 06 instances and one institute in 07 instances so had been black listed.

Affaires of Security Homes

When Sri Lankan women in abroad had come to Foreign Missions for survival by leaving the job premises due to several harassment that they would have to suffer in those job premises, the normal procedure had been directed them into security houses as a temporary solution.

11,542 had been directed into security houses in previous 03 years. Out of 250 detainees as at the end of the year 2017, 20 had stayed in those houses over 06 months. Further total of Rs.43.30 million had been spent by the Government for rent of those houses, food and medical aid in the year 2017.

Inactivation of Migrant Workers Contributory Fund

The scheme of migrant workers contributory fund had been established from the year 1988 for workers by the Sri Lanka Bureau of Foreign Employment and a balance of Rs. 7.71 million belonging to 1602 migrant workers were remained in this fund as at 31 December 2017. Any written information to describe the objectives of establishing this fund was not available with the bureau and the fund had been inactive as there was no proper system with regarding the management of the fund.

Decrease in Market Share of Sri Lanka Foreign Employment Agency (Pvt) Company

According to the information of Sri Lanka Bureau of Foreign Employment, entire amount of job opportunities received to the country in the year under review were 310,786. Out of them, 427 job opportunities i.e. 0.14 per cent had only been sent to abroad by Sri Lanka Foreign Employment Agency (Pvt) Company. Further it was decreased the job orders by 09 and job opportunities by 2211 received in the year under review as compared with the year 2016. The Company had failed to recruit qualified workers for 140, 100 and 60 job opportunities received from States such as Jordan, Singapore and Bahrain respectively in the year under review. Further, out of 58 technical and professional job opportunities received from Maldives, workers had also not been recruited for 55. Though job orders had been received from Countries like Qatar, Kuwait and Oman had been received in the year 2016, workers had not been recruited for them and no any job orders had been received from those countries in the year under review.

Out of 806 migrants departures in the year under review; the amount departures for jobs found by the Company, other than the amount in abroad on direct and memorandum of understanding, was 44. That was 5 per cent of the entire migrants of the Company. Number of Countries that, workers directed employment by the Company, had been gradually being decreased from previous years; and that amount had been decreased up to 05 as at the year under review which was 13 Countries in the year 2013. Though workers had been sent to abroad for 32 types of foreign employment in the year 2015, it was decreased up to 10 types of employment in the year 2016 and it had further been decreased up to 07 as at the year under review. It had been decreased by 78 per cent as compared with the year 2015.

Non performing the Promotions of Foreign Employment Properly

One of the main objectives of Sri Lanka Foreign Employment Agency (Pvt) Company had been to develop foreign relationships with the view of promoting foreign employment. The Company Officers had been participated for foreign tours in 10 instances by spending a total of Rs. 6.35 million and Rs. 2.53 million in the years 2016 and 2017 respectively. However foreign employment opportunities had not been improved as expected. Further, out of 3,616 job opportunities mentioned so as received, only 1,213 workers had been able to be sent for employment.

Relief Insurance Fund

An insurance scheme named as "Relief Insurance Fund" had been implemented by Sri Lanka Foreign Employment Agency (Pvt) Company with a view of granting a compensation amount and reimbursement the expenditure incurred to get them return to Sri Lanka who were going abroad for employment if they were completely, partially disable or died during the period of employment. This insurance scheme had been taken into the purview of Sri Lanka Bureau of Foreign Employment from the month of March 2015, without taking the responsibility to compensate the damage of insured during the cover period. Accordingly the one of main activities of the company had been revoked and the compensation amount had to be borne by encasing the fixed deposit investments of the Company.

Development of Fisheries and Aquatic Resources

The expected result from this sector had been to establish people with high nutritional level, fisher community with high foreign exchange and high socio-economic status. In order to fulfill the said objective, the following functions should be discharged by the Ministry of Fisheries and Aquatic Resources Development, a Department and 05 Statutory Boards/Institutions.

- Formulation, taking follow-up action, and evaluation of policies, programs, and projects relating to the scope of the Departments, Statutory Institutions, and Corporations functioning under the purview of the Ministry of Fisheries and Aquatic Resources, and the Ministry.
- Development and management of marine brackish water and fresh water fisheries.
- Operation and management of fishing vessels belonging to the Government.
- Development and management of fishing activities within the exclusive economic zone.
- Establishment and implementation of ice factories, cold rooms, and other infrastructures required in fishing industry.
- Development of animate and inanimate national aquatic resources.
- Manufacture, import, and distribution of fishing vessels and fishing gear.
- Development and management of aqua farming including saltwater fish.
- Sale and distribution of fish and fish-related products.
- Expansion of the research activities on fisheries, and taking action to make use of the results thereof for the betterment of the fishing industry.
- Facilitation of the researches relating to aquatic resources through state-of-the-art scientific methodologies.

The audit observations revealed in the test checks carried out in respect of discharging of the said functions by the Ministry, Department and Statutory Institutions are summarized below.

Establishment of Fish Breeding Centre

The provisions of Rs. 25 million for establishment of fish breeding center and a provision of Rs. 25 million for construction of fish breeding center for Para at Kusala Bangadeniya in Puttlam District had been provided by National Aquaculture Development Authority of Sri Lanka in the year under review. Though, a sum of Rs. 6.17 million and Rs.9.6 million had been spent respectively for them as at the end of the year under review, the project had not been implemented as planned.

Establishment of Aquaculture Industrial Park

Provisions of Rs. 500 million had been provided by National Aquaculture Development Authority of Sri Lanka during the year under review to establish aquaculture industrial park in Regions such as Mannar, Hambantota and Batticaloa. Out of them, a sum of Rs. 68.16 million had been spent as at the end of the year under review. However this project could not be implemented due to the failure to get clearance of proposed land situated in those Regions.

Establishment of Crab City in Coastline

Provisions of Rs. 100 million had been provided by the National Aquaculture Development Authority of Sri Lanka in the year under review to establish fisher divisions in Cities such as Galmulla, Rakawa and Mankerni to initiate crab city in coastline. Though the construction activities had been commenced by spending Rs. 23.31 million for Rakawa project, the construction activities had not been commenced due to delay in obtaining environment license even a sum of Rs. 8.59 million had been spent for other 02 projects.

Divi Naguma Loan Scheme

Loans totaling Rs. 229.04 million had been granted to 6450 beneficiaries from Divi Naguma loan scheme implemented by National Aquaculture Development Authority of Sri Lanka in the years 2011, 2012, 2013, and 2014. The results expected from this scheme could not be achieve due to failure in training beneficiaries of that scheme properly, failure in selecting correct fish market by the beneficiaries, non-giving instructions and technical knowledge for the matters arising at the time of implementing the project.

Loans totaling Rs. 7.56 million had been granted to 140 beneficiaries for 04 types of project in Anuradhapura District under Divi Naguma loan scheme during the period from the year 2011 to the year 2014. Out of them, though loans of Rs. 3.06 million had not been settled as at the end of the year under review, authority had failed to recover those amounts.

Attractive Ferry Development Project

Provisions of Rs. 50 million had been provided by the Ministry of Fisheries and Aquatic Resources Development for Attractive Ferry Development Project Proposal. Out of them, a sum of Rs. 19.16 million had been spent in the year under review. Practical matters had been occurred at the time of implementation of the project due to non-conducting a proper feasibility study with regarding the project. The overall physical progress of Attractive Ferry Development Project was in less than 10 per cent as at 31 December 2017 due to failure in identifying those matters.

Construction of Aquaculture Industrial Zone

The construction of aquaculture industrial zone in Mannar District had been commenced in the month of August 2016 and had been planned to complete in the year 2018 with the objectives of increasing the production and improving the level of quality of the species of environment friendly costal and ocean aquaculture products. Provision of Rs. 290 million had been provided for this and a sum of Rs. 8 million had been spent as at month of March 2018 for survey activities of land, water facilities, fuel and foreign training. The objectives could not be achieved due to non-conducting a feasibility study before commencing the project and the deficiencies in preparing environment assessment reports.

The Operating Losses Occurred in Fisheries Harbors

Operating losses totaling Rs. 150.96 million had been generated in the year under review in 15 harbors out of 21 fisheries harbors operated under the purview of Ceylon Fishery Harbours Corporation. Thirteen of those harbors had also been generated losses in the preceding year. The attention of Management of the Corporation had not been made to take remedial actions to convert in to profitable status by studying the reasons for making losses of those loss making harbors.

The operation of Chilaw fisheries harbor had been commenced in the year 2009 which was handed over to Ceylon Fishery Harbours Corporation by spending a sum of Rs. 224 million from the grant assistance of Asian Development Bank and Coastal Resources Management Project. Providing assistance to the fishermen which should be the main objective of a fisheries harbor, had not been done even as at the month of May 2017. Payment of foreign loan and its related interest on behalf of this harbor constructed under grant assistance, had been a burden for the Government as it has being made operating losses totaling of Rs. 65.37 million from operating activity of the harbor even as at the end of the year under review from the year 2011.

The Excavator Machine Acquired on Rent Basis

It was mentioned in bid calling notice for calling bids to excavate sand in Harbors by Ceylon Fishery Harbours Corporation that, the plant and machineries relating to sand excavation should be belonging to the contractor. The attention had not been given onto that condition by the Technical Evaluation Committee who made the bid evaluation. As a reason of this, the Excavator machine had been taken on leased by the Corporation for sand excavation at Rs.11,000 per working hour from Ceynor Foundation Limited since 24 September 2016, and it had been sub leased unfavorably to the Corporation at Rs. 3,500 per hour to the contractor. Therefore a financial loss of Rs. 4.01 million had been made by giving of 534.6 machine hours on financial loss at Rs. 7,500 per hour.

The attention of the Management had not been made with relating to this loss.

Excavating of Sand Only on the Requirement of the Sand Excavator

Sand excavation of the Ambalangoda fisheries harbor had been done on the requirement of the sand excavator. Accordingly the excavation activity had not been made in accordance with the requirement of fisheries community in Ambalangoda fisheries harbor. It was confirmed in the physical verification made on 17 October 2017 that the excavation activities had been done in smaller range by the sand excavator. Though seven years period had been lapsed since the opening of the harbor, proper and long term formal system had not been prepared with relating to removing sand of this harbor where the sand is continuously gathering during that period. Therefore it had been created an impossibility status for the fishermen in reaching into harbor bay to get fuel, water and other facilities as well as to carry there harvest into land.

Non Charging for Engine Storage

A building had been constructed by Ceylon Fishery Harbours Corporation with the expenditure of Rs. 2.85 million in the year 2012 for the storage of engines of fisheries boats in Dodanduwa fisheries harbor. The fees could not be charged as there were no allocated rooms in the building. To rectify this weakness, this building had been partitioned into 16 rooms by spending a sum of Rs. 2.23 million in the year under review and had been handed over on 19 October 2017. No any fees had been charged for the rooms of this building even as at 20 March 2018.

Fuel Issuing Pumps Being Out of Order

Whole 02 fuel issuing pumps belonging to Ceylon Petroleum Corporation for issuing fuel in Tangalle fisheries harbor, were in out of order. Though one pump out of them, had been fixed on 29 January 2016 by purchasing for Rs. 150,000, it was idle for a period of 02 years up to 05 March 2018.

Pile up Boats in Galle Fisheries Harbor Premises

Boats had been piled up in several places in premises of Galle fisheries harbor and some boats had been destructed without doing any repair. Accordingly proper steps had not been taken by Ceylon Fishery Harbours Corporation by considering difficulties occurred to fishermen due to reducing the space of the premises.

Cafeteria Income

A period of one year and 03 months had been lapsed as at 06 April 2018 for the closing of cafeteria in Galle fisheries harbor. However an income of Rs. 3.15 million had been lost to the harbor due to non-taking actions by the Authority of Ceylon Fishery Harbours Corporation to award cafeteria by selecting a competent buyer.

The cafeteria belonging to Kudawella harbor had been leased out for one year period from the date of 01 June 2016 to date of 31 May 2018 for monthly lease rental of Rs. 60,000 and along with Value Add Tax. This agreement had been made inactive on 30 October 2017. Accordingly the arrears lease amount, charges for water and electricity of Rs. 1.24 million receivable as at 30 October 2017 in terms of the agreement had not been recovered by Ceylon Fishery Harbours Corporation even as at 23 April 2018.

Idle Ice Factory

Ice factory in Kudawella harbor had been leased out on 15 March 2017. However that was again handed over by lessee on 17 October 2017 (within 07 months). However lease amount receivable during that period of Rs. 548,564 had not been recovered even as at 23 April 2018. This ice factory was in idle even as at 23 April 2018 and remedial actions had not been taken to re-lease by Ceylon Fishery Harbours Corporation.

Designing of Fish Gathering Fixture

A sum of Rs. 1.41 million had been spent in the preceding year by National Aquatic Resources Research and Development Agency under the Project of Environment and Resources Friendly New Net Manufacturing in Tuna Fishing in Depth Sea by using Fish Gathering Fixtures and Radio Buoys. Accordingly 03 fish gathering fixtures had been designed and out of them, only one fixture had been placed in Kalmunai region on 29 September 2016. Remaining two fixtures had been kept idle even as at the month of July 2018.

Ornamental Fish Breeding and Managing Diseases

A sum of Rs. 1.22 million had been spent by National Aquatic Resources Research and Development Agency with relating to ornamental fish breeding and disease management through the participation of community surrounding Hambantota District. The project had been failed as the fish dying due to the delay in placing nursery fish in mud ponds.

Farming of Seabass Fish Breeding in Net Cages

Research project with relating to, improve fish feeding for farming of seabass fish breeding in floating net cages at lagoons, had been commenced in the year 2015.

A sum of Rs. 2.23 million had been spent as at the end of the year under review by National Aquatic Resources Research and Development Agency for that project. Though 12 net cages were placed as at the end of the year 2016 in the region of Negombo lagoon with relating to this project, supplying of relevant fish breeding had been delayed even as at the month of June 2017. Further, it was failed to place total of 21 net cages as at the end of the year 2017 which was required to cover the research project.

Providing Online System Customer Services

Provisions of Rs. 1.50 million had been provided in the year under review by National Aquatic Resources Research and Development Agency for the Fishermen Information Centre. Out of the provided provision a sum of Rs. 710,000 had been allocated to develop a computer software to provide online system customer services facilities. The customer services activities had not been commenced even as at the end of the year under review by developing the software.

Incapable of Completing Fish Requirement of Customers

It was targeted to purchase 7200 metric tons of fish by spending a sum of Rs. 2,592 million in the year under review by Ceylon Fishery Harbours Corporation. According to the progress report, 3329 metric tons of fish had only been purchased only by spending a sum of Rs.1,381 million. Though it was targeted to earn an income of Rs. 3,375 million by selling 7200 metric tons of fish, an income of Rs. 1,915 million had been earned only by selling of 3857 metric tons. Accordingly Corporation had failed to reach sales target by 46 per cent as well as to complete the activity of fulfilling fish requirement of the customer through supplying fish requirement at concessionary price as the main objective of the Institute.

Health and Nutrition

The Ministry is expected to ensure a qualitative health service through the formulation of policies, strategies and development activities for the sake of a healthy citizenry contributing to a rapid economic development in the country. In order to achieve that result, the Ministry comprises a Department, and 12 Statutory Boards/Institutions. Those Institutions should have executed the following duties.

- Policy Formulation, Implementation of Programmes and Projects for the Health Sector
- Setting up Standards and Guidelines for Healthcare Delivery.
- Human Resource Development.
- Management, planning, and systems development.
- Resource Allocation, Monitoring and Evaluation of Programmes and Project
- Administration of Main Hospitals.
- Regulation and supervision of Private Health Institutions.
- Matters relating to National Health Insurance Programmes.
- Formulation and implementation of Programmes to Improve Public Health and Nutrition.
- Expand Research Opportunities in the health sector.

The following deficiencies were observed in the audit test checks carried out relating to the execution of the said duties.

Underutilization of Capital Grants

Capital provision amounting to Rs. 45,594 million had been made for the Ministry of Health, Nutrition and Indigenous Medicine in the year under review through the annual budget and supplementary estimates. A sum of Rs. 27,499.73 million had been utilized therefrom by the end of the year under review. Accordingly, capital provision amounting to Rs. 18,094 million equivalent to 40 per cent had been saved without being utilized. That saving included the provision amounting to Rs. 5,732 million made for 34 Capital Objects, and the provision of Rs. 1,409 million made for 06 Objects through supplementary estimates which had been saved in full.

Implementation of the Construction Projects External to the Administration of the Logistic Division

Nine engineers including a chief engineer had been attached to the Logistic Division of the Ministry of Health, Nutrition and Indigenous Medicine. Fifty five construction projects had been implemented under the Ministry by the end of the year under review, and 28 of those projects had been supervised and administered by the Logistic Division whilst the rest of the 27 projects had been supervised and administered by the Divisions to which no engineers had been attached for administration.

Failure to Present the Audit with the Contract Value of the Projects

The contract value of 13 and 14 projects implemented by the Logistic Division, and other Divisions respectively, had not been made available to Audit. Such information could not be made available to Audit due to the fact that the Contract Register had not been updated properly.

Construction of the Outpatient Department and the Clinical Building of the National Eye Hospital of Colombo

The said construction had been executed under 02 stages. Provision amounting to Rs. 414.5 million had been made in that connection from the year 2012 up to the end of the year 2016, and the construction had been carried out under 02 stages by 02 companies. The contract value of those companies had been Rs. 264.8 million. The contract under the second stage should have been completed on 09 October 2015. From that date however, the period of contract had been extended by 399 days in 05 instances, and the period of contract should have finally come to an end by 10 November 2016. The following observations are made with respect to the said contract.

- The contract remained incomplete even as at 31 August 2017, the date of audit, even after a delay of 09 months and 21 days. The Ministry had incurred an additional expenditure of Rs. 2.91 million on the contractor due to increase in prices escalation due to extension of contract period from 09 October 2015.
- In spite of the sum totalling Rs. 2.55 million paid in the years 2014 and 2015 to a state institution which was the consultant of the project, approval of the Cabinet had not been obtained to select the said institution as the consultancy firm, nor had the provisions of the Government Procurement Guidelines been followed in that connection.
- Electricity had not been supplied to the building of which the construction had been completed. As such, it could not be verified at the physical inspection carried out on 31 August 2017 that the electricity supply system, electric equipment, air-condition system, and elevators had been functional. Nevertheless, the performance bond of the contract had already expired by 14 June 2017, but no action had been taken even up to the end of the year under review for an extension thereto.

Construction of a New Building Complex for the Ministry

The contract on design and build construction of a new building complex for the Ministry had been awarded to a state institution on 29 October 2014 for a tax inclusive value of Rs. 3,896 million in accordance with the Cabinet Decision, dated 19 October 2014. The following observations are made in this connection.

- Approval of the Municipal Council had not been obtained for the plan of the building prior to commencement of the constructions, and a feasibility study had not been conducted as well.
- The project had been scheduled to be completed by 29 October 2016 as per the Letter for awarding the contract. However, for the period 2014-2016, provision amounting to Rs.3,896 million should have been made, but the total of provision made during 2014-2017 amounted to Rs. 1,432.6 million. Accordingly, the Ministry had failed to obtain adequate provision to complete the project by the expected date.
- Due to failure in taking action to achieve the expected targets according to a proper plan, only a sum of Rs. 900.2 million had been utilized out of the provision made as at 31 December 2017. Only piling work of the building had been completed as at 31 December 2017, and by that date, the period of delay for the project had been a year and 02 months.
- Owing to the constructions of this building, the walls of 04 wards, labour rooms, neonatology unit, and surgical theatre of the adjacent Castle Street Hospital for Women had been cracked. Although some of those wards had been renovated, those areas had again been cracked. Information that an agreement had been entered into with the contractor to recover the damages, was not made available to Audit. It was revealed that a feasibility study had not been conducted for the construction of this building, and that had caused the failure to prevent this situation.
- Due to lack of space of the Suwasiripaya building in which the Ministry is maintained at present, this new building complex was planned to be built. However, due to failure in taking action to complete the project within the expected period, the building alrady had been obtained on lease since 01 May 2015 for an annual rental of Rs.108 million without taxes, had to be leased in further.

Construction of the 7-Storied Ward Complex of the Colombo South Teaching Hospital

The contract for the construction of 7-storied Millennium Ward Complex at the Colombo South Teaching Hospital – Kalubowila, had been awarded to a private company on 14 August 2006 at a value of Rs. 398 million. Despite being scheduled to be completed by 19 March 2008, the construction remained incomplete even by 31 December 2017. The following observations are made in this connection.

- Action had been taken to build another storey whilst the construction of 7-storied building was in progress as planned. However, a revised engineering estimate had not been prepared, nor had the approval of the Procurement Committee been obtained.
- A sum totalling Rs. 854.04 million had been domestically financed for this project during the period 2007-2017. The construction remained incomplete even by 31 December 2017 thus indicating a 09 year period of delay. As at 31 December 2017, the financial and physical progress thereof had only been Rs. 565.28 million and 66 per cent respectively.
- As the contract had not been completed properly, the contractor had been terminated on 06 March 2014 without taking action to recover the advance amounting to Rs. 51 million paid to him. As the performance bond had expired as at that date, the advance could not be settled therefrom.
- Although the consultancy firm had not involved in the contract during the period from 16 March 2010 to 31 December 2012, consultancy fees amounting to Rs. 14 million had been paid in respect of that period. Despite being informed to the Audit that action would be taken to recover the said amount of Rs.14 million from the consultancy fees to be paid in the future, a sum of Rs.27 million had been paid as consultancy fees in the year 2016 without recovering that amount.
- The equipment costing Rs.43 million as at 31 December 2017, had been retained at the site for 02 years without being used. The items such as, air-conditioners, washing machines, and fire extinguishers purchased by the contractor for the construction of the building, had become obsolete and warranties also expired. The other items at the site had also been decaying, and as the building had plunged in isolation, the security thereof had been under threat.
- Having obtained the approval of the Cabinet for completion of the rest of the works of the building, the contract valued at Rs. 743 million had been awarded to State Engineering Corporation of Sri Lanka on 31 May 2017

- based on recommendation of the Standing Procurement Committee appointed by the Cabinet. A sum of Rs. 743 million equivalent approximately to twice the amount of the first estimate had to be incurred on the rest of the constructions of the building that had been expected to be completed in the year 2008 at a value of Rs. 398 million.

Construction of Accident and Emergency Treatment Unit, Theatre and ICU of the Base Hospital, Gampola

The cost estimate of the said construction totaled Rs. 371 million with 09 bidders taken part in the procurement for the project, and the contract had been awarded to the bidder who had submitted the lowest bid of Rs. 270 million. The condition mentioned in the bid documents stated that a construction project valued at not less than Rs. 250 million or one similar thereto should have successfully been completed as the main contractor within 12 months during the 05 preceding years, and the contract should have been completed by 13 November 2018. The following observations are made in this connection.

- The procurement activities of this project should have been completed within a maximum of 40 weeks in terms of Guideline 4.2.3 of the Government Procurement Guidelines, but a period exceed by of 14 weeks had been spent thereon.
- As being a per qualification, the contractor had mentioned in his bid that he had constructed the building complex of the Chief Secretariat of Central Province. However, it was observed that the said building complex had been built by an other contractor. As such, the contractor whom the contract had been awarded to, had furnished bogus information, but the Technical Evaluation Committee had evaluated bids without taking note thereof.
- In terms of Guideline 5.3.19 of the Government Procurement Guidelines, the maintenance cost for 05 years after the period of free maintenance, had been included in the bid documents as an evaluation criteria. However, the Technical Evaluation Committee had evaluated bids thereby providing recommendations without evaluating the said criteria. The difference between the addresses mentioned in the bid security and bid documents by the bidder whom the contract had been awarded to, had not been taken into consideration by the Technical Evaluation Committee.

- As per the decision of the Procurement Committee, prior approval of the engineers should have been obtained for all subcontracts within a period of 06 months from the date of awarding the contract. However, despite a lapse of 09 months by 22 May 2018 since the date of awarding the contract, approval of the engineers had not been obtained in such a manner.
- The construction should have been completed by 13 November 2018 in accordance with the letter of awarding the contract. But, due to failure of the contractor to furnish insurance cover and an acceptable performance security even after a lapse of 154 days from the date of awarding the contract, the consultancy firm had recommended to cancel the contract on 23 January 2018. Nonetheless, the project had neither been commenced, nor the contract had been cancelled even up to 30 June 2018.
- In terms of Section 1.2.1 of the manual for obtaining consultancy services, a supplier should be selected for consultancy services in a competitive manner. However, consultancy services had been obtained for this construction from a state institution without doing so, thus paying a sum of Rs. 15 million by 03 July 2018.
- Due to failure in completing the procurement activities within the procurement timetable in terms of Guideline 2.9.1 of the Government Procurement Guidelines, only 50 per cent of the fee payable to members of the Technical Evaluation Committee and the supporting officers should have been paid. Furthermore, those members should have taken part in the meetings of the Committee after their normal working hours. Contrary to those rules, the Secretary had granted approval on 21 November 2017 to pay the total amount to the members of the Procurement Committee and the other relevant supporting officers based solely on their time of arrival. Following the said approval, 09 members of the Procurement Committee had been paid a sum of Rs. 98,000 whilst the minutes of the relevant Committee meetings had not verified that the said procurement had been carried out after the normal working hours.

Construction of a National Stroke Centre at the Colombo East Base Hospital

The cost estimate totalling Rs.543 million for the construction of 04-storied National Stroke Centre at the Colombo East Hospital had been approved by the Cabinet as well in the year 2015. A cost estimate totalling Rs.1,746 million had been approved by the Secretary to the Ministry in the year 2015 to construct a National Stroke Centre with 06 floors. In order to increase the number of floors from 04 to 06 whilst the total cost estimate is increased from Rs.543 million to Rs.1,746 million, approval of the Department of National Planning, Ministry of Finance, and Cabinet had not been obtained.

The procurement with a cost estimate of Rs.1,746 million should have been completed within a maximum of 10 weeks in terms of Guideline 4.2.3 of the Government Procurement Guidelines. Nevertheless, a period of 60 weeks had been spent thereon. In terms of Section 1.2.1 of the manual for obtaining consultancy services, a supplier should be selected for consultancy services in a competitive manner, but without doing so, that service had been obtained from a state institution thus paying a sum of Rs.41 million.

Second Health Sector Development Project

The Second Health Sector Development Project had been implemented under loans from the World Bank in order to provide financial assistance for the implementation of National Health Development Plan during 2013-2017. According to the financial agreement of the project, implementation of the activities of the project at national level and provincial level had been assigned to the Ministry, and the Ministry of Provincial Councils and Local Government respectively. The objective of the project was to enhance the standards on public health performance enabling favorable responses to the challenges posed by malnutrition and non-communicable diseases. The project activities had been commenced on 01 July 2013 and scheduled to be completed by 30 September 2018. According to the financial agreement, the total cost of the project amounted to Rs. 25,270 million, and by the end of the year under review, a sum of Rs. 4,436.62 million had been spent therefrom. The following deficiencies were revealed in that connection.

- It had been planned to newly establish Emergency Treatment Units at 14 hospitals while upgrading the existing Emergency Treatment Units at another 14 hospitals in view of improving the accident and emergency treatment service in Sri Lanka. Despite being planned to newly construct Emergency Treatment Units at hospitals in Kalutara, Polonnaruwa, Jaffna, and Kalmunai by 31 December 2017, none of those constructions had come to an end as scheduled.
- An agreement had been entered into with a private company on 18 December 2014 to introduce a software costing Rs. 4.7 million for the management of pool of vehicles belonging to the Ministry. Despite being scheduled to complete the installation of software by 30 June 2016, the installation process

had not been completed even up to 30 June 2018 with the period of contract not extended after 31 December 2016.

- Two Linear Accelerators had been purchased under project provision on 02 December 2015 incurring a sum of Rs. 476 million. Due to delay in constructing the concrete bunkers for installation of the machines, those machines had remained idle at the hospitals in Jaffna and Batticaloa over a period of 2 years and 6 months by 30 May 2018.

- As per the Project Corporate Plan, the overall provision made for new inventions throughout the 05 year project duration amounted to Rs. 346 million, but a sum of Rs. 399 million had been approved for 34 proposals of new inventions and researches as at 31 December 2017. The new inventions and research projects should have come to an end by 31 March 2018, but final reports of only 03 out of 34 research proposals had been presented by 31 December 2017. The inefficiencies in the research projects had been attributable to the reasons such as, the same person carrying out several projects relating to new inventions, and members of the Review Committee appointed by the Secretary to the Ministry conducting research projects.
- According to the Corporate Plan of the project, provision amounting to Rs. 672.74 million had been made for local and foreign capacity building. Sums of Rs. 48 million and Rs. 371 million had been spent by the end of the year under review for local and foreign capacity building respectively indicating a progress of only 62 per cent by the end of the year under review.
- In accordance with the Terms of Reference of capacity building, it had been planned under local capacity building to train 1,080 officers on the preparation of bidding documents and bid evaluation during the project period. However, due to delay in planning the training activities, only 86 officers had completed training by 31 December 2017.
- Despite being planned to train 2,100 officers under online short courses during the project period, but due to delay in planning the training activities, those courses could not be commenced even by 31 December 2017.
- In terms of Public Finance Circular, No. 03/2015, dated 14 July 2015, the advances obtained by an officer, should be settled within 10 days or as long as the completion of the intended purpose. However, the "ad hoc" Sub-Imprests totalling Rs. 6 million given by the project for miscellaneous activities had been settled after delays ranging from 16 to 348 days.

Regulation of Private Medical Services

The Health Services Regulatory Council had been established in the year 2007 with 1,747 private medical institutions registered in the same year. However, the number of private medical institutions so registered, had decreased to 1,024 by the end of the year under review. The closing or non-registration of private medical institutions, contributing to the decrease in the registrations, had not been looked into. A proper methodology had not been formulated and implemented in terms of provisions of the Sub-section 2(1) of the Private Medical Institutions (Registration) Act, No. 21 of 2006, to identify the number of private medical institutions to be registered, get them registered, and execute the provisions of Section 4 of the Act on the institutions that had not registered.

Loan Balances Recoverable from the Government Officers

With respect to the loans granted to the Government officers attached to the Ministry, The Ministry had failed to recover balances of Rs. 76.99 million from 1549 officers that had remained due over a period of 5 years as at 31 December 2017.

Expired and Quality Failed Drugs

The cost of drugs quality failed and expired had purchased in the preceding year to be sold by the State Pharmaceuticals Corporation, totaled Rs. 110.01million and Rs.19.98 million respectively, whereas the cost thereon had totaled Rs.23.56 million and Rs.80.83 million respectively in the year under review. As for the drugs that had failed quality assurance tests, sums of Rs. 133.57 million and Rs.26.60 million had not been recovered from the relevant drug suppliers even up to 26 March 2018 with respect to the preceding year and the year under review respectively. Furthermore, a loss totalling Rs. 89.97 million had been sustained by the Corporation due to expiration of drugs.

Osusala Drug Stores Running at Losses

Out of the 37 *Osusala* Drug Stores that operate in the year under review, 19 of them had run at losses totalling Rs. 41.29 million. Seven *Osusala* Drug Stores in Awissawella, Minuwangoda, Diyathalawa, Tangalle, Hambanthota, Jaffna, and Ratmalana, had sustained losses continuously from the year 2013 up to the year under review. No methodology had been put in place to minimize the losses, and 37.54 per cent of the total loss for the year under review had been sustained by the said 7 *Osusala* Drug Stores.

Monies Recoverable from the Drug Suppliers

In order to recover the expenses from the suppliers relating to quality fail drugs had been damaged, and the supply of drugs in shortfall to the Medical Supplies Division, along with the administrative charges thereon and the expenses on the disposal of such stocks, debit notes had been issued by 31 December 2017 to the value of Rs. 1,303.74 million. The State Pharmaceuticals Corporation had failed even by the end of the year under review to further recover a sum of Rs.580.00 million therefrom. Of those debit notes, Rs.104.80 million worth debit notes had been issued to suppliers who had been blacklisted, and hence, the recovery thereof remained doubtful.

The Purchase of 60,000 Units of Ascorbic Acid Tablets BP/USP 100 mg

The State Pharmaceuticals Corporation had received the first 30,000 units of the said drug on 15 November 2014. At the time of being identified that 25,450 units thereof had failed in quality assurance, 18,326 units were already sold to the patients. Even though 3,446 units of the drug had again been supplied by the supplier, action had not been taken to recover Rs. 11.69 million from the supplier relating to the rest of the 22,004 units along with a fine of 25 per cent thereon equivalent to Rs. 2.92 million. Although 25,450 units of the first stock of 30,000 units of the drug had failed in quality assurance, no action had been taken to cancel the second stock of 30,000 units. Notwithstanding the recovery of Rs. 14.61 million relating to the 22,004 units of the drug that had failed in quality assurance, the amount for the second stock of 30,000 units had been paid to the supplier by the Corporation in full.

Out of the second stock of 30,000 units received on 11 September 2015, a number of 1,500 units had failed in quality assurance, but even up to 30 March 2018, no action had been taken to recover from the supplier the total cost thereof amounting to Rs. 796,710 along with the 25 per cent fine thereon equivalent to Rs. 199,177.

After 3 days from the date of placing an order with the said supplier for 60,000 units of the drug, another order for the supply of 60,000 more units of the same drug had been placed with a different supplier, and the purchase had been made on 05 January 2016. A number of 74,370 units had remained at the stores by 31 January 2016. As stocks had been purchased in excess of the average monthly sales, 27,848 units inclusive of 27,347 and 501 units purchased from the first supplier and the second supplier respectively, had become expired by 31 December 2017. A loss of Rs. 14.83 million had been sustained by the Corporation due to expiration of drugs.

Failure to Recover Penalties for Delay

Action had not been taken to recover penalties for delay amounting to Rs. 20.26 million in accordance with the Agreement entered into by the State Pharmaceuticals Corporation with the supplier for the purchase of 30,000 units of the drug named Formoterol Fumarate and Budesonide Dry Powder Capsules (Foracort – DP Caps 400).

Payment of Incentives without Adequate Authority

Contrary to provisions of the Public Enterprises Circular, No. 95, dated 14 June 1994, incentives had been paid by the Sri Lanka Ayurvedic Drugs Corporation since the year 1997 sans approval of the Treasury. A directive had been issued by the Committee on Public Enterprises on 09 November 2007 that approval of the Treasury be obtained on the payment of incentives to the staff of the Corporation, but no action had been taken even up to 28 March 2018 to obtain that approval. A sum totalling Rs. 307.79 million had been paid in the year under review and 05 preceding years without approval of the Treasury.

Payment of Allowance for Unavailed Leave without Adequate Authority

A scheme for holidays had been formulated and implemented by including administrative and control regulations exclusive to the Sri Lanka Ayurvedic Drugs Corporation since 19 November 1987. However, approval of the Treasury had not been obtained thereon, and hence, the Board of Directors had decided on 16 February 2009 that the Establishments Code, Financial Regulations, and the other relevant Circulars should be used in that connection with effect from January, 2009 in substitution thereof. A sum of Rs. 18.29 million had been paid to the staff of the Sri Lanka Ayurvedic Drugs Corporation as allowance for the un availed leave vacation relating to the period 2012-2017 without approval of the Treasury.

Improper Recruitment of Staff

For the post of Security Guard not included in the approved cadre, 11 persons had been recruited on permanent basis whilst one person had been recruited on contract basis sans approval of the Department of Management Services and the Board of Directors, thus paying a sum of Rs. 10.02 million as salaries and allowances by the Sri Lanka Ayurvedic Drugs Corporation relating to the period 2015-2017. Furthermore, in excess of the approved cadre and without approval of the Department of Management Services, 02 Production Assistants, 03 Management Assistants, 04 Drivers, and a Laborer had been recruited on contract basis in the year 2015. Thus, for the period 2015-2017, a sum of Rs. 21.17 million had been paid by the Corporation as salaries and allowances.

Parliamentary Affairs and Mass Media

The expected result of the Ministry is the empowerment of State Governance through free media and reforms. The Ministry, two Departments and 12 Statutory Boards /Institutions under the purview of the Ministry had been established for the achievement of the said objective. The following functions should be performed by those institutions.

- Formulation, follow up and evaluation of policies, programmes and projects relating to the subjects of Parliamentary Reforms and Mass Media
- Functions to be performed by the Government, relating to affairs of Parliament and the Members of Parliament
- Administrative affairs relating to the staff of Members of Parliament
- Welfare activities of former Members of Parliament and their families
- Activities relating to reforms of Parliamentary supervision
- Formulation of Strategies for the Mass Media as a proactive agent in economic, social, cultural and political fields towards better public attitudes
- Implementation of programmes to enhance the knowledge, attitudes and appreciation in the people
- Adoption of necessary measures to ensure people's right to correct information
- Implementation of programmes necessary to create a high level of Media ethics
- Release of official communiqués and news to Media
- Release of information about Sri Lanka to Local and Foreign Media Institutions
- Provision of information and publicity material for Sri Lanka Missions abroad
- Implementation of International agreements and conventions relating to publications
- Sale, storage and dispatch of Government publications other than departmental publications
- Take appropriate measures for Production and exhibition of news, films and documentaries
- Broadcasting, including commercial television, radio broadcasting and overseas transmission

The following deficiencies were revealed during the course of audit test checks carried out regarding the performance of the said functions, by the Ministry and institutions under its purview.

Establishment of a Cinema School and a Film Restoration and Archives

Provisions of Rs.25 million had been made for the said purpose from the Annual Budget Estimate of the year under review.

As those provisions were inadequate, provisions totalling Rs.125 million including provisions of Rs.100 million allocated by the Supplementary Budget Estimate, had been made. However, there had been no utilization for the performance of the said function by the end of the year under review.

Non-recovery of over Payments

A sum of Rs.6.62 million had been over paid in the year 2015 to the contractor relating to the construction of the new media centre of the Department of Government Information. Even though a State Corporation acting as the consultancy institute relating to the said construction had informed the Department of Government Information to recover the said overpaid amount from the contractor, those overpayments had not been recovered even by 31 December 2017.

Deposit of Capital Grants received from the Government, in an interest free Bank Account

According to a request made by the Bank as to deposit a security, equivalent to the value stated in the Letter of Credit in an interest free account, the Sri Lanka Broadcasting Corporation had opened a bank account. An amount over Rs.100 million received from the Government as the capital contribution had been deposited in that bank account throughout the year. The balance therein had been Rs.153 million by the end of the year under review.

Sale of Newspapers and Periodicals and decrease in the entire Income

The Associated Newspapers of Ceylon Ltd. had published 06 types of newspapers and 09 types of periodicals in the preceding year while 06 newspapers and 12 periodicals published exceeding that number in the year under review. The number of sold copies of 04 newspapers and 06 periodicals published, had decreased by Rs.1,117,279 or 7 per cent in the year under review as compared with the preceding year. The entire income earned by the Commercial Printing Division, Special Publications Division and Digital Printing Division of the Company had decreased by Rs.9.39 million.

Close down of two Subsidiaries

Two subsidiaries had been commenced with an initial capital of Rs.3 million and Rs.2.5 million by the Associated Newspapers of Ceylon Ltd. The accumulated loss of those two subsidiaries by the end of the year under review had been Rs.25.8 million and Rs.13.1 million. Sums of Rs.22.7 million and Rs.10.7 million were receivable by the Associated Newspapers of Ceylon Ltd. from those two subsidiaries by that date.

The Board of Directors had decided on 15 February 2018 to close down those two subsidiaries due to losses incurred by those two subsidiaries and the unfavourable position in working capital thereof.

Launch of the Sanhindiyawa Channel

According to a feasibility study report in the year 2017, provisions of Rs.187 million had been made to the Ministry of National Integration and Reconciliation for granting it to the Sri Lanka Rupavahini Corporation to launch a national sanhindiyawa channel. Out of those provisions, a sum of Rs.171 million had been received by the Sri Lanka Rupavahini Corporation in the year under review. The Corporation had utilized only a sum of Rs.49 million out of the said amount for the relevant purpose. As such, the savings of Rs.122 million had been invested in fixed deposits by the Sri Lanka Rupavahini Corporation.

Decline in the Market Share of Media acquired by the Government Electronic Media

The Sri Lanka Rupavahini Corporation had acquired 8.7 per cent of market share of media in the year 2014, whilst the Independent Television Network Ltd. had acquired 18.91 per cent of the market share of media in the year 2014. The market share of those two institutions had declined up to 4.3 per cent and 7 per cent respectively by the year under review. Details appear in Figure 22

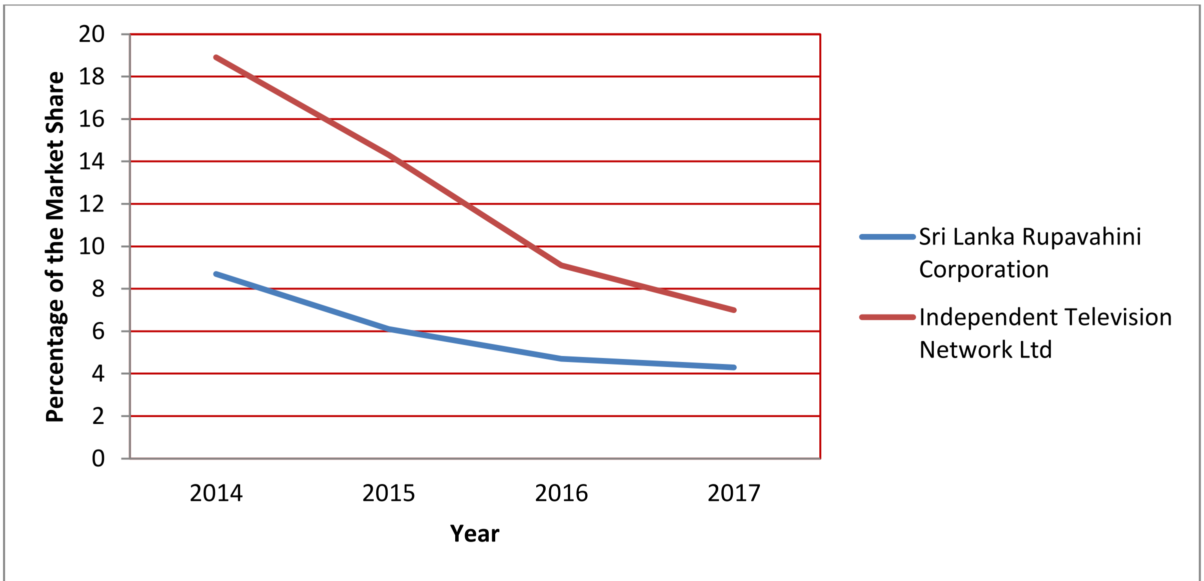


Figure 22-Decline in the Market Share acquired by the Government Media
Source – Lanka Market Research Bureau Limited

According to the details above, the market share of the two Government electronic media had continuously declined from year to year. As such, the income from sale of airtime, which is the main source of income of those institutions, had drastically declined. Details appear in Figure 23

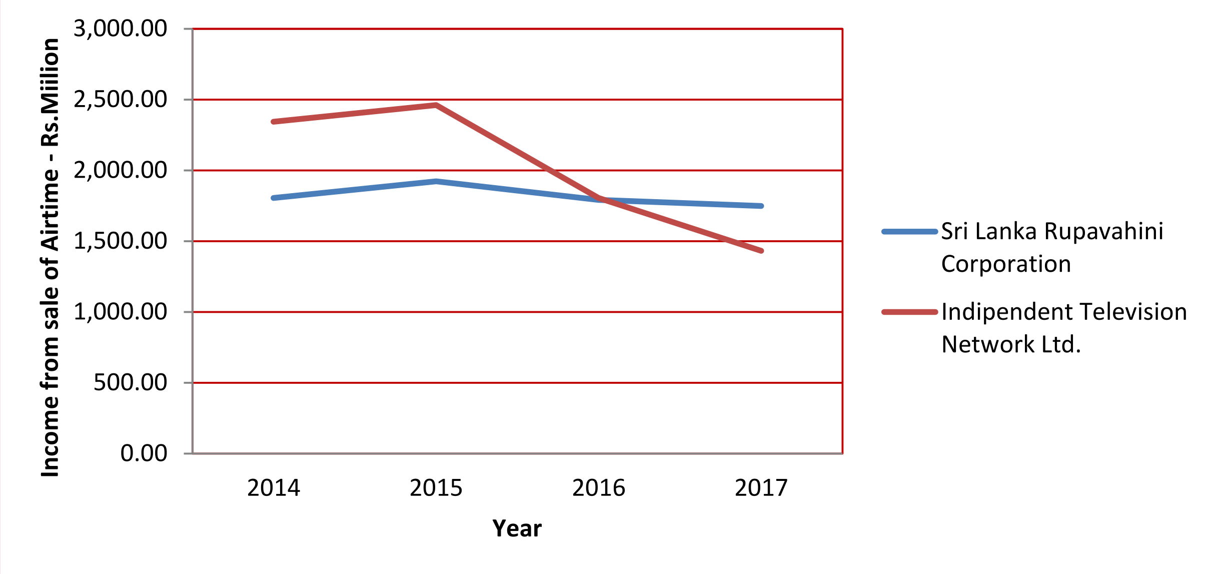


Figure 23 - Decrease in the Income from Sale of Airtime
Source – Annual Financial Statements

As the income from sale of airtime had decreased, the market shares as well had decreased and the clients had been attracted to private television channels. As such, airtime had to be given with discounts over 65 per cent under very low rates than the standard rates charged for approved advertisements of two channels for keeping the attraction of clients again, who left the two television channels. In addition to the said discounts, strip advertisements and extra advertisements as well had been over provided free of charge to those clients.

Maintenance of the Sri Lanka Press Council in a Private Building

In terms of paragraph 1 of the Circular No.CA/1/17/1 of 14 May 2010 of the Presidential Secretariat and the Directive No.7 of the report of the Committee on Public Enterprises dated 10 July 2012, it had been emphasized that offices of all Ministries and institutions under Ministries should be maintained in a Government owned building as far as possible. The Sri Lanka Press Council had been maintained in private buildings obtained on rental basis over a period of about 40 years from its inception. Moreover, a sum of Rs.18.81 million had been spent as rentals therefor during the period from the year 2006 to the year 2017. However, the Chairman of the Council had informed the Audit that this situation has arisen due to the difficulty in obtaining a Government owned building.

Failure in conducting Investigations on unregistered Newspapers

In terms of Section 25 of the Sri Lanka Press Council Law No.05 of 1973, every newspaper should be registered in the Press Council. Further, the Sri Lanka Press Council has the power in terms of Section 30 of the Law, to formulate rules and regulations in respect of newspapers which are issued to the market without being so registered. However, the Council had not formulated rules or regulations thereon. Even though the number of newspapers to be registered had been estimated as 300 by the Council, the number of newspapers registered in the years 2016 and 2017 stood at 230 and 199 respectively. However, action had not been taken even by the end of the year under review by the Council to conduct investigations on newspapers which are sold without being registered.

Non-investigation of Complaints made by the Public

Forty nine complaints had been made in the year under review to the Sri Lanka Press Council by the general public and various institutions against newspapers. The total number of complaints to be solved in the year under review including 52 complaints unsolved in the year 2016, stood at 101. Out of them, 35 complaints had not been solved even by the end of the year under review. A delay ranging from 01 year to 04 years had occurred in respect of 16 out 35 unsolved complaints.

Law and Order and Southern Development

The expected result of this Sector was to maintain law and order for a law abiding society and enhance the development of the Southern Province. The following functions should have been performed by the Ministry of Law and Order and Southern Development, a Department and three statutory bodies in order to achieve this objective.

- Formulation of policies, programmes and projects relating to the scope of the Department and statutory bodies for Law and Order and Southern Development, taking follow up action and evaluation, maintaining law and order, development of strategies including wide reforms ensuring social discipline
- Vehicular traffic control
- Control and prevention of crimes and anti-social activities
- Conservation, safety and rehabilitation of the historical Galle Fort
- Establishment of the Southern Development Board

The summary of the audit observations made in the audit test check carried out on the performance of above functions is given below.

Prevention of Vehicular Accidents

Taking necessary steps in order to streamline the vehicular traffic so as to secure the lives and property of the people is a key function of the Ministry of Law and Order and Southern Development. Rapid growth in the number of vehicles used for transportation throughout the country and the relative increase in the number of vehicular accidents being 6 accidents for 1,000 vehicles were evident during the period 2014-2016. It had dropped to 5 accidents for 1,000 vehicles in the year 2017. However, the number of deaths caused by accidents had increased annually. Due to the accidents, 2,816 persons had died in the year 2015 and it had increased to 3,147 persons by the end of the year 2017. The number of vehicular accidents and deaths occurred from the year 2015 to 2017 is shown in the Figure 24

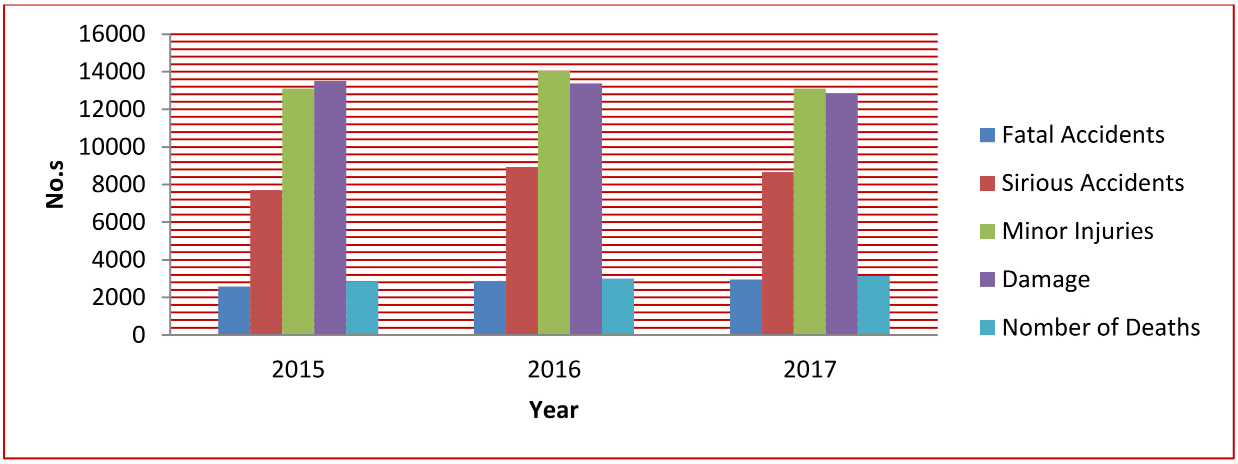


Figure 24- Vehicular accidents and number of deaths caused by such accidents
Source: Information of Traffic Police Headquarters

The number of fatal accidents and the deaths had increased during the year under review. The Police Divisions of Nugegoda, Gampaha, Kurunegala, Anuradhapura and Ratnapura had been identified as the Police Divisions where the number of fatal accidents and serious accidents occurred had exceeded 130 and 400 respectively per year. Furthermore, 1,205 accidents including 63 fatal accidents and 183 serious accidents of which the suspects were not identified, had been reported.

Solving Complaints on Crimes

A key index in reflecting the progress of safeguarding the law and order in the country is the absolute number of crimes reported in the country and the relative number of solving crimes reported. According to the crimes occurred, the number of crimes relating to 06 types of crimes had decreased in the year under review as compared with the preceding year. However, the number of crimes relating to another 04 types of crimes had increased in the year under review as compared with the preceding year. Further, out of the complaints received, the number of complaints solved relating to 08 types of crimes had recorded a higher percentage as compared with the preceding year. That percentage relating to 02 types of crimes had decreased in the year under review. The details are given in the table 21

Type of Crime	2016			2017		
	Reported	Solved	Percentage of solutions	Reported	Solved	Percentage of solutions
Grave Crimes	36,937	26,869	72.74	35,979	28,016	77.86
Minor Offences against Persons	45,579	30,481	66.88	52,224	29,303	69.40
Minor Offences against property	33,349	15,969	47.88	32,881	16,664	50.68
Minor Complaints	1,039,350	1,038,942	99.96	1,029,087	1,029,047	99.99
Crimes against children	5,709	3,294	57.70	5,054	3,711	73.43
Crimes against women	9,042	4,986	55.14	8,444	6,100	72.24
Liquor related Offences	120,105	111,028	92.44	120,198	113,037	94.04
Offences of narcotic drugs	88,352	86,330	97.71	107,944	104,641	96.94
Corruptions	1,255	1,217	96.97	1,055	1,025	97.16
Statutory Offences	46,171	44,177	95.68	49,013	46,857	95.60

Figure 21: Complaints on crimes reported and solved

Source-Annual Performance Report – 2017- Ministry of Public Administration, Management and Law and Order

Control of Narcotic Drugs

One of the key functions of the Ministry is the prevention of use and trafficking of dangerous drugs. According to the Annual Reports of the Police Narcotics Bureau , the quantity of drugs arrested in the year under review and the preceding year are shown in the Figure table 22

Institution	Heroine Kg		Cannabis Kg		Hashish Kg		Cocaine Kg	
	2016	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**
Police Narcotics Bureau	147.7	23.6	108.3	206.6	4.7	1.1	1,486.3	2.1
Police Stations	48.7	236.8	3,531.8	3876.9	35.6	3.0	1.6	218.6
Special Task Force	0.3	0.3	409.9	512.9	-	-	0.1	-
Other Institutions	10.2	54.2	124.5	390.6	-	34.0	82.8	0.0
Total	**207.0**	**315.0**	**4,174.5**	**4987.1**	**40.3**	**38.2**	**1,570.8**	**220.7**

Figure 22- Quantity of Narcotic Drugs arrested

Source- Annual Report of Police Narcotics Bureau

Delay in the Construction of Prefabricated Buildings

Provisions amounting to Rs.625 million had been made by the Annual Budget Estimate for the completion of 103 prefabricated buildings in the year 2017. The construction work of those buildings had been carried out by the Sri Lanka Police and the Special Task Force. Provisions amounting to Rs.450 million had been made for the Department of Police and out of that, provision of Rs.87.28 million had been saved. Construction work of 08 buildings had not been completed while the construction of another 02 buildings had not been commenced. Provisions amounting to Rs.175 million had been made for the Special Task Force while the construction work of buildings of 06 camps had not been completed.

Failure to achieve the Target of the Construction of 600 Police Stations

Provisions amounting to Rs.500 million had been made for the construction of 50 Police Stations and Police Checkpoints and out of that, a sum of Rs.446.88 million had been transferred to other Objects. Subsequently, a sum of only Rs.8.05 million had been spent out of the remaining provision of Rs.53.12 million. Seventeen new Police Stations had been established in the year under review and the total number of Police Stations had been increased to 489. Nevertheless, the expected target had not been achieved.

Development of the Police Training Academy

Provisions amounting to Rs.587.31 million had been made for the completion of development work of the Police Training Academy and out of that, a sum of Rs.563.00 million had been transferred to other Objects. Subsequently, a sum of only Rs.11.18 million had been spent out of the remaining provision of Rs.24.31 million. Even though the construction work of 11 buildings including the Administration buildings, hostels, quarters and playgrounds of the Training Academy, Katana had been planned to be commenced, construction work of 09 out of those had not been commenced.

Construction of Buildings of the Police Training College

Provisions amounting to Rs.199.69 million had been made for the completion of construction work and out of that, a sum of Rs.100.00 million had been transferred to another Object. Subsequently, a sum of Rs.95.96 million had been spent out of the remaining provision of Rs.99.69 million. Expansion of the Office Complex of Director by 06 projects including hostels, auditoriums and roads and the construction work of the hostels of the Inspector of Police Grade had not been commenced.

Police Information and Communication Network

A provision of Rs.150 million had been made for the completion of 50 per cent work of networking purposes in the year under review and the utilization of Rs.92.50 million out of the above, had been brought to account. Nevertheless, that amount had been retained in the Account (Logistics) of Inspector General of Police, thus the objective of networking purposes had not been achieved.

Construction of Buildings for the Special Task Force

A provision of Rs.325 million had been made for the construction of 60 buildings for the Special Task Force in the year 2017 and out of that, a sum of Rs.17.36 million had been transferred to other Objects. Thus, provisions amounting to Rs. 115.77 million had been saved by the end of the year under review. Construction work of 43 buildings had been completed and 17 buildings were under construction by the end of the year under review.

Capacity building with Modern Equipment

The additional provision of Rs.5 billion made under the annual budget proposals 2017 for the capacity building of the Department of Police with modern equipment in order to enforce the more appropriate law, had not been utilized.

Rehabilitation of Drug Addicts

The National Dangerous Drugs Control Board had conducted 06 camps for the rehabilitation of drug addicts and the service of a Medical Officer who had not fully registered or temporally registered in the Medical Council had been obtained for 03 camps out of the above. Analysis of samples of biological specimen for performance enhancing drugs in sports, providing scientific service for judicial proceedings and providing technical service for the Sri Lanka Customs had not been carried out in the year 2017. Out of these activities, only one activity had been carried out in the year 2016. The analysis carried out to test whether new adulterants are contained in heroin available on the "Street", was less than 50 per cent and E education programmes provided by the Drugs and Crimes Prevention Office, preparation of field test kits for the law enforcing institutions in order to identify narcotics and psychotropic substances had been in a very weak level representing only 10 per cent. It had shown a progress of 37 per cent in the preceding year.

Ports and Shipping

The expected result of this field was creation of marine harbour facilities without hindrance. To fulfill this desire the Ministry of Ports and Shipping and three Statutory Boards/ Institutions following functions should have performed.

- Formulation of Policies, Programmes and Projects relating to the subjects of Ports and Shipping.
- Development and administration of ports, oil installation and equipment, lighthouses and beacons other than those belonging to the Admiralty.
- Arbitration of disputes between shipping services providers and users.
- Establishment of rules of competition for Shipping Services Providers and users.
- Assist in establishing Consultative Co-ordination between shipping service providers and users.
- Receiving wrecks and ocean salvages
- Administration of Shipping Development Fund.
- Administration of freight and Shipping Services
- Coastwise passenger traffic
- Supervision of Institutions under the Ministry.

A summary of the audit observations on the performance of the function by the above institutions revealed at the audit test checks is given below.

Hambanthota Harbour – Acquire of Lands and payment of compensation for stage II

Provisions had been made at the rate of Rs.1,000 million for the year 2016 and 2017 respectively for the acquire lands and payment of compensation for this project.

Out of that provisions, a sum of Rs.892.5 million and Rs.164.2 million totalling to Rs.1,056.7 million respectively had been spent for acquire of land and payment for compensation. But action taken to vets the legal ownership of the vested lands and alternative lands gave for the first residences procure activities of the regular ownership certificates was not complete even as at 8 May 2018.

Development of Jetty Facilities in Jaffna peninsula and connected Islands

Provisions was made sum of Rs.50 million and Rs.35 million totalling to Rs.85 million in the year 2016 and 2017 respectively for transportation of passengers and goods in secured manner in Jaffna peninsula and connected Islands. Out of that provision a sum of Rs.14.5 million and Rs.20.5 million totalling to Rs.35 million only utilized for 2 development activities implemented by the Jaffna District Secretary Office. Following weakness were observed in implementing of that projects.

Construction of sub office of Jaffna District Naval Secretary Office and Quarters.

According to the action plan relevant to the year under review the construction activity should have to be closed as at 31 December 2017. But only about 7 per cent physical progress had been obtained at the end of the year under review. However, according to the agreement entered with the contractor construction works should be completed at the date of 08 August 2018. The overall physical progress as at that date was about 45 per cent.

Construction of Shipway

An agreement had been entered with Sri Lanka Navy on 29 August 2016 for the construction of slipway in Kaityz Divisional Secretary area with the aim of registration of passenger and transportation of goods between Jaffna Peninsula and Islands, regulation and providing facilities for repairs. According to the agreement the construction activities should be completed as at 31 December 2016. But activity not completed even as at 31 December 2017. According to the Progress Review Reports for the year under review physical progress of the overall construction held at level of 65 per cent.

Maintenance of warehouses for Clearance of Baggages

Income amounting to Rs.29.64 million had been planned in the year 2017 to collect from the holding of warehouses in connection with clearance of unaccompanied personal baggage's clearance. But construction works of the relevant project was not completed as at 31 December 2017.

Non Implementation of Projects

The following projects planned to implemented during the year under review by the shipping corporation limited it was observed following projects not implemented.

- Although income amounting to Rs.53 million had been planned in the year 2017 in supplying operational services for Tug vessels that project not implemented even as at 31 December 2017.
- Although cabinet approval had been obtained for the purchase of two self propelled barges jointly with a third party. The Project not implemented because it could not be arrival to a agreeable with the relevant institutions.
- Due to delay in obtaining licenses for the supply of fuel by Floating Bunker Storage for ships jointly with a third party that project was not implemented.
- Due to the reasons of limited facilities and without tourism attraction existing terminus in the region of South Indian Passenger Ferry/ Cruise operations that project could not be implemented.
- Not having necessary data on feasibility study, necessary data for holding the maritime marine services due to that it could not be completed.

- Amendments of shore regulations and Domestic Laws in accordance with Enactments of the International maritime organization.

The Cabinet had approval on 29 April 2015 to amend the domestic laws to fulfill international enactments of the International maritime organization. Although regulations relating to shore and domestic laws in compliance with amendments made to the international enactments to present as at 30 June 2016 for the approval at the parliament planning had seen made by the shore marine Secretary Office relevant draft acts not presented to parliament even as at 31 December 2017.

Ship Immigration and Direction of cargo ports belong to the Sri Lanka.

Ship immigration and particulars of the containers units and conventional cargo handled by the major ports of Colombo, Galle, Hambantota and Trincomalee during the 5 preceding year appear in table 23 below.

Particulars	2013	2014	2015	2016	2017
Number of Ship Arrivals	4,024	4,298	4,760	5,023	4,942
Number of Twenty equivalent units of containers handled (units 000)	4,306	4,908	5,185	5,735	6,209
Conventional cargo handled (metric tons 000)	5,664	6,339	7,156	7,811	7,735

Table 23: Containers units and conventional cargo handled by major ports
Source : Performance Review Report of the Sri Lanka Ports Authority

The total number of ship arrivals in Sri Lanka in the year 2017 had been 4,942 and that as compared with the preceding year decreased by 1.6 per cent. The reasons for this was because of amalgamation of ship companies bring containers by more deep large ship. The number of Twenty Equivalent units of containers handled in the year had been 6,209,068 and that is compared with the preceding year indicated an increase of 8.27 per cent. Also the conventional cargo handling during the year 2017 had been 7,735 metric tons and that as compared with preceding year indicated on decrease of 0.97 per cent.

International place in the Containers Handing Operations and the Market share of the Ports Authority

According to the Alphaliner Report on the World Ports for the year 2017 issued by the Alphaliner organization, Sri Lanka Ports Authority remained in placement No.23 by handing 6,209,068 Twenty Equivalent units as compared with the year 2016 those activities had achieved on improvement of 8.27 per cent.

There were 4 terminals functioning of operational activities end of the year under review in the Colombo Port thereby Jayabahalu terminal and Samagi container terminal fully owned to the ports Authority.

Other 2 terminals of Colombo International Container Terminal and South Asian Gangway Terminal had leased to the 2 private institutions on the basic of built, operation and transfer for 35 years at the ownership of 85 per cent.

Although the container operation of the Colombo harbour was increase by 8 per cent an a whole relative to the year 2016, but container operation activities of Sri Lanka Ports Authority had decreased by 4 per cent. Following matters were effected mainly.

- The maximum depth of the terminals operational activities doing now belong to the Authority in 14.2 meters that depth is not enough for the anchorage for large ships used at present and action had not been taken to implement the East Terminal which was the construction completed (with depth 18 months) with sufficient depth.
- In the terminates existing Gantry “cranes” fruitful lifetime in close and that instruments are out of dated.
- Not amend, the free period storehouse charges as competitive.
- The ships belonging to 4 private companies are sailing equal depth in South Asian Gangway Terminal during the year under review.

Decrease of the Terminal operation of Sri Lanka ports Authority.

The container operation capacity of the Sri Lanka Ports Authority during the 17 years period from the year 2001 to the end of the year 2017 had rapidly decreased from 81 per cent of the total container handling to 32 per cent. Nevertheless, out of the two competitive private companies operating in the Port of Colombo the company which commenced operations in the year 2013 had achieved a rapid improvement from 1 per cent to 39 per cent whilst the 19 per cent market share of the other company for the year 2001 had improved to 29 per cent in the year 2017. The particulars of container handing in 17 years appear in Figure 25 below.

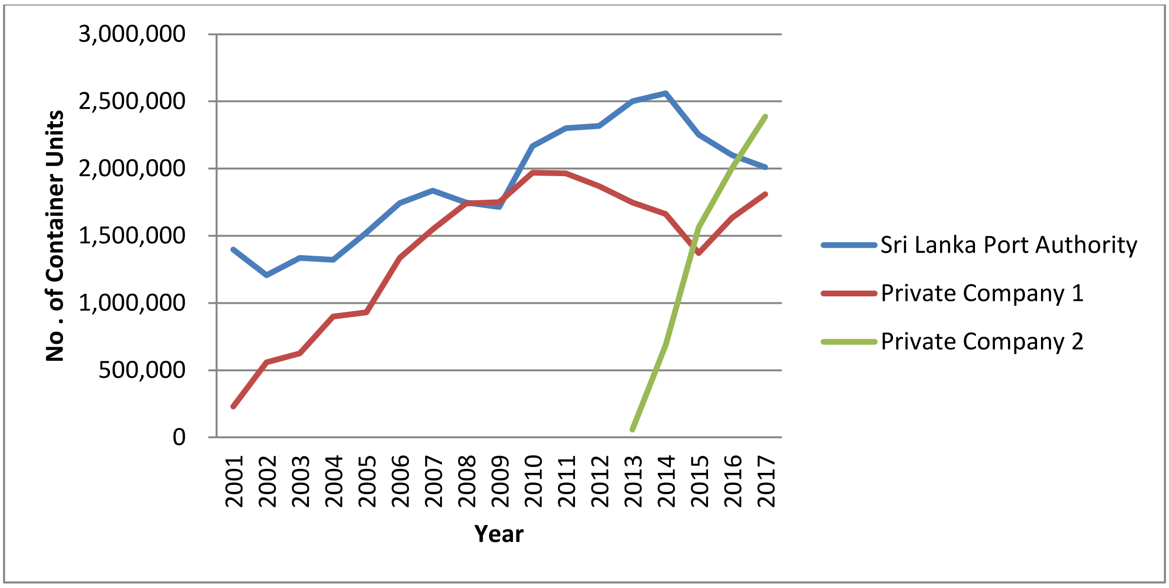


Figure 25 - Terminal operations of Sri Lanka Ports Authority
Source : Performance Review Report of the Sri Lanka Ports Authority

According to the above table the market share of container handing of the Sri Lanka Ports Authority had been gradually taken possession by the private sector. The terminal Occupancy Ratio of the container operations of the Sri Lanka Ports Authority for the years 2015, 2016 and 2017 had been 68 per cent, 63 per cent and 60 per cent respectively. According the Terminal utilization ratio of the Authority had gradually decreased.

Non – commencement of operation of the East Container Terminal

The work on the construction of the East Container Terminal 600 meters in length water depth of 18 meters and capacity of 800,000 a part of Twenty Equivalent units had been constructed spending Rs.11,168.47 million and completed on 24 June 2016. But action had not been taken even as at 30 September 2018 for the purchase of equipment necessary and commence the operations.

Position of the Tax before Profits and Losses

Major Ports belonging to the Sri Lanka Ports Authority during the 5 preceding year expect year 2015 tax before profit received. Out of the previous years tax before project for the year under review was Rs.13,222 million. Details of the earned tax before profit/(Loss) appears in the figure 26 below.

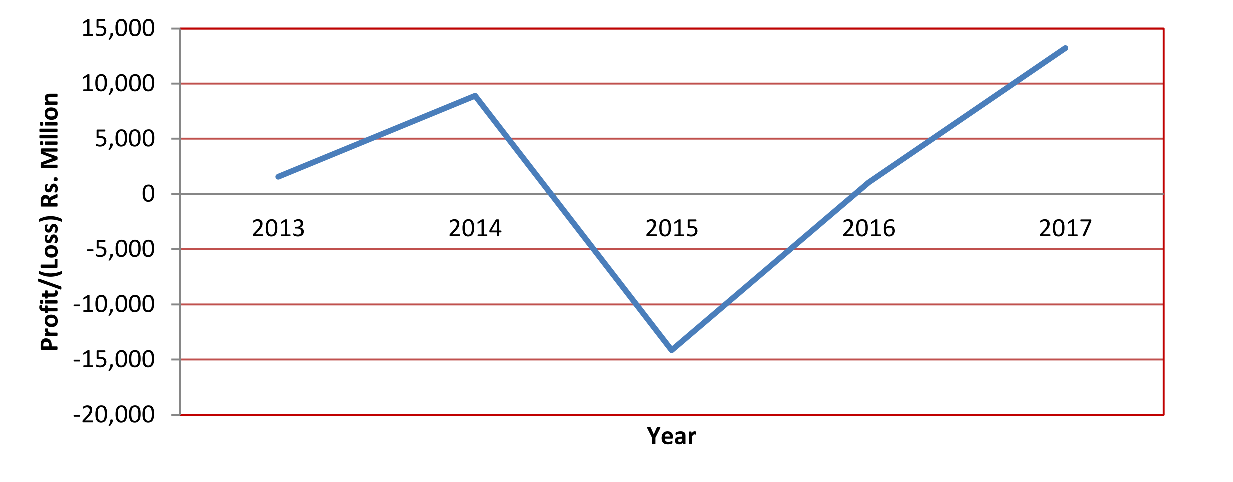


Figure 26 - Net operating Profit/(Loss)
Source : Financial Statements of Sri Lanka Ports Authority

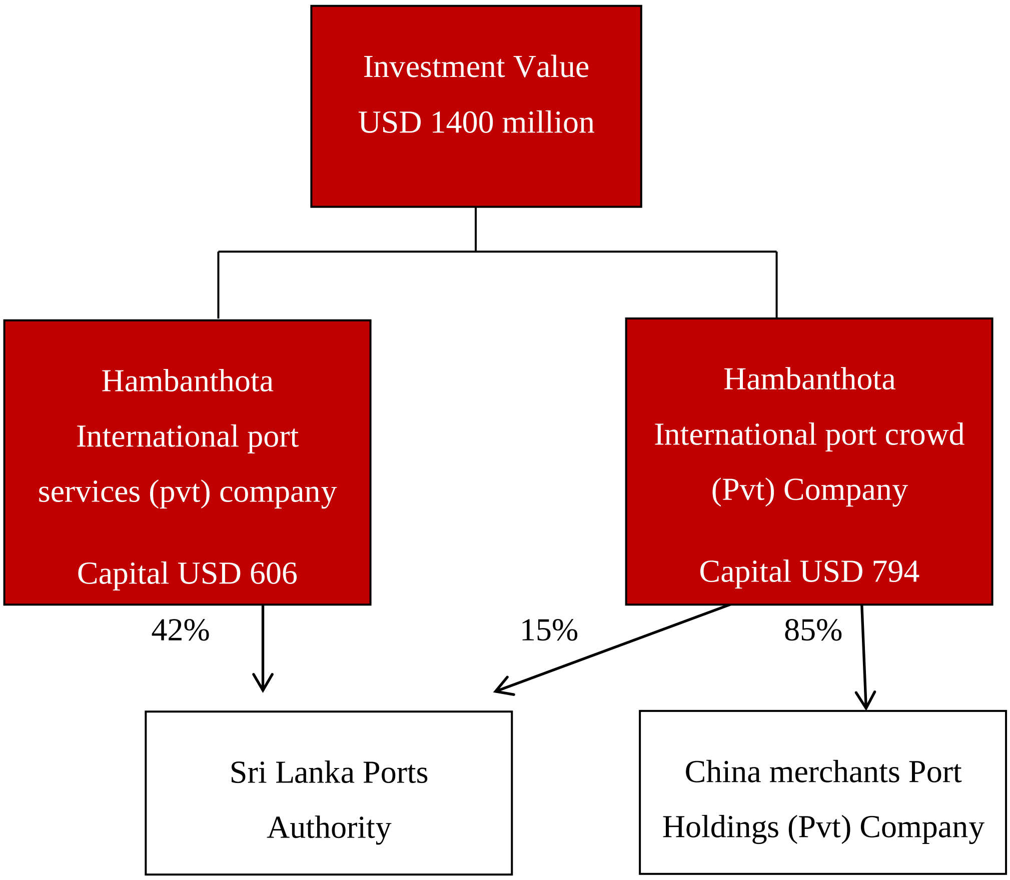
Port of Hambanthota give on Lease Basis

Construction of the first stage of Port of Hambanthota competed in the year 2009, stage II is being constructing operational activities of the Port had been commenced. The whole expenditure for the construction of stage I and II of the Port of Hambanthota including foreign loan, domestic loan, direct contribution and indirect cost of Ports Authority was USD 1,541 million. The particulars of expenditure appear in table 24 below.

	USD million
Foreign loan, Domestic loan and Direct contribution of Ports Authority	1,302
Money to be period further for Instruments	60
Acquision of Lands, Payment of local taxes, other expenses including expenses on project monitoring	179
Total	1,541

Figure 24 Expenditure incurred on behalf of Port of Hambanthota
Source : Reports presented by the Project Office

The Operational activities of the Port of Hambanthota for the period since the year 2009 up to the year 2016 had been done by magampura Port Management Company according to the financial statements of the Authority the operational loss of that company was Rs.21,904 million. The assets belonging to the Port of Hambanthota had invested for period of 99 years in two private companies which was established in the year 2017 by a cabinet decision dated 04 August 2017. According to the Cabinet decision the investment of companies as follows.



A sum of USD 973,658 million had been paid by the China Merchants Port Holdings (Pvt) Company for purchase of own shares in respect of above transaction while that money gave to the General Treasury by the Authority. Audit observations revealed in this connection is given below.

- The property of Port assessed by an accepted assessor not decided the value of investments under that value and the details of calculation of capitalized value of investments of 2 companies amounting to USD 1,400 million not presented to audit. In decided the investment value on the lands of 1103 hectares entrusted the tax recoverable for the period of 99 years the valuation of the investments the corroborate evidence for that not provided to audit. However, including in the accounts of the Authority net value of Rs.169,586 million including the lands of 1103 hectares pre hold property and moveable property amounting to Rs.21,815 million establishing in 2 assigned companies that assets identify an investment property of the Authority.

- Assets of the Hambanthota Port had been entrusted to the new company since 09 December 2017.

- So much, Port's management activities done by most of employees of the Magampura Port Management Company although dismissed from service paying compensation there is no plan prepared for close the activities of the company even as at end of the year under review. Some officers had engaged in service further.

- The assets relevant to the Hambanthota Port included in the financial statements relating to the year under review of the Authority had been invested in 2 companies as above to obtain the ownership of the shares China Merchants Port Holdings (Pvt) Limited a sum of USD 973.66 million gave to the Authority had been given by 3 instalment to the Treasury as at 30 June 2018. But loan obtained for the construction of Hambanthota Port by the Authority, the remaining loan balance of Rs.147.746 million as at 30 November 2017 to entrust for the General Treasury no comply had been entered between Sri Lanka Ports Authority and General Treasury. Further responsibility of payment of loan entrusted to General Treasury as per the cabinet decision dated 4 August 2017. However the loan balance had been removed from financial statements without the comply of the General Treasury or a cabinet decision.

- For the construction of Hambanthota Port obtained loan balances had not been entrust to a other institution on the reasons of it remaining from the Authority's accounts that loan money not included in a any account of the state. Removed that foreign loan converted into local currency foreign exchange conversion loss identified up to 31 December 2016 as Rs.27,458.93 million had been adjusted to the Retained Earnings balance of retaining earnings at end of the year under review had been overstated by above amount.

Activities of Action Plan not fulfill

Even though it had been planned to installed CCTV camera system spending Rs.60 million for all gates and bonded ware houses to confirm the security of Port premises name as high security Zone, to implement container Terminal Management System spending Rs.400 million for the Information Technology Division, to arrange entrance gate independent system spending Rs.50 million and preparation of sound communication system spending Rs.20 million by Electric and Engineering Division relevant any activities had not been initiated during the year.

Non fulfill the Requirements of Finance Act No.38 of 1971

If there is a surplus any year in a corporation after the deductions mention in the Act, the balance should be credited to Consolidated Fund as per section 10(5) of the Finance Act No.38 of 1971. However, although a net profit of Rs.1,035.73 million and Rs.13,324.14 million respectively received in the years 2016 and 2017 something from that profit had not been cridited to the Consolidated Fund. Further annual rental and royally recovered by the Authority from private 2 companies engaged in operational activities in the 2 Terminals Colombo Port had included in the above profit that the income for the year 2017 was Rs.1,993.4 million and Rs.2,489.28 million respectively.

Action not taken to Relief from custom penalty

Custom penalty amounting to Rs.1,580 million had been imposed in respect of imported 27 cranes on behalf of without knowingly the Sri Lanka Custom in the year 2011. According to the Section 165 of the custom ordinance receiving a decision of custom examination within a month a appeal can be presented to the Minister of Finance such an appeal had not been presented to the Minister of Finance to relief the above penalty. Further a case to being adjudicating in Supreme Court.

Construction of Suriyawewa International Cricket Stadium

Creation and construction work of the Suriyawewa International Cricket Stadium on behalf of Sri Lanka Cricket Institute done by the Authority. This construction had been done as a variation order by the contract of Hambanthota Port construction. According to the books of the Authority a sum totalling to Rs.5,838 million with the interest of Rs.2,881 million should be paid to the contractor as at 31 December 2016. Two parties had been came to an agreement on 29 December 2017 paying a sum of Rs.2,957 million for expenses for construction contract and a sum of Rs.993.8 million for interest totalling to Rs.3,950.8 million and close the transaction on a decision of international tranquilit. Non paying sum of Rs.993.8 million at the due date to the contractor interest expense had been made. The stadium had been constructed for the Sri Lanka Cricket Institute not entering into a proper agreement with that institution above construction cost and interest incurred not agree by the Sri Lanka Cricket Institute and the General Treasury agree to pay that money and that construction and interest cost had become a expenditure burden to the General Treasury.

Achievement of Sustainable Development Targets

Although all Government Institutions had awarded elapse in different stages belong to United Nations Organization member states as at year 2030 in economic, social, environmental etc in various field same surface carrying expectation in 17 goals and stabilized 169 goals No.17 of 2017 Sri Lanka Sustainable Development Act passed on 03 October 2017. But Sri Lanka Ports Authority had not taken action to achieve that goals.

Highways

With the objectives of improving the quality of life of those who use roads by improving road safety and convenience and minimizing the travel time and cost be establishing a road network of high mobility. The following duties should have been performed by the Ministry of Higher Education and Highways together with a statutory institution.

- Preparation of policies, programmes and projects within the scope of highways.
- Implementation of those projects.
- Coordination of development activities in collaboration with the Provincial Councils and Local Authorities based on national level policies.

The audit observations made in the audit carried out in respect of the execution of the said duties are summarised below.

Over payment of mobilization Advances

Developments made to the roads Moratuwa to Piliyandala and Ratmalana up to Mirihana the engineering estimates was Rs.1,322 million under the Southern Provincial Road Connectivity Project. The roads had been functioned cut down the estimated value of Rs.654 million. But the mobilization advances amounting to Rs,104 million had been paid for the cut down areas. Thus, the moreover payment of advances had not been recovered even as at end of the year under review. Likewise, consideration had not been taken provisions for contingencies and value of specific provisions including in the bill of quantities in Baddula Wenkalad Road Project moreover payment of mobilization advances amounting to Rs.456.86 million had been made.

Advance payments without attention of the progress

An advance payment of Rs.49 million had been made without attention paid to the less progress and inefficiency of the contractor in the Southern Provincial Road Connectivity Project performing in developments in roads of Kesbewa to Pokunuwita and Kirulapana to Godagama.

Non-utilization of money received for projects

Less progress and weakness in the planning in the construction activities of the National Highway Sector Project USD 6.13 million equivalent to Rs.923 million could not be utilized and that money had been refunded.

Non-preparation of Reports

Preparation of reports of effect to the environment by the Kelani Bridge to up to Athurugiriya elivated highway project and preparation of plans on resettlement contracts had been awarded Rs.3.95 million and Rs.3.71 million respectively to the Road Development Authority. But that reports had not been prepared even as at 31 March 2018.

Performance Bond Value paid by the project

With relevant to the agreements of Joined Road Development Programme and Southern Highway Road Project according to the general condition 4.2 the cost of performance bond value should be paid by the contractor. But the contractor should have to be paid Rs.609 million and Rs.21 million totalling Rs.630 million cost of performance bonds value paid by the project. The Technical Evaluation Committee had not been paid attention in preparing bid document and evaluation of bids.

Rate mentioned as Lump sum in the estimate

The rate of Item No.119.2 (1) had been included as Lump sum in the estimates prepared for the Joined Road Development Programme. So the project tied to pay total amount mentioned in that non-considering the actual cost. Owing to this the project had been paid surplus amount of Rs.340 million for the contractor. The Technical Evaluation Committee had not been paid attention in preparing bid documents and evaluation of bids.

Payee Tax paid by the Project

In compliant with the paragraph XIV of the Inland Revenue Act No.10 of 2006 and Public Enterprises Circular No. PED 12 of 02 June 2003 non-preparation of

Payment of Variation Orders

The construction of road of Southern Highway from Pinnaduwa to Godagama

consultants agreements the payee tax amounting to Rs.61 million had been paid by the Joined Rural Development Programme. Goods imported based on receiving tax exemptions under the re-exportation. The relevant source approval of the site or constituted bonds had not been get for this. To confirm a supervision made by a responsible person in respect of imported goods shall be re-exporting at the end of the project not confirmed in audit.

Payment of Demurrages

Activities had not been made as per the loan disbursement schedule demurrages amounting to Rs.46 million equivalent to USD 305,203 had been paid as a result of showing poor physical progress and financial progress under the Joined Road Development Programme.

Non-verification of Assets

Assets valued to Rs.466 million had been purchased under at the rate of lump sum the bill of quantities No.120.4(1), (2) and 120.5 (1), (2), (3) for the project of Joined Road Development Programme. These assets had not been verified even as at 31 December 2017. The value of assets mentioned in the statement of financial position of the Joined Road Development Programme completeness, accuracy and evaluation could not be ascertained. Payment approval of the inter certificates and basis of certificate could not be confirmed in audit.

had been completed on 15 March 2014. Contrary to the condition 13.1 of the contract agreement 198 variation orders had been issued and the constructions were being carrying at the end of the year under review the payments made on variation orders was 106 per cent of the value of work done.

Payment of Delay Interests on Acquiring the Lands

Even though the plan had been made acquire the 5411 plot of lands in the road of Badulla Venkalady, a sum of Rs.13.3 million had been paid for 40 plot of lands. Delay interest amounting to Rs.3.8 million had been paid for 38 plot of lands which were not acquired in proper time.

Project instruments given to the contractor

A sum of Rs.27 million had been paid for experimental instruments at the lump sum rate including in the relevant bill of quantities for the construction of road of Badulla Venkalady. Provisions had been made to give the ownership of these instruments to the contractor after completion of the project.

Non-identify the responsible officers for the Time Delay

The planning activities of the project of Badulla Venkalady had been given to a private institution. That institution providing wrong survey measurements owing to delay in planning activities of the road, the contractor requested time extension at the initial stage of the project. A sum of Rs.6 million had been paid by the project to the planning institution. Action had not been taken to identify the responsible officers for the reasons for time extension based on.

Over payment of Insurance Charges

A sum of Rs.26 million had been paid to the contractor for the item of insurance as the rate as lump sum included in the bill of quantities of the construction of Badulla Venkalady road. But the contractor had spent only Rs.21 million. Therefore, a sum of Rs.5 million had been over paid to the contractor.

Commitments on liabilities without providing allocations

As per the section 2(d) of the Public Finance Circular No.255/2017 dated 27 April 2017 all liabilities should be settled paying by cash within that year not doing so liabilities amounting to Rs.16,942.50 million had been approached by the ministry of Higher Education and Highways. Provisions amounting to Rs.4,149.60 million had been created in the 2018 annual budget estimate to settled that liabilities. So the ministry had been approved liabilities amounting to Rs.12,792.90 million contrary to the above circular regulations.

Skill Development and Vocational Training

Following functions are to be performed through the Ministry of Skills Development and Vocational Training, the Department and 11 Statutory Boards/Institutions with the expectation of creating a skilled labour force for strengthening the youth by way of education, vocational and technological training.

- Formulation, follow up and evaluation of policies, programs and projects relating to the subjects of skills development and vocational training programs.
- Formulation of policies and providing facilities to strengthen vocational education requirements of students who do not qualify for University education.
- Innovation of technical and technological education to create a pertinent labour force for the job market.
- Taking steps for the promotion of apprentice training opportunities.
- Formulation and implementation of strategies to uplift the tendency towards vocational evaluation.
- Formulation of a skilled labour force by strengthening the youth through education as well as vocational and technical training.

The audit observations revealed in the discharge of the said functions by the Ministry, Department and the Statutory Institutions, are summarized below.

Non-improvement of Quality in Vocational Training Courses

The vocational training courses should have been accredited in terms of the Tertiary and Vocational Education Act, No.20 of 1990. From among the 4,147 courses conducted in training centres established under the Ministry, 1,513 course had not been accredited even by the end of the year under review. Further, training equipment and infrastructure facilities required for conducting training were not developed and the laboratories were not properly arranged as a result of which the possibility of importing quality training to students was at the minimum level.

Awareness of Society about the Vocational Training Courses

It is a function of the Ministry to formulate and implement strategies to uplift the tendency towards vocational education. However, no systematic program had been implemented to get the students attracted to follow the courses.

Inadequacy of Student Participation in Training Courses

The student participation in certain training courses conducted at training centres established under the Ministry had been numerically low. It was observed that 118 courses had been conducted with less than 5 student, a number of 273 courses had been conducted with students ranging from 6 to 10 in number and 612 courses had been conducted with a student strength of less than 15 students in each. The Ministry had not paid its attention to the under-utilization of the vocational training courses without using the resources efficiently and productively when the required resources and facilities had been provided in full to enroll more students.

Non-Filling of Vacancies in the Academic Staff and Non-Training of Instructors

Adequate academic staff should have been recruited to the 367 Vocational Training Centres maintained under the Ministry and arrangements should have been made to get them participated in proper training program in order to improve quality of their teaching in the particular subject area they teach. However, although 109,632 students had been enrolled for training during the year under review, no action had been taken to recruit an adequate numbers of trainers for training them. In certain centres there were 752 vacancies in the approved cadre of lecturers.

No Follow up Action had been taken regarding the Students who completed the Courses

The follow up programs had been implemented in regard to employment of trainees who had completed their vocational training at many training centres which are run under the Ministry.

In the absence of a data system to find particulars of trainees entering the Job market, no opportunities had been created to evaluate the required modernization of the existing training system. Moreover, the Ministry had not paid its attention to requirements such as co-ordination between the Vocational Training Institutes and Foreign Employment Agencies, to seek avenues of employment for the passed out trainees under the Public Private Partnership (PPP) and formulation of a systematic program to encourage self-employment for those who are interested in such a way of life.

Function of the University College

Six University Colleges had been established under the Vocational Technology University funded by the Skills Sector Development Project. It was possible to enroll 1,575 students for the 50 training courses conducted in the University Colleges.

However, only 1,329 students were enrolled of whom 101 students abandoned the courses. Although all the staff vacancies should have been filled during the year in terms of the Action Plan meant for the Vocational Technology University, there were 35 vacancies for lecturers, 21 vacancies for demonstrators and one vacancy for an instructor in 06 colleges and also there were 28 vacancies in the non-academic staff by 31 December 2017. Further, 06 courses conducted by the University College. Batangala had not been accredited even by the end of the year under review.

Conducting Degree Courses

Out of the 13 Degree Courses and 11 Diploma Courses conducted by the University of Vocational Technology, only 03 Degree Courses and 02 Diploma Courses had been accredited. By the end of the year under review, 08 years had elapsed since the establishment of the University. A Council had also been established for admission, accreditation and quality certification in terms of Section 21(1) of the University of Vocational Technology Act, No.31 of 2008. However, it had not been possible to get the quality of Degree Courses certified up to the expected level even by the end of the year under review. With regard to 09 Degree Courses and 02 Diploma Courses, percentage of registered students who passed the examinations during the period from the year 2010 to the year 2014 was at a very low level.

Conducting Diploma Courses

Conducting academic courses for persons with acceptable National Vocational Qualification is an objective of the University of Vocational Technology. Students had been registered only for one Diploma Course in the year 2017. Even the number of students who were successful at the Diploma Courses was at a minimum level. Completion of the said courses had been delayed for long period.

Implementation of the NVQ-5 and 6 Level Programmes

According to the Action Plan made available to the University of Vocational Technology, a sum of Rs.01 million had been provided under the Project for the Establishment of Public and PPP University Colleges to offer Demand Driven NVQ 5,6 level Programmes. However, the entire financial provision had remained unspent as the Public and Private Partnership University Colleges had not been established.

Non-commencement of the Courses as planned

It was expected to conduct 125 courses in 39 Technology/Technical Colleges and to enroll 27,000 students in terms of the Action Plan prepared for the year under review by the Department of Technical Education and Training. According to the Progress Report of the year under review, 33,650 students had been enrolled for 119 courses. Although students in excess of the number decided by the Department had been enrolled, progress of enrollment of students for 21 of the total courses conducted, when compared with the numbers given in the Action Plan, was less than even 50 per cent. Although it was planned to enroll 3,405 students for 14 courses including the courses for the National Certificate of Building construction, Motor Cycles and scooters, Sales Representative Assistants and Store Keepers in the year under review, no such courses had been conducted in any Technological/Technical College.

Non-accreditation of certain Courses

All the courses should have been accredited in terms of the circular No.01/2013 dated 26 February 2013 issued on Vocational Qualifications by the Tertiary and Vocational Educational Commission. A number of 272 courses out of the 876 courses conducted in 39 Technological/Technical Colleges had not been accredited by 23 June 2017. In the circumstances, the students who followed the said courses had to forgo the opportunity of obtaining a National Level Certificate.

Underutilization of the Training Equipment purchased

The financial provisions of Rs.70 million had been granted in the year under review for the purchase of training equipment to the Technical/Technological Colleges under the Skills Sector Development Project. Training equipment had been purchased to the value of Rs.15 million. The CNC milling machine had been purchased at a cost of Rs. 19.89 million for the Technical College, Nuwara Eliya on 14 March 2017. As there was no permanent Instructor at that training College to do the teaching utilizing that machine, it had remained idle even by 30 April 2018. In spite of the fact that the machine had remained idle, 10 per cent of the retained money had been released on 05 January 2018.

Non-enrollment of Students as planned

Although the Ocean University of Sri Lanka had planned to enroll 1,448 students for the Degree, Diploma and Certificate Courses in 08 Colleges in the year under review, only 829 students had been enrolled. Further, the enrollment of new students for the Degree Courses in the year under review had been delayed even by the end of the year, the said courses had not begun during the year.

Obtaining a Building on Lease Basis Due to Non-construction of the Building

A sum of Rs.6.46 million had been paid in July 2016 to the State Engineering Corporation and a private Company to prepare a cost estimate of Rs.304.10 million and to conduct a soil test for construction of five storied building at the Head Office premises at Mattakkuliya. Its construction work had not been commenced even by 31 August 2018 due to non-receipt of the required financial provision. A building had been taken on lease at cost of Rs.55.20 million for a two year period. In this connection a sum of Rs.27.60 million had been paid as an advance on 27 December 2017. As on 15 August 2018, a sum of Rs.22.57 million had been spent for its internal partition and a sum of Rs.18.59 million had been spent for wooden furniture. Even by that date, no courses had begun in the building. A sum of Rs.77.8 million allocated by the Government had been utilized to take the building on lease, to arrange the building for educational activities and to award scholarships to students during the year. A sum of Rs.50.4 million had been spent during the year under review while the balance sum of Rs.27.4 million had remained unspent.

Disaster Management

The objectives expected from this sector is to create a protected environment appropriate for living by taking effective measures to minimize and prevent natural and manmade disasters. The following functions should have been performed by the Ministry of Disaster Management, a Department and 04 Statutory Boards/Institutions under its purview.

- Formulation of policies, programmes and projects in regard to the subject of Disaster Management.
- Coordination and management of activities in relation to mitigation, response, recovery and relief in natural and manmade disaster.
- Formulation of the National Disaster Management Plan and the National Emergency Operation Plan based on national policies.
- Initiation and coordination of foreign aided projects for disaster mitigation, response and recovery.
- Promotion of housing construction with technological standards to withstand environmental hazards.
- Encouraging research and development into appropriate technology for housing and construction sectors.
- Carrying out Meteorological surveys and researches. Forecasting of natural disasters and sensitizing relevant sectors regarding them.
- Implementation of measures for rescue operations during natural and manmade disasters.
- Coordination of international humanitarian relief service programmes.

A summary of audit observations made in performing the functions by the above mentioned institutions is given below.

The legal framework on disaster management in Sri Lanka

The legal provisions on disaster management in Sri Lanka had been made through the Sri Lanka National Disaster Management Act No. 13 of 2005. Eventhough the necessity of widening of the legal provisions included in the Disaster Management Act had been raised to meet the future challenges, the amendments made to the Disaster Management Act proposed in 2013 had not been furnished to the Parliament of Sri Lanka even as at 31 December 2017. Further ,the National Building Research Organization had not been established under a statutory provisions and as a result , the legal acceptance of the assessment reports issued on risks of landslips had not been received. As a result, the legal action against the parties who involved in building construction works without considering the assessment of disaster risks could not be implemented.

Identification of probable natural and non- natural disasters in Sri Lanka

According to the Sri Lanka Disaster Management Act, No. 13 of 2005 it was identifies 21 probable disasters in Sri Lanka. However, probable damages may be occurred on Nuclear and other blasters and public protests and riots etc had not been identified as the disasters. Further, the mitigation activities carried out by the Disaster Management Authority during the year under review had been limited to several disasters such as floods, earth slips and drought etc,.

Preparation of Disaster Management Plans

According to the paragraph 2(a) of the Section 08 of the Sri Lanka Disaster Management Act, a Disaster Management Plan is required to be prepared in line with the internationally recognized convention called " Sendai Framework". However, the works initiated on 07 March 2017 on Preparation of Disaster Management Plan for the period from 2018 to 2030 had not been completed even as at 31 August 2018. As a result of delays in preparation of national Disaster Management Plan, the other sub plans such as District Disaster Management Plans, Institutional Disaster Management Plans, and National Emergency Operations Plans etc to be prepared in line with National Disaster Management Plan could not be completed.

The equipment used to identify the Disaster Risks

It was observed that the systems and equipment used to identify the disaster risks and weather forecasting purposes in Sri Lanka had not been effectively used for the intended purposes due to various reasons such as receiving of equipment as grants from foreign agencies and not complied with the weather conditions of Sri Lanka, lack of proper plans to use it and receiving of old and outdated equipment etc. The instances observed in audit in this connection is summarized and given below.

Malfunctioning of Doppler Radar System

A Doppler Radar System had been procured at a cost of Rs 320 million from the World Metrological Association under the allocation amounting Rs 400 million made through a Budget proposal in 2006 and established in the Deniyaya area in 2011. However, the System was not functioned even as at 31 December 2016 due to various technical problems. According to the detailed audit carried out in this connection it was revealed that the first test run carried out by the Manufacturing Company in the United State was not successful. However, second test run had been reported as successful but, no any officer representing Metrological Department of Sri Lanka had participated for that event. Further, the System had remained idle for long period after being imported and thus, it was the main reason for malfunctioning of the system In addition, it was reported on 29 January 2016 that the several parts of the System valued at Rs 8.14 million had been stolen by an outside party. The Radar System had been removed and sent back to the Manufacturing Company in the United State in 21 April 2017. However no any reports on present position of the repairing activities had been called by the Metrological Department.

Multi- Purpose Disaster Risk Analysis

The Project called "Multi- Purpose Disaster Risk Analysis" was scheduled to be implemented by the Disaster Management Centre during the period from 2016-2019 and a sum of Rs 68 million had been allocated thereon in 2016 and 2017. However, a GIS Software System and other equipment had been procured at a cost of Rs 5.80 million , out of the allocation made in 2016 and a sum of Rs 205,200 had been spent to conduct meetings and training workshops etc, out of the allocations made in 2017. Further, a sum of Rs 53 million had been transferred to the National Building Research Organization in 2017 with the approval of the Cabinet of Ministers. However, the involvement of the Disaster Management Centre had remained minimum to achieve the objectives of the Project.

Assistance made of aids to the people affected by the disasters

The responsibility on distribution of subsidies to the people affected by the natural disasters had been handed over to National Insurance Trust Fund, since April 2014. Therefore, the information relating to the assessment of damages on natural disasters and other details for the purpose of payment of compensation were required to be submitted to the National Insurance Trust Fund by the Secretary of the Ministry of Disaster Management. As instructed by the National Budget Circular No. 05/2016(11) of 26 July 2017 the respective information should be directly furnished to the National Insurance Trust Fund by the District Secretaries to release the compensation thereon. As a result, the scope of the works of the Ministry of Disaster Management relating to the payment of compensation on natural disasters had been limited.

Further, it was observed in audit that the disaster relief activities implemented by the Disaster Management Centre through the District Secretaries and Divisional Secretaries were not effectively functioned. The instances observed are described below.

Collection of contribution from general public for disaster relief purposes

The contributions from general public had been collected urgently for relief purposes for the victims of the disaster occurred in 2016 and deposited in a Current Account of a state owned Bank without taking action to distribute. A sum of Rs 152 million had remained in the said Account as at 31 December 2017.

The allocation made for disaster relief purposes not utilized

Out of the allocation made during the year under review for disaster relief purposes to the District Secretary of Ratnapura, a sum of Rs 19 million had remained unutilized as at 31 December 2017. Further, the allocation aggregating Rs 25.60 million made to the Divisional Secretaries of Balangoda, Kahawatte and Kiriella had remained unutilized as at 31 December 2017. It was observed that 38 flood affected beneficiaries in Ayagama Divisional Secretariat Division had been selected to provide financial assistance to construct a house in the land owned to the beneficiary and no funds released them even as at 31 December 2017. Further, 116 beneficiaries in 13 Divisional Secretaries areas of Ratnapura District had been selected to provide financial assistance to purchase a land with a house and out of that no any grants released to 112 beneficiaries even as at 31 December 2017. For the purpose of providing financial assistance to purchase a land or a house, 323 beneficiaries and 350 beneficiaries respectively had been selected in 12 Divisional Secretaries areas of Ratnapura and no action had been taken to release funds thereon.

Distribution of goods to the people affected

The goods received to the Divisional Secretary of Walapane in Nuwara-eliya District to distribute to the people in the area affected in disasters had remained in improper manner at the stores premises. Further, action had not been taken to resolve 42 complaints received to the Divisional Secretary of Haguranketha , out of 52 complaints made by the people in the area affected in disasters. In addition, a sum of Rs 140,000 had been remitted to the Divisional Secretariat of Ambagamuwa to release as advances to repair 14 houses damaged due to strong winds and landslides and out of that a sum of Rs 75,000 had remained in a Deposit Account without being released.

Disaster mitigation activities

It was observed in audit that the financial controls on disaster mitigation projects implemented by the Disaster Management Centre were not properly functioned. The instanced observed are described below.

Payments made on projects not completed

The Disaster Management Centre had instructed to the Divisional Secretaries to submit the completion reports just after concluding the activities of the respective disaster mitigation projects and payments are made based on the respective reports. However a sum of Rs 20.24 million had been paid on 15 projects which were not completed at the end of the year under review.Further,the advances aggregating Rs 4.51 million had been released during the year under review to the District Secretaries of Anuradhapura, Badulla Nuwara-eliya, Colombo and Kurunegala to launch 07 Projects and no such Projects were implemented. The period ranging from 1 ½ months to 5 ½ months had been spent from the date of termination of the activities of the said projects to return the advances to the Disaster Management Centre.

Overpayments made to the Contractors

A sum of Rs 20.46 million had been overpaid to the contractors engaged in contract for dredging of Pinga Oya and Wahagala Oya to mitigate the risks on flooding in Akurana Town In Kandy district. However, the extended investigations had not been conducted by the Disaster Management Centre even as at 31 December 2017.

Procuring of 100 Automated Rain Gages

Eventhough the allocations amounting to Rs 55 million had been released to the National Building Research Organization on 21 December 2017 to procure 100 rain gages ,the respective works had been done by the Ministry of Disaster Management and the Metrological Department. Out of that, a sum of Rs 15.95 million had remained unspent as at 31 December 2017.However, the rain gages had not been received to the Metrological Department even as at 31 December 2017. The cheque written in this connection had remained in hand even in April 2018.

Procuring of Tractors and Water Bowsers

The Disaster Management Centre had procured 75 tractors with water bowsers during the year under review at a total cost of Rs 143.99 million. Therefore, the cost per unit was treated as Rs 1.91 million. However, the National Disaster Management Centre had also called bids during the same period for tractors and water bowsers separately and procured 125 units of tractors and water bowsers at a cost of Rs 1.75 million per unit.

Use of Boats and Boat Engines

a proper procedure had not been adopted by the Disaster Management Centre to use the boats and boat engines procured during the year under review and the previous year. It was observed that 152 boats valued at Rs 36.35 million had been procured by the Disaster Management Centre as at 31 December 2017, without engines and such boats could not be used at emergency flood situations, as there were no engines. Further, a sum of Rs 600,000 had to be paid during the flooding period of May 2017 to hire boats from outside parties. In addition, 42 boat engines had been procured at a cost of Rs 18.48 million ,as an emergency procurement in June 2017 in which no disasters happened. Out of that 11 engines had been issued to the Ratnapura, Monaragala and Pollonnaruwa district and rest of the engines had remained at the stored even as at 20 December 2017.

Projects not implemented according to the plans

The reconstruction works of Disagewewa in Angulakolapelassa and Galewela Wewa in Keppetiyawa North Division implemented by the District Secretariat of Hambantota had not been completed according the designs made. It was revealed at the physical examinations that the wash offs of the dams and depositing of muds etc, as a result of the above mentioned deficiencies. Further, a sum of Rs 1.84 million had been paid to widening of 77 metres of drainage system in Seeta-eliya area in Nuwara-eliya distrct, however, the widening works of 47 metres had been completed. The contracting works and construction of drainage system of Rosa Uyana internal road at an estimated cost of Rs 18.89 million had not been completed and instead of that laying of Aspault had been done at a cost of Rs 2.65 million.

Sports

The expected result of the Ministry of Sports is to build an active nation and enhance the national image internationally through promoting sports skills. In order to accomplish the said objective, the following functions should have been discharged by the Ministry of Sports and the Department of Sports Development thereunder, 05 statutory institutions, a Sports Fund and 62 sports associations.

- Formulation, follow up and evaluation of policies, programmes and projects relating to the subject of sports.
- Encouragement of sports activities and development of infrastructure facilities to enhance sport activities.
- Promotion of sports education.
- Formulation of new strategies and implementation of programmes to harness the potential of sports in building the image of Sri Lanka internationally.
- Promotion of facilities to provide physical fitness for the general public and co-ordination of activities.
- Monitoring the institutions.

The observations made in the course of audit conducted on the discharge of the said functions by the Ministry and the institutions functioning thereunder, are summarized below.

Non-utilization of Provisions

Provisions of Rs.3,108.8 million had been made for capital expenditure to discharge the functions of the Ministry of Sports for the year 2017. Out of that, a sum of Rs.1,827 million or 58 per cent had not been utilized by the end of the year under review. Provisions had been saved due to failure in submitting bills, submitting appeals in the procurement and failure in carrying out procurement activities within the planned Time Schedule.

Development of Infrastructure for Sports

Provisions amounting to Rs.560 million had been made for the construction of 200 stadiums under the development of infrastructure for sports. Further, supplementary provisions of Rs.33.68 million had been granted therefor by the Treasury. The development of 332 stadiums had been implemented through District Secretaries in 22 Districts and provisions of Rs.367.4 million had been allocated to District Secretaries in that connection. The constructions of 161 stadiums had been completed by spending Rs.133.5 million in the year under review by the said District Secretaries while 171 stadiums had not been completed.

Relaying Running Tracks of the Sugathadasa National Sports Complex

Provisions of Rs.200 million and Rs.250 million had been made in the year 2017 respectively for relaying the 400 metre and 200 metre tracks of the Sugathadasa National Sports Complex. However, works of 20 per cent had been completed by spending Rs.56.32 million by the end of the year under review.

International Victories won by Sri Lankan Sportsmen

Sri Lanka had won a total of 208 medals comprising 30 gold, 71 silver, and 107 bronze by participating in 08 international sporting events in the year 2016, whilst in the year under review, they won only a total of 79 medals comprising 29 gold, 39 silver, and 11 bronze by participating in 08 international sporting events.

Construction of Provincial and District Sports Complexes

Provisions of Rs.1,000 million had been made for the construction of 13 district sports complexes and 05 provincial sports complexes under the Programme of Construction of Provincial and District Sports Complexes and supplementary provisions of Rs.300 million as well had been granted therefor by the Treasury. Construction works of 13 district sports complexes and 07 provincial sports complexes had been commenced in the year under review and a sum of Rs.941 million had been spent therefor. Out of them, works of 05 and 03 district and provincial sports complexes respectively had been completed, whilst 08 and 04 district and provincial sports complexes respectively had not been completed.

Development of Regional Playgrounds

Provisions of Rs.564 million had been made for the construction of 200 rural playgrounds under the Development of Regional Playgrounds. Construction of 54 rural playgrounds had been commenced in the year 2017 and a sum of Rs.343 million had been spent therefor. However, constructions of 26 playgrounds had been completed as at 31 December 2017 and 28 playgrounds had not been completed. Therefore, action had not been taken even by the end of the year under review to commence the constructions of 146 playgrounds.

Monies to be reimbursed from the Olympic Committee

Out of the monies granted to the National Olympic Committee of Sri Lanka by the Department of Sports Development for the purchase of airline tickets for sportsmen participated in the 12 th South Asian Games held in February 2016 in India, a sum of Rs.6.88 million should have been obtained. The Department of Sports Development had failed to reimburse those monies even by 31 March 2018.

Non-formulation of Rules against Doping in Sports

In terms of Section 33 of the Convention against Doping in Sports Act, No.33 of 2013, rules against doping in sports should be formulated and enforced by publishing it in the Gazette under the approval of the Minister. The Sri Lanka Anti -Doping Agency should perform this function. However, it had not been so done even by the end of the year under review, despite the elapse of over four years after establishment of the Agency.

Inclusion of Fijian Rugby Players in the Sri Lanka Team

The Sri Lanka Rugby Union should act in accordance with laws and rules imposed by the International Rugby Committee from time to time in respect of Rugby in terms of paragraph 1(6) of Part III of the Constitution of the Sri Lanka Rugby Union. Two unqualified Fijian rugby players had been included in the Sri Lanka Team by violating those laws and rules and participated in international games. As such, a penalty of fifty thousand Sterling Pounds (approximately Rs.11 million) had been imposed by the International Rugby Committee on the Sri Lanka Rugby Union in the year 2016.

Printing of Souvenirs

The contract of printing of 2,000 souvenirs had been awarded to a private institution at a cost of Rs.5.2 million for the 75th anniversary of the Sri Lanka Olympic Committee in the year 2013 deviating from the Government Procurement Guidelines and without entering into an agreement thereon. Out of the contract value, 50 per cent representing Rs.2.6 million had been paid to the contractor as advances on 30 September 2013 for supplying 2,000 souvenirs. However, the purpose of printing of souvenirs had not been fulfilled even by 30 June 2017.

Sri Lanka Cricket

The following deficiencies were disclosed in financial statements presented to Audit for the year under review by the Sri Lanka Cricket.

- The Fixed Assets Register and certificates of physical verification of fixed assets for the year 2017 had not been made available to Audit. As such, the existence of fixed assets valued at Rs.4,249.70 million and the accuracy of their value could not be confirmed.

- Contract agreements, letters of assumption of duties and dates of commencement of works and dates on which works should be completed, had not been made available to Audit. As such, the accuracy of the value of work-in -progress totalling Rs.240.99 million shown in the financial statements relating to the year under review could not be confirmed.
- The Institute had failed to identify and settle the advances totalling Rs.5.85 million paid since the year 2013.

- Even though advances of Rs.58.27 million had been paid to sports associations during the period from the year 2008 to the year 2017 for conducting sports competitions, the Institute had failed to settle and account those advances even by the end of the year under review.

Women and Child Affairs

The following functions should have been performed by the Ministry of Women and Child Affairs, a Department and 03 Statutory Bodies / Institutions under its purview with the objective of bringing about a society which is free from violence against women and child abuse.

- Formulation, follow up and evaluation of policies, programmes and projects relating to the subjects of women and child affairs.

- Formulation and implementation of strategies for the enhancement of women's participation and their representation in the sphere of decision making in public affairs and politics.
- Adoption of measures for empowerment of women with special focus on women-headed households groups affected by conflict and poverty and to ensure gender equality and equity.
- Implementation and strengthening of laws and policies for the prevention of violence against women and child abuse.
- Accomplishment of Millennium Development Goals relating to women and child affairs.
- Implementation of Women's and Children's Charter.

- Formulation and implementation of policies, programmes and projects for the early childhood care development and for the children who are under unsafe situations so as to appropriate to the national policies and international standards.
- Implementation of Sevana Sarana Foster Parents Scheme.

The observations made in the course of audit conducted on the discharge of the said functions by the Ministry, a Department and 03 Statutory institutions functioning thereunder, are summarized below.

Provide a Morning Meal for Preschool Children

Provisions of Rs.300 million had been made for the Programme of Providing a Morning Meal for underweight Preschool Children. Provisions amounting to Rs.133 million out of the provisions made for that purpose had been saved due to weaknesses in implementing those Programmes as planned.

Diriya Kantha Programme

Provisions of Rs.45 million had been made in the year under review for the Kantha Sawiya Programme. Out of that provision, a sum of Rs.17.2 million had been made for the empowerment of Widows and Women Headed Households, Thirasara Krushi Project and Diriya Manpeth Programmes.

A sum of Rs.16.5 million had been spent in the year under review for those programmes. The beneficiaries were unable to obtain expected benefits due to unavailability of appropriate projects for development targets, delays in commencing projects, failure in considering economic and environmental factors and due to delays in involving officers of the Ministry with new projects.

Increase in Child Abuse and Violence against Women

A number of 1,514 complaints on incidents of violence against women from various districts had been recorded to the 1938- Women's Help Line of the National Committee on Women and to the Complaint Centre of the Ministry of Women and Child Affairs in the year 2017. However, a data base system regarding the number of complaints solved out of them, had not been updated and follow up action had not been taken thereon. Moreover, the number of incidents of violence against women and child abuse exposed by newspapers in the year 2016, had been 2,456 and that number had increased up to 3,046 in the year 2017.

Increase of Female Participation in Politics

Sums of Rs.670,000 and Rs.6 million had been spent in the year 2017 and from the year 2010 to the year 2016 respectively for conducting a six month course for providing necessary knowledge to get women interested and involved in politics, in cooperation with the University of Peradeniya. The certificates had been awarded to 109 students who had completed 4 courses out of those courses. However, a follow up study regarding the contribution of those courses to help the women to reach the highest position in politics in Sri Lanka, had not been carried out by the Ministry.

Non- formulation of Laws on Child Rights

Even though 61 years had elapsed after the inception of the Department of Probation and Child Care Services in the year 1956, formulation of a national policy in compliance with the Universal Charter so as to protect child rights and formulation of relevant laws thereto had not been carried out even by the end of the year under review.

Taking Action on Complaints

A number of 12,093 complaints on child abuse had been received in the year under review to the Department of Probation and Child Care Services and it had increased by 9 per cent as compared with the preceding year. Out of them, 6,232 complaints had been fully resolved. Moreover, temporary solutions had been given for 3,569 complaints and 2,268 complaints had been referred to other institutions for seeking solutions therefor. Further, 24 complaints had not been replied and follow up action had not been taken on solutions given for complaints on children.

Weakness in Monitoring Children's Homes

According to the Action Plan, an expenditure amounting to Rs.4.97 million had been spent for monitoring 140 children's homes and provisions of Rs.5.00 million had been made therefor from the Annual Budget Estimate. However, only 16 children's homes had been monitored in the year under review.

Social Protection Project for Children

Provisions of Rs.5.5 million had been made in the year under review for performing four key functions under the Social Protection Project for Children. However, functions such as conducting awareness programmes for District Secretaries, Assistant Divisional Secretaries, taking special measures to give opportunity for disabled children for active participation in children's clubs /children's councils, conducting a National Research Conference, and identification, coordination and organization of children who are in children's homes and who had become victims of child trafficking for detention in Sri Lanka, had not been carried out in Sri Lanka.

Researches and Production of Video Clips

A sum of Rs.1.81 million had been spent for producing 4 video clips under 4 themes with the objective of making the children aware on children rights in a friendly manner for the protection of child rights. However, those video clips had not been used for any training activity even by 25 June 2018.

Non-payment of Financial Assistance to Children

According to the Guidelines of the National Child Development Fund, the main objective of the establishment of Child Development Fund is to grant financial assistance to the Sri Lankan children who had lost their parents or guardians due to war situation and the natural disasters and those who are unable to proceed with their education and develop their talents and other skills due to economic difficulties. The National Child Development Fund comprised of a sum of Rs.5.6 million by the end of the year under review. Those funds had not been used for making payments as financial assistance to children and the Fund had failed to pay any financial assistance to children in the years 2015, 2016 and 2017.

Non-legalization of the National Child Protection Policy

Even though 20 years had elapsed after establishment of the National Child Protection Authority, legalization of the National Child Protection Policy had failed even in the year under review.

Delays in giving Solutions for Complaints

The Child Protection Authority had received 9,014 complaints in the year 2017. Out of that, 2,613 complaints had been resolved by 15 February 2018. Accordingly, 71 per cent of the complaints received had not been resolved. Fifty five per cent of 63,189 complaints received during the period 2011-2015 had not been resolved even by 31 December 2017. The number of unresolved complaints had rapidly increased due to the reasons such as inefficiency of the divisional and district officers to collect and report information relating to the complaints received annually to the Authority, failure to take follow-up actions on calling for information and investigations and failure to carry out proper supervision. Further, over 100 posts of the Regional Child Protection Officers had been vacant since the year 2016 and letters had been sent on 14 December 2017 that 116 officers had been selected for those new recruitments. However, recruitments had not been made even by 30 June 2018. Moreover, existing vacancies of these officers relating to ensure the safety of children, had been attributed to the delay in solving complaints.

Non- performance of Activities of the Early Childhood Development Project as planned

The Early Childhood Development Project had been commenced under the World Bank loan assistance of USD 50 million with the objective of implementing qualitative early childhood development process in Sri Lanka. Provisions amounting to Rs.750 million had been made for the performance of activities of the Project for the year 2017 and out of that, a sum of Rs.523 million had been spent. Even though provisions amounting to Rs.164.40 million had been made for activities such as evaluation of annual child development in Early Childhood Development Centres, granting preschool fee relief for children with economic difficulties, establishment of 12 Early Childhood Development Centres in areas with low benefits, conducting programmes for joining teachers in primary grades with preschool teachers and launching a procedure for registration, monitoring and evaluation of Early Childhood Development Centres, those functions had not been performed as planned.

Improvement of Early Childhood Development Services

Provisions of Rs.98.84 million had been made for the construction of Early Childhood Development Centres with the objective of improving early childhood development services in estates under the Plantation Human Development Trust. Further, toys, furniture and kitchen utilities valued at Rs.1.69 million had been provided to 06 centres before completing constructions thereof and they were not suitable to be used due to improper storing of them.

Tourism Affairs

Earning a higher foreign exchange through creating direct and indirect job opportunities to the Youth community of Sri Lanka by formulating of the required policies for making Sri Lanka the most splendid and memorable tourist destination with diverse natural experiences in the world had been the main objective of Tourism Industry Sector. The following functions should have to be performed by the Ministry of Tourism Development and Christian Religious Affairs, a Department and 4 Statutory Bodies for the achievement of that objective.

- Formulation, follow up and evaluation of the policies, programs and projects related to the subjects on the Tourism Development activities.
- Development of the tourism industry and formulation of standards.
- Registration and regulation of tourist agencies.
- Promotion of activities relating to provision of recreation facilities for holidaying.

The following deficiencies were observed at the audit examination carried out with regard to discharging the above affairs by the Ministry and the institutions functioning thereunder.

Arrival of Tourists and Foreign Exchange Earning

2,116,407 tourists had arrived to Sri Lanka by endowing foreign exchange of Rs.598,356 million up on Sri Lanka in the year under review through attractive beaches, wealthy nature with cordial and friendly people and wildlife, unique culture, diverse cuisines, adventurous experience associated with water and attracted global tourist paradise with the inclusion of culture and originality improving the own name as Asian Tourist Symbol and the Asian Adventurous Tourist Destination.

The expectation of Sri Lanka from the Tourism Industry is earning higher foreign exchange and US$ 3,924.9 million had been earned from this industry in the year 2017 and that represented an increase of 11.6 per cent as compared with the preceding year.

However, the tourist arrivals in the year under review had been recorded as 2.1 million, whereas the improvement rate of tourist arrivals had been decreased by 11 per cent in the year under review as compared with the preceding year. The closing down of a part of the Air Port from January to April, 2017, flood experienced in South in the month of May, severe drought prevailed in the North, East and Central provinces, spreading Dengue disease in the country resulting adverse effect internationally and the garbage issue had mainly given rise to the decrease of the above growth rate.

Tourist arrivals from most of zones had increased in the year under review as in the preceding year. Accordingly, a considerable increase including 4.5 per cent from East Asia, 5.8 per cent from Western Europe, 0.9 per cent from South Asia was observed. Similarly, the largest number of tourist arrivals in the year under review had been from India as in the preceding year and that amounted to 384,628. The second largest tourist arrivals had been from the People's Republic of China and it had amounted to 268,952. The 10 countries from which the highest number of tourist arrival was recorded and the number of tourist arrived in the preceding year and the year under review are shown in the following figure 27

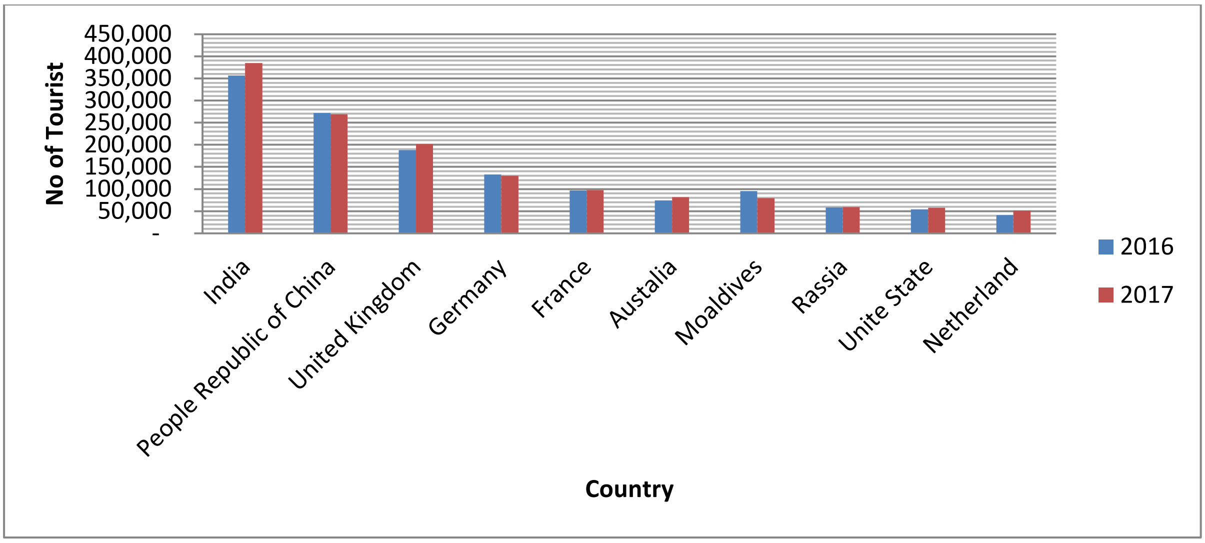


Figure 27 - Arrival of Tourists according to the countries
Source :- Data of the Sri Lanka Tourist Development Authority

In addition to the increase in the number of tourist arrivals, the increase in the daily expenditure of a tourist and the increase in the number of days spent in Sri Lanka also had an impact on the improvement in the supply of the tourism sector. The daily average expenses of a tourist in the year 2017 had been US$ 170.1 and it was US$ 168.2 in the year 2016. Accordingly, it also had an impact on the increase of the rate of tourist earning in certain extent. Further, the number of days spent in Sri Lanka had been 10.9 days in the year 2017 and it was 10.2 days in the previous year. Nevertheless, it had not been able to achieve the target of 13.2 average days of stay recorded in the year 1987 even in the year under review.

In order to bring Sri Lanka to the highest position in the world tourism industry, provisions of Rs.3,924 million had been made by the Tourism Development Fund in the year 2017. Such provisions had been made for 04 institutions such as the Sri Lanka Tourism Development Authority, the Sri Lanka Tourism Promotion Bureau, the Sri Lanka Institute of Tourism and Hotel Management and the Sri Lanka Tourism Conventions Bureau by 14 per cent, 70 per cent, 12 per cent and 4 per cent respectively. In addition to the Tourism Development Fund, provisions of Rs.618 million had been made to the Ministry of Tourism Development and Christian Religious Affairs by the Annual Budget Estimate 2017.

Out of the duties and functions assigned to the Sri Lanka Tourism Development Authority, the Sri Lanka Tourism Promotion Bureau, the Sri Lanka Institute of Tourism and Hotel Management and the Sri Lanka Tourism Conventions Bureau by the Tourism Act, No. 38 of 2005, action had not been taken in connection with the functions such as the formulation of rules to make such persons who are engaged in the tours or tourism services without being registered in the Sri Lanka Tourism Development Authority as offenders, improvement of the local and internationally recognized standards related to the Tourism Industry or any other industry associated with that, enforcement and issue licenses to the tourism entrepreneurs and the establishment of institutions and businesses to assist the Tourism Industry.

Development of Tourists Attractions

For the purpose of development of tourist attractions, provisions of Rs.568 million had been made to the Ministry of Tourism Development and Christian Religious Affairs during the year under review. Out of that, a sum of Rs.162.3 million or 28.5 per cent of the total provisions only had been utilized.

Development of Tourism Villages

Although provisions amounting to Rs.25 million had been made for the development of tourism villages during the year under review, a sum of Rs.556,828 only had been utilized by the end of the year under review. Policies or a Guideline relating to the execution of this project had not been prepared and approved before the commencement of this project.

Failure to charge Embarkation Levy

In terms of Subsection 2(b) of the Finance Act, No.25 of 2003, a levy should be charged for every ticket issued in respect of a passenger embarking a ship leaving Sri Lanka and a part thereof should be remitted to Sri Lanka Tourism Development Authority. Nevertheless, levy had not been so charged from the passengers who had left in the above manner and remitted to the Authority. Although 27565 passengers had left in the year 2017, action had not been taken to charge the Embankment Levy of Rs.6.41 million recoverable to the Fund at US$.1.66 per passenger.

Deviating from the Government Procurement Guidelines

Provisions amounting to Rs.35 million had been made in respect of International French Tourism Trade Fair held in France from 16 to 26 September 2017. For the construction of trade stalls and obtaining a dancing group, a sum of Rs. 8.24 million and Rs.1.03 million had been spent respectively. Action in terms of the provisions in the Government Procurement Guidelines had not been taken in the selection of relevant suppliers.

Appointment of another Staff Extraneous to the Approved Cadre

Attaching to the Sri Lanka Missions abroad, a Commercial Officers of the Commercial Department and three officers included in the approved cadre of the institution (for trade affairs in the United Kingdom) had been appointed for the promotion of tourism activities. Nevertheless, appointments had been irregularly made on contract and casual basis for a post of Director and a post of Tourism Promotion Officers not included in the cadre approved by the management of the Sri Lanka Tourism Promotion Bureau. The Sri Lanka Tourism Promotion Bureau had made an uneconomical payment of Rs.179.44 million for salaries, transport, house rental, telephone , overtime allowances and other allowances based on those appointments.

Urban Development

The expected result of this sector is the creation of the Western region and other megapolis as highly modernized and architecturally designed cities comprised of a community developed as economic, social and cultural. The following functions should have been performed by the Ministry of Megapolis and Western Development, a Department and 02 Statutory Boards / Institutions.

- Formulation, follow up and evaluation of policies, programmes and projects relating to the subjects of statutory institutions in regard to the subjects of megapolis and Western development
- Kottawa, Kaduwela and Kadawatha Township Development Project and related activities
- Integrated and systematic promotion and regulation of economic, social and physical development of urban areas
- Urban Solid Waste Management
- Matters relating to reclamation and development of low lying areas
- Provide necessary guidance to develop urban areas with low level of services and facilities and marshy lands according to a common plan
- Preparation of national physical plans and regional physical plans
- Direct and regulate all construction work based on the national physical plans to ensure an integrated urban development
- Matters relating to all other subjects assigned to the institutions coming under the purview of the Ministry
- Supervision of the institutions coming under the purview of the Ministry.

Identification of Areas to be Urban Development Areas

According to Section 3 of the Urban Development Authority Act, No.41 of 1978, identification of areas to be urban development areas in the Island and preparation of Development Plans for those areas should have been carried out by the Urban Development Authority. Even though 243 urban development areas had been identified by the end of the year under review, Development Plans had been prepared only for 40 areas of them.

Strategic Cities Development Project

This Project had been implemented with the objective of improving selected urban services and public open spaces in the participating city regions of Sri Lanka. The Kandy city and Galle city had been selected as the participating city regions under this Project and according to the financial agreement of the Project, the estimated cost of the Project had been US$ 192.8 million equivalent to a sum of Rs.25,162.5 million.

The International Development Association had agreed to provide an amount of US$ 167 million equivalent to Rs.19,257 million of the said cost. This project had been commenced from May 2017 and scheduled to be completed by 31 December 2019. Further, the development activities of the Jaffna City as well had been commenced by using financial provisions made for this Project. City development activities of this Project were scheduled to be completed by the year 2021. The following deficiencies were revealed in the implementation of this Project.

Recruitment of Consultants contrary to Provisions

In terms of paragraph 8.1 of the Management Services Circular No.01/2016 of 24 March 2016 and provisions of the Financial Agreement and the Government Procurement Guidelines, consultants should have been recruited. However, 11 consultants had been recruited in the year under review without following those provisions and a total sum of Rs.36 million had been paid as salaries and allowances.

Decrease in the Performance of the Project

Provisions of US$ 202 million equivalent to Rs.27,507 million had been made by the Agency by which loans are provided for this Project. Even though a period of 3 ½ years had elapsed by the end of the year under review after commencement of the Project, only an amount of US$ 23.16 million equivalent to Rs.3,421.72 million representing 11 per cent of the provisions made by then had been utilized. Moreover, functions of the Project had not been divided monthly, quarterly and half-yearly and the Action Plans as well had not been prepared by setting out targets accordingly for the implementation of the Project. As such, the performance of the Project had been at a very weak level.

Non-preparation of a proper Plan for Acquisition of Lands and Resettlement

A proper plan had not been prepared for the purposes of acquisition of lands and resettlement. As such, out of the provisions of US$ 2.17 equivalent to Rs.335 million made for the City Development Project of Jaffna, only an amount of US$ 0.29 million equivalent to Rs.44.72 million had been utilized in the year under review.

Non-commencement of Contracts awarded, on due dates

Eighty seven contracts for rehabilitation works of cities such as Kandy, Galle and Jaffna had been planned to be awarded in the year under review at an estimated cost of Rs.19,623 million. Out of those contracts, 34 contracts to the total value of Rs.8,289 million had been awarded to contractors by the end of the year under review. However, works of contracts relating to 25 sub-projects awarded to the value of Rs.1,065 million had not been commenced on due dates as planned.

Awarding Contracts exceeding the estimated Cost

Even though the values of engineering estimates of two contracts such as the General Hospital, Dharmashoka Mawatha and Digana Road, Madawala, Katugasthota under the Kandy City Development Project, had been Rs.911 million and Rs.2,156 million respectively, contracts had been awarded to high values of Rs.727 million and Rs.1,615 million exceeding those estimated values respectively. However, reasons for significant variances between the estimated cost of these contracts and the value of contracts awarded, had not been explained to Audit. Moreover, mobilization advances totalling to Rs.351 million had been released to two contractors for the said 02 contracts. Nevertheless, advances provided could not be recovered as decrease in the progress of those contracts was less than 30 per cent by the end of the year under review.

Contracts not commenced, despite having paid Mobilization Advances

Mobilization advances amounting to Rs.49 million had been granted before entering into contract agreements and offering the letter of awarding of contracts under the contract of development of Kandy Municipal Council Car Park. The contract had not been commenced even by 30 April 2018. Further, the mobilization advances totalling Rs.58.82 million had been paid as 02 installments for the contract of Development of Kandy Tomlin Garden without considering the capability and performance of the contractor. Moreover, an additional amount of Rs.27 million had to be incurred due to shortcomings in original design plans relating to the contract and even the contract period as well had to be extended by another 03 ½ months.

Failure in commencing Procurement Activities

A Procurement Plan had not been prepared for the Project. As such, activities of 105 procurements at an estimated cost of US$ 44.33 million could not be commenced even by the end of the year under review.

Incompletion of Procurement Activities

Procurement activities had been commenced in the year 2015 for the contract of construction of the rainwater drainage system at Kandy at an estimated cost of Rs.950 million. Those procurement activities had not been completed even by the end of the year under review.

Cancellation of Loan Facilities by Lending Agencies

The contract of reconstruction of Gatambe Water Treatment Plant had been awarded for Rs.899 million and subsequently, the Procurement Appeal Committee had decided to invite bids again due to issues arisen on eligibility and qualifications of the contractor. Under these circumstances, the financial assistance provided for this function had been cancelled by the lending agency. As such, the purpose of cleaning of this Gatambe Water Treatment Plant had been discontinued.

Weak Forecasting on Financial Requirements

An amount of US$ 4.26 million equivalent to Rs.634.5 million had been retained in the Special Dollar Account of the Project over a period of 6 months due to less progress of the Project and weak forecasting made on financial requirements.

Use of Motor Vehicles on Hire Basis without Planning

Motor vehicles had been obtained on hire basis so as to enable to run a maximum distance of 2,500 km per month for the Project motor vehicles had been operated only less by 75,249 km than the due number of kilometers to be operated. However, motor vehicles had been operated exceeding the due number of kilometers to be operated, by 133,841km, thus indicating an excess expenditure of Rs.7.15 million. As such, the Project had incurred excess expenditure due to failure in operating motor vehicles efficiently and without planning.

Failure in carrying out Preliminary Investigations and Evaluation on Environmental Impact

The report had been prepared by the consultants without carrying out preliminary investigations and environmental impact evaluations in the reconstruction of the Galle Fort Rampart. However, the future development activities and reconstructions could not be carried out based on the said report. Further, a sum of Rs.60 million had been paid to the consultants for the preparation of the said report and as such, that expenditure had become fruitless.

Underutilized Assets

The Project had purchased machinery and equipment to the total cost of Rs.195 million in the year under review and handed over to the Kandy and Galle Municipal Councils and to the Department of Irrigation. Those assets had remained underutilized even by 30 April 2018 in premises of those institutions to which those assets had been handed over, without being utilized for the intended purposes due to unavailability of a plan for utilization of those assets. Further, a stock of water pipes and accessories purchased in the year 2016 at a cost of Rs.120 million had remained idle on the premises of the Water Supply and Drainage Board without being utilized even by April 2018.

Anuradhapura Integrated Urban Development Project

This Project had been implemented with the objective of promoting a balanced mode of co-development between the sacred and modern parts of Anuradhapura City, preserving its cultural and natural heritage. The total estimated cost of the Project had been Euro 62.4 million equivalent to Rs.9,779.95 million. The French Development Agency had agreed to finance Euro 52 million equivalent to Rs.8,150 million out of that cost. This Project which was commenced in the year 2016 had spent Euro 0.33 million equivalent to Rs.52.01 million in the year under review. An Action Plan or a budget had not been prepared for the year under review so as to cover the entire period of the Project. Moreover, a Procurement Plan as well had not been prepared for the year under review on the delay in preparation of a detailed design plan for civil works carried out by the Project. Further, taking action to implement the Project by recruiting two officers as Assistant Directors, without necessary qualifications and experience on the procurement and city planning, had been attributed to the delay in Project activities.

Project of Preparation of the Master Plan for the Development of the Trincomalee District

The Ministry of Megapolis and Western Development had commenced a Project of Preparation of a Master Plan with the objective of improving agriculture, energy and tourism industry in the Trincomalee District. A consultancy firm in Singapore had been selected as consultants for this Project without following Guidelines of the Government Procurement Guidelines. Accordingly, an agreement had been entered into in the preceding year for the preparation of the Master Plan of the Trincomalee District at a cost of US$ 982,000. In terms of that Agreement, the Planning report should be handed over within 09 months. Nevertheless, the said report had not been handed over even by the end of the year 2017. Even though, an amount of US$ 589,200 equivalent to Rs.90.29 million had been paid in 03 instances by the end of the year under review, the Master Plan of the Trincomalee District had not been prepared and handed over even by the end of June 2018. The consultancy firm had failed to complete the said Project within a period of 09 months as per the agreement and as such, another period of 08 months had been extended on the approvals given by the Cabinet of Ministers from time to time. The following deficiencies were observed in this connection.

Payment of Salaries and Allowances to the Staff due to delay in preparing the Plan

The Singaporean company had failed to provide the said Plan within the period given for the preparation of the Plan. Even though the Project was scheduled to be completed on 30 November 2017, the Project had to be carried out by paying salaries to the staff up to 31 July 2018 due to delay in preparing the Plan.

Preparation of Plans by another Project and the Department

Even though the preparation of plans had been assigned to the Singaporean company, the Western Region Megapolis Planning Project had spent a sum of Rs.1.40 million for the Trincomalee Megapolis Planning Project. Moreover, plans had been prepared by the Department of National Physical Planning and the Urban Development Authority coming under purview of the Ministry. However, the purpose of preparation of the Master Plan of the Tricomalee District had been handed over to an International Consultancy Firm without considering those city development plans.

The Amount spent for Participation in a Field Meeting

The Project Coordinator of this Project had participated in a field meeting held in the Trincomalee District by a helicopter and a sum of Rs.101,622 had been spent from Treasury provisions for his travelling by air, accommodation, food and liquor.

Project of Improving Bus Services to promote Public Transport

Provisions of Rs.200 million had been made from supplementary estimates in the year under review for the Project of Improving Bus Services to promote Public Transport. Out of that, a sum of Rs.104.04 million had been spent by the end of the year under review. The Project had incurred commitments amounting to Rs.131.33 million by the end of the year under review. As such, an expenditure totalling Rs.235.34 million had been incurred by the end of the year under review. However, according to the Plan of Distribution of funds of the Project of the year 2017, the total sum spent for the Project is Rs.346.93 million. An induction programme on Priority Bus Lanes had been implemented by this Project in the year under review with the aim of improving the public transport service. A priority bus lane can be reserved only when there are at least three lanes in the road towards one direction. Nevertheless, motor cycles, Lorries and motor cars are accessed to priority bus lanes due to unavailability of 03 lanes in most roads and as such, the priority bus lane system had not been operated. Moreover, the expected results could not be achieved from expenditure incurred for the Project in the year under review.

Establishment of Buses Control Operating Centres

Provisions amounting to Rs.20 million had been made in the year under review for the establishment of a buses control operating centre in the multi transport centre, Makumbura, Kottawa and for the commencementof a buses control operating centre by installing GPRS devices in all private buses. However, establishment of buses control operating centres and instalment of GPRS devices had not been carried out even by the end of the year under review.

Greater Colombo Flood Resilient Urban Environment Trust Fund

The said Trust Fund had been implemented in the year 2012 on a financial assistance amounting to US$ 900,000 representing Rs.118.8 million granted by the World Bank. That function was scheduled to be completed on 21 July 2014. After that date, the period of achieving objectives by utilizing moneys of Fund had been extended by 02 ½ years in 02 instances by 31 January 2017. However, moneys of the Trust Fund had been failed to utilize even during that period and as such, a sum of US$ 172,927 or Rs.26.55 million had to be returned to the World Bank. Moreover, procurement activities had been carried out to select an institution for the consultancy service for the preparation of an Action Plan on the valuation of flood risk and mitigation of flood risk implemented by the Trust Fund. A period of 02 years and 04 months had been spent therefor. Moreover, over a period of one year had been spent for procurement activities for the consultancy service for the preparation of plans for the assessment of water quality in the inland waterways and lakes within Metro Colombo area and for the management of wetlands. In the selection of a consultancy institution for the relevant period by spending such a long period, the contract had been awarded to the consultancy institution which had reached the second place in scoring in procurement evaluation, instead of the international consultancy institution with a staff who had possessed highest qualification and won the ISO Certificate and the first place according to the procurement evaluation. As such, a sum of Rs.9.72 million had to be over paid as consultancy fees. Moreover, the said institution had extended the period in 03 instances within the period from 21 July 2015 to 18 January 2016. As such, achievement of objectives of Fund had been delayed. Moreover, training of officers of the institution and conducting workshops therefor had not been carried out regularly by this consultancy institution within the package of preparing an Action Plan for the mitigation of flood risk within Metro Colombo area. As such, the assistance of international consultancy firms had to be obtained again for the preparation of Action Plans for the valuation and mitigation of flood risk.

Kottawa, Kaduwela and Kadawatha Township Development Project

The Kottawa, Kaduwela and Kadawatha Township Development Component (3K) had been commenced as a sub-component of the Greater Colombo Urban Transport Development Project. According to the Loan Agreement, the Project should have been completed 31 May 2015. However, functions which were planned to be performed under the Project, had been failed to perform within the due period. As such, this Project is being implemented at present on Treasury provisions without obtaining loans. Accordingly, expenditure necessary for the staff and administrative purposes had to be incurred from the Consolidated Fund at present due to incompletion of the Project within the due period. Therefore, a sum of Rs.43.4 million had to be spent therefor from the Consolidated Fund by the end of the year under review. Even though salaries for the staff of the Project had been computed erroneously and a sum of Rs.1.91 million had been over paid, the sum so overpaid should have been recoverable. Moreover, the Project was being completed in a sluggish manner.

Western Region Megapolis Master Plan Project

The Western Region Megapolis Master Plan Project had been commenced in May 2015. It was being implemented over a period of 02 years by the end of September 2017. However, this Project was implemented in the years 2003 and 2004 in cooperation with the Sri Lanka Board of Investment of Sri Lanka and the Ministry of Finance and Planning and a sum of Rs.79.85 million had been spent during the period of over 02 years. However, after recommencement of the said Project, a sum of Rs.250.37 million had been spent for the project during the period from May 2015 to September 2017. Accordingly, the entire expenditure for the Project had been Rs.330.23 million. However, the Cabinet of Ministers had decided on 16 August 2016 that the operating activities of this Project should be completed by the end of July 2017. Contrary to the Decision of the Cabinet of Ministers, expenditure including salaries and other expenses totalling Rs.13.08 million had been incurred from the Consolidated Fund for two months of August and September 2017. Further, according to the Cabinet Memorandum dated 11 July 2017, a new Project called “Western Region Planning Project” had been commenced for performing every remaining activity of this Project. However, there was no time framework for the said Project. Moreover, the function which was carried out by the Department of National Physical Planning, had been carried out by this Project as well. Moreover, the major objectives of this Project were compilation of drafts for the establishment of Western Region Megapolis Authority and amendment of Local Government Acts and Ordinances effected thereto, solving problems arisen among local authorities, and preparation of pre-plans on the structure of the Western Region Megapolis Authority. Nevertheless, action had been taken contrary to those objectives.

Metro Colombo Urban Development Project

This Project had been commenced with the objective of mitigating flood in the catchment of the Colombo Water Basin and strengthening the capacity of local authorities in the Colombo metropolitan area and increasing the beauty of the Colombo city. The total estimated cost of the Project had been US$ 321 million equivalent to Rs.42,031.44 million. Out of that, a sum of US$ 213 million or 66.35 per cent of the total cost is financed by the International Bank for the Reconstruction and Development and the remaining amount is financed by the Government of Sri Lanka. Even though this Project was scheduled to be commenced on 10 July 2012 and completed by 30 June 2017, the period of the Project had been extended in 02 instances. Accordingly, the Project is due to be completed by 30 June 2020. However, a sum of US$ 87.7 million equivalent to Rs.12,198 million from the funds received under World Bank loans had been utilized by the end of the year 2017 and in addition to that, a sum of Rs.3,691 million or US$ 25.7 million had been spent by the Government of Sri Lanka. Accordingly, an amount of approximately 41 per cent of the loan, had been utilized after 5 1/5 years of the implementation of the Project.

Constructions of the Biodiversity Park at Beddagana had not been carried out in accordance with the proper standard and as such, a sum of Rs.92.07 million had been overpaid to the contractor. Moreover, the contract of construction of the Crow Island Beach Park at Mattakkuliya had been awarded to a contractor for Rs.275.78 million. Even though that contract had been planned to be completed within a period of 10 months, over a period of 1 ½ years had been spent for the completion of the Beach Park. Moreover, it had not been constructed in accordance with the due Engineering Plan and the Park had been taken over despite having 47 shortcomings due to delays in constructions and a sum of Rs.129.14 million had been paid to the contractor without considering shortcomings existed by then.

A sum of Rs.1,552.07 million had been spent for various purposes of the development of Beira Lake by the Project for increasing the beauty of Colombo city in an environmental friendly manner. Another sum of Rs.470 million had been spent from Treasury Funds. However, there was a stench around the Beira Lake due to failure in taking measures to prevent the dumping of waste from residences and hotels near the Beira Lake. However, the development activities of the Beira Lake had not created an environment suitable for spending leisurely to both tourists and local visitors.

Industry and Commerce

The expected result of this sector is creating a globally competitive and beneficial business environment. The following functions should have been performed by the Ministry of Industry and Commerce, 09 Departments and 26 Public Enterprises under its purview for achieving that result.

- Formulation, follow up and evaluation of policies, programmes and projects relating to the subjects of industry and commerce
- Promotion and development of industries
- Conduct of trade exhibitions
- Take measures for the supply of quality consumer goods at reasonable price in the local market without a shortage
- Approval of credit agencies under Section 114 of Mortgage Act, No. 6 of 1949
- Formulation and implementation of national pricing policies with regard to consumer goods
- Take measures for the protection of consumers
- Development and popularization of designs for production in the handicraft industry in Sri Lanka
- Matters relating to administration of the International Convention on Intellectual Property and functions relating to World Intellectual Property Office
- Management and protection of state resources related to sugar industry

The audit observations made during the course of audit test checks conducted on the discharge of the said functions are summarized below.

Ensuring the Protection of Consumers

The Authority had conducted 9,825 raids representing 38 per cent of the total raids in respect of pricing, labelling and packing in the year under review. Out of the total raids, 26.98 per cent had been regarding the non-displaying of price list. However, raids such as the selling of goods at a higher price than the marked price, standards and specifications on goods and services, price of specific goods and services and sale of goods on which the maximum price is marked, for which more attention should be paid on behalf of the protection of consumers, had been an amount as less as 14 per cent out of the total raids.

Non-recovery of outstanding Loans and Interest thereon

Loans totalling Rs.818.62 million had been granted to Co-operative Societies by the Co-operative Development Fund and Co-operative Surplus Fund coming under the purview of the Department of Co-operative Development and out of them, loans and interest thereon amounting to Rs.618.01 million and 208.94 million respectively had been outstanding by 31 December 2017.

Only loan installments and interests thereon amounting to Rs.1.73 million and Rs.9.06 million respectively had been paid by societies who had borrowed money in the year under review. The Department of Co-operative Development had not taken adequate measures for the recovery of outstanding loans and interests thereon. Even though it had been mentioned according to the Action Plan that loans amounting to Rs.20 million are granted, loans had not been granted to any society after July 2015.

Audit of Co-operative Societies

In terms of Section 44(1) of the Co-operative Societies Act, No.5 of 1972, the audit of Co-operative Societies should be carried out by the Commissioner of Co-operative Development. Accordingly, 59 financial statements had been presented by 45 Co-operative Societies in the year 2017. However, only reports for 30 financial statements had been issued by 10 July 2018. Even though audit on 12 financial statements presented prior to the year 2017 had been completed, reports thereon had not been issued.

Delivering Annual Returns of Companies

In terms of Sections 131(1) and (2) of the Companies Act, No.07 of 2007, every company shall deliver to the Registrar an Annual Return after 1 ½ years of its registration. An income of Rs.1,623.63 million out of the charges recovered for Annual Returns, had been outstanding by 31 December 2017. A number of 72,865 companies had been registered from the year 2007 on which new Company Act was operated, to the year 2017. After incorporation of those companies, the Annual Returns should be delivered within the due period. Nevertheless, no Annual Returns whatsoever had been returned by 16,148 companies during that period. Out of 25,071 reregistered companies, 2,555 companies had not delivered Annual Returns accordingly. In terms of Section 346(a) of the Companies Act, the names of 3,455 Companies had been cancelled and out of them, the names of 2,715 companies had been cancelled due to failure in delivering Annual Returns. Accordingly, the total income which could not be recovered relating to cancellation of the name had been Rs.50.87 million. The annual increase in the number of companies which had evaded the delivery of Annual Returns, is given in Figure 29

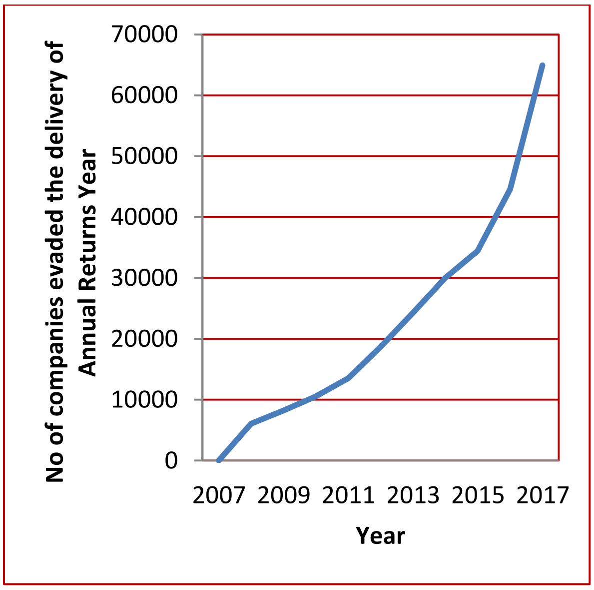


Figure Companies evaded the delivery of Annual Returns
Source: Internal Audit Report on Outstanding Income - 2017

Computerizing the Process of Registration of Companies

A contract for the implementation of the Project on Computerizing the Process of Registration of Companies had been awarded to a contractor on 21 January 2014 to the value of Rs.88.81 million. Even though the due contract period had been 09 months, the contractor had failed to complete the contract within the due period. Accordingly, the contract agreement had been terminated and the Project had been discontinued halfway. By then, a sum of Rs.13.27 million had been paid to the contractor. However, action was being taken to settle it in consultation with the Attorney General's Department by the end of the year under review.

Conduct of Degree and Postgraduate Degree Programmes on the Textile and Apparel Field

The Sri Lanka Institute of Textile and Apparel which had been established in the year 2009, had exceeded a period of 08 years by the end of the year 2017. Action had not been taken even by the end of the year under review to conduct Degree and Postgraduate Degree Programmes on the Textile and Apparel Field in terms of Section 04(a) of the Part 01 of the Sri Lanka Institute of Textile and Apparel Act, No.12 of 2009. A sum of Rs.23 million had been granted from the Treasury for the construction of a building for improving basic facilities necessary therefor from the year 2015 to the year 2017. Out of that provision, a sum of Rs.1.59 million had been spent for the Master Plan and for testing of soil samples by 31 May 2018. The remaining amount had been invested in short term deposits of the Institute.

Issuance of Certificates of Conformity

Issuance of certificates of conformity for the persons, who are engaged in the Textile and Apparel Industry, in compliance with international and national standards and standard systems of companies, was one of the objectives of the Sri Lanka Institute of Textile and Apparel. However, action had not been taken even by the end of the year under review to obtain the National Vocational Qualification Level (NVQ) for the courses except for the Work Study Course. Moreover, out of 146 courses planned to be conducted in the year under review, only 19 courses had been conducted by the Institute. Even though a participation of 773 students had been expected for conducting 44 courses in the Engineering Division, only 21 courses had been conducted by the end of the year and 302 students had participated therefor.

Registration without the License issued by the Central Bank of Sri Lanka

The Director General of Commerce has the authority to declare lending institutions on the recommendation of the Committee by which credit societies are approved, under the Mortgage Ordinance, No.6 of 1949, Trust Receipt Ordinance, No.12 of 1947 and Inland Trust Receipt Act, No.14 of 1990.

The Department of Commerce has declared 375 lending institutions in terms of Section 114(1) of the Mortgage Ordinance, as approved lending institutions for the functions of the said Ordinance from September 1973 to April 2017. Out of those institutions, 269 institutions are Co-operative Societies and Rural Banks and the 106 remaining institutions are financial companies and banking institutions. In terms of the said Section, the license which was obtained from the Central Bank of Sri Lanka should be furnished by the relevant institutions for obtaining the approval for financial companies and banking institutions. However, the said license had not been obtained for 57 approved financial companies and banking institutions.

Weak Supervision in Lending Institutions

The Annual Accounts of approved lending institutions should have been furnished to the Director General of Commerce for the purpose of continuous supervision of eligibility of those institutions. However, those reports on accounts had not been furnished by relevant institutions. Even though the Director of Commerce has the responsibility for supervising the performance of the approved lending institutions, that function had not been performed.

Delay in Registration of the Trademark and Patents

The number of trademarks registered by the National Intellectual Property Office of Sri Lanka in the year under review stood at 10,622. A number of 11,286 applications had been received for the registration in the year 2017 and out of them, no applications whatsoever had been registered. The validity period of a trademark is 10 years and it has been stated in Sub-section 118(2) of the Intellectual Property Act, No.36 of 2003 that a mark, when registered shall be registered with reference to the date of receipt of the application for registration by the Director-General, and such date shall be deemed for the purposes of this Act to be the date of registration. Considerable delays had occurred in the registration of a trade mark such as a period from 7 months to 10 years from the date of receipt of an application for registration of a trademark, for its examination, a period from 1 year to 03 years after payment of fees, for publishing it in the Gazette and over a period from 6 months to 05 years from the date of payment of registration fees, for the issuance of registered certificate. The total number of trademarks registered by the Office by the end of the year under review stood at 55,149 and out of them, 24,076 representing 44 per cent had been the trademarks of which the renewal period has expired. Further, the National Intellectual Property Office of Sri Lanka had appeared as a witness for court proceedings filed by external parties relating to 150 trademarks registered by the Office.

The number of Patents registered in the year under review stood at 181. A period from 05 months to 12 years had been taken for the registration of these

Patents. Further, it was observed that a period from 08 months to 10 years from the date of receipt of applications for obtaining a Patent had been taken for its examination and after the examination, a period from 02 months to 1 year and 11 months had been taken to inform regarding shortcomings therein. The number of patents issued by the end of the year 2017 had been 4,560.

Moreover, 13 cases had been filed in Courts against the National Intellectual Property Office of Sri Lanka by 08 and 05 external parties regarding the issue of Patents and licenses for Technical Plans respectively.

Provisions amounting to Rs.64 million had been made in the years 2016 and 2017 by the Line Ministry for the "Madrid Protocol Access Project" for international registration of Trademarks and out of that, a sum of Rs.62.3 million had been utilized. Even though a sum of Rs.32.5 million out of the said amount, had been paid to the Information and Communication Technology Agency in December 2016 for procurement activities of purchase of Server, procurement activities necessary for the said purchasing had not been commenced even by 31 December 2017. Moreover, a sum of Rs.7.8 million had been spent for the selection of a consultancy company for supplying services relating to the Madrid Protocol Access Project. It had been intended to perform functions through this company, such as making amendments and formulation of regulations required for the Intellectual Act so as to complete the legal requirements relating to the procedure for international registration of trademarks, which should be followed by the Government of Sri Lanka and performing functions associated with remaining trademarks to update the activities of the Trademarks Division. However, these activities had not been completed even by May 2018.

Housing and Construction

Providing suitable housing facilities for every family with the objective of ensuring a better standard of living for all citizens had been the result expected from this sector. The following functions should have been performed by the Ministry of Housing and Construction, two Departments and 08 Statutory Boards/ Institutions under its purview in achieving that result.

- Compilation, follow up and evaluation of policies, programmes and projects relating to the subjects of Government departments, statutory institutions and corporations on housing and construction.
- Assign standards and norms for government quarters and other buildings.
- Implementation of housing schemes and housing financial programmes to meet the housing needs of the people including low income earners and special community groups.
- Guidance for rural people about technical methods of housing construction which bring cost effective benefits ecofriendly.
- Supply of mechanical engineering services for government institutions.
- Regulation, registration, regularization and standardization of the activities of the construction industry consistent with relevant rules and regulations and standards.
- Provision of consultancy and regulatory service for the construction industry and operation of heavy construction equipment and training on maintenance.
- Management and regulatory activities of Condominium property.
- Reform of public condominium property and transfer of the title of houses efficiently and speedily.

Significant audit observations revealed during the course of audit test checks relating to the functions performed are summarized and shown below.

Model Villages Programme

This programme had been implemented by the National Housing Development Authority. Even though provisions of Rs.1,170 million had been made for the project in the year under review, only a sum of Rs.815 million out of that had been utilized. A number of 3,500 houses had been expected to be constructed in the year under review. However, only 205 houses out of that target, representing 6 per cent had been completely constructed by the end of the year. Accordingly, the performance of the programme had been at a weak level.

Housing Programme –Northern Province

Provisions of Rs.1,267 million had been made by the National Housing Development Authority in the year under review for the housing project constructed in areas affected with kidney disease. Nevertheless, only a sum of Rs.1,167 million out of that had been spent. Even though the number of houses targeted to be completed in the year under review was 2,534, only 695 houses representing 27 per cent had been completed by the end of the year.

Bogaswewa Special Housing Project

This project had been implemented by the National Housing Development Authority and an expenditure of Rs.471 million had been estimated for the construction of 1,078 houses. A number of 184 houses had been completed by spending a sum of Rs.421 million by the end of the year under review. Even though 1,078 houses had been expected to be completed in the year under review, only 184 houses representing 17 per cent had been completed by the end of the year.

Wiru Sumithuru Housing Programme

This project, which is implemented by the National Housing Development Authority in amalgamation with the Ranaviru Authority, had planned to construct 913 houses on an estimate of expenditure amounting to Rs.798.1 million. Out of them, only 49 houses had been constructed despite provisions of Rs.150 million made in the year under review therefor. Accordingly, only 5 per cent out of the number of houses to be completed by the end of the year under review, had completed constructions.

Grama Shakthi Udagammana Programme

This project had been implemented by the National Housing Development Authority. An expenditure of Rs.250 million had been estimated to construct and complete 500 houses through the project by the end of the year under review. Provisions of Rs.100 million had been made therefor in the year under review and works had been commenced for constructing 1,304 houses by utilizing those provisions. However, not even a single house had been constructed and completed by the end of the year under review.

Welioya Housing Project

This project had been implemented by the National Housing Development Authority. An expenditure of Rs.61 million had been estimated for constructing 1,042 houses in the year under review. Constructions of 995 houses had been completed by spending a sum of Rs.57 million for the project. As such, the physical progress of the project had been 95 per cent. However, the project had been implemented without a proper study or a search on natural factors such as the water resource of the area prior to the commencement of the project. As such, the beneficiaries had left due to lack of water in the area.

Lunawa Housing Project

The Urban Settlement Development Authority had planned to construct 356 houses under this project in the year under review. Even though the project was due to be completed by 31 December 2017, the works of the project had not been completed by that date. Provisions of Rs.90 million had been made for the project in the year under review. Nevertheless, only a sum of Rs.60 million had been utilized out of that and a physical progress of 14 per cent of the expected target had been achieved.

Horana Rosewoodwatte Housing Project

This housing project had been implemented by the Urban Settlement Development Authority. Forty housing units with an estimated cost of Rs.34 million had been expected to be completed by the end of the year under review. Twelve per cent of the expected physical progress had been achieved by the end of the year under review from the project by spending a sum of Rs.6.29 million.

Construction of the Bridge across the Southern Limit of Gal Oya

The State Development and Construction Corporation had planned to complete the contract of constructing the bridge across the southern edge at Gal Oya on 24 April 2015. The estimated cost of the project had been Rs.107.10 million. Constructions were being carried out even by 27 June 2017 and a sum of Rs.66.68 million had been spent therefor by 24 January 2017. The following deficiencies were revealed in this connection.

- The period of the project had not been extended after 23 June 2016. According to the terms of the contract, a sum of Rs.45,000 per day of delay or the maximum value of 10 per cent (Rs.10.71 million) of the contract value should be paid per day of delay. However, liquidated damages had not been recovered accordingly.

- Kumbuk, Kottan and Kirala trees in the project premises had been felled without any authority whatsoever and 411 sqf., 1327 sqf. and 155 sqf. in length had been illegally removed by the officers of the Corporation Moreover, 73 cubes of sand had been removed from the site of the project without obtaining any permission from the relevant authorities. However, the Management of the Corporation had not taken proper action in this connection.

Loans unrecovered due to Misplacement of Files

Files relating to 1,468 property loans valued at Rs.5.97 million granted under Thrift and Credit Cooperative Society Scheme (TCCS) by the Jaffna District Office of the National Housing Development Authority had been misplaced and as such, those loans could not be recovered.

Payment of Penalties to the Employees' Provident Fund and Employees' Trust Fund

Contributions had been paid by the Housing Development Authority from the year 2006 to the year 2012 to a less salary than the salary applicable to the Employees' Provident Fund and the Employees' Trust Fund. As such, a penalty of Rs.71.06 million had been paid therefor in the year under review.

Non-utilization of Funds for the Objectives of the Sevana Fund

A balance of Rs.524 million existed at the beginning of the year under review in the Sevana Fund under the Housing Development Authority and a sum of Rs.380 million had been received from the Treasury and other parties for that Fund. Accordingly, funds of Rs.904 million had remained in the donation account in the year under review. Nevertheless, out of the said amount, only a sum of Rs.70 million had been utilized for the objectives of the Fund in the year under review.

Non-occupancy of Beneficiaries in completed Houses

Works of 500 and 35 housing units had been planned to be completed by the end of the year under review respectively by the Sevana Gammana Programme and Low Cost Housing Technology Programme under the National Housing Development Authority. Works of even one housing unit out of them had not been completed by the end of the year under review due to problems relating to water. Even though the works of 89 houses had been completed up to the level of occupancy by May 2018, beneficiaries had not occupied those houses.

Unsuitability of Lands selected for the Housing Programme

Works of 5,000 housing units had been planned to be commenced by the Model Villages Programme under the National Housing Development Authority and out of those, works of 3,500 housing units had been planned to be completed in the year under review. The lands selected for that programme had been unsuitable. As such, only the works of 205 housing units had been completed.

Northern Province Housing Development Programme

Works of 2,534 housing units had been planned to be completed by the National Housing Development Authority under the Northern Province Housing Development Programme. Six hundred and ninety five housing units had been constructed by the end of the year under review. Seven hundred and twenty six housing units had been fully completed by the Quarter II of the year 2018 and works of 1,103 housing units had been completed up to the level of occupancy.

Construction of Houses according to Participatory Approach

Works of 250 housing units under the Sevana Scattered Housing Programme by following the participatory approach had been planned to be completed by the National Housing Development Authority. However, only the works of 24 housing units had been completed by the end of the year under review.

"Sonduru Piyasa" Bank Loan Programme

Even though the National Housing Development Authority had planned to complete the works of 3,000 housing units under the "Sonduru Piyasa" Bank Loan Programme, only the works of one housing unit had been completed by the end of the year under review.

"Sevana Gammana" Housing Programme

The National Housing Development Authority had planned to complete the works of 869 housing units under the Sevana Gammana Housing Programme of the continuous programme. As the beneficiaries were unwilling to reside due to problems related with water, their contributions had not been successfully received. As such, the works of 111 housing units had been completed at the end of the year under review and the progress thereof had been about 13 per cent.

Government Private contributed Housing Programme

According to the Action Plan, the National Housing Development Authority had planned to complete the works of 28 housing units in Yakkala Siyane Uyana under the Government Private contributed Housing Programme of the continuous programme. However, the works of even one housing unit had not been completed in the year under review.

Middle Class Housing Programme

Works of 3,611 housing units had been planned to be commenced under 05 projects in the year 2017 under the Middle Class Housing Programme. Nevertheless, only the works of 860 housing units of the Mount Clifford Housing Project had been commenced by the end of the year under review.

Renovation of Old Housing Schemes

Provisions of Rs.250 million had been made in the year 2017 for the renovation of 24 old housing schemes. The renovation of those housing schemes should have been completed in the year under review. However, only the renovations of 18 housing schemes had been in progress by 31 December 2017 and a sum of Rs.170 million had been spent therefor.

Transport

Provision of convenient, reliable and expeditious passenger and freight transport service had been the desired results of the Ministry of Transport and Civil Aviation. In order to achieve that desirous results, the following functions had to be discharged by the Ministry, two Departments and 06 statutory boards/ institutions functioning under the Ministry.

- Take necessary measures to ensure efficient operation of integrated passenger and freight rail transport services by adoption of new technology, development of railway infrastructure, and provision of railway services.
- Provision of passenger ferry services.
- Introduction of an environmental friendly transport system.
- Regulation of private passenger transport services.
- Registration and licensing of motor vehicles and issuance of driving licences.
- Regulation and issuance of guidelines and laws relating to motor traffic.
- Conduct development and regulatory functions of airports.
- Expansion of international air travels.
- Promotion and execution of regulatory functions in relation to use of airports in Sri Lanka by foreign countries.
- Supervision and regulation of private air services.
- Registration of aircrafts.

The following deficiencies were observed in the audit test checks conducted on the discharge of the above functions by the Ministry and the institutions functioning thereunder.

Construction of Matara, Beliatta and Kataragama New Railway Line

The project of the construction of new railway line from Matara to Kataragama was commenced on 01 August 2013 and the completion of the project had been planned for 31 July 2016. Due to failure in the completion of the project as desired, it had been extended in three instances up to 26 October 2018. The China Exhim Bank had granted US$ 278.2 million or Rs.36,155 million for this foreign financing project and a sum of Rs.28,093 million had been spent by 31 December 2017. Since the project had not been completed within the scheduled period, expected objectives had not been reached and the following losses had been incurred.

Foreign Exchange Losses

The China Exhim Bank had delayed payment of US$ 83,460,000 for the construction of new railway line from Matara to Katharagama to the contractual company by 2 years and 06 months from August 2013, thus resulting a foreign exchange loss of Rs. 737.6 million. Although the contract was due to be completed within a period of 48 months as required by the contract agreement, the Government had suffered a foreign exchange loss of Rs.36.5 million in consequence of extending the project periods in three times.

Failure in Recovering Liquidated Damages

In terms of Sections 8.7 and 14:15 (6) of the contract agreement for the construction of railway line from Matara to Kataragama, if delays occur in the constructions, liquidated damages of 0.1 per cent of the contract value should have been charged from the contractor in respect of every week followed by the scheduled date for the completion of the constructions. The contractor had delayed the completion of the constructions by 34 weeks as at 14 June 2018. Accordingly, liquidated damages of Rs.1,445.85 million should have been recovered from the Contractor, whereas it had not been recovered even by August 2018.

Construction of Dambulla Railway Line via Kurunegala and Habarana

Provisions of Rs,370 million had been made for this project in the year 2017 and out of that, a sum of Rs.29.08 million had been spent. The commencement of the project had been delayed as a results of the delay occurred in obtaining approval for the environmental study report.

Introduction of an Environmental Friendly Transport System

Although the introduction of an environmental friendly transport system is a function of the Ministry, an Action Plan together with a centralized plan thereon had not been made by the Ministry.

Operating Loss of Sri Lanka Railway Department

Sri Lanka Railway Department had been founded in the year 1867. The Department had gained operating profits from that year up to 1934. About 57 per cent of the total revenue had been earned by the transport of freight during that period. The operating revenue of the Railway Department amounted to Rs.6.49 billion by 31 December 2017 and the operating expenditure stood at Rs.14.08 billion. Accordingly, operating loss had been Rs.7.59 billion. As compared with the preceding year, the operating loss had gradually increased. Accordingly, losses had increased exceeding the total revenue of the preceding year and the year under review by Rs.150 million and Rs.1,100 million respectively. Details appear in the Table 25

Operating Revenue, Expenditure and Loss	2012 Rs. Millions	2013 Rs. Millions	2014 Rs. Million	2015 Rs. Million	2016 Rs. Million	2017 Rs. Millions
Operating Revenue	4,852	5,425	5,910	6,335	6,623	6,490
Operating Expenditure	8,648	10,586	16,943	14,048	13,396	14,080
Operating Loss	3,796	5,161	11,033	7,713	6,773	7,590
Operating Loss as percentage of Operating Revenue	78.24	95.13	186.68	121.75	102.26	116.95

Table 25 : Operating Revenue, Expenditure and Loss of the Department of Sri Lanka Railways.
Source : Appropriation Account and Revenue Account of the Department of Sri Lanka Railways.

Collection of Revenue

Collection of revenue of the Department of Sri Lanka Railways remains at an extremely poor position and as compared with the preceding year, recurrent expenditure had increased over two fold of the revenue collected during the year under review. For the purpose of discharging functions of the Department of Sri Lanka Railways, supplementary provisions of Rs.7.59 billion had to be made by the General Treasury during the year under review. The composition of the revenue of Rs.6,489.63 million collected by the Department during the year under review appears in the Figure 30

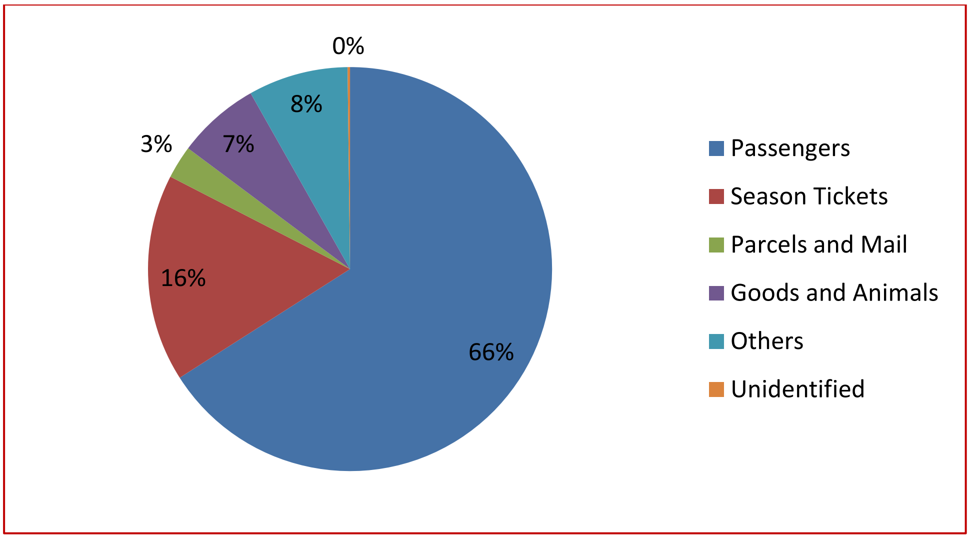


Figure 30 - Composition of Revenue 2017
Source : Revenue Accounts, 2017 of the Department of Sri Lanka Railways.

About 66 per cent or Rs.4,280.63 million of revenue composition had been collected from the commuters at present. According to the composition existed in the inception of the Department of Sri Lanka Railways, 57 per cent of the revenue had been earned by the transport of freight, whereas it had declined up to 7 per cent in the year under review. The following observations are made on the resultant impact of the above decrease on the Sri Lankan economy and environment

Economic Impact

It was observed according to the following matters that the Department of Sri Lanka Railways could have earned additional revenue by way of goods transportation.

- About 232,000 containers are carried away from the Sri Lanka Port annually and at least those containers could have been transported for a distance of 3.3 kilometers from Sri Lanka Port up to Orugodawaththa Container Yard by the trains.Even though revenue of Rs.114.84 million could have been annually earned by making arrangements to transport a container by trains at Rs.150 per 01 kilometer, Department had not drawn attention on earning that additional revenue.

- The fuel requirement of 11 regional stores of the Petroleum Corporation for the months other than the months of January and December,2017 had been 987,402,120 liters. The Department of Sri Lanka Railways had transported 315,435,760 liters of fuel by trains during the year under review. Accordingly, 671,966,360 liters of fuel could have been further transported to those regional stores by trains. Nevertheless, the Department had not made arrangements to transport the above volume of fuel by trains. It was observed that revenue of Rs.449.39 million could have been earned if the aforesaid stock of fuel was diesel (BGT) or Rs.360.43 million could have been earned if such stock was petrol (BMT).

- In relation to the year 2013, the revenue earned by the transportation of cement by trains had decreased by Rs.13.22 million or 60 per cent in the year 2017. Nevertheless, attention of the Department had not been focused on devising strategies for the increase of that revenue.

Environmental Impact

The attention of the Department had not been drawn on promoting the transport of goods by trains within Sri Lanka that will minimize the damages caused to the environment as indicated by the following matters.

- Eighteen containers of 20 feet in length or 09 container of 40 feet in length can be transported by a locomotive engine. Herein, one fuel liter is required to be combusted for running the locomotive engine for a distance of 01 kilometer. If 18 Prime Mover Trucks are used for the transport of 18 containers of 20 feet in length, the fuel consumption for a one kilometer is 4.68 liters (0.26x18). Nine Prime Mover Trucks are needed for the transport of 09 containers of 40 feet in length and 3.33 liters of fuel are burned for a distance of one kilometer (0.37x9). Accordingly, if the Prime Mover Trucks are used for a distance of one kilometer, the average additional fuel consumption

Is 3 liters. It was therefore observed That the volume of Gas and carbonic matters released to the environment is three times higher than the average volume. Accordingly, it was observed that the damages caused to the environment could have been minimized by threefold by way of transporting containers using locomotive engines. About 232,000 containers are annually released by the Sri Lanka Port Authority and those containers are transported by the Prime Mover Containers. Accordingly, the additional fuel combustion can be estimated as 696,000 liters.

- Surveys had revealed that the vehicle emission accounts for 12.5 per cent of the air pollution in Sri Lanka (Year 2001) and it had reached up to 40 per cent at present. It was observed that the volume of Carbon monoxide (CO), Sulfur Oxide (SO),Nitrogen Oxide (NO) Suspended Particulate Matter (SPM) and Heavy Metal and Led released to the environment by emission and organic particles of 696,000 liters of fuel annually can be controlled to a certain extent by carrying out container transportation through the trains.

- Attention of the Department had not been drawn on the possibility of minimizing the damages caused to the healthy life of the people by the diseases such as dizziness, headache, respiratory ailments, mucous infection, pneumonia, asthma etc. resulting from the aforesaid emission and heavy metals.

Failure in Taking Steps on Road Safety

The National Council for Road Safety had earned an income of Rs.62.77 million at 01 per cent of the income received by the Insurance Institutions from the third party insurances during the year under review. Out of that, a sum of Rs.17.82 million had been spent for the discharge of the functions of the Council. Accordingly, Rs.44.96 million of the collected income had been saved without being utilized by the end of the year under review. It was accordingly observed that the above amount had been saved since it had not been sued for the road safety.

Failure to Establish Information System on Road Accidents and Properties

Minimization of road accidents caused by the motor vehicles had been a prime objective of the National Council for Road Safety. Although it had been an inevitable matter to maintain a computer data base inclusive of all the information relating to the number of roads and vehicles added to the road network, number of accidents and damages caused to the properties, Council had failed to establish the above data base even by the end of the year under review.

Non-recognition of Insecure Locations on Railway Lines

During the year under review, 59 persons had received injuries and 12 had been killed due to 86 incidents of crashing vehicles against trains. Besides, 439 vehicle crashing on railway crossings, too, had been reported. Even though provision of Rs. 4 million had been made for fixing 250 warning boards on the unsafe railway crossings, recognition of insecure locations on railway lines or fixing of warning boards had not been carried out.

Achievement of Sustainable Development Goals

Department had not taken action to identify the data base targeted on sustainable development goals, milestones to be reached and the indicators for the evaluation of progress.

Increase in the Death Toll by Road Accidents

As compared with the preceding year, number of road accidents, number of persons receiving injuries and the number of deaths caused due to such accidents showed annual increase by the end of the year under review. Details appear in the figure 31

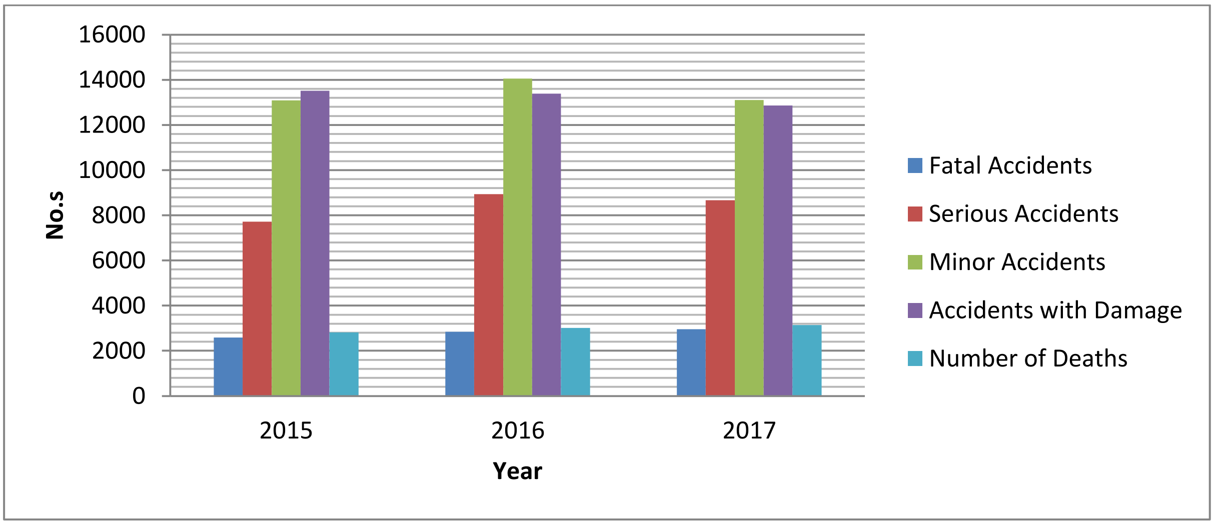


Figure 31- Number of Road Accidents and Deaths
Source- Performance Reports.

Social Empowerment and Welfare

In order to ensure a nation empowered economically and socially, the Ministry of Social Empowerment and Welfare , together with 02 Departments and 05 Statutory Boards / Institutions, should discharge the following duties.

- Formulation of policies, programmes and projects relating to social empowerment and welfare.
- Taking care and safeguarding elders.
- Identification and rehabilitation of disabilities of the persons with special requirements.
- Development of rural and regional economy through the implementation of Divineguma Programme.
- Revision, restructuring, and introduction of new amendments with respect to public aid scheme.
- Providing relief for the patients suffering from tuberculosis, kidney disease, leprosy and thalassemia, and their dependents.
- Providing counselling services.
- Formulation of strategies to provide vocational training and job opportunities for the persons with disabilities.
- Implementation of social security and insurance schemes.

The following deficiencies were observed in audit test checks carried out with respect to the discharge of the said duties by the Ministry, Departments , and the Statutory Institutes.

Failure to Implement the National Policy for Elders

Provision amounting to Rs. 5.00 million had been allocated in the preceding year for the formulation of a national policy for elders in view of establishing a medical insurance scheme for the senior citizens up to the age of 75 years, and providing public transport facilities for the elders above 65 years of age. A sum of Rs. 3.31 million had been spent in the preceding year for conducting awareness programmes in that connection at the National Secretariat for Elders and 331 Divisional Secretariats. Accordingly, provision amounting to Rs. 1.69 million had been saved though, those saved provision had been brought to accounts as an expenditure and retained in the Deposit Account. Although a period of 2 years had been taken for the preparation of that policy statement, it remained non-implemented even up to 30 June 2015.

A Part of Elders' Allowance Remaining Unutilized

Provision amounting to Rs. 9,265.92 million had been made in the year under review for the payment of Rs. 2,000 per month to 386,380 elders over 70 years of age with low income. A sum of Rs. 9,007.60 million had been spent on 375,317 elders from 25 districts. Accordingly, provision amounting to Rs. 258.11 million had been saved. The Divisional Secretariats, having deducted Rs. 100 from the elders' allowance, had remitted that amount to the National Secretariat for Elders in terms of the Cabinet Decision, dated 31 August 2016. By 30 June 2018, a sum of Rs. 1,098.46 million had been retained unutilized at the National Secretariat for Elders.

Formulation of Guidelines for the Elders' Daycare Centers

The National Secretariat for Elders had commenced the formulation of Guidelines for the elders' daycare center in January 2017. Even up to the end of the year under review, the said Guidelines had not been completed in a manner that the Guidelines could be implemented.

Supervision of the Houses for Elders

The total number of houses for elders being maintained in Sri Lanka was 306, and 119 houses therefrom had been registered with the National Secretariat for Elders. Nonetheless, only 19 of those houses had been supervised by the National Secretariat for Elders in the year under review.

Payment of Housing Aids for the Elderly

Housing aid amounting to Rs. 250,000 had been granted in 3 installments to the persons with disabilities and low income who had not owned houses, under the contribution of 5 per cent from the income of the *Supiri Wasana Sampatha* lottery maintained by the National Lotteries Board. However, by the year under review, housing aid amounting to Rs. 8.50 million had remained payable to 93 beneficiaries from 19 districts during the period 2007-2017.

Payment of Allowance for the Disabled

Provision totalling Rs. 1,103.54 million had been made for the payment of allowance for the disabled at Rs. 3,000 per month to 30,654 disabled persons with low income. A sum of Rs. 1,082.78 million had been paid as allowance for the disabled to 30,077 disabled persons from 25 districts. Provision had been saved due to failure in updating information relating to the persons with disabilities and low income living in the districts.

Providing Relief for the Kidney Patients

Provision amounting to Rs. 907.22 million had been made through supplementary estimates to provide relief for kidney patients in 09 districts. In the year under review, Rs. 868.76 million had been utilized therefrom whereas provision amounting to Rs. 38.46 million had been saved by the end of the year. Of the 21,500 patients identified in the year under review, 20,493 patients had been provide with relief, but a waiting list had not been prepared.

Issue of Policies

In terms of Section 14 of the Social Security Board Act, No. 17 of 1996, The Board shall on the enrolment of any person as a Contributor to the Scheme issue him with a policy setting out the contributions to be made by him, and the benefits to which he is entitled under the policy issued to him. However, 172,684 persons had contributed from the year 2014 to 2017 though, 97,370 social security policies had not been issued by the end of the year under review.

Lands Belonging to the National Council for Elders

In order to establish an elderly care center, the National Secretariat for Elders had received the building and the land of the *Nilwala Sevena* center for the disabled, Niwithigala, in extent of 02 acres through a deed of gift in the year 2009. Action had not been taken even up to the end of the year under review to assess the value thereof and take over the property. Inthe year 2011, the National Secretariat for Elders had received the Holi Cross land in Gampaha valued at Rs. 13.00 million and the *Rajitha Watta* land in Haragama valued at Rs. 3.20 million through deeds of gift for maintaining homes for the elders. However, the properties remained idle even up to 30 June 2018 without being used for the intended purpose.

Failure to Take Over the Lands of the Vocational Training Centers

The total area of lands belonging to 07 vocational training centers under purview of the Department of Social Services , had been 22 hectares. Those lands could not be taken over properly even up to 30 June 2018.

Children's Counselling Center

Provision amounting to Rs. 25.00 million had been made to construct a children's counselling center for the Department of social services in the year under review. A sum of Rs. 16.93 million had been spent therefrom by the end of the year, but the construction works had not come to an end even up to 30 June 2018.

Science, Technology and Research

The result expected of this field is development of Sri Lanka as a highly scientific and technological country by engaging in scientific researches and by promoting science and technology. The Ministry of Science, Technology and Research and 13 Statutory Institutions under its purview should have performed the following functions to achieve the expected result..

- Compiling, taking follow up action and evaluating policies, programmes and projects relating to the subjects of Science, Technology and Research.
- Facilitating for local research and inventions in compliance with new international inventions in the fields of Science and Technology.
- Taking necessary action for broadening scientific, technical, social and economic research and development activities.
- Planning and monitoring research through facilitating research and research institutions.
- Distribution of results of new research to relevant parties.
- Taking necessary action for focusing and motivating the community for new inventions.
- Implementing research for the promotion and development of the constructions industry.

The audit observations revealed during the course of audit test checks carried out relating to the execution of the above functions by the Ministry and the Statutory Institutions under its purview are summarized and given below.

Uneconomic Expenditure

A Scientific and Technological Officer had not been appointed to the Rideegama Vidatha Centre from 23 December 2015. Only a Field Coordinating Officer and an Office Aide (KKS) had been attached to that Centre. As such, no service whatsoever had been rendered by this Centre after the year 2015 and a sum of Rs.1.07 million had been paid uneconomically as salaries and allowances to the said Field Coordinating Officer and Office Aide.

The service of a Sales Promotion Consultant had been obtained by spending a sum of Rs.1.34 million for formulating a procedure in achieving relevant targets after studying the present affairs of the Industrial Technology Institute with the purpose of generating funds from the Industrial Technology Institute itself necessary for operating the Institute in the year 2020 and increasing the income of the Institute by Rs.62 million representing 26 per cent in the year 2017. Action had not been taken to proceed with that purpose and as such, it had become an uneconomic expenditure.

Implementation of Foreign Funded Projects without Treasury Approval

Contrary to provisions in Circular No. M.O.FP/E.R.C 2011/1 dated 21 April 2011 of the Ministry of Finance and Planning, a Korean Project and an Indo-Sri Lanka Project valued at Rs.2.44 million and Rs.9.476 million had been commenced respectively in the years 2015 and 2013 without notifying the Department of External Resources.

Recruitment of Employees without Treasury Approval

Thirteen and 64 employees on contract basis and assignment basis had been deployed respectively by the Industrial Technology Institute spending a sum totalling Rs.17.88 million, contrary to the provisions in Treasury Circular No.1/2016 of 08 January 2016 and without obtaining approval of the Secretary to the Treasury.

Loss sustained due to Non-implementation of Projects

A project commenced under financial aid of the European Union had not been implemented in terms of the agreement. As such, a loss of Rs.13.28 million had occurred. The Board of Directors of the industrial Technology Institute had made a decision in the year 2014 that the said loss should be paid to the European Union. Even though a sum of Rs.12.30 million was further payable out of that loss by the end of the year under review, that payable loss had not been disclosed in the financial statements of the Institute in the year under review and the preceding year.

Calling for Bids without proper Preparation of Specifications

Bids had been called without preparation of proper specifications for purchase of a Dilatometerto the Industrial Technology Institute. As a result, the contract had been awarded to the bidder who had submitted the highest quotation by rejecting the bidder who submitted the lowest bid. As such, a financial loss of Rs.2.23 million had been sustained by the Institute. The Institute had selected the bidder who submitted the highest bid without making a discussion with the bidder who submitted the lowest bid.

Officers who breached Foreign Scholarship Agreements

A sum of Rs.7.81million had to be recovered by the Industrial Technology Institute from 18 officers who did not act in terms of the agreements entered into with the officers who awarded the foreign scholarship. However, the Institute had failed to recover those amounts even by the end of the year under review.

Idle Assets

Four vehicles belonging to the Ministry of Science, Technology and Research had been parked in the premises of the Planetarium for over a period of 2 years. Action had not been taken even by the end of the year under review to use or dispose of them.

Failure in testing imported Canned Fish and Margarine for Heavy Metals

The Sri Lanka Standards Institution had carried out a sample test for 2,406,088 kilograms of canned fish valued at US$7,878,766 imported in 49 instances from a foreign manufacturing company in the year under review. According to the said test, the test on heavy metals had not been carried out for 2,019,581 kilograms of canned fish valued at US$7,287,075 imported in 42 instances. Moreover, the test on heavy metals had not been carried out in any instance whatsoever in terms of Section 5.6 of Sri Lanka Standard 1427: 2011 for 607,800 kilograms of margarine valued at US$482,736 imported in 28 instances from a foreign manufacturing company in the year under review. Test for microorganisms mentioned in Section 5.5 of Sri Lanka Standard 1427:2011 for 306,600 kilograms of margarine valued at US$245,426 imported in 14 instances out of them, had not been carried out.

Failure in testing in compliance with all Parameters of the Standard

Sample tests had been carried out by the Sri Lanka Standards Institution for 190,727 kilograms of stocks of baby soap imported from a foreign company in 24 instances from the year 2016 to May 2018. Even though the test relating to the said soap should have been carried out in compliance with 06 parameters of the relevant Standard, the tests had been carried out relating only to 04 out of those parameters.

Issuance of Non-standard Safety Helmets to the Market

A number of 7,536 safety helmets valued at US$20,885 had been imported on 20 March 2017 from a foreign manufacturing company. The Sri Lanka Customs had been informed on 04 April 2017 that the said stock could be issued to the market. According to the standard tests carried out subsequently, the relevant stock had not been complied with 2 requirements of the standard. As such, the Sri Lanka Standards Institution had informed the importer on 19 May 2017 that those helmets should be re-exported. Nevertheless, the importer had informed the Institution on 02 June 2017 that the whole stock had been sold out.

Non –submission of Test Reports

Even though a period of 07 to 19 months had elapsed by August 2018 after obtaining samples for carrying out standard tests relating to 344 stocks of food and non-food items imported in the year under review, the reports thereon had not been submitted. During the course of audit relating to 157 stocks out of the said stocks, approval had been granted for issuance of 97 stocks of goods to the market.

Non-achievement of Results of successfully executed Research Projects

The National Research Council of Sri Lanka had evaluated reports of 45 researcher based research projects with an awarding value of Rs.171.92 million in the years 2016 and 2017. According to evaluation reports, it had been mentioned that out of those projects, 21 research projects with an awarding value of Rs.88.39 million had been successfully completed. However, no adjudication had been given on improving an item or a process through research by evaluating the ability of applying the results of those projects for national requirements.

Granting of Provisions without a Progress Review

In granting provisions for research projects by the National Research Council of Sri Lanka, the total provision relating to the research had been credited to a current account under each project at the commencement of the research itself instead of granting provisions from time to time after examining the progress of researches. Out of provisions amounting to Rs.897.28 million credited to bank current accounts relating to 155 projects commenced during the period from the year 2013 to the year 2017, a sum of Rs.522.21 million had remained dormant in bank current accounts by 31 December 2017.

Lack of Interest in obtaining Patents for Inventions

A number of 1,118 inventions had been submitted under “Sahasak Nimawum” National Competition by the Sri Lanka Inventors’ Commission from the year 2014 to the year 2017. Out of them, 318 inventions had achieved victory. However, only 63 inventors had applied for patents during the period from 2014-2017. It had represented low values such as 5 per cent of the number of inventions submitted to the competition and 20 per cent of the inventions that won.

Granting Financial Aid to Inventions

The Sri Lanka Inventors’ Commission had nominated 08 inventors to be granted with financial aid by the “Nawa Nipayum Diriya 2016”. Financial aid had been granted only to three inventors by 31 December 2017.

Non-achievement of Objectives through Financial Aid granted to Inventors

Financial aid totalling Rs.7.72 million had been granted to 11 inventors by the Sri Lanka Inventors’ Commission in the years 2016 and 2017. Funds had been granted without carrying out a proper study on the requirement of funds and the instance in which funds are required. As such, the expected objectives had not been achieved from grants totalling Rs.4.13 million provided in 03 instances.

Introducing Inventions to the Market

Sri Lanka Inventors' Commission had commenced a project in the year under review for inventors in bringing up a mechanism for introducing their inventions and for promoting research. A sum of Rs.4.70 million had been spent for the administration affairs thereof by August 2018. However, no financial aid had been granted to any inventor or researcher.

Promoting the Inventive Culture

A sum of Rs.1.68 million had been spent for holding a media conference for the formulation of a media policy in promoting and forming an inventive culture in Sri Lanka. However, a media policy had not been formulated and obtained approval even by June 2018.

Communication

The objectives of this field is to build a digitally empowered nation by improving the ability of accessing the digital industry and services associated therewith, promoting digital services and products and increasing the digital literacy of the people. The Ministry of Telecommunications and Digital Infrastructure and 03 Statutory Boards/Institutions under its purview have been established in achieving this objective. The following functions should have been performed by those institutions.

- Formulation, carrying out follow up action and evaluation of policies, programmes and projects relating to the subjects of telecommunication and digital infrastructure.
- Taking necessary measures for the provision of telecommunication facilities for all by adoption of modern technology.
- Assisting to adopt appropriate information technological solutions for promoting productivity and efficiency in the delivery of services by the public sector.
- Implementation of progrmmes for promotion of computer literacy.
- Development of strategies encouraging the use of information and communication technology.

A summary of audit observations made at the audit test checks on preforming the above functions is given below.

Number of Fixed Line and Mobile Telephone subscribers

The number of fixed line telephone subscribers in Sri Lanka which was 3.6 million in the year 2011, had decreased by 28 per cent to 2.6 million by the year 2017. The number of mobile phone subscribers had indicated a combined annual increase during the last 12 years. Thus, the number of mobile telephone subscribers which was 3.36 million in the year 2005 had increased by 739 per cent to 28.2 million by the end of the year 2017. The telephone density had increased up to 143.64 per 100 persons. However, these statistics do not reflect the actual position as a considerable number of active Subscription Identity Module Cards (SIM cards) were being used by one and the same person.

Number of Internet Subscribers

The number of fixed internet subscribers which was 929,089 in the year 2016, had increased by 31 per cent to 1,221,960 by the end of the year 2017. Moreover, the number of mobile internet phone subscribers which stood at 3,999,465 in the year 2016, had increased by 17 per cent to 4,682,300 by the end of the year 2017.

ADSL internet facilities were obtained by 768,760 persons by the year 2017. Distribution of ADSL internet facilities is given in the Figure 32

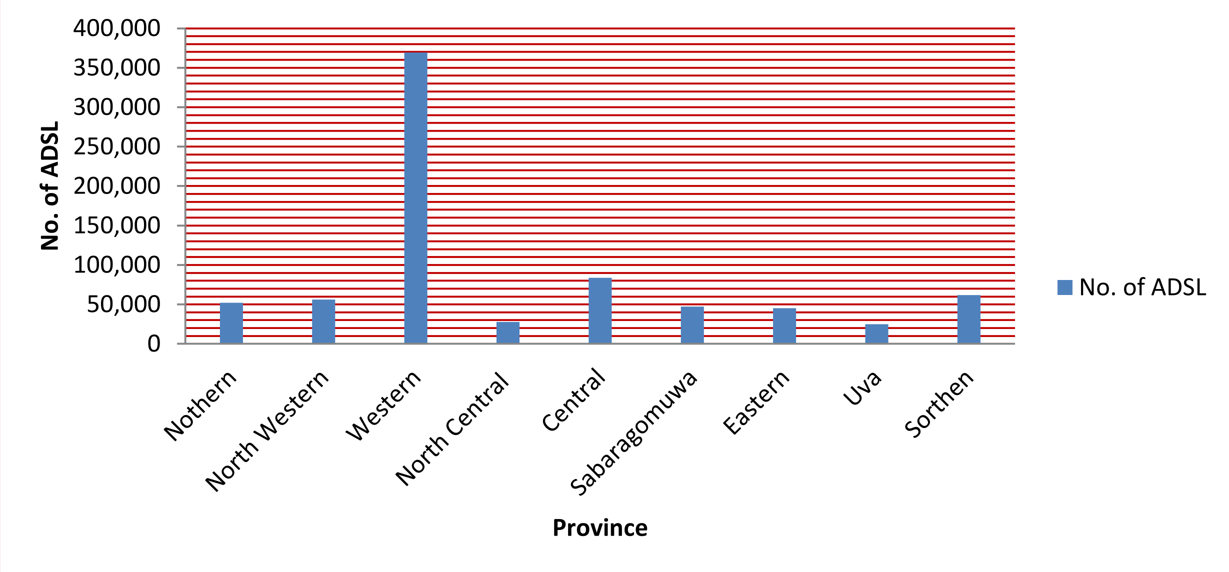


Figure 32-Distribution of ADSL internet facilities according to the provinces
Sources : Sri Lanka Telecommunication Regulatory Commission

While 48.1 per cent of the ADSL internet facilities had been in the Western Province, a number ranging from 3.3 per cent to 10.9 per cent had been in operation in other provinces. Accordingly, the distribution of ADSL internet facilities in provinces other than the Western Province had been at a low level.

Delay in Implementation of the Projects

Provisions amounting to Rs.2,290.10 million had been provided for implementation of 22 projects during the year under review according to the Action Plan prepared by the Ministry. Although a provision of Rs.2,290.10 million had been obtained during the year under review, only a sum of Rs.251.13 million had been utilized. Together with the amount of Rs.328.89 million outstanding by the end of the year, the value of activities already completed in respect of the Project was Rs.580.02 million. Accordingly, work amounting to 25 per cent of the provisions made available to the Project had been completed. The school computer laboratory only, of the 22 projects had been completed. The implementation of the project such as the Information Technology Park in Jaffna, widening of Nenasala Centres, providing them new facilities and installation of the District Information Technology Centres for which provision of Rs.39.19 million had been made from the Annual budget Estimate during the year had been suspended by the Ministry. The physical progress of the remaining 17 projects had been in the range from 10.20 per cent to 98 per cent.

Lotus Tower Project

This project which was started on 12 November 2012 by 02 companies of the Peoples Republic of China was scheduled to be completed in 912 days. The value of the Project was U.S. Dollars 104.30 million. Although the period for completing the Project had been extended up to October 2017, it was not completed even by 31 May 2018. Thus, there had been a delay exceeding 200 days from November 2017 up to May 2018. Nevertheless, in terms of agreements, the demurrage of U.S Dollars 10.43 million for the said delay had not been recovered. The land on which the Lotus Tower was erected had not been vested in the Telecommunication Regulatory Commission by the Urban Development Authority even by May 2018.

The EXIM Bank of the Peoples Republic of China had disbursed the first instalment of the loan on 19 August 2013. However, in terms of the loan agreement, the period for the disbursement of the loan was due to be ended by 18 August 2016. By that date, a sum of U.S. Dollars 43,746,097 of the entire loan or 49 per cent had been released. Thus, as a result of the construction work not being done on the due date, the agreed charge that had to be paid for not utilizing the loan for the period from 19 August to 27 October 2017 alone had been U.S. Dollars 322,984.

Although the total amount of loan to be released by the EXIM Bank, by reasons that the period of the loan agreement had been exceeded, had been restricted to U.S. Dollars 67,259,754, the total amount of loan being U.S. Dollars 88,655,000 had been utilized in the computation of the agreed charges from the beginning and as such the agreed charges of U.S. Dollars 636,508 had been over paid.

The Cabinet of Ministers, by its decision dated 27 October 2010 had decided to vest the proposed television tower and the Entertainment Centre in a Management Consultancy Company after discussing with it to establish the television tower, Colombo and the Entertainment Centre as a Public Company under the ownership of the Sri Lanka Telecommunication Regulatory Commission to enlist it in the Colombo Share Exchange and to issue a share capital of 30 per cent through an initial public issue. However, in terms of the Sri Lanka Telecommunication Act, No.25 of 1991 and the Sri Lanka Telecommunication (Amendment) Act, No.27 of 1996, the Sri Lanka Telecommunication Regulatory Commission had no powers to implement the above. By reason of impossibility of establishing a company in terms of the Telecommunication Act, several steps had been taken to lease the Colombo Lotus Tower to a property Management Company. However, even by July2018, no Cabinet approval had been obtained for same.

No Cabinet approval had been obtained even by 30 July 2018 for the vehicle park to be constructed upon an investment of Rs.4 billion as proposed by the Sri Lanka Telecommunication Regulatory Commission.

Higher Education

Main objective of this field is to ensure that providing greater opportunities for higher education with quality improvement and creating world class universities and post-graduate institutions to achieve knowledge driven economy. The following functions should have been performed by the Ministry of Higher Education and Highways together with one Department and 36 Statutory Boards/ Institutions.

- Formulation of Policies, Programmes and Projects in regard to subjects of higher education and statutory institutions comes under the purview of the Ministry.
- Implementation of Projects in the field of universities and other higher education institutes.
- Development of clear coordination process with the relevant Provincial and Local Authorities to integrated development in conformity with national policy.

Audit observations revealed at the audit test checks carried out in respect of perform the duties mentioned above are summarized and given below.

Enrolment of Additional 900 students to the Technical Stream

Provisions of Rs.1,500 million and Rs.700 million had been made in the years 2016 and 2017 respectively for 11 universities considering the increase of the number of students who enrolled for the technical stream in the year 2017 by 900 as the main performance index . However, the number of students enrolled for the technical stream was 2,290 in the year 2016, it had been decreased by 266 students up to 2,024 students in the year 2017. Accordingly, it had been failed to achieve the expected target in the year under review.

Construction of 50 Quarters

Plans had been made to construct 51 quarters as 50 quarters for 09 universities and one quarters for the University Grants Commission in the years 2016 and 2017 under the Project of Granting Quarters for the university staff as a budget proposal of 2016. Even though provisions amounting to Rs.300 million had been provided for the said constructions, out of the constructions of 51 hoses , physical progress of 22 houses was at a level of less than 60 per cent.

Awarding 150 Doctorates and 50 Postgraduate Degrees

A sum of Rs.1,000 million had been estimated in the year 2017 for the awarding of 150 Doctorates and 50 Postgraduate Degrees for the academic staff of the university with a view to development of the human capital, and the approval of the Treasury had been received for a sum of Rs.16 million . Out of that, a sum of Rs.34.34 million had been spent. Nevertheless, a less of degrees such as 63 Doctorates and 13 Postgraduate Degrees had been awarded at the end of the year under review.

Failure to Prepare Methodologies for the Measurement of Performance

Plans had been made to increase the graduate employment which had been 59 per cent in the year 2014 up to 60 per cent in the year 2017, and the academic staff of the university which were 45.1 per cent in the year 2014 eligible for the Doctorates , have to increase up to 51 per cent at the end of the year 2017. A methodology for the examination of the performance of the said targets had not been prepared by the Ministry of Higher Education or by the University Grants Commission.

Reaching a higher Position According to the World Rank of Universities

According to the World Rank of Universities, plans had been made to keep 03 State Universities among the first 1000 to a minimum , another 03 universities among the first 2000, and the rest of universities among the first 5000. The position existed in the year 2015 as compared with the position reached in the year 2017, the expected progress had not been reached. Details are given in the Table 26 given below.

University	Position existed in the year 2015	Position reached in the year 2017	Growth(decline) percentage
University of Colombo	1946	2259	(20)
University of Peradeniya	2158	2113	10
University of Moratuwa	2415	2861	(20)
University of Kelaniya	2559	2808	(10)
University of Ruhuna	2634	2874	(10)
University of Sri Jayewardenapura	3045	3349	(10)

Table 26- The position reached the universities of Sri Lanka according to the World Rank of Universities
Source- The Action Plan of the Ministry of Higher Education and Highways in the year 2017 and the progress report of the year 2017.

Increasing the Number of Scholarships Awarded for the University Students

Strategic Plans had been made for the achievement of the Sri Lankan Universities in a higher position in the world Rank of Universities through increasing the number of foreign students enrolled to the universities by awarding scholarships to the state and non-state universities. However, the said strategic plan had not been implemented successfully even by the end of the under review. The details on the scholarships awarded are given in Table 27

Year	Number of Students Registered for the First Degree Course	Number of students Registered for the Postgraduate Degree Course	Total
2011	05	-	05
2012	10	05	15
2013	17	27	44
2014	31	07	38
2015	26	-	26
2016	07	-	07
2017	13	-	13

Table 27 - Enrolment of foreign students to the state and non -state universities by awarding scholarships.
Source- The Action Plan of the Ministry of Higher Education and Highways in the year 2017 and the progress report of the year 2017

Non-utilization of Deposited Money

The deposited money which had been charged from the non-state higher education institutions in the registration of the Ministry of Higher Education and Highways should have been utilized for the monitoring activities of the said Higher education Institutions. However, those deposits had been retained in the Deposit Account during a number of years without being utilized for any monitoring activity in the said Higher Education Institutions. Accordingly, a sum of Rs.109 million which had been received in 38 instances relating to 22 non state graduation institutions from May 2013 to the end of the year under review had been remained in the Deposits Account in the Ministry.

Vacancies Existed After the Enrolment of Local Students

In the enrolment of students to the universities annually by the University Grants Commission, the reasons such as the students eligible for various courses are not registered for the said course, students who registered for a course changed for another courses, cancelling of registration by the students, and the universities informed that action not taken for the filling of further vacancies and as such vacancies existed as shown in the Table 28 . In the comparison of the number of vacancies with the preceding years ,the number of vacancies existed in the year under review had been decreased.

Academic Year	Number of Students Proposed to be Enrolled for the Courses Vacant	Number of Students Registered for that Courses	Number of students Vacant
2013/2014	8,940	7,146	1,794
2014/2015	7,980	6,525	1,455
2015/2016	10,405	8,179	2,226
2016/2017	10,318	9,580	738

Table 29 Vacancies existed after enrolment of the students to the universities
Source- University Grants Commission

Vacancies Existed After the Enrolment of Foreign Students

According to the Cabinet decision taken on 25 January 2011,foregn students had been enrolled to the local universities. Vacancies existed in considering the number of foreign students to be enrolled and the number of students enrolled relating to several academic years. Details are shown in Table 29

Academic Year	Number of students proposed	Number of students selected	No.of students Vacant
2013/2014	58	14	44
2014/2015	18	9	9
2015/2016	38	17	21
2016/2017	53	5	48

Table 29 - Vacancies existed after enrolment of foreign students to the universities
Source- University Grants Commission

Even though it had been proposed to enroll 53 foreign students only for 05 courses in the academic year 2016/2017, out of the said 05 courses, only 05 foreign students for 04 courses had been selected as mentioned in the Table 30 and 48 vacancies were existed relating to 05 courses further more , action had not been taken to fill those vacancies.

Academic Courses conducted for the foreign students for 2016/2017	Number of students proposed to be enrolled	Number of Students Selected	No,of Students Vacant
Medicine	07	02	05
Engineering	09	01	08
Town and Country Planning	01	-	01
Arts	26	01	25
Physical Science	10	01	09
Total	53	05	48

Table 30 - Vacancies in the enrolment of foreign students for the courses in the universities
Source- University Grants Commission

Power and Renewable Energy

The following functions should have to be executed by the Ministry of Power and Renewable Energy and 07 Statutory Boards/ Institutions with the intention of making a Nation self- sufficient with energy by increasing the power generation by renewable power sources.

- The compilation, carrying out follow-up action and evaluation of policies, programmes and projects relating to the subject of power and renewable energy.
- The compilation of a suitable power policy for the control, regulation and the utilization of power sources.
- Exploring, planning, supervision and development of the activities relating to the generation of power by the sources of water, heat, coal and wind.
- Rural electricity.
- The management of the demand in a manner that creates energy efficiency and the development of renewable power.
- The development of renewable energy.

The audit observations revealed in executing the functions mentioned above by the Ministry and the Statutory Institutions are summarized and given below.

Not achieving the planned targeted level of capacity

It had been planned by the Ministry of Power and Renewable Energy to add a total capacity of 2000MW to the Grid from the coal power plants by the year 2025. However, a power capacity of 500MW had been expected from the Proposed Sampur Coal Power Plant Project and by the constructions of the Hambantota Project. However, it had been decided to discontinue those two projects in the year 2017 and instead, steps remained being taken to construct Liquefied Natural Gas (LNG) Power Plants and Solar Power Plants. As such, it had not been able to achieve the targeted capacities as planned.

Use of Solar Panels

Two- thousand and eighteen solar panels had been supplied relating to the project of converting the Buildings of the Public Sector to Green Energy. Provisions amounting to Rs.245 million had been made available by the Treasury for this project. A sum of Rs.45 million remained payable relating thereto to the Sustainable Energy Authority, which implemented the project, by the end of the year under review. A procedure that minimizes the damage caused to the environment in disposing these solar panels had not been prepared by the Ministry.

Delay in the initialization of the Moragolla Hydro Power Project

It had been planned to initialize the construction of the Moragolla Hydro Power Project in the year 2014 with the objective of obtaining a capacity of 31MW to the National Grid. However, this project was initialized in the year 2016 after a period of delay of 2 years. A sum of Rs.16,780 million had been received from the Asian Development Bank for this project. Even though it had been scheduled to complete that project in the year 2019, its physical progress had been 9 per cent by the end of the year 2017. A sum of approximately Rs.28 million (USD 177,931) had been paid as Other Payments (Penalty Charges) for the obtained loans on not initializing that project on the scheduled date.

Delay in the implementation of the Broadlands Hydro Power Project

It had been planned to initialize the Boradlands Hydro Power Project with the intention of generating a fixed capacity of 35GW and generating 126GWh of electricity annually. A sum of USD82 million had been estimated for this project and it had been scheduled to finance 85 per cent and 15 per cent respectively of the estimated cost by the Corporate Bank Corporation (JCBC) and by the Hatton National Bank. Even though it had been scheduled to initialize the project in the year 2013 and to wind up the project in the year 2018, the progress of this project had been 43 per cent as at the end of the year 2017.

Not completing the Uma Oya Hydro Power Project

It had been proposed to initialize in the year 2010 targeting to generate a fixed capacity of 120MW by the Uma Oya Hydro Power Project and to complete by the year 2017. This is a multi- purpose project implemented by the Ministry of Power and Renewable Energy, Ceylon Electricity Board and by the Ministry of Irrigation and Water Resources Management. Even though it had been targeted to complete the Uma Oya Hydro Power Project in the year 2017, its physical progress had only been 78 per cent by the end of the year under review.

Delay in completing the new Habarana- Veyangoda Transmission Line

An expenditure amounting to Rs.23,720 million had been estimated for the construction of the new Habarana- Veyangoda Transmission Line and for the construction of the new Development Network Sub- station. Even though it had been planned to initialize the project in January and to complete the project in January 2018, its physical progress by 31 December 2017 had been an amount of approximately 10 per cent.

Operating Result of the Ceylon Electricity Board

According to the Draft Financial Statements presented to audit, a pre- tax loss of Rs.45,729 million had been obtained in the year 2017 by the Ceylon Electricity Board.

It had been a deterioration amounting to Rs.32,538 million as compared with the pre- tax loss amounting to Rs.13,191 million in the preceding year. The increase of the cost of coal by the Government and the increase of the cost of coal raw materials had been the main reasons for this deterioration. Moreover, operating and management expenses in the Distribution Division had been increased and the increase of the Nation Building Tax by 204 per cent as compared with the preceding year, the increase of the Bank Overdraft Interest by 3560 per cent, the increase of the payment of delayed interest for the private purchase of electricity and for the purchase of petroleum from the Ceylon Petroleum Corporation by 88 per cent and by 90 per cent respectively had also been the reasons in this connection.

Generation of Power

Electricity power of 14,671GWh had been generated from 05 sources in the year under review. It had been increased by 522GWh or by 4 per cent as compared with the 14,149 GWh, generated in the preceding year. Electricity power generated by thermal power and by wind power had been increased by 13 per cent and by 6 per cent in the year under review, as compared with the preceding year. The generation of hydro power had been decreased by 5 per cent as compared with the preceding year on the dry weather remained in the year under review. Details appear in the Figure 33 below.

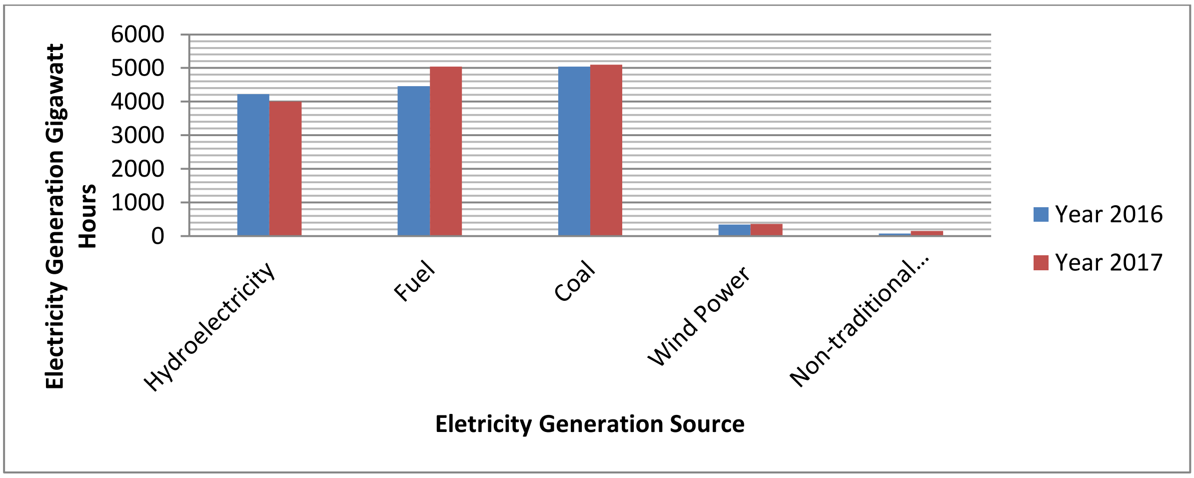


Figure 33 – Electricity generated by each source
Source – Statistical Data Report issued by the Ceylon Electricity Board

Pay As You Earn

The Pay As You Earn (PAYE) Tax remained payable from the employees by revising the salaries in the year 2009 in terms of the decision of the Cabinet of Ministers dated 13 December 2007. However, an additional cost of Rs.3,294 million had incurred by the Board for that period on the Pay As You Earn (PAYE) Tax which remained recoverable from the salary of the employees within the period from the year 2010 to the year 2017 being paid by the Ceylon Electricity Board.

Payment of Allowances to the Staff

A sum of Rs.1,930 million had been paid as Miscellaneous Allowances in the year under review to the staff on the approval of the Board of Directors contrary to the decision of the Cabinet of Ministers contrary to the decision of the Cabinet of Ministers dated 14 November 2007 and to the Management Services Circular No.39 .

Receivable Accounts

Action had not been taken by the Ceylon Electricity Board to recover the Trade Debtors amounting to Rs.4,481 million which remains outstanding from a period of over 05 years and other Receivable Balances even by the end of the year under review.

Risk in recovering Investments

A risk remained in not receiving a sum of Rs.51 million, the interest receivable in this connection on a sum of Rs.404 million invested in Bonds by the Pensions Fund of the Ceylon Electricity Board not remaining as a financial tool. However, either the necessary adjustments or provisions had not been made in the financial statements drafted in the year under review.

Not making available Provisions to pay interest for the deposits of the Customers

The interest payable in the year under review for the deposits belonging to the customers of the Ceylon Electricity Board in terms of Sub- section 28(3) of the Sri Lanka Electricity Act, No.20 of 2009 had been a sum of Rs.1,963 million, the total of two years, in the financial statements.

Payment of Demurrages

Projects that should be implemented by the Ceylon Electricity Board under foreign loan assistance had not been implemented as planned. As such, the Board had to pay demurrages amounting to Rs.42 million for those delayed projects.

Petroleum Resources Development

Making Sri Lanka an energy self-sufficient nation and meeting petroleum products demand of the country through our own process was the main objective of the Ministry. For the purpose of achieving that objective, the Ministry of Petroleum Resources Development and the four statutory bodies thereunder are entrusted with the performance of the following functions.

- Formulation, follow-up and evaluation of policies, programmes and Projects on the subjects related to the petroleum resources development.
- Import, refining, storage, distribution and sale of products related to petroleum and natural gas.
- Activities related to production and refining of petroleum.
- Exploration of petroleum and activities related thereto
- Production of gas from petroleum production sources and distribution
- Development of infrastructure facilities related to the supply and distribution of fuel.
- Supervision of institutions.

A summary of audit observations revealed in connection with execution of the said activities is given below.

Local market for petroleum

According to the Annual Report of the Central Bank of Sri Lanka for the year 2017, eighty six per cent of the local petroleum market is supplied by Ceylon Petroleum Corporation. A sum of US $ 3,428 million had been spent in the year under review on the import of petroleum representing 15 per cent of the overall expenditure on exports of Sri Lanka for the year under review. As a result of the fluctuations in the petroleum market, the average price per barrel of crude oil in the year 2017 had increased by US $ 57.79 representing 24.8 per cent as compared with that of the year 2016. The average price per metric ton of refined petroleum products imported had increased up to US $ 503.06 representing 15.7 per cent in the year 2017 as compared to the year 2016 being US $ 434.62.

Financial result of the Ceylon Petroleum Corporation and the position of net assets

According to the unaudited financial statements made available to Audit, the operations of the Corporation had resulted in a pre-tax net profit of Rs. 3,503.9 million in the year under review. That profit had decreased by Rs. 66,049.8 million as compared with the preceding year. According to the Annual Report, the said decrease had

Mainly been attributed by the failure in revising the prices of the local market in line with the increased petroleum prices in the international market. The profit from the interest income of the bank deposits of the Ceylon Petroleum Corporation reported in the year 2017 had mainly been attributable to the increase in the demand for petroleum to generate electricity.

According to the financial statements of the year under review made available to Audit, the total value of the trade debtors amounted to Rs. 76,615.9 million as at 31 December 2017 and as compared with the value of trade debtors of the preceding year amounting to Rs. 33,386.7 million, the value thereof for the year under review had increased by 129 per cent. The said value had consisted of sums of Rs. 65,979.1 million and Rs. 10,636.8 million from the debtors of the public sector and the private sector respectively. Of that, the amounts in arrears receivable to the Corporation from the Ceylon Electricity Board and Sri Lankan Airlines had been Rs. 50.3 billion and Rs. 12.9 billion respectively.

As compared with the preceding year, the minus value of net assets of the Corporation had slightly decreased at the end of the year under review though, that had further eroded to an unfavorable value of Rs. 174,939.9 million. Hence, the possibility for the Corporation to be maintained as a logistic enterprise sans financial assistance of the Government, had become controversial. The position of financial result and net assets of the Corporation relating to the year under review and 04 preceding years is shown in Figure 34 below.

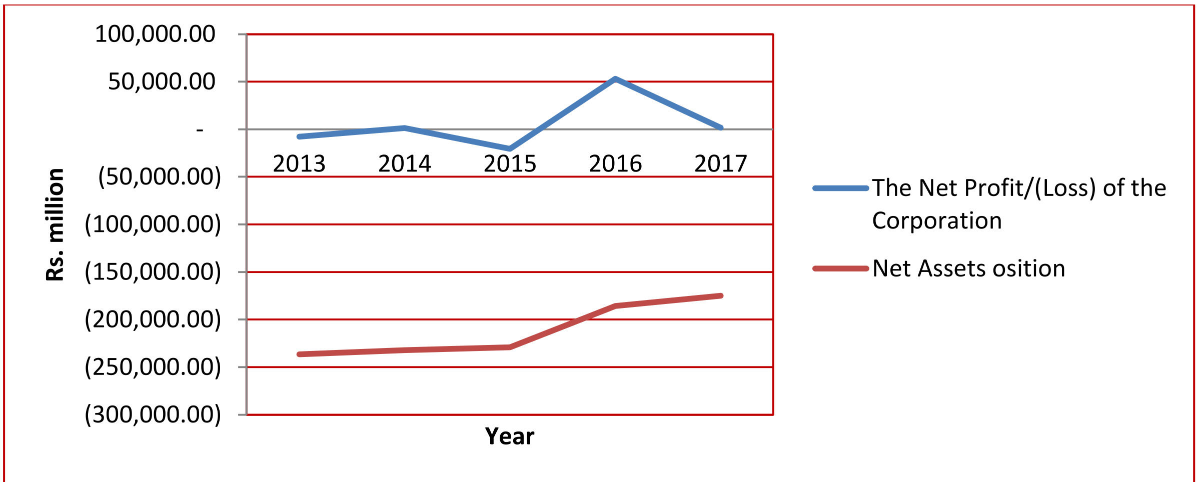


Figure 34 : Position of financial results and net assets of the Ceylon Petroleum Corporation.
Source : Financial statements of the Ceylon Petroleum Corporation.

The Corporation's contribution to the country

The Corporation had earned an after tax net profit of Rs. 1,572.1 million in the year under review. Considering the payment of salaries to the employees by maintaining the Corporation, paying taxes to the Government, paying special charges to the Government, and depreciations, the contribution of the Corporation to the country amounted to Rs. 154,707.9 million for the year under review. The position of contribution and profit /(loss) provided by the Corporation for the country in comparison with that of the preceding years, is shown in Figure 35 below.

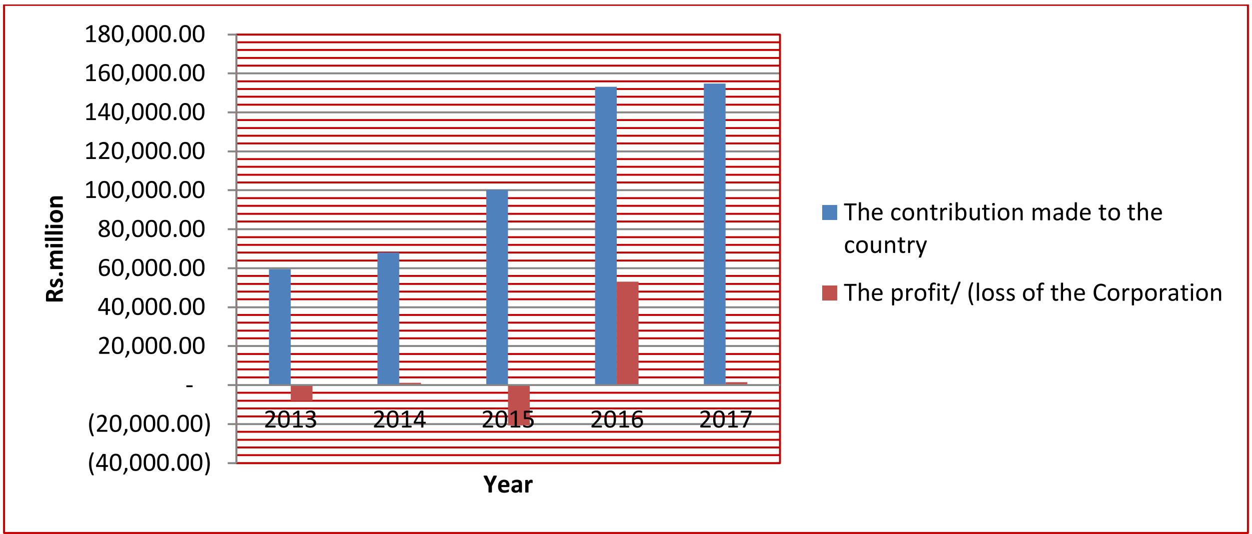


Figure 35 : The Corporation's contribution to the country and net profit / (loss)
Source : Financial statements of the Ceylon Petroleum Corporation

Hedging transactions

The Ceylon Petroleum Corporation had been summoned as a party in the arbitration process relating to the Hedging agreements entered into between the Ceylon Petroleum Corporation and several commercial banks. A sum of US $ 60 million (Rs.7,613 million) had been paid to the Standard Chartered Bank (SCB) on 03 June 2013 under the arbitration instruments between the relevant parties whilst US $ 27 million (Rs. 3,881 million) had been paid to the Deutsche Bank on 04 August 2016. According to the information received, the Corporation had sustained a loss of Rs. 13,641 million as at 31 August 2018. The Central Bank of Sri Lanka had spent a sum of Rs. 941.2 million as legal expenses on the Hedging transaction of the Corporation. A sum of Rs. 370.6 million therefrom had been incurred by the Central Bank of Sri Lanka whilst a sum of Rs. 567 million had been reimbursed by the Corporation to the Central Bank of Sri Lanka during the period 2011-2014.

Nevertheless, a sum of Rs. 3.1 million had not been reimbursed by the Corporation even up to the end of the year under review. The Commercial Bank had filed a case at the Commercial High Court against the Ceylon Petroleum Corporation for a right worth US $ 8.6 million, and the case remained pending even by the end of the year 2017.

Renovation and expansion of oil refinery

The oil refinery of the Ceylon Petroleum Corporation established in the year 1969 fulfills 35 – 45 per cent of the local petroleum requirements. Renovation and expansion of this refinery is imperative as it minimizes the problems relating to sustainability of energy, contribution to the economic development, and quality of the products whilst minimizing the high cost incurred on the import of refined oil.

The renovation and expansion of oil refinery had been discussed in detail at several sessions of the Cabinet Sub-committee meetings of the economic development from 10 March 2015. A committee of experts had been appointed at the Committee meeting held on 10 August 2016 in order to evaluate the financial feasibility of the proposed project. However, no progress whatsoever had been observed thereof even up to the date of audit, 30 June 2018. It was observed in the audit as well that it was imperative to expedite the implementation of that project given the necessity and importance of national level. Furthermore, a sum of Rs. 1,003 had been spent as at 31 December 2017 on the acquisition of land for the Sapugaskanda Oil Refinery Exapnsion and Modernization (SOREM) Project. However, the project had not been implemented.

Network of pipelines transporting petroleum products

Petroleum products are transported through pipelines laid decades ago from Colombo harbour to the Terminal in Kolonnawa, and the said pipelines needed repairs. Several of those pipelines remained beyond repair, and hence, abandoned already. In the year 2017, leakages were reported 04 times and 06 times from the fuel pipes of the sizes 10 inch and 14 inch respectively. As such it became an urgent requirement either to renovate or modernize the pipelines. Meanwhile, no link whatsoever existed between the Terminals in Muthurajawela and Kolonnawa hindering the optimal utilization of the Terminals. Even though the approval of the Cabinet of Ministers for the implementation of "Cross Country Pipeline Project" had been granted on 13 September 2012, it had not been implemented up to 30 September 2018.

The pipe in diameter of 12 inches laid 45 years ago to transport fuel from Colombo Harbour(south jetty) to Kolonnawa remained non-functional for about a decade. A length of 300 meters of that pipe had been renovated in the year 2011at the area of Mahawatta, but it had not become fully functional. Provision amounting to Rs. 260 million had been made through a Paper of the Board of Directors of the CPSTL on 13 February 2015 to renovate the pipeline. Accordingly, a length of 2,171 meters had been renovated in the year 2015 incurring a sum of Rs. 120 million and 2,573 meters had been renovated in the year 2016 at an expenditure of Rs. 153 million. However, the rest of the length of the pipeline to be renovated in order for it to be fully functional, had been less than 1000 meters though, no action had been taken promptly to complete the renovation process so as to prevent the risk of a crippled fuel supply to the country.

Renovation and expansion of oil pipes at the Bandaranayake International Airport

The components of the project for the renovation and expansion of fuel supply pipelines at the Bandaranayake International Airport implemented in conjunction with the development project under phase 2 of stage ii of that Airport, comprised establishing additional storage facilities, and renovation and expansion of the existing fuel pipelines. According to the engineering estimate, the cost estimated for the project amounted to US $ 61 million , and the Cabinet had decided on 09 December 2015 to call for international competitive bids therefor in accordance with engineering procurement process. The contract had been awarded to 2 foreign companies as per the decision of the Cabinet. Despite being scheduled to commence the project in November 2017, it had not been commenced even up to 30 June 2018.

Renovation of the oil tank farm in Trincomalee

The oil tank farm established in the year 1930 at the harbour in Trincomalee that had drawn the attention of the entire world due to being the second deepest harbour in the world, comprised 102 tanks with the capacity of 12,500 cubic meters together with other facilities. It is highly useful to develop and renovate the tank farm for the expansion of alternative and profitable business opportunities such as, tar, lubricants, and liquid gasses, by providing adequate infrastructure facilities including storage facilities, efficient unloading facilities, pipelines for transporting petroleum, and other relevant facilities, for the Ceylon Petroleum Corporation that had been the main operator of the post petroleum industry of the country. Of the 99 of the total number of tanks at present, 14 tanks at the lower area are being used by the Indian Oil Company, and action had been taken to take preliminary decisions on the renovation of disused 84 tanks at the upper area, but a final decision had not been taken in that connection. As such, the renovation project could not be implemented.

Formulation of national policy on natural gas

The Ministry of National Policy Development had been entrusted to formulate the aforesaid policy on natural gasses on 21 September 2015 through a notice published in the Gazette Extraordinary of the Democratic Socialist Republic of Sri Lanka with the expectation of formulating a legal framework facilitating the investors to explore the petroleum and gas mines, and promoting the petroleum and gas mines existing locally with a financial value. Furthermore, it was the main objective of the said policy to introduce into the economy of Sri Lanka to produce and use the natural gasses assisting to adjust the gap between demand and supply. However, the national policy on natural gas planned to have been completed by the end of the year 2017, was not completed even up to the date of audit, 30 June 2018.

Project for establishing a lubricating oil blending plant

At present, the Ceylon Petroleum Corporation has acquired 11 per cent market share in the lubricant industry. The average annual turnover of the lubricant industry amounting to Rs. 2.5 billion represents 0.5 per cent of the total turnover of the lubricating oil sector of the Ceylon Petroleum Corporation, and hence, it is deemed an investment opportunity for the Corporation generating alternative benefits. The Ceylon Petroleum Corporation had entered into 03 agreements on 06 May 2016 with the Hyrax Oil Sdn. Bhd. Company of Malaysia to establish lubricating oil blending plant in Muthurajawela under the form of Build-Operate-Transfer with the objective of supplying lubricants to the export market and the local market of Sri Lanka. It had been planned to build the said lubricating oil blending plant with an annual production capacity of 72,000 metric tons. The cost to be incurred thereon had been estimated to be US $ 13 million, and the contractor was to invest the total amount.

The Ceylon Petroleum Corporation and the Hyrax Oil Sdn. Bhd. Company of Malaysia had signed the agreements on 06 May 2016, and the construction of the plant had been commenced accordingly. The period of the project had been extended in order that the construction thereof could be completed and supervised. However, when the Hyrax Oil Sdn. Bhd. Company of Malaysia was selected as the contractor for the project, only the proposal received from the said company in that connection had been taken into consideration without following the provisions of Government Procurement Guidelines for selecting a suitable party. The 03 agreements relating to that project, namely BOT Agreement, Supply Agreement, and Land Lease Agreement, had been entered into without being fully complied with the opinion of the Attorney General. The Ministry of Petroleum Resources Development, and the Ceylon Petroleum Corporation had halted taking action relating to the establishment of the plant as at 20 June 2018 by pointing out that the terms and conditions set out in the said Agreements had comprised matters having an adverse impact on the lubricant industry of the Ceylon Petroleum Corporation, and certain Sections had violated the Ceylon Petroleum Corporation Act and the Cabinet Decisions.

Furthermore, all the relevant measures had been taken by the Hyrax Company to commence operations with effect from 15 December 2017 after completing constructions of the lubricating oil blending plant. The license that the Ceylon Petroleum Corporation had agreed in terms of the said Agreement to grant to the Hyrax Company, had not been granted to that Company even up to 20 June 2018 (the license for a period of 20 years relevant to the activities such as, import of oils required for the lubricating oil blending plant, mixing, and re-export)

Section 2.24 of the BOT Agreement states that all the regulations and Government approval, and licenses required for the Hyrax Oil Sdn. Bhd. Company to import raw materials, and mixing minerals should be granted by the Corporation. Furthermore, Section 2.25 of the Agreement states that, in the event of the said regulations being breached by the Corporation, it should be considered as a violation of a condition or a rule set out in that Agreement. Nevertheless, the said licenses had not been granted even up to 30 June 2018. Accordingly, there existed the possibility for the Company to take legal action against the Corporation.

Moreover, the Hyrax Company had sent many a letter and reminder to the Ministry of Petroleum Resources Development as well as the Ceylon Petroleum Corporation in regard to the failure of Ceylon Petroleum Corporation to adhere to the Agreement. The letter of the Attorney General in that connection, dated 23 January 2018 had informed that, in the event of Corporation intending to revise the provisions of the said agreements, the procedure set out in the agreements should be followed whilst being further informed that mutual agreement had been necessary to revise a certain section in accordance with the agreements. However, the Ministry of Petroleum Resources Development had not taken necessary measures to implement the said project by revising the agreement suitably even up to the date of audit, 30 June 2018.

Establishment of a new bulk depot in Northern Province

The bulk depot of fuel being maintained by the Ceylon Petroleum Storage Terminals LTD provides for the growing demand for fuel of the masses and security forces in the North that had grown rapidly in the wake of the end of the war. That depot was maintained at the premises of the Cement Corporation in Kankasanturai. The Ceylon Petroleum Storage Terminals LTD had been informed by the Cement Corporation in the year 2011 that the said bulk depot be shifted from that location. However, due to failure in finding a land suitable enough to establish a new bulk depot, that project had come to a halt. Instead, the Minister of Petroleum Resources Development had submitted 2 Cabinet Papers on 14 January, and 13 September 2016, in view of continuing the bulk depot at the same premises of the Cement Corporation after being renovated and expanded. The Cabinet had decided on 19 October 2016 that, in case the Ceylon Petroleum Corporation should pay a rent to the Cement Corporation relating to the period 2010-2015, such rent should be paid, and the said plot of land be acquired on a long term lease for the Ceylon Petroleum Corporation. However, due to failure of the Ceylon Petroleum Storage Terminals LTD in paying the rent in arrears amounting to Rs. 105 million to the Cement Corporation for that period, the expansion and renovation of the bulk depot could not be done even up to the date of audit, 30 June 2018.

Performance review of subsidiary companies

According to the Section 4.2.3 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, the Board of Directors of the parent company should prepare a performance report half-yearly by reviewing the performance of the subsidiary companies thereby furnishing the report to the Department of Public Enterprises. However, no evidence had been made available to Audit for verifying that the Ceylon Petroleum Corporation had done so. As such, it was revealed that it had not become a matter of discussion at the meetings of the Board of Directors of the Corporation relating to supplying fuel for ships, a main business activity of the Ceylon Petroleum Storage Terminals LTD being a subsidiary company of the Ceylon Petroleum Corporation.

Rural Economic Affairs

The objective of the Ministry is to ensure a sustainable development in the country and social benefits for the people living in rural areas. In order to fulfill that objective, the following functions should have been discharged by the Ministry of Rural Economic Affairs , a Department, and 05 Statutory Boards / Institutions.

- Formulation of policies, programmes and projects, and implementation, monitoring and evaluation in relation to the subject of Rural Economy.
- Formulation of Regional and Rural Development Policies and Strategic Development Policies.
- Development of rural infrastructure facilities and small enterprises.
- Provision of necessary facilities for enhancement of livestock products.
- Animal welfare and activities relating thereto.

A summary of audit observations made on the discharge of said functions by the Ministry, Department, and Statutory Institutions, is given below.

Achievement of sustainable development goals

The Letter, No. MREA/6/2/2/1 of 03 January 2017 had identified the objectives with respect to sustainable development such as, alleviation of poverty, eradication of hunger, and economic development in a favorable work environment relating to the institutions pertaining to the Ministry of Rural Economy. However, eradication of hunger and improvement of nutrition through the production of Livestock Development Board, had not been included as an objective in the performance report of the Livestock Development Board whilst the two objectives - poverty alleviation, and gaining economic development in a favorable work environment had only been included.

Becoming self-sufficient in milk production

With a view to reducing the import of milk powder, the Livestock Division of the Ministry had spent a sum of Rs. 7,673.3 million during the 08 year period 2010 – 2017 to increase the production of milk (except the expenses of the Department of Animal Production). The production of milk had been increased by 148.6 million liters in the year 2017 as compared with that of the year 2010. Accordingly, a sum of Rs. 51.63 had been incurred to increase the production of milk by one liter. Furthermore, a loan amounting to Rs. 5,972 million had been obtained from a foreign bank on a certain interest rate during the period 2012 – 2017 under the project for importing dairy cattle. From the loan so obtained, 9,500 cattle had been imported, and the Ministry of Rural Economic Affairs and the Livestock Development Board had distributed those cattle among farmers. Despite the expectation to decrease the import of milk powder through the import of dairy cattle, the comparison of 93.12 metric tons of milk powder imported in the year 2017 with that of the year 2011 being 84.02 metric tons indicated no reduction in the import of milk powder.

Project for promoting fresh milk

It had been planned to establish 1,250 milk bars under the project implemented by the Livestock Development Board since the year 2004 to promote fresh milk. By 31 December 2013, a number of 685 milk bars had been established and 283 of them had been established by the Livestock Development Board. As those milk bars had been established without conducting a feasibility study, only 34 milk bars therefrom representing 12 per cent had remained functional by 31 December 2017. Of the 402 milk bars established at provincial level, only 112 or 28 per cent had remained functional as at 31 December 2016 (the number existing at present day is not stated). Even though action had been taken to increase the production of milk, no action had been taken to minimize the closure of milk bars in view of promoting the consumption of fresh milk.

Project for the import of 20,000 dairy cattle

The following deficiencies were observed in the audit test check conducted on the project for importing dairy cattle.

Failure to formulate a policy for the import of dairy cattle

An import policy had not been formulated to import dairy cattle addressing the suitability for the tropical climate, raising with the existing resources in the country, protection from diseases , and maintaining with a low cost. The Department of National Planning on 13 August 2008 had clearly reported that the lifespan of the cattle imported so far had been short, the ability to reproduction had been weak, cattle had been vulnerable to diseases, the project had involved risks, and the loan had been too much for the Government. However, by disregarding that decision, the Livestock Development Board had imported 4,500 cattle by the year 2015. Despite being verified in terms of financial statements, reports on the production of milk at the farms, and audit queries and the replies thereto, that the cattle imported under stage one and two had been inefficient and not productive for the country, the Ministry had distributed the imported cattle to the small scale farmers in the year 2017; hence, the farmers had faced financial difficulties and experienced anxiety.

Failure to repay any amount to the Treasury from the loan obtained

The loan balance and the interest payable by the National Livestock Development Board as at 31 December 2016 amounted to Rs. 1,160.61 million and 203.72 million respectively. However, not any amount from the loan had been paid to the Treasury by the end of the year under review. The interest had been paid in separate instances to the total of Rs. 24.81 million only. The Chairman of the Board had informed to the Audit in that connection that the Board had to spend an exorbitant amount daily on the cattle imported under stage I and II , and hence, it had been difficult for the Board to pay the installments.

Failure to obtain a report on environmental impact of the project

A report evaluating the environmental impact had not been obtained as well prior to commencing this project. After the lapse of five year period in which the dairy cattle provide the maximum benefits, the cattle should be removed from the farm but a proper and an environmentally-friendly methodology had not been introduced therefor. Of the 902 cows distributed to 09 farms in the year 2017 that had been examined by the Audit, 31 cows had already been infected with the disease, mastitis at the time of being brought to the farm. Due to failure in taking necessary measures by examining those cattle before being brought into the country, the diseases could have fast spread, but the officials responsible had not acted with responsibility for the disease to be brought under control.

The maintenance cost outweighing the benefits of the imported cattle

The maize production project launched in conjunction with the dairy cattle project by the Livestock Development Board, had also become unsuccessful. Thereafter, the alpha cultivation project had been implemented at the farm in Ridigama in substitution for the imported cattle though, that attempt too had ended in failure. As food for the imported dairy cattle had to be purchased from the private institutes, there existed the possibility of rising costs. As the maintenance cost had been higher than the harvest of the imported cattle, , farms of the Livestock Development Board as well as the farmers producing milk had sustained losses.

Failure in adherence to the recommendations of the quarantine report

Under the plan to import 20,000 dairy cattle, 3,024 dairy cattle had been imported to the country on 27 December 2017.

According to the quarantine report on them, the Director General of the Department of Animal Production and Health had informed to the Secretary to the Ministry of Rural Economic Affairs in writing on 28 February 2018 that the parasites in those cattle could spread to the local cattle and the humans as well. According to the said report, steps to be taken immediately, had been mentioned whilst disclosing the risk of destroying certain cattle. However, the recommendations of the said report had not been adhered to, and seemed obvious with the newspaper advertisements published on 02 May 2018 requesting applications from the farmers producing milk, that the officers of the Ministry had been busily involved in a process to expedite the import of the rest of 15,000 out of 20,000 dairy cattle.

Misappropriation of public funds

It had been planned to import 15,000 dairy cattle in the manner of 2,500, dairy cattle , 7,500 dairy cattle, and 5,000 dairy cattle be imported in the years 2018, 2019, and 2020 respectively. However, 20 per cent of the total amount of US $ 55,465,541 payable for importing 15,000 dairy cattle had been paid by the Ministry to the contactor on 08 May 2018 as advance. Even though provision had not been made through Appropriation Act for those expenses, a sum of US $ 11,093,108 equivalent to Rs. 1,749.67 million had been paid. Accordingly, advance had been paid for the cattle scheduled to be imported in the years 2019 and 2020 as well. The Government of Sri Lanka had to sustain the loss relating to the interest on those monies obtained as a loan from a foreign bank, and the devaluation of foreign exchange even before the import of those cattle. As such, public funds had been allowed to be utilized by a foreign supplier without obtaining the supplies and services relevant to the Government.

Construction of cold stores

Provision amounting to Rs. 2,000 million had been made through budget estimate of the year 2016 for the construction of 05 cold stores managed by private sector with a view to stabilizing market price and minimizing post-harvest damages. By implementing this project as a pilot project under the Development and Planning Division during a period of one year from January – December, 2016, it had been decided to construct only 2 cold stores. Later, provision amounting to Rs. 500 million had been made for the said construction from 04 April – 31 December , 2017. In the backdrop of not being able to supply lands by 14 March 2018, procurement activities had been halted.

Decline in the contribution of National Livestock Development Board

According to the annual reports of the Department of Census and Statistics, and the Central Bank, the overall production of milk in the country was 396,198,000 liters, production of coconut was 2,450,000,000 coconuts, and the production of chicken was 21,275,820. Of that, the National Livestock Development Board had produced only 15,003,767 liters of milk, 14,227,509 coconuts, and 2,873,941 chickens. Accordingly, the contribution of the Board for the production of milk, coconut, and chicken was 3.8 per cent, 0.6 per cent and 13.5 per cent respectively. Thus, the contribution of the Board remained at a lower level.

City Planning and Water Supply

Access to safe drinking water, coverage of disposal of sewerage in urban areas and ensuring proper planning of cities island wide had been the objective expected by the Ministry of City Planning and the institutions under its purview. The following functions should have been performed by the Ministry and the institutions under its purview in achieving those objectives.

- Planning and development of special cities
- Direction and implementation of all construction works based on the National Physical Plans for the execution of urban development activities
- Taking necessary action to ensure the supply of safe drinking water to every citizen
- Investigation, planning, designing, construction, direction and maintenance of water supply services, sewerage systems and sanitation facilities
- Taking necessary steps for the efficient and proper execution of the Community Water Supply and Sanitation Projects.

The following deficiencies were revealed during the course of audit test checks in respect of performance of the above mentioned functions by the Ministry and the institutions under its purview.

Non-achievement of the expected level in Supply of Water Connections

The Board had implemented 42 large scale foreign funded water supply projects , 2 small and medium scale projects, 15 water sector community facilities schemes and 15 Local funded projects under the supervision of the Ministry with the objective of water supply and sanitation. The National Water Supply and Drainage Board had supplied a total of 2,219,172 water connections by the end of the year under review. Even though 2,323,669 water connections had been expected to be provided by the end of the year under review, out of them, there had been a supply of less 104,497 water connections. It is a decrease of 104,497 than the expected level. Moreover, there had been an increase of 138,750 water supply connections in the year 2016 as compared with the year 2015. Even though there had been a growth of 126,703 in water supply connections in the year 2017 as compared with the year 2016, it had decreased as compared with the growth of the preceding year.

Review of Purified Water Production, Distribution and Cost

The production of purified water, the quantity of water consumed out of the capacity of produced water and the quantity of non-revenue water of the National Water Supply and Drainage Board had been at a high level in the year under review as in the preceding years. Details appear in Figure 36

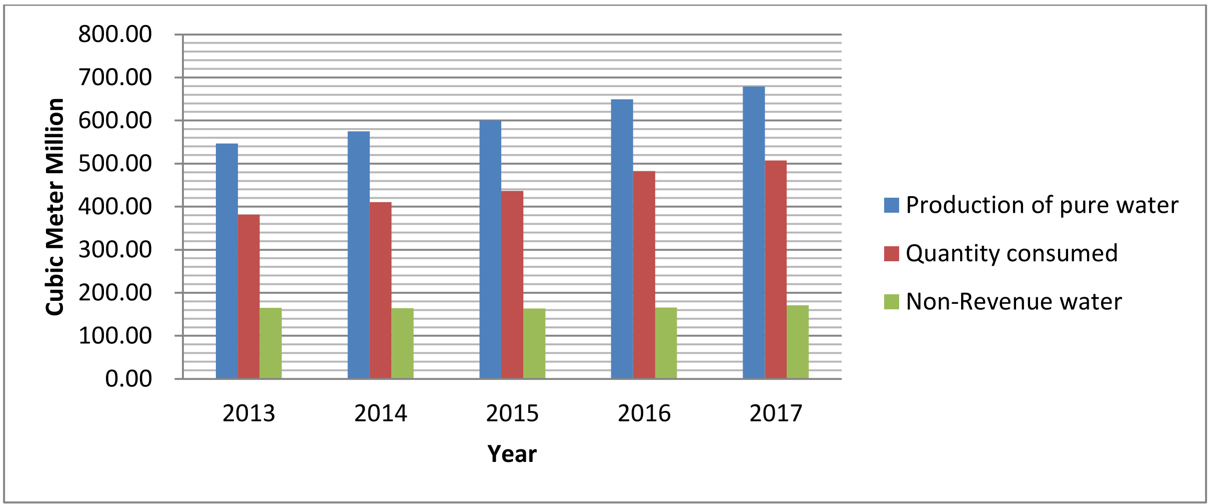


Figure 36 - Production of purified water, consumption and non-revenue water

Production and consumption of water had gradually increased up to the year 2017 as compared with the year 2013. The non-revenue water as well had increased gradually from the year 2015 up to the year 2017. The Board had been deprived of a considerable amount of revenue in the year under review due to illegal water connections , pipes with defects and free supply of water.

The percentage of entire non-revenue water island wide in the year under review had been 25.24 per cent out of the total production water. That percentage had gradually decreased as compared with the preceding years. Details appear in Figure 37.

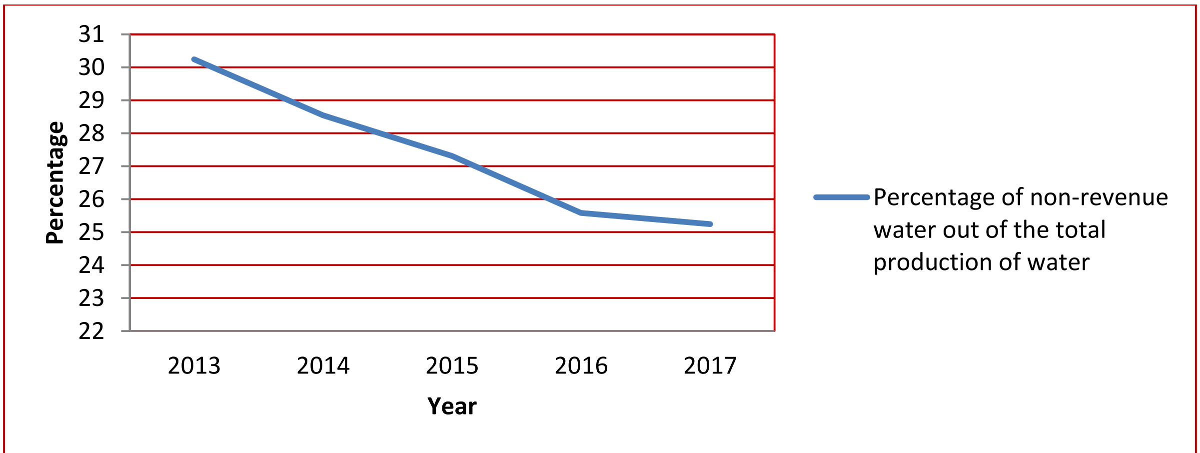


Figure 37 - Percentage of non-revenue water out of the total production of water

Even though the percentage of non-revenue water of in the Colombo city in the year 2017 had been estimated as 43 per cent, it had taken a high percentage as 43.14 per cent exceeding the estimated percentage. It had been able to reduced that percentage from 47.71 in the year 2013 to 47.71 per cent in the year 2017. Nevertheless, the percentage of non-revenue water exceeding the estimated percentages had increased in the year under review as in the preceding years. Details appear in Figure 38

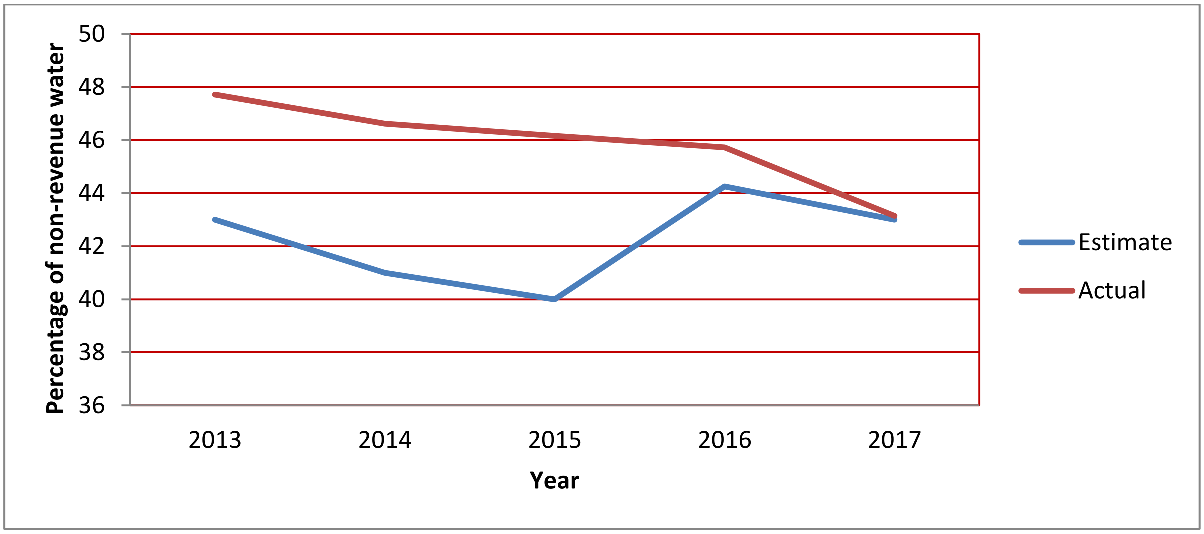


Figure 38 - The percentage of non-revenue water over the estimated quantity in the Colombo city

The Financial Result of the National Water Supply and Drainage Board

The revenue from water sales of the Board had shown a gradual increase from the year 2013 to the year 2017. However, the increase in the percentage from sales revenue had taken a low figure of 1.17 per cent in the year 2017 as compared with the increase in the percentages from sales revenue in the preceding years. Except in the year 2016, in every year the cost of sales had increased by a higher percentage than the percentage of increase in the sales revenue. The financial income had decreased by 6 per cent and the financial expenditure had increased by 303 per cent in the year under review as compared with the preceding year. As such, the operating profit had decreased from Rs.1,758.9 million to Rs.738 million by 58 per cent in the year under review a compared with the preceding year. Details appear in Figure 39

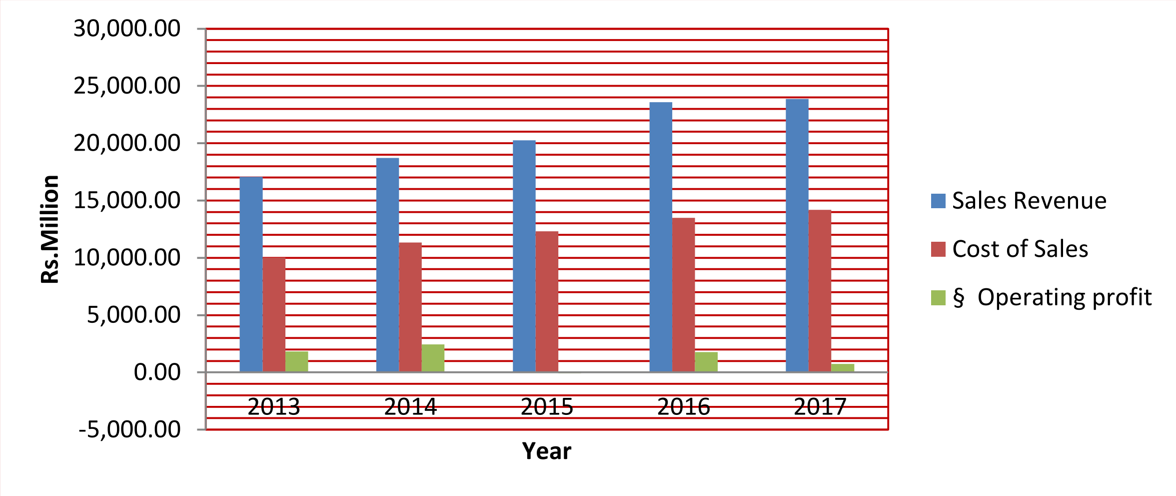


Figure 39 - Financial Results of the National Water Supply and Drainage Board

Non-utilization of Foreign Loan and Grants

According to the loan agreement for the Dry Zone Urban Water and Sanitation Project, the period of granting loans had expired in August 2017. According to the loan agreement, foreign aid amounting to US$ 13.6 million had not been utilized. The contract for the rehabilitation of the two water treatment plants in Chilaw and Puttalam had been awarded with a delay. As a result, that contract had been cancelled. Moreover, the water pipes of low standard supplied by the contractor had not been replaced with standard water pipes for the construction of the main transmission system of the Peru Aru reservoir. The water supply activities of Vavuniya area had delayed owing to such delays.

Payment of Profits and Overhead Expenses for activities not actively intervened

The contractor had not actively intervened in the following projects implemented by the National Water Supply and Drainage Board. However, the Board had made payments for the activities for which the contractor had not actively intervened.

- **Monaragala-Buttala Integrated Water Supply scheme**

  The Government of Belgium and a local commercial bank had funded the above mentioned scheme and the total cost thereof had been Rs.5,545.48 million. The relevant contract had been awarded to a foreign contractor on 16 June 2014. In terms of the Memorandum of Understanding entered into between the Board and the contractor on 30 November 2015, activities valued at Euro 500,000 had been taken over by the National Water Supply and Drainage Board to be performed as a sub-contract and out of provisions of Euro 500,000, a sum of Euro 400,000 or Rs.62.81 million had been remitted to the Board.

The remaining Euro 100,000 or Rs.15.70 million had been recovered by the contractor as profits and overhead expenses without activity intervening .

- **Greater Kandy Water Supply Project**

  This project had been funded by the Japan International Cooperation Agency (JICA) and the total cost thereof had been Rs.7,146 million. According to a request made by the Board to the Project for purchasing a jeep out of the Project money for the use of the Chairman of the National Water Supply and Drainage Board, extraneous to the objectives of the Project, the contractor had remitted a sum of Rs.18.60 million out of the Provisional sum to the Head Office of the Board by a cheque on 18 March 2016. Nevertheless, the motor vehicle had not been purchased with that money. The contractor had recovered a sum of Rs.980,000 as Attendance Fees for remitting the said money.

Extensions without Expedite Completion of Contracts

The Greater Dambulla Water Supply Project had been initially saduled to be commenced on 06 March 2012 and to be completed by 05 September 2014, within 30 months. Completion within that period had failed and extensions of 43 months had been given in 05 instances. The contract had not been completed even by 30 June 2018. Moreover, sums of Rs.1,964.32 million and Rs.677 million had been paid respectively as loan installments and interest on loan by 31 December 2016 for loans obtained for the Project by the Government. The Board had not gained any benefits whatsoever through the Project by 30 June 2018. An additional expenditure of Rs.151 million had been incurred by 31 December 2017 on the staff and as overhead expenses since the Project office had to be maintained during that period.

Carrying out Constructions exceeding the Average Market Value

A sum of Rs.103.37 million had been paid to the contractor for the two storied building, two official quarters for security officers including two official quarters for operations, two official quarters for officers in charge of duty, official quarters for Technicians constructed in the areas of Kumbukkana, Madulla and Horombuwa under the Monaragala- Buttala Integrated Water Supply scheme. According to the quotations of the State Engineering Corporation and the Department of Buildings for those constructions, the construction cost thereof had been Rs.52.48 million.

Abandonment of the Laboratory without Utilization

A laboratory had been constructed by the Greater Kandy Water Supply Project by spending a sum of Rs.166.99 million for examining the hydro instruments for the Central Province.

This laboratory had been constructed with the objectives of increasing the quality of service rendered by the Board and to decrease the volume of non-revenue water. However, the National Water Supply and Drainage Board had not taken action to attach the trained staff required for the maintenance of the laboratory. As such, the Sri Lanka Accreditation Board had not issued the international ISO 17025 Certificate necessary for maintaining the laboratory. As a result, the laboratory could not be made use of from 01 January 2016.

Irrigation and Water Resources

The result expected from this Sector was to ensure the existence of irrigation water required for agricultural purposes. The Ministry, a Department and two Statutory Bodies should have performed the following functions in order to achieve the said result.

- Formulation and implementation of policies, programmes and projects related to every subject under the scope of irrigation, reservoirs and water management and related to the Department and Public Enterprises come under the purview of the Ministry
- Promotion, construction, operation, maintenance, redevelopment and management of Irrigation Schemes, Drainage and Flood Protection Schemes and Salt Water Exclusion Schemes.
- Prevention of the pollution of rivers, canals, streams and other waterways
- Collection of rain water
- Engineering Consultancy Services and constructions
- Implementation of the Water Resources Board Act

The following deficiencies were observed in the audit test check carried out on the performance of above functions by the Ministry and the institutions thereunder.

Performance of Functions not comes under the Scope of the Ministry

The Ministry of Irrigation and Water Resources Management had entered into an agreement with a Chinese Company on 05 July 2012 for the purchase of prefabricated buildings on behalf of the Ministry of Defence for the distribution to the three armed forces and the Sri Lanka Police and making payment thereof in 7 installments. A sum of Rs.560.76 million had been paid in this connection during the year under review. As such, sums totalling Rs.13,003.30 million had been paid from the year 2012 up to the end of the year under review. The purchase of prefabricated buildings was not a function come under the purview of the Ministry and it had not been included in the Action Plan of the Ministry as well. Further, the total number of houses handed over to the three armed forces and the Sri Lanka Police and the certifications of the Heads of Institutions to the effect that those houses were satisfactorily installed , had not been made available to audit even by 30 June 2018.

Non-implementation of Gin-Nilwala Diversion Project

The Ministry had paid mobilization advances totaling Rs.4,011.05 million to a foreign company for the Gin-Nilwala Diversion Project in the years 2014 and 2015. Out of that advances, a sum of Rs.2,972.49 million had been brought to account as an expenditure of an Object for which adequate provision was not made by Parliament. As such, the Ministry had incurred an excess expenditure in the year 2015. That excess expenditure had not been approved by Parliament even as at 31 July 2018. Proper planning, ensuring the transparency and compliance with regulations pertaining to the matters of identification of the project, selection of a contractor, granting advances, implementation and taking follow up action, had been neglected considerably by the parties responsible. However, no considerable benefit had been reaped as compared to the money spent for the project by the Government and instances of uneconomic utilization of resources of the Government were observed. Further, it was observed that the officers are responsible for the release of funds without paying due attention to the lack of adequate provision for the payment of relevant advance. Action had not been taken in terms of the Agreement entered into and the construction work of the project had not been commenced even by 31 July 2018.

Irregular use of Assets not vested

The Kothmale International Training Institute had been established by the Ministry of Irrigation and Water Resources Management in the buildings belonging to the Mahaweli Authority of Sri Lanka. Building constructions and maintenance work had been carried out at a cost of Rs.7.03 million in the year under review without being properly vested those buildings to the Ministry.

Projects abandoned without completing

The Irrigation Department had commenced 54 projects at an estimated cost of Rs.667 million for the performance of key functions and a total sum of Rs.401 million had been spent therefor by the end of the year under review. Those projects had been abandoned without completing by the end of the year under review.

Impact of Yan Oya Project on the Environment

The plants planted to restore the damage suffered by the forest in constructing the Yan Oya reservoir had died and the period of planting the remainder had elapsed. As the reforestation was done close to the main road in an unsafe manner, animals had damaged the reforestation. Further, a sum of Rs.17 million had been spent on 300,000 plants planted in respect of 100,000 trees destroyed in the reserve inundated with the reservoir . However, no plant whatsoever had been planted even by 30 June 2018. The pits in the land after mining the sand for the construction of reservoir should have been refilled and it had been decided that sand mining should be completed by 31 December 2017. Action had not been taken accordingly and legal action had also not been instituted against the sand miners even by 30 June 2018. Even though the area within one kilometre from the bund of the reservoir had been identified as a highly sensitive zone, sand mining and washing had been done in the said area as well. Although the places of sand mining in the land where the reservoir was being constructed should be monitored by the Geological Survey and Mines Bureau, it had not been so done. Even though the slope of pits where the sand was mined should have been in V angle, sand mining in all pits had been done at a direct slope. According to the Terms and Conditions issued on sand mining, the depth should not exceed 03 metres, but the depth of pits where the sand mining was done had ranged between 10 and 12 metres.

Motor Vehicles not properly vested

Even though the Irrigation Department was using 137 motor vehicles received from various public institutions, the Department had not taken action to properly vest those motor vehicles even by 30 June 2018.

Shortage of Measuring Equipment

A shortage of Measuring Equipment valued at Rs.4.31 million had ocurred in the Hydropower Unit prior to the year 2002. A case had been filed against a Store Keeper who had employed in the said Unit and responsible in this connection and sent on compulsory retirement on 09 May 2002. According to the judgement of the said case, a sum of Rs.411,051 out of that shortage had only been recovered from the relevant officer. Even though a period over 14 years had elapsed as at 30 June 2018 since the occurring of that shortage, a full report in terms of Financial Regulation 104(4) had not been submitted in this regard. As such, the Irrigation Department had not taken any action to recover the balance amount of the shortage.

Construction of Sluice deviating from the Irrigation Technology

According to the estimate of Rs.2.22 million prepared for the reconstruction of Halmilla Pillewa Wewa in the Moneragala District, a sluice outside the bund had been constructed at a cost of Rs.3.86 million under the direct labour basis by the Irrigation Enginner's Office at Wellawaya deviating from the general irrigation technology. After the construction of sluice, the water in tank had leaked through the two sides of sluice and as such, an estimate of Rs.4.47 million had been prepared for the construction of a sluice inside the Wewa. Consequently, the expenditure of Rs.3.86 million incurred on the construction of sluice deviating from the recommended irrigation technology had become fruitless.

Payment of Compensation by the Department on behalf of an Officer

A motor vehicle owned by the Department and driven by an Irrigation Engineer of the Department without a proper approval had met with an accident on 15 September 2013 and a motorcyclist was killed thereby. The relevant Irrigation Engineer was convicted on that accident and the imprisonment of 02 years had been suspended for 03 years.

According to the judgement of the case filed by the aggrieved party claiming compensation, a current account maintained by the Department in a commercial bank had been frozen and a sum of Rs.2.49 million therein had been withdrawn by the High Court on 19 September 2017. The Department had considered that the amount recovered by the Bank was a payment of advance. Even though the said advance should have been settled by recovering it from the relevant officer, the advance paid had not been settled after being recovered from the relevant officer even by 30 June 2018.

Payment of Allowances without Approval

The Secretary to the Ministry had recommended a payment of incentive for attracting to the Institute in respect of the officers of the Water Resource Board come under the Ministry and allowances totalling Rs.8.47 million had been paid from the year 2014 up to 2017 without obtaining the approval of the Secretary of the Treasury.

Conservation of wildlife Resources

The expected objective of conservation of wildlife resources was to bring forth an environment friendly nation with a sustainable development. To achieve this result the following task had to be fulfil by the Ministry of Wildlife and Sustainable Development together with 3 Departments and a Statutory Institution.

- Establishment of policies, programmes and projects relating to the sustainable development and wildlife matters and matters of Statutory Institutions of the relevant Departments.
- Execution of laws and strategies in order to bring forth a sustainable development with minimum using of carbon and minimum environment changes.
- Execution of sustainable measures and environment steps indicators.
- Establishment of secretary office for sustainable development.
- Conservation of flora maintenance of botanical gardens and improvement of floriculture in Sri Lanka.
- Activities relating to gathering and displaying of various animals as quadrupeds, birds, reptiles.
- Conservation of wildlife resources.
- Taking necessary actions to conserve relevant environment system when promoting tourism in wildlife security areas.

The following deficiencies were observed in audit tests carried out in connection with fulfilment of above mentioned functions of the Ministry and the institutions under that.

Actions not being taken to aware about the measures of sustainable development

The Ministry of sustainable development and wildlife had been established in order to achieve better solutions to combine sustainable development needs and criteria. However Wildlife Conservation Department under the said Ministry had not conducted accurate awareness programmes even up to the end of the year under review. Further provisions had not been made in the action plan for the year under review to facilitate those objectives as to be achieved targets.

Redusing of Tourists for visiting Botanical Gardens and Vivarium

Although the number of tourists coming to visit botanical gardens and vivarium in Sri Lanka had been improved during the period of previous 5 years, it had been reduced when comparing the year under review with the previous year. The total number of 6.02 million local and foreign tourists had come to visit in the previous year as 5.14 million and 0.88 million respectively. However as at the end of the year under review, it had been reduced to the total of 5.72 million as 4.91 million and 0, 81 million respectively. Details are in the Figure 40

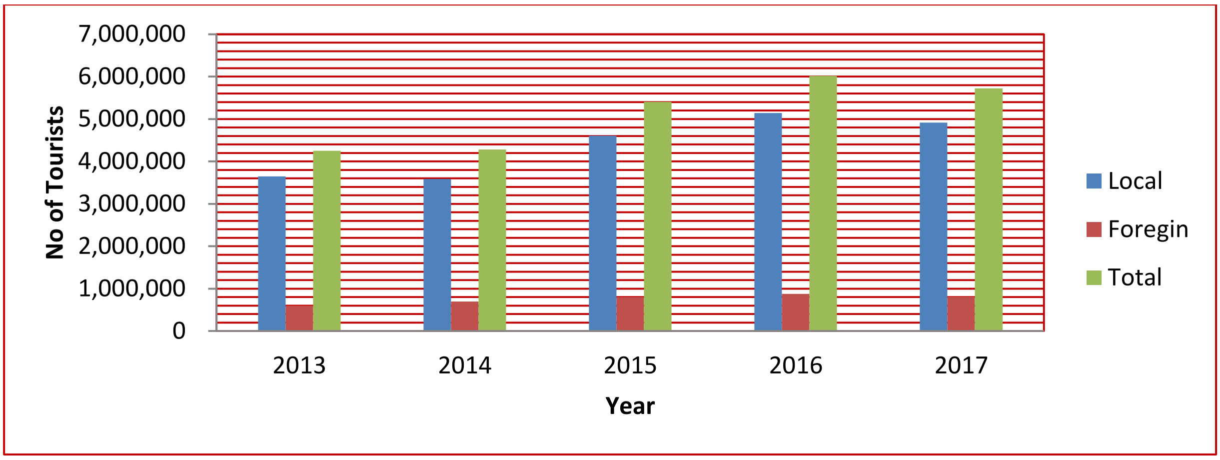


Figure 40- Number of tourists come for visiting botanical gardens and vivarium
Source: performance Report 2017

Even though a sum of Rs.1.78 Million had been collected as revenue during the previous year, it had been reduced to 1.75 million up to the end of the year under review. Details are in Figure 41

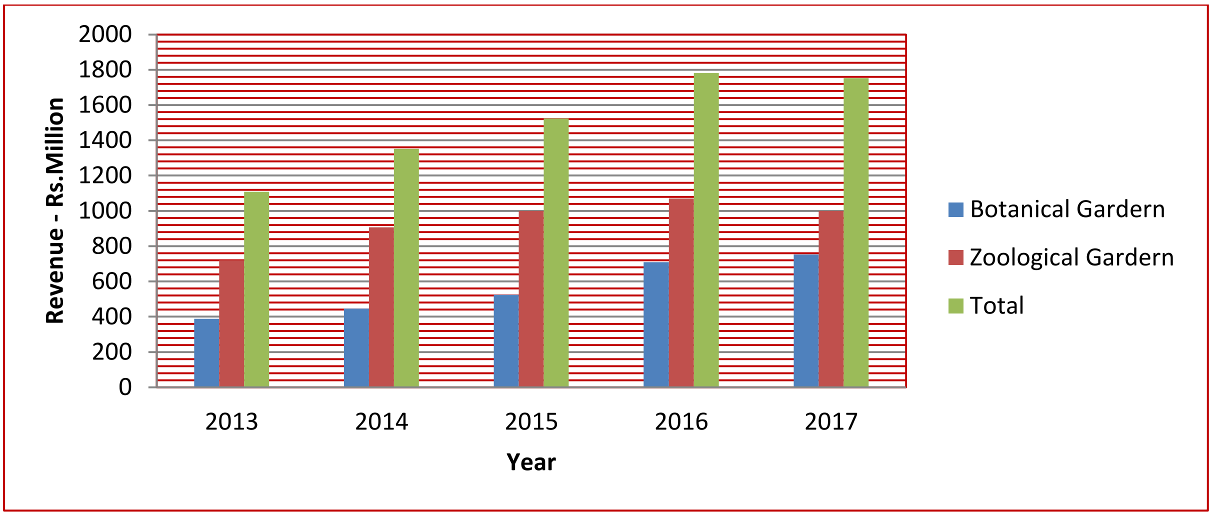


Figure 41-Income received from the tourists who had come to visit botanical gardens and vivarium
Source: performance Report 2017

Elephant Human Conflict

Due to establish electric wire fence, live wire and other modern methodologies as to block arrivals of elephants the number of deaths had been reduced as elephant by 8 per cent and the human by 1 percent compared with the previous year. However wildlife zones as eastern, Uwa and Kilinochchi, those amount had been improved during the year under review. The reported number of deaths of elephants and human for the period of previous five years is shown in the Figure Figure 42.

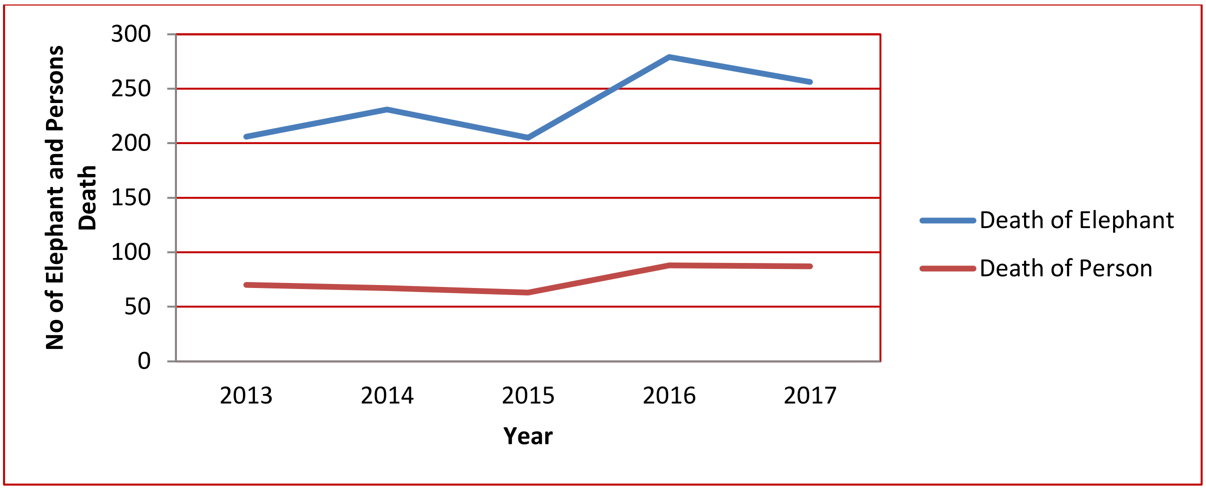


Figure 42 - The number of human and elephants deceased due to the Elephant Human Conflict
Source: performance Report 2017

Elephant pass

The wild elephant is merely an itinerant animal in nature and they walk along inherent routes viz elephant pass. Although Wild Life Department had identified 17 elephants passes, only the Minneriya elephant pass had been published in the gazette. Due to this reason routes of elephants had blocked and damages had been occurred to both parties from the elephant conflict. Out of those damages human deaths, physical damages and damages to properties were prioritized.

Deaths of Wild Elephants

According to the data of the Department of Wildlife 38 tuskers who is in the threat of extortion had died during the period of past five years .People had compelled to use firearms, enforce to electric power and Hakkapatas and poisoned.Although wildlife officers had specially trained and get comprehend, there were instances of deaths of wild elephants due to the negligence of them. As example Dalapoottuwa was not being protected properly, a death of a female elephant in Omanthe area, and the death of Maha Atha on the way in transport. Further the Department had failed to build electric wire fence as blocked the way to reach the places of garbage. Hence wild elephants had compelled to dine garbage at present. As a result, veterinarian's idea was that a large number of wild elephants were dead in various diseases.

Photo 12 – Elephant arrives to the garbage released Area

Other Categories of Animals

According to a research carried out by the Wilderness and Wildlife Conservation Trust it had been revealed that 750 to 1000 leopards are living in Sri Lanka as at the end of the year 2017. 35 leopards were died during the period from the year 2001 to 2017. The Department of Wild life Conservation had failed to introduce a criteria to minimize the damage to the people and protect leopards.

Conservation of Turtles

The turtle is a special creature among the beings living in the sea.5 conservation centers are being conducted by the Department of Wildlife Conservation in order to conserve those animals who are coming to lay eggs in the coastal strip and 12 to 16 private centers are being conducted. However the legal framework to monitor those centers had not being prepared even up to the end of the year under review.

Inadequate Fulfilment of duties

Actions had not been taken by the Timber Corporation to fulfil the objectives as agricultural products, importation of cane and production and sale of by products had not been done as expected. Even though export of finished and half-finished timber goods was an objective of the corporation, actions had not been taken by the corporation to fulfil those objectives.

The downfall of the income of the Timber Corporation

The total revenue of sales of the Timber corporation for the year under review had been improved by 1 per cent compared with the previous year .However revenue of sales of private timber logs, sleepers of private and state lands, income from imported sleepers, electric fence poles and elephant fence poles had been reduced by 30 per cent to 75 per cent compared with the previous year.

Although the revenue of sales of sawn timber had been increased by 0, 85 per cent, a considerable progress had not been achieved.

Sales of Household Furniture of State Timber Corporation

Production and sales of house hold furniture was a main source of income of the State Timber Corporation. The income of sales of house hold furniture of the year under review was Rs.985, 956 and it was 9 per cent of the entire income of the corporation and 0.1 percent of the net profit. Although the corporation had the monopoly of obtaining timber, attention of the corporation had not been paid to follow new strategies relating to produce and sale of house hold furniture.

The Loss of the Production of Finger Joint

A gross loss of Rs.2.71 million had been obtained during the year under review in the factory of finger joint production at Boossa which the corporation had conducted to generate maximum benefit from the timber wastage of production of house hold furniture. Compared with the gross loss of the previous year it had been deteriorated by 220 per cent. Although finger joint had been introduced over a number of years there were not a good response in the market. In such a ground a production valued at Rs.15.88 million had been done in the year 2017. The income from sales thereon in the year 2017 was Rs.6.43 million and it was 40 per cent of the total production. Accordingly it was observed that 60 per cent of cost of sales can be a fruitless expenditure in future.

Hill Country New Villages, Infrastructure and Community Development

The Ministry of Hill Country New Villages, Infrastructure and Community Development and 3 statutory boards should be fulfil the following functions for the main desire of the community empowered energy and power.

- The objects relevant to the fill country new villages, infrastructure facilities and community development relevant policies, programmes and project generation and evaluation.
- Creation of estate community economical and social.
- Creation of new villages and townships aimed at developing housing and infrastructure facilities for landless persons employed in government owned and privately owned plantation companies.
- Implementation of livelihood generation projects to empower rural estate communities.
- Development of infrastructure facilities on rural estate sectors.

The audit observations made in the sample audit carried out in respect of the execution of the above functions by the Ministry and 3 statutory boards are summarized below.

Recovery of loans paid to Beneficiaries

A sum of Rs.442.94 million had been paid from the Green Gold Project for construction of houses by the new life estate housing development programme since year 2011 to beginning of the year 2017. Out of the loans issued in that manner a sum of Rs.232.46 million from new life estate houses and a sum of Rs.4.11 million from green gold houses totalling to sum of Rs.236.57 million had to be recovered as at the end of the year under review. But only a sum of Rs.17.62 million had been sent to the Treasury as recovery of loans. Owing to this recovery of loans had been done without proper supervision of the ministry.

The plantation Human Development Trust directly involved to implement the housing project total sum of Rs.48.31 million had been collected in the year 2015 or before that since the end of the year under review. Out of the loan paid a sum of Rs.33.25 million had been retained in the Plantation Human Development Trust without remittance to the Ministry. Owing to this, the government money had been misused by an external institution.

Delay in completion of housing projects

Haritha Run Houses had been constructing by the fully government aids for the disaster persons. Although according to the year 2017 performance report of the Ministry 367 houses had been planned to construct, 162 houses in primary stage, 60 houses in first stage and 12 houses in third stage was existed.

Activities of 133 houses had not been initiated. Although the time period of implementation not mentioned in the action plan or performance report of the project delay period could not be calculated. 937 houses was to be completed in the year 2016 should be complete in the year 2017. Out of that 458 houses failed to complete at end of the year under review.

Project on construction of houses under precast concrete method

Project on construction of houses under precast concrete method should have been implemented on 17 May 2017 and to be complete an 16 November 2017. The estimated cost of the project was Rs.50 million. A sum of Rs.33 million was paid on 21 December 2017 by the Ministry to the Plantation Human Development Trust. But any house nor build and handed over at the end of the year under review.

Houses not built as per planned

According to the action plan of the year 2017, 2500 houses should be constructed. Although allocation of Rs.2,000 million had been provided in the year under review. A sum of Rs.1,431.22 million had been spent at the end of the year . But only 692 houses had been completed in fully. The progress of the 455 houses about 80 per cent, 493 houses from 60 per cent to 80 per cent had been achieved. Activities of another 221 houses had not been commenced.

Public Representation

Who suffer from poverty, non-ownership of house, essential persons not receiving houses no regular methodology in receiving houses saying public complaints had been received in performing housing projects. A methodology was not in the ministry selecting of beneficiaries of houses external institutions such as estate management and plantation human development trust had been selected beneficiaries of houses to confirm the correctness of that sufficient evidence not furnished for audit.

Decrease in Tea Cultivation Lands

According to the cabinet decision on 23 April 2015 the servants of estates action had been taken to give approval as a policy to give the ownership of the land with true house. Therefore, it was decided to give legally a land of 7 perches and ownership of a house to the relevant beneficiary through the ministry of plantation Industry. There were 3009 finished houses and 2292 houses were existing construction. In additionally to that according to last agreements entered into between the Indian Government under the Indian aids proposed to build 4,000 houses in the year 2018 and 10,000 houses in future. Therefore, finished and proposed to construct houses total for 19301 houses on the tea estates 135,107 perches or 844 acres divide separately and proposed to divide separately. But non-estate servants the persons who employed in other jobs also selected as beneficiaries for those houses. From the beneficiaries get houses number of person working in the estate had low quantity like 28 per cent. The ministry attention had not been referred to for those houses get other suitable lands protecting the tea cultivation lands.

Agriculture

The expected objective of this Sector is increasing the production of food for ensuring the food security within the country. The following functions should have been performed for achieving that objective.

- Formulation, direction, facilitation and implementation of policies, programs, projects for the development of Agriculture Sector.
- Generation of agricultural technology suitable for zones and spread them among farmer community.
- Distribute high quality seeds and planting materials by producing them and conduct social economic surveys with relating to production of food crops.
- Implementation of Plant Protection Act, Pesticide Act, Soil Conservation Act and Seed Act.
- Maintaining standard fertilizers, identifying fertilizer requirement, distributing, updating the data system and implementing Government fertilizer mandate.
- Taking actions to achieve overall effectiveness from agricultural lands.
- Conduct necessary training program for farmers and officers

The Above mention functions should have been performed through the Ministry of Agriculture and 2 Departments, 9 Statutory Boards and Institutions, Foreign Funded Project and 2 funds. The audit observations revealed at audit test checks carried out with regarding the implementation of those functions by those institutions are summarized and shown below.

Building taken on Rent Basis

A sum of Rs. 252 million had been spent in the year under review as rent and service charges for the building taken on rent basis from a Private Institution to maintain the office of Ministry of Agriculture. A sum of Rs. 261 million had also been spent for portioning, laying carpets, electrical activities and air conditioning activities of that building. The excess expenditure of Rs. 20 million had to be borne to the Government monthly due to limitation of price competition, and liquidation damages of Rs. 17 million which should be recoverable due to the delays of contractors, had not been recovered even as at the end of the year under review.

Old building of Ministry of Agriculture

The land belonging to Ministry of Agriculture located in Battaramulla with a extent of 17.199 hectares, of which the value had not been disclosed; and the building complex located in it which was belonging to Ministry of Agriculture had been kept idle in the year under review.

Non-crediting the Fertilizer Subsidies into Accounts of Relevant Farmers

According to the test checks carried out on the payment of the fertilizer subsidies, subsidy amount of 3,021 people aggregating Rs. 28.25 million had been credited into accounts of some other people without crediting into the accounts of relevant farmers. Further, farmers had strictly faced difficulties due to the delay in payments of more than Rs. 5 billion subsidy amount out of the fertilizer subsidies.

Over Payment made for Urea Fertilizer

72,000 metric tons of urea had been imported in the year under review by spending US dollars 316.20 million by avoiding Government Procurement Guidelines. The Government had to over paid approximately Rs. 519 million at the time of fertilizer importation due to importing urea (Granular) on the same price of urea (feild).

Holding the Cash Received from Fertilizer Sales

According to the paragraphs 6.3 and 6.4 of Ministry of Agriculture Circular No. 2016/NFS/FCG(1) dated on 09 March 2016, it was informed to credit the revenue into Government account by selling fertilizer stocks valued at Rs. 239.27 million remained in every Island wide Agrarian Service Centers as at 29 February 2016, under the fertilizer subsidy scheme, before 31 March 2016. However 93,830 kilograms of fertilizer had not been sold even as at 31 December 2017, and the total of Rs. 207.74 million collected from fertilizer sale had been held in the accounts of Agrarian service Committees.

Fertilizer Issued on Credit Basis

Fertilizer stocks valued at Rs. 58.23 million in Agrarian service Centers under the purview of Batticaloa District Office, had been given to the farmers on credit basis. Those loans had not been recovered and credited into Government account even as at 31 March 2018.

Supply of Organic Liquid Fertilizer

According to the three years agreement entered into between a private company for supplying of liquid fertilizer without following the directions in Government Procurement Guideline Manual; bank guarantee of Rs. 125 million had been given to Private Company by Ceylon Fertilizer Company Ltd. It was allowed to the said Company to get bank overdraft of Rs. 112.5 million by using that bank guarantee; and though it had been supplied more than 3 lakhs liters of fertilizer as at 30 April 2018 by the supplying Company, 17,200 liters from those liquid fertilizers had only been sold.

Agriculture Sector Modernization Project

The loan amount of Rs. 9,553.78 million had been granted to the Ministry of Agriculture for Agriculture Sector Modernization Project under World Bank grant. Though it was projected to commence the activities of that project on 15 October 2016, the works of that project had been commenced even by late on 22 March 2017. Provisions of Rs. 700 million had been allocated in the year under review for project activities, and out of them Rs. 81.04 million had only been utilized. Though those expenditure had been spent on recruiting the staff, establishing regional office, procurement of necessary equipment and payment of consultancy fees; the other works relating to achieving of project objectives, had not been commenced.

Post-harvest Fruit Project

The activities of Fruit Processing Centers, which were constructed by spending US dollars 644,693 without doing primary surveys and proper feasibility study, were remained idle even as at 10 May 2018.

Non-implementing of Directions in Control of Pesticides Act

Though it was lapsed almost a period of 37 years as at 30 September 2017 for the passing of Control of Pesticides Act No.33 of 1980; out of 107 active pesticides using for agricultural activities in Sri Lanka, limits had not been decided for pre harvesting period and maximum leftovers of 47.

Non-compliance with Action Plan

10 projects of Rs. 23.7 million, which were not included in the action plan under Agrarian Services Centers, new constructions, repairs and repairs of District Officers, had been implemented; and 11 projects amounting to Rs. 27 million which was not included in amended action plan had not been implemented.

Small Tanks Rehabilitation, Reconstruction, Development of Minor Irrigation and Fallow Field

Following deficiencies were reveled in this regard.

- Out of 558 tanks amounting to Rs. 918 million under 4 program activities, works of 247 had only been commenced; and though a sum of Rs. 627 million had been spent for 1,184 project under this program, those projects had not been completed even as at the end of the year under review.

- Though provisions aggregating Rs. 593 million had been provided for 500 anicut under 4 program activities, works of 235 anicut had only been commenced. Though a sum totaling of Rs. 164.09 million had been spent for 437 projects, those projects had not been completed even as at the end of the year under review.

- Though the provisions aggregating Rs. 23 million had been given through Ministry of Agriculture for 11 contracts with relating to minor irrigation reconstruction activities in Matale District, those projects had not been commenced even as at the end of the year under review.

Idling Computers

A sum of Rs. 30 million had been given to Department of Agrarian Development from the Ministry of Agriculture in the month of December 2017 to procure computers; and out of 200 computers procured from them, 30 had not been in working condition as at 24 August 2018 and the balance 170 computers were remained idle in the stores.

Non-achieving the Revenue Targets

It had been targeted to earn a sum of Rs. 210.00 million from all insurance schemes in the year under review by Agricultural and Agrarian Insurance Board. However revenue of Rs.156.47 million had been collected in the year under review. Accordingly, the targeted revenue had not been achieved by 25 per cent of the targeted revenue or Rs. 13.53 million.

Non-taking Actions to Encourage Farmers into Insurance Schemes

Actions had not been taken by Agricultural and Agrarian Insurance Board even as at the end of the year under review to encourage farmers into insurance schemes by initiating insurance for fisheries and reforestation production, non-implementing new competitive insurance schemes by identifying needs and introducing more effective insurance schemes with studying loans schemes systems given by commercial bank to agriculturist.

Non-spreading of Introduce Insurance Scheme

It had been entered into an agreement by the Agricultural and Agrarian Insurance Board on 05 May 2016 with the plan of efficient compensation payment system through the introduction of insurance scheme in 5 Districts based on indexes, as the identified target for immediate reaction against climate changes and its impact under sustainable development objectives. Though it had been scheduled to complete on 04 May 2019, it had only been implemented in Vavuniya District as at the end of the year under review.

Paying Insurance Claim of Many Farmers to One Farmer

Insurance claim aggregating Rs. 276,800 of 32 farmers in Kurunegala District who cultivated subsidiary crop and damage, had been credited into a bank account of one farmer by Agricultural and Agrarian

Insurance Board, and that had not been Settled even as at 30 June 2018.

Payments made Contrary to the Circular Instructions

According to the Letter No. 4/3/ශ/6 dated on 21 April 2017 of the Chairman of Agricultural and Agrarian Insurance Board; though it had been informed that the payment should be made as national identity card numbers not to be duplicated when making claims, contrary to those instructions, it was revealed in the test checks that, payments had been made to 364 farmers in 07 District aggregating Rs. 3.15 million who has the same identity card numbers and the same names, and a sum of Rs. 432,500 for 50 farmers in 5 District who has little changes in the identity card numbers with the same name.

Payments Rejected by Banks

Cash for the payment of Rs. 82.93 million to 9,587 farmers had been sent to banks as at 31 December 2017 by Agricultural and Agrarian Insurance Board. However payments had been rejected by the banks due to the changes in identity card number, name of farmers. Actions had not been taken to pay a sum of Rs. 57.37 million for those farmers as at 30 June 2018 with relating to 6,461 farmers.

Farmers' Pension and Social Security Benefit Scheme

The number of contributors as at 31 December 2017 under this Fund which was established by the Farmers' Pension and Social Security Benefit Scheme Act, No.12 of 1987, stood at 959,254 and the number of monthly pensions holders stood at 148,085. Following deficiencies were reveled with regarding in this scheme.

- Moreover, members had not been enrolled to the Scheme from the year 2012 to the year 2017.

- Even though the new proposals indicated in the Notification published by the Gazette Extraordinary No.1853/49 of 14 March 2014 should have been implemented, payment of pensions had been made according to the new scheme and collection of contributions had been carried out according to the old scheme.

- As such, pensions totaling Rs. 7,664 million had been paid from January 2014 to December 2017 and only a sum of Rs. 92.4 million had been collected therefor as contributions. The Board had to obtain money from the Treasury for the payment of pensions monthly due to the financial crisis in the Fund and a sum of Rs. 2,520 million had been obtained from the Treasury in the year 2017.

Fishermen's Pensions and Social Security Benefit Scheme

Fishermen's Pensions and Social Security Benefit Scheme had been established to fulfill the objectives such as provide social security to fishermen during their old age or disability, to provide relief to the dependents of fishermen upon the death of such fishermen, to encourage fishermen to continue in their occupation, to attract young persons to the fishing industry and to inculcate the habit of saving and to promote thrift among fishermen. Following deficiencies were reveled in that regard.

- When preparing Corporate Plan for the period 2014 - 2016; though 03 years had been lapsed for the identification of the situation where the fund had been zero in 2020 as the fund starting depreciates after the year 2014, the scheme had failed to implement any reorganizing activity as a solution for this situation.

- Attention of the scheme had not been directed with relating to encourage fishermen to continue in their occupation, to attract young persons to the fishing industry and to inculcate the habit of saving and to promote thrift among fishermen.

- Though it was expected to recover contribution amount of Rs. 3.68 million from the contributors during the year under review, the receipt of actual contribution amount had only been Rs. 920,022.

Farmer's Trust Fund

The objectives of the Fund which was widened by a Cabinet Memorandum in the year 2002, are agriculture development and improve welfare of the farmer community, provide agricultural loan facilities and marketing loan facilities to small farmers, provide agricultural input, implementation of awareness programs and special agriculture programs, for agriculture development and providing other kind of patronage in respect of crops and animal production and processing. Following deficiencies were reveled in this regard.

- 98 per cent of entire revenue of the fund or Rs. 100.75 million was interest income generated from investment and 21 per cent from them or Rs. 21.61 million had only been spent for development expenditure.

- Even though the main source of income is a percentage of 10 per cent from proceeds of sale of Govisetha Lottery, those cash had not been utilized since the year 2008 for the wellbeing of the farmers by withdrawing from the Treasury. It was disclosed in the notes to the financial statements that a balance of Rs. 2,797.19 million had available as at the end of the year under review on behalf of Farmers Trust Fund.

- Though it was provided a sum of Rs. 538.21 million for 51 projects through the amended budget of the Department for the year under review, a sum of Rs. 166.25 million had been released by commencing only 38 projects out of them. Accordingly a sum of Rs.187.97 million which was estimated for 13 projects, had not been utilized for any activity.

- A sum of Rs. million had been paid on behalf of farmer in Moragollagama for organic red lady papaya crop without taking proper bond security from a guarantor. Though it was recorded in field inspection reports that there was no progress in the first loan installment of Rs. 600,000, second loan installment had also been released without considering in that regard. It was failed to recover loan installment or to take legal proceeding even as at 06 June 2018.

Pension Benefits for Public Service

The vision and mission of the Department of Pensions are to make the pensioners' community highly satisfied in economic and social aspects by offering Legal benefits to pensioners of public services and their beneficiaries, ensuring satisfaction of both recipients as well as service providers at an excellent level intertwining public sector with private sector through applications of modern technology and sustainable management techniques. The main responsibility of the Department of Pensions is to make payment of pensions under the Pensions Minute established on 05 February 1934, payment make for widows , widowers and orphans under the Widows' and Orphans' Pensions Fund Ordinance No.01 of 1898 and Widowers' and Orphans' Pensions Act, No.24 of 1983, administration of Public Services Provident Fund and regulation of paying process in terms of Ordinance No.18 of 1942.

Several audit observations disclosed in the paying of pensions to the retired officers of the Public Service by the Department of Pensions are summarized and given below.

Effect of Paying Pensions to the Economy

The Department of Pensions had offered benefits for active 599,522 pensioners by 31 December 2017.The expenditure on pensions in the year 2017 amounted to Rs.209,533 million .That represented 10.8 per cent of the total recurrent expenditure of the Government and it had been 11.4 per cent of the total Public Revenue.

Pensions had been paid for 497,209 pensioners in the year 2011 and it had been increased up to 599,522 pensioners by the end of the year 2017. Accordingly, the number of pensioners had been increased by 102,313 persons or 21 per cent in the year 2017 as compared with the year 2011. Expenditure on pensions amounting to Rs.113,278 million in the year 2011 had been increased by 209,533 million or 84 per cent at the end of the year 2017.

Expenditure on pensions had been increased continuously as the reasons such as the prevailing of public service , new provisions for retirement, payment of cost of living allowances to the pensioners as well, increase of the salaries of the public service and the calculation of the pensions made based on it, increase of the number of widows, rectify the pensions anomalies ,increasing life expectation. The growth of pensioners community and the expenditure on total pensioners in the preceding 6 years and the year under review are shown in Figure 43

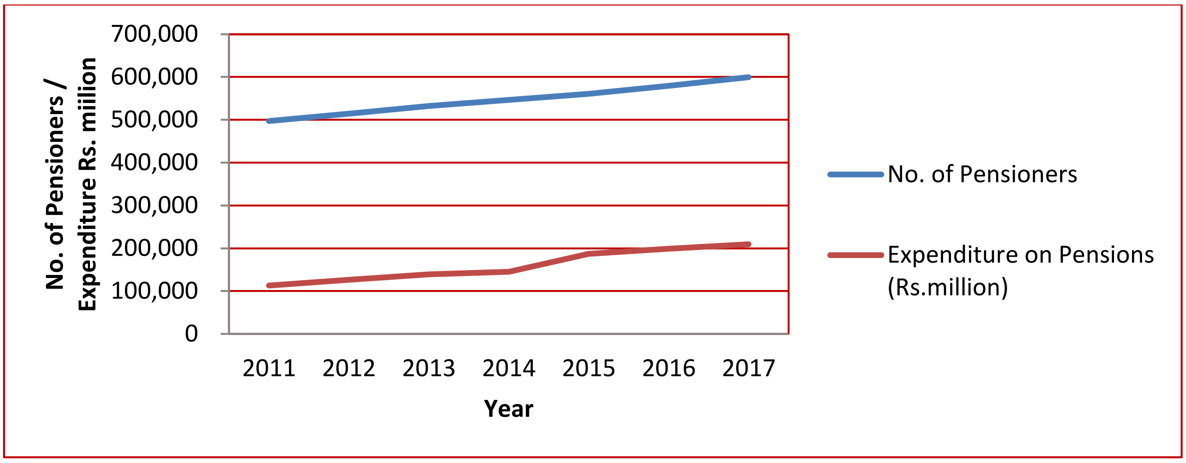


Figure 43 - Growth of pensioners and expenditure on pensions
Source - Annual Budget Estimate ,Pensions Data System, "Sankyava Tutorial" of the Department of Census and Statistics.

Obtaining Loans for the Payment of Pensions Gratuity

A loan amounting to Rs.50,592 million had been obtained by the Department of Pensions through three State Banks based on the payment by 18 years to pay the pensions gratuity for 90,490 pensioners from April 2014 up to 31 December 2017.Out of the said loan obtained , the balance as at 31 December 2017 had been amounted to Rs.45,792 million. A sum aggregating Rs.6,399 million had been paid as a sum of Rs.4,116 million for the interest and a sum of Rs.2,283 million for the instalment respectively in the year 2017. The increase of the loan obtained for the payment of pensions gratuity from the year 2014 is shown in the figure 44

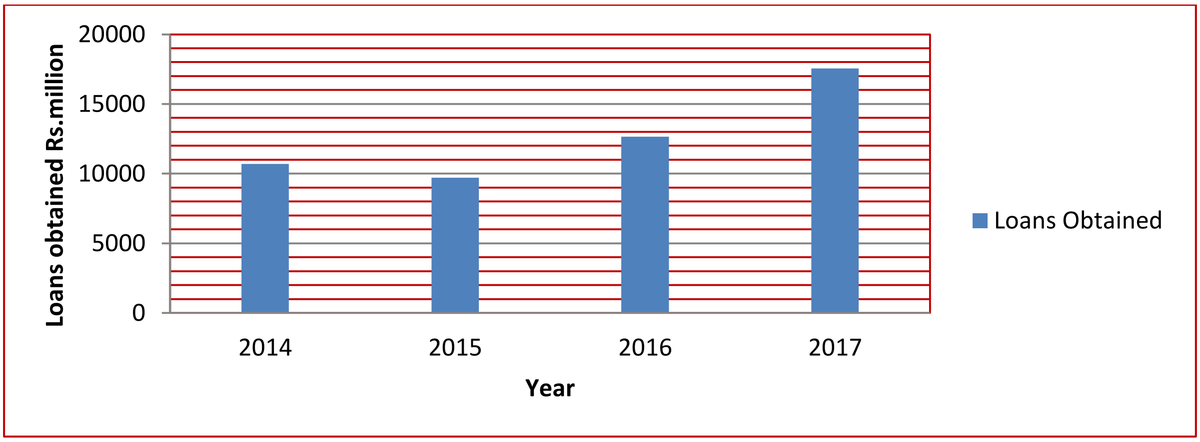


Figure 44 - Loans obtained from the State Banks for the payment of pensions gratuity
Source- Department of Pensions

Failure to Achieve the Objectives of Generating Funds

The Department of Pensions had administrated 05 pensions funds and out of that only the Public Services Provident Fund was at a functional level. With the establishment of the Provincial Public Service in the year 1993, the officers of the Provincial Public Services had entitled the Widows' and Orphans' pensions benefits which was entitled for the officers of the Public Service. As such, addition of new members had not been occurred for the Pensions Fund of the Provincial Cervices , Widows' and Orphans' Pensions Fund of the Provincial Services and the Pensions Fund of the Widowers of the Provincial Services from 03 September 1993 to even at the end of the year under review. Expenses had been incurred under the expenditure head of the Department of Pensions due to adequate money was not available in the Funds as a result of non-receiving of funds from new members . Therefore, the objectives expected to be generated that funds had not been achieved at present.

Payment of Teachers' Widows' Orphans' pensions should have been made by generating a Fund through the contributions of Teachers' Widows' Orphans' in terms of Order No.04 of the School Teachers Pensions Act ,No.44 of 1953. However, a Bank Account for the Fund had not been maintained for the collecting and spend the contributions and the contributions received had been credited to the Bank Account of collecting of widows and orphans contributions of the Department of Pensions. The objective of establishing the said Fund had not been achieved as the expenditure of the said Fund had been made under the expenditure head of the Department of Pensions.

Over Payment of Pensions

The pensions which had been overpaid but had not been recovered even as at the end of the year under review totaled Rs.551.94 million. A sum of Rs.490.83 million brought forward from the period less than 5 years, a sum of Rs.51.17 million brought forward from a period ranged between 5 years to 10 years and a sum of Rs.9.94 million from more than a period of 10 years had been un recovered at the end of the year under review.

Failure to Hand Over Savings Pass Books to the Owners

The pass book of the minor should have been handed over to the guardian of the minor at the beginning of the granting of benefits to the minors by the Pensions Circular No.09/2015 dated 14 September 2015 as a result of the weaknesses existed in the methodology of granting pass books. However, a proper methodology for the handing over the pass books and fixed assets certificates existed under the old methodology to handover the guardians of the minors had not been implemented by the Department of Pensions at the end of the year under review. As such, 778 deposits certificates of minors valued at Rs.3.17 million and 02 Savings Accounts books amounting to Rs.192,629 had not been handed over to the guardians of the minors even by 31 December 2017.

Audit Observations of Provincial Councils

Revenue collected by Provincial Councils and Expenditure

Revenue totalling Rs. 269,572 million had been collected by the 09 Provincial Councils in the year under review and that revenue included Government Grants amounting to Rs.182,217 million provided for the 09 Provincial Councils. Accordingly, 67.59 per cent of the total revenue collected by the Provincial Councils is comprised of Government Grants. The Government Grants received by each Provincial Council in the year under review ranged between Rs.5,163 million and Rs.28,772 million. Details of Government Grants received by each Provincial Council are given in the Figure 44.

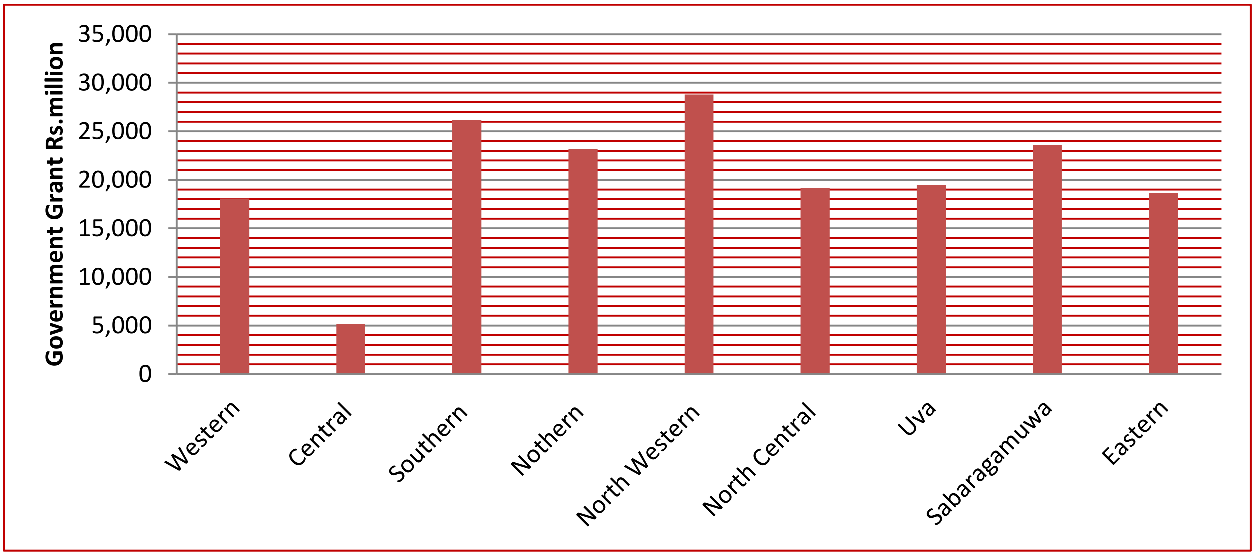


Figure- 44- Government Grants received by each Provincial Council
Source- Financial Statements of Provincial Councils

A total sum of Rs. 290,431 million had been spent by 09 Provincial Councils by the end of the year under review. Accordingly, the expenditure had been incurred exceeding the revenue collected by the 09 Provincial Councils, by Rs.20, 859 million. As compared to the revenue collected and expenditure according to the Provincial Councils, savings of the collected revenue after incurring expenditure had been reported by 04 Provincial Councils while expenditure had been incurred by 05 Provincial Councils exceeding the collected revenue. Details are given in the Figure 45.

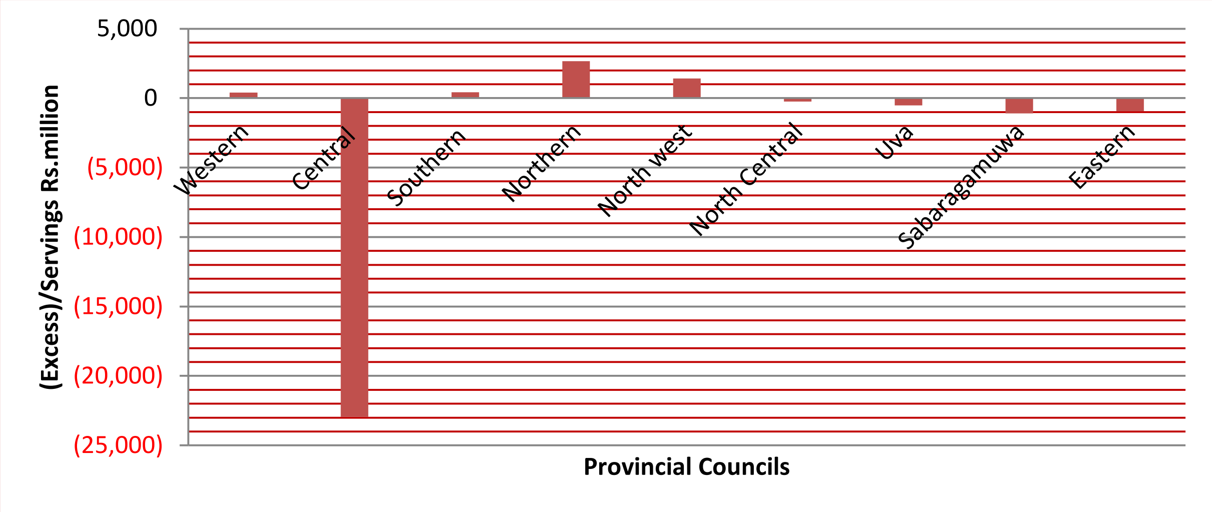


Figure- 45- Savings/ (Excess) after incurring expenditure from the revenue collected by 09 Provincial Councils
Source- Financial Statements of Provincial Councils-2017

The details of revenue collected by 09 Provincial Councils and expenditure in the year under review are given in Table 31.

Provincial Council	Collected Revenue	Expenditure	Savings/(Excess)
	Rs. Million	**Rs. Million**	**Rs. Million**
Western	62,584	62,181	403
Central	12,569	35,519	(22,950)
Southern	34,970	34,548	422
Northern	26,713	24,044	2,669
North Western	36,863	35,456	1,407
North Central	22,827	23,083	(256)
Uva	22,944	23,460	(516)
Sabaragamuwa	27,821	28,931	(1,100)
Eastern	22,281	23,209	(928)
Total	269,572	290,431	(20,859)

Table -31- Details of revenue collected by Provincial Councils and expenditure
Source- Financial Statements of each Provincial Council-2017

Western Provincial Council

An income of Rs.69,135 million had been estimated by the Western Provincial Council including a sum of Rs. 26,156 million of government grant and a sum of Rs. 42,979 million from internal sources. A total sum of Rs. 69,135 million including recurrent expenditure of Rs. 54,387 million and capital expenditure of Rs. 14,748 million had been estimated to utilize. Accordingly a total income of Rs.62, 584 million had been collected including a sum of Rs. 18,085 million from government grant and a sum of Rs. 44,499 million from internal sources in the year 2017. A total sum of Rs. 62,181 million including recurrent expenditure of Rs. 52,652 million and capital expenditure of Rs. 9,530 million had been utilized in the year 2017.

The important and material observations revealed in the audit tests carried out in this regard are shown blow.

Revenue Management

Long term land lease rent amounting to Rs. 17 million which should be recovered to the Commissioner of Local Lands relating to 4 Divisional Secretariats had not been recovered .A piece of government land 4 acers 1 rude and 18 purchase in extent had been leased to a private party on 31 July 1997 for an agricultural purpose. The agreed annual lease rent was Rs.140, 000.Out of those rent a sum of Rs. 6.8 million was remained outstanding since the year 1995. Although the Committee on Provincial Accounts had directed the Divisional Secretory in June 2002 to terminate the agreement because it was revealed that the land was being used for commercial purposes, that directive had not been implemented. Out of this land 550 purchase had been sub leased for 10 years in 2005. Three houses had been constructed in the rest 148 purchase of the land and requests had been made for the residential possession. However actions had not been taken to settle this problem.

Idle and Underutilized Assets

Although 4801 number of project items had been purchased incurring a sum of Rs.6.42 million by 4 Divisional Secretariat offices during the year under review, it had not been distributed properly even up to the end of the year under review and remained idle.

Kitchen equipment valued at Rs.3.30 million had been purchased for the kitchen of the Horana Base Hospital and out of those equipment valued at Rs. 943,800 was not necessary for the kitchen.

Twenty eight generators valued at Rs.54.7 million had been purchased for Medical Health Offices of Kaluthara District in the year 2017.A sum of Rs. 2.6 million had been overpaid for 23 generators.Those machines had not been used even up to the end of the year under review and remained idle and there was not a suitable place to store them.

Management Inefficiencies

A sum of Rs.3 million had been incurred by the Ministry of Provincial Education for supplying of sports equipment to sports clubs registered in Colombo district. Those equipment had not been received to the stores even up to January 2018.

It was informed to the Provincial Director of Education in April 2017 that 22 buildings of 22 schools under the Horana Educational Zone were in a risky situation. However actions had not been taken to take off those buildings.

Visible Irregularities

A financial fraud had been taken place due to misappropriation of public aid almost Rs. 01 million without remaining in the public aid account for a period from a date almost 10 February 2011 to July 2013 in te Minuwangoda Divisional Secratariot office. Although legal actions had been taken from the year 2013 it had not been completed up to February 2018.

Provicial council income of the Mahara Divisional Secratariot Office amounting to Rs. 900,000 had been misplased in July 2014. However responcible parties had not been identified even up to August 2018.

Defficiencies of Contract Administration

Although a few years had been lapsed when the constructions was commenced relating to 3 schools of Mathugama zone valued at Rs. 11.9 million , works thereon had not been completed even up to August 2018.

Delayed Projects

Although concrete colomuns had been prepared up to slab level for three storied building of the Sangabodhi Vidyalaya Nittambuwa in the year 2014 due to insuffieciant space, constructions had not been completed and the structure of the building had been decayed as at the end of the year under review.

Central Provincial Council

A total revenue of Rs.15,590 million including a sum of Rs.8,136 million by Government Grants and a sum of Rs.7,454 million through internal sources had been estimated for the year 2017 by the Central Provincial Council. It had been estimated to utilize a sum of Rs.30,836 million as Recurrent Expenditure and a sum of Rs.8,136 million as Capital Expenditure and a total of Rs.38,972 million in the year 2017. As such, a total revenue of Rs.12,569 million including a sum of Rs.5,163 million by Government Grants and a sum of Rs.7,406 million by internal sources had been collected in the year 2017. A sum of Rs.35,519 million including Recurrent Expenditure amounting to Rs.30,355 million and Capital Expenditure amounting to Rs.5,164 million had been utilized in the year 2017.

The significant audit observations revealed in audit carried out in the year 2017 relating to the Central Provincial Council are given below.

Non-utilization of Funds of the Provincial Council

Even though a sum of Rs.1,362.7 million should have been utilized for development of the Province by the end of the year 2017, instead of that, the said amount had been invested in fixed deposits. An interest income of Rs.145.40 million had been earned therefrom in the year under review. A balance totalling Rs.1,718.94 million had been retained as at 30 April 2018 in two Current Accounts maintained by the Provincial Council. Even though the Republic of Sri Lanka had obtained bank overdraft facilities and provided grants to provincial councils, it was observed that investment made in fixed deposits with benefits less than the finance cost incurred therefor has resulted in an net additional finance cost to the Government.

Inoperative Biogas Units

The Ministry of Road Development, Transport, Electricity and Energy, Housing and Construction of the Central Province had constructed 05 Biogas Units with a capacity ranging from 10 to 100 cubic meters at a cost of Rs.6.37 million during the period of 04 years from the year 2013 to 2016 in 05 places with a view to reaping benefits of proper waste management and using gas and fertilizer. Out of that, 04 Biogas Units valued at Rs.2.27 million remained inoperative and expected benefits could not be reaped through any of the Biogas Units.

Projects in a Position of Cancellation

The Ministry of Finance and Planning, Law and Order, Local Government and Provincial Administration, Human Resources, Education and Cultural affairs, Tourism, Lands, Trade and

Commerce, Food Supplies and Distribution Affairs and Investment Coordinating and the subjects not come under other Ministries had awarded 21 contracts costing Rs.337.53 million to a one contractor during the years 2016 and 2017. Except one project out of the above, other 13 projects were in a position of cancellation and the progress of 07 projects was at a weak level. As such, the total value of advances and performance bonds recoverable by the Government from the contractor amounted to Rs.49.85 million by the end of the year 2017.

Irregular Collection of Money from School Children

A total sum of Rs. 323,500 comprising Rs.221,000 and Rs.102,500 had been collected during the years 2016 and 2017 respectively from 647 pupils at Rs.500 per pupil to settle the expenditure on electricity of the technical laboratory of the CP/ Theldeniya Bandaranaike Secondary School contrary to the Circular No.05/2015 of 09 January 2015 issued by the Ministry of Education while the receipts therefor had not been issued. Even though the sum of Rs.102,500 collected in the year 2017 had been deposited on 25 September 2017, the sum of Rs.221,000 collected in the year 2016 had been banked on 03 October 2017 after the date of audit.

Schooling the Children not attending Schools

According to the notification published in the Gazette Extraordinary No.1963/30 of 20 April 2016, the Orders of 1 of 2015 had been issued by the Minister of Education, that children should attend schools compulsorily. According to the Orders from No.15 to No.19, every possible step should have been taken by the Provincial Director of Education to school the children not attending schools. Further, according to the reports of the Non-formal Education Unit of the Province, 848 children in the age category ranging from 5 years to 16 years who were not attending schools, had been identified in the Central Province during the year 2017. Out of that, the number of children to be schooled further had been 223 by the end of the year under review.

Failure to vest properly the land of School

Legal process of vesting the lands of 121 schools out of 183 schools owned by Zonal Education Offices at Theldeniya and Denuwara, to the Provincial Education Department had not been completed even by the end of the year under review.

Teachers serving in the same school for long periods

In terms of the Circular No.2007/20 of 13 December 2007 issued by the Ministry of Education, the maximum period of service for teachers in a more congenial school and a congenial school had been 06 years and 08 years respectively. Nevertheless, it was observed that 764 teachers of 215 schools in 04 Zonal Education Offices of the Provincial Council were serving in the same school for a period ranging from 9 years to 27 years.

Attachment of School Office Assistants exceeding the Approved Limit

Out of the Zonal Education Offices in the Kandy District , School Office Assistants in schools under 5 Zonal Education Offices except the Zonal Education Office, Gampola had been attached exceeding the approved limit. Ninety eight persons had been attached exceeding the approved limit only in schools under the Zonal Education Office, Theldeniya. The cadre attached exceeding the approved limit of schools had not been attached to the schools in which the vacancies existed. Seventy four School Office Assistants attached exceeding the approved limit had been attached to the schools exceeding the approved cadre without being attached to the schools in which the vacancies existed.

Construction of New Building Complex of the District Hospital in Theldeniya

The following weaknesses were revealed in the examination of civil construction of new building complex of the District Base Hospital in Theldeniya which was commenced in the year 2014 by utilizing domestic and foreign funds and opened on 11 April 2017.

- According to the Agreement entered into with the contractor and subsequent extensions of the contract period, the construction work should have been completed and handed over the building by 31 December 2015. Even though the building had not been handed over or extended the contract period even by 30 November 2017, the liquidated damages for the delay of 473 days at Rs.92,502 per day, had not been recovered in terms of the Agreement.
- According to the Contract Agreement entered into, the retention money should be released after 365 days of maintenance period since the date of handing over of the contract properly. Nevertheless, the retention money of Rs.18.50 million had been paid to the contractor on 23 December 2016 despite the failure to complete the contract and handover the building by 31 December 2017.
- A sum of Rs.2.13 million had been paid to the contractor for dig the foundation of the Surgical Complex and for removal and transportation of relevant soil to a distance of 03 kilometers. It was revealed in the physical verification that the said soil had been used to fill the area in front of the hospital and the nearby playground of the Theldeniya National School. The payments had been made to the contractor for the transportation of soil without paying attention thereto.
- A sum of Rs.237,510 had been paid to the contractor stating that fittings of 5 categories such as towel bars, brush holders and paper holders were installed in the bath rooms of the new Hospital Complex. Nevertheless, the field inspection revealed that the said fittings had not been installed.
- A number of 101 light bulbs were not working as at 11 August 2017 before the building was properly handed over, due to the defects in the internal electrical cable system.

- Even though approval for the building plan should have been obtained from the Medadumbara Pradeshiya Sabha, the building plan had not been approved even by 31 December 2017. As such, the building constructed had been observed as an unauthorized construction.

Clinical Centre constructed for Kidney Patients

The number of kidney patients in the Wilgamuwa D ivisional Secretariat was over 1,200 and as a remedial action , a clinical center fully equipped with modern facilities had been constructed from the provision of Rs.41.46 million made by the Ministry of Health and Indigenous Medicine and vested it with the public on 13 March 2017. Even though that medical unit had been vested with the Central Provincial Council by the end of the year under review, the said building had been closed without being used for any purpose due to the non-availability of relevant medical officers.

Southern Provincial Council

A revenue totalling Rs.35,585 million, comprising a sum of Rs.27,426 million from government grants and a sum of Rs.8,159 million from internal sources had been estimated by the Southern Provincial Council for the year 2017. Out of that revenue, a sum of Rs.29,180 million as recurrent expenditure and a sum of Rs.9,116 million as capital expenditure had been estimated to be utilized. Accordingly, the revenue totalling Rs.34,970 million comprising a sum of Rs.26,177 million from government grants and Rs.8,793 million from internal sources had been collected in the year 2017. A total sum of Rs.34,548 million comprising a sum of Rs.28,900 million as recurrent expenditure and Rs.5,648 million as capital expenditure had been utilized in the year 2017. Accordingly, the revenue over expenditure had been Rs.422 million.

Significant audit observations revealed in the audit of the Southern Provincial Council relating to the year 2017, appear below.

Collection of Revenue

The arrears of revenue under 07 Revenue Codes at the beginning of the year under review had totalled Rs.880.5 million. Out of those 07 Revenue Codes, revenue of Rs.419.7 million had been expected to be collected in the year under review. Accordingly, revenue of Rs.1,300.2 million should have been collected in the year under review . However, only a revenue of Rs.122.8 million had been collected by the end of the year under review. Out of the revenue that should have been collected in the year under review, revenue amounting to Rs.873.4 million had been in arears by the end of the year under review after adjusting revenue collected, exemptions, debit notes and fines.

Repairs to the Medical Officer's Quarters

A sum of Rs.1.41 million had been estimated for the repairs of the Medical Officer's Quarters of the Amugoda Central Dispensary. The Chief Minister and the Ministry of Finance and Planning, Law and Order, Local Government, Transport, Health and Indigenous Medicine Tourism and Engineering Services of the Southern Province had entered into an agreement with a Samurdhi Society on 03 August 2012 to complete the said constructions before 18 October 2012. A sum of Rs.1.26 million had been paid to the contractor by 17 November 2012. The works had not been completed and handed over even by 17 November 2017 and the performance bond had not been obtained in terms of the agreement. The bills had been submitted by forging the signature of the Chairman of the Samurdhi Society.

Commencement of Work by the Contractor before selecting the Contractor

Bids had been invited by the Chief Minister and the Ministry of Finance and Planning, Law and Order, Local Government, Transport, Health and Indigenous Medicine Tourism and Engineering Services of the Southern Province on 16 November 2017 for 06 works. The estimated value of those works had been Rs.30.75 million. The contractor had commenced constructions between the period ranging from 29 November to 11 December 2017 before awarding the contract to the relevant contractors. Contracts had been awarded on 15 December 2017 to the same contractor for 06 works and agreements had been entered into with him. It was revealed that the supervision of 06 works as well had not been properly carried out.

Projects implemented under the Palath Neguma Development Programme

Eight projects had been implemented under the Palath Neguma Development Programme in the year 2014 and a sum of Rs.127.63 million had been spent therefor. Those 08 projects had not been utilized for public requirements even by the end of the year under review. In the implementation of these projects, advances had not been paid and advance security and performance security had not been obtained in accordance with the Government Procurement Guidelines. Moreover, there had been no corrections of the defects in construction and certain works had not been constructed up to the prescribed standard and a proper supervision had not been carried out in the implementation of projects as well. Sub-contracts had been awarded without obtaining prior approval. Public requirements had not been fulfilled even by the end of the year under review by the said 08 projects.

Projects not completed

The constructions of the Youth Sports Complex of Makurugoda, Baddegama were being continued from the year 2001 up to the year 2018. A sum of Rs.81.76 million had been spent for the project during the said period. However, the project had been abandoned halfway. The Sri Lanka Army Engineer Service Regiment, which carried out the relevant constructions had abandoned constructions from 01 May 2018 and left the work site. Action had not been taken in respect of the safety of the completed works. As such, the expected results of the relevant project could not be achieved, despite the elapse of over 17 years.

Non-distribution of School Books, Bags and Equipment among School Children

School books, bags and equipment had been purchased by the Ministry of Education, Land and Land Development, Highways and Information of the Southern Provincial Council by spending a total of Rs.15.27 million in the years 2016 and 2017 to be distributed among school children. Those books and equipment had been retained in the

Ministry and Zonal Education offices even by 30 April 2018 without distributing among the students.

Attachment of Officers to the Service contrary to Provisions

According to the Minute of the Sri Lanka Education Administrative Service published in the Gazette Extraordinary No.1928/28 of the Democratic Socialist Republic of Sri Lanka dated 21 August 2015, an officer holding a post in Grades II and III in the Special Cadre of Sri Lanka Education Administrative Service cannot hold a post in the General Cadre and an officer holding a post in the General Cadre cannot hold a post in the Special Cadre. Nevertheless, contrary to the said provisions, 39 officers of the Special Cadre in 03 posts of the General Cadre, 20 officers of the General Cadre in 02 posts of the Special Cadre had been employed in the Southern Provincial Department of Education on permanent, acting and covering of duty basis. Moreover, 47 officers of the General Cadre had been permanently appointed for the post of Deputy/Assistant Director of Education relating to the Special Cadre of the Sri Lanka Education Administrative Service and 27 officers out of them had been appointed on the basis of acting/performance of duties in posts relating to the General Cadre.

Handling of Information of the Provincial Council by External Parties

A total of Rs.4.33 million had been spent from the year 2012 to the year 2017 by the Southern Provincial Industrial Development Authority for designing an industrial information system. Only the institute which designed the information system was able to handle the operations while the Authority was unable to update the system according to their requirements. As such, the Southern Provincial Industrial Development Authority had allowed an external institution to handle the information of the Provincial Council.

Non-commencement of the Model Dairy Farm at Thalunna

A sum of Rs.8.25 million had been spent from the year 2015 to the year 2017 for converting the Thalunna Dairy Centre belonging to the Department of Animal Production and Health into a model dairy farm. Even though those expenses had been incurred for constructing a cattle house, water tanks, a motor room, protective fence, an employee's quarters, well and pump house, the operations of the farm could not be commenced due to lack of essential factors such as grass, water and human resources required for the commencement of the dairy farm. Accordingly, out of the amount spent for the commencement of the model dairy farm, no results could be achieved even by the end of the year under review.

The Project on Development of Fry to Fingerlings

A sum of Rs.27.48 million had been spent from the year 2015 to the end of the year 2017 for constructing 09 ponds, watcher's quarters on a portion of 0.0818 hectares of the land belonging to the Ridiyagama Dairy Farm for the Project on Development of Fry to Fingerlings and for purchasing a bowser. Action had not been taken even by the end of the year under review to commence the operations of the Project. As such, a bowser had been purchased by spending a sum of Rs.8.06 million for transporting fry without preparing plans for operations.

Project on the Development of Provincial Roads and Incomplete Roads of the Matara District

The following deficiencies were revealed relating to the procurement on the purchase of ABC gravel for the Project mentioned above which had been commenced since the year 2011 by the Southern Provincial Roads Development Project.

- It was observed that a sum of Rs.556.10 million is spent for 128602 cubic metres of ABC gravel required according to the approved Bills of Quantities relating to developed roads of the Project. Accordingly, in terms of Guideline 2.7.2 of the Government Procurement Guidelines, the said procurement activities should have been carried out by a Procurement Committee appointed by the Cabinet of Ministers. However, procurement activities had been carried out by the Ministry Procurement Committee.

- An audit query had been issued in respect of the irregularities occurred in the supply of ABC gravel in this Project. The Chief Secretary had appointed the Internal Audit Director of the Southern Province to investigate and to report in this connection. According to his report, it has been revealed that a financial loss of Rs.14.47 million had been caused to the Government by the officers.

- Even though the Secretary to the Ministry had been informed on 10 November 2016 to take disciplinary action and report to the Chief Secretary in respect of the officers who had caused a financial loss to the Government by failure in taking action complied with laws, rules, and regulations under this Project, disciplinary action had not been taken even by 30 April 2018 in this connection.

Northern Provincial Council

The Northern Provincial Council had estimated an income amounting to Rs.27,331 million for the year 2017 which consisting Rs.23,854 million from the Government Grant and Rs.3,477 million from other internal sources of income and out of the estimated income it was expected to spend a total sum of Rs.27,351million consisting Rs.20,575 million for recurrent expenditure and Rs.6,776 million for capital expenditure. However, total expenditure aggregating Rs.24,044 million consisting Rs.20,989 million for recurrent expenditure and Rs.3,055 million for capital expenditure had been incurred during the year 2017 out of the income aggregating Rs.26,713 million recovered for the year 2017 consisting Rs.23,149 million from the Government Grant and Rs.3,564 million from other internal sources of income.

The audit observations made in sample audit carried out in connection with Provincial Council are summarized below.

Unutilized Buildings

Eleven Development works such as Shopping Complexes, Bus stands, Children Parks and Staff Quarters etc. constructed at a total cost of Rs.159.3 million from the fund of North East Local Services Improvement Project in remotes and less populated pradeshiya Shabas' areas of Mannar, Musali, Manthai West and Puthukkudiyiruppu in the Northern Province had remained idled over 04 years. Further, the indoor games training centre and cultural hall constructed at a cost of Rs.44.5 million at the authorized area of the Nallur pradeshiya Shaba had been used for other purposes since 2014 instead of utilizing for intended purposes.

Eighteen Development works such as markets, vehicle service centers, gymnastic centers, vehicle parks, divisional hospital buildings etc. constructed at a cost of Rs.60.2 million by utilizing the Fund of the Northern Provincial Council had remained idled for the period ranging 01 to 03 years.

Unsettled Imprest

Out of the imprest of Rs. 6 million released to the Department of local Government for the purpose of payment of compensation to the traders of Mannar District whose trade stales destroyed by fire during the year 2012, a sum of Rs.4.87 million had not been settled even as at end of the year under review. In this regard action had not been taken by the relevant authority to recover the money paid to third parties even after 05 years.

Financial Fraud Committed in the NELSIP Project

Financial fraud committed Rs. 4.348 million at Valvettithurai Urban Council and Pointpedro Pradeshiya Sabha on the construction works of roads and markets were investigated by the Northern Provincial Council and reported to the Northern Provincial Secretariat. Further, a committee was appointed by the Chief Secretary to the Northern Province in this regard and paid Rs.1.55 million to conclude the investigation from the Provincial Fund. However, action in this connection had been delayed for over 03 years.

Identified Losses

Action on 35 items worth Rs.48.5 million lost by 04 Northern Provincial Departments had not been taken in terms of Provincial Financial Rules No. 70(5) of the Northern Provincial Council within the period ranging from 02 to 08 years.

Utilization of Assets

A land with extent of 680 perches had been purchased at a cost of Rs.3.24 million by Valikamam South Pradeshiya Sabha on 05 April 2000 for the purpose of constructing a housing scheme for 30 families. However, this land had allowed to be idled without being utilized for intended purposes due to legal action taken by a third party on the ownership of this property on 24 December 2002.

North Western Provincial Council

A revenue totalling Rs.30,918 million, comprising a sum of Rs.22,266 million from government grants and a sum of Rs.8,652 million from internal sources had been estimated by the North Western Provincial Council in the year under review. Expenditure totalling Rs.41,889 million comprising sums of Rs.30,918 million and Rs.10,971 million had been estimated respectively as recurrent and capital expenditure in the year 2017. Accordingly, revenue totalling Rs.36,863 million comprising a sum of Rs.28,772 million from government grants and Rs.8,091 million from internal sources had been collected in the year under review. A sum totalling Rs.35,456 million comprising a sum of Rs.28,806 million as recurrent expenditure and a sum of Rs.6,650 million as capital expenditure had been utilized.

Significant audit observations revealed during the course of audit relating to the functions of the North Western Provincial Council performed during the year under review are summarized and shown below.

Investment of Moneys in Fixed Deposits

A sum of Rs.102.59 million had been invested in fixed deposits in banks without performing the functions for the benefit of the public from the provisions granted to institutions established through Ordinances by the Provincial Council under the Chief Ministry and from the revenue collected.

Release of Teachers for other Services

In terms of Section 2.5.1 of Chapter V of the Establishments Code of the Democratic Socialist Republic of Sri Lanka, the period of release to another service should not exceed 2 years for an officer holding a post in the Government. Even though a period of 2 years had elapsed after releasing 50 teachers of the North Western Province for active service of Volunteer Forces, those teachers had not reported again to the Teachers Service even by the end of the year under review. Salaries totalling Rs.107.42 million had been paid to those teachers from the year 1991 to the year 2016 by the North Western Provincial Department of Education.

Lack of Resources required for Education

Shortages of 31,667 students' desks, 32,089 students' chairs, 5,440 teachers' tables and 7,046 teachers' chairs were observed in 791 schools in the North Western Province. The performance of fulfilling those requirements was being carried out sluggishly even by the end of the year under review.

Schools closed down

Sixty seven schools had been closed down in the North Western Province during the period of about 22 preceding years. Out of those schools, 43 schools had not been utilized for any effective purpose.

Recruitment for Unapproved Posts

Permanent appointments had been given to 16 persons by the North Western Human Resource Development Authority for 05 posts unapproved by the Department of Management Services. Moreover, salaries and allowances totalling Rs.19.57 million had been paid to those officers during the period from 24 October 2014 to 31 December 2017.

Recoverable Loans

The North Western Human Resource Development Authority had granted loans to beneficiaries through various projects and those loans should have been recoverable at the end of 3 years. However, the arrears of loan installments exceeding 3 years by 31 December 2017 after granting loans to beneficiaries had totalled Rs.21.49 million.

Arrears of Revenue

Revenue of Rs.198.77 million had been in arrears by 31 December 2017 under 05 Revenue Codes in the North Western Provincial Council. Proper measures had not been taken by the Provincial Council to recover those arrears of revenue.

Idle Position of Buildings with Ward Complexes

An adequate medical and nursing staff was not available for the function of the Galgamuwa Base Hospital with the ward complex constructed by spending a sum of approximately Rs.605 million under a foreign funded project including Divisions such as two fully equipped operating theatres, Intensive Care Unit, Dialysis Unit for kidney patients, Premature Baby Unit, Blood Bank, Endoscopy Unit and Medical Gas System. As such, those Divisions had been inoperative since the year 2016.

Moreover, a three storeyed building had been constructed in the Nikaweratiya Base Hospital by spending a sum of Rs.15.92 million in the year 2015. Nevertheless, two storeys of that building had not been utilized for treatment of patients even by the end of the year under review.

Lack of Medical Officers and Nursing Staff

Sixteen Medical Specialists, 94 Medical Officers and 150 Male/Female Nurses should have been attached for operating the patient treatment services at optimum level at the Galgamuwa Hospital modernized by a JAICA Project in the year 2016. However, only two Medical Specialists, 18 Medical Officers and 53 Male/Female Nurses had been attached even by the end of the year under review. Accordingly, the patient treatment service expected by the Project had not been functioned at optimum level.

Idle Position of the Mortuary

The fully equipped mortuary of the Puttalam Hospital, constructed by spending a sum of Rs.12.76 million, had remained idle even by the end of the year under review due to unavailability of clean water.

Sub- standard and Expired Drugs

Sub-standard drugs valued at Rs.55.2 million and expired drugs valued at Rs.2.4 million of the North Western Regional Medical Supplies Division and hospitals in Kurunegala District had been disposed of in the year 2017.

Unauthorized Constructions on Roadsides

Unauthorized constructions had been carried out on two roadsides maintained by the Wariyapola Regional Engineer's Office, neglecting the limits of construction on roadsides in terms of Sections 23(1) and 33(1) of the Road Development Ordinance of the North Western Provincial Council.

Failure in carrying out Development and Maintenance of Roads

Development activities of Gokarella-Kandulawa Road with a distance of 5.5.km belonging to the Ibbagamuwa Divisional Secretariat Division had not been performed. As such, the routine life of the people living on the sides of the road had become weak and the operation of passenger buses as well had been discontinued from a period of about one year.

Maintenance of Excess Stocks of Thread

The consumption of thread of the Provincial Department of Textiles in the year 2016 amounted to Rs.8.32 million and the value of that stock of thread had been Rs.28.99 million by the end of that year. Accordingly, thread of three times the annual thread requirement had been retained as stocks. As such, it was observed that expenditure on stocks operations and damages to stocks could be excessive.

Keeping Children exceeding the approved limit in Children's Home

The approved number of children kept at the Meegahakotuwa Government Girls' Home of the Department of Probation and Child Care Services had been 45. However, 70 children had been kept in the Home. Moreover, shortages of facilities required for excess children were observed. Moreover, an appropriate arrangement had not been made for providing a proper vocational education before socializing the girls in instances of refusing school education.

Improper Restoration of Tanks

A sum of Rs.32 million had been granted to the Department of Irrigation by the Provincial Council Fund in the year 2017 for restoration of tanks in the North Western Province. The main objective of the contractors was removal of soil and extraction of sand. As such, it was observed that the restoration of many tanks had not been properly carried out. Photographs of several such tanks are shown from 13 to 15.

Photographs 13- Soil had been improperly removed for extraction of sand in the Bogoda Lake

Photographs 14- Improper removal of silt in the Poogallewewa, Kithalawa

Photographs 15- Improper removal of silt in the Mahawewa, Chilaw

North Central Provincial Council

The North Central Provincial Council had estimated of revenue totalling to Rs.29,131 million for the year 2017. A sum of Rs.25,800 million from government grants and a sum of Rs.3,231 million from internal sources had been estimated. A total of Rs.19,606 million comprising a sum of Rs.16,692 million as recurrent expenditure and a sum of Rs.2,914 million as capital expenditure had been estimated to be utilized in the year 2017. As such revenue totalling Rs.22,827 million comprising a sum of Rs.19,166 million from government grants and a sum of Rs.3,661 million from internal sources had been collected. A total of Rs.23,083 million had been spent comprising a sum of Rs.20,586 million as recurrent expenditure and a sum of Rs.2,497 million as capital expenditure in the year 2017.

Audit observations made during the course of audit of the North Central Provincial Council are summarized below.

Project on Cultivation of Mango J.C

The project of diffusion of cultivation of Mango J.C had commenced in rural lands of 460 acres spending Rs.16 million from the year 2015 to 2017 for the generation of income occasions of the rural people. Out of 33,158 mango plants given from that project for the beneficiaries near about 50 per cent was destroyed as at 31 December 2017.

Project on Good School is the Nearest School

A total of Rs.7,305 million comprising a sum of Rs.6,481 million for the project on good school is the nearest school and a sum of Rs.824 million for quantitative and qualitative developments in school provisions was made. Implemented by utilizing that provisions for the emblishment of gardens touch of grass sads in extent of 1,366.9 square meters out of the spent amount, a sum of Rs.3.5 million had been overpaid.

Exam results of the Students

The educational staff of 16674 attached to 814 schools belongs to the North Central Provincial Council are working and number of learning students was 289,971. So the ratio of teachers to students was 1.17. Further out of these teachers 322 is teacher counsellors and 72 is subject directors. Base on this reasons, the inspections of educational results, 19455 students sat for the G.C.E. (Ordinary Level) 628 students were failure in all subjects. The North Central Province had got the 6th place according to that result. Further, 12,130 students sat for the G.C.E.(Advance Level) examination 1,188 students or 10 per cent was failure in all subjects. So 8th place had been obtained according to the province ranking. Out of the 24,836 students sat for the grade 5 scholarship in the year 2017 and 7,358 students had obtained less than 70 marks for the two question papers.

Assets existing under-utilized and Idling

50 schools were closed at the year under review out of that 39 schools' buildings and other resources were idling. Two storied including 9 rooms building of teachers centre at Kekirawa 4 rooms not use for useful activities and removable goods were stored there. More out of 1,491 government quarters located in province 830 houses were under-utilized. 10 buildings valued at Rs.93 million owned to the Provincial Health Services Department, 4 Dialysis machine valued at Rs.54.00 million and drugs valued at Rs.1.64 million were idling, a building valued at Rs.7.98 million owned by the Provincial Ayurvedic Department was idle since the year 2016.

Project on improvement of sanitary Facilities

The construction activities of the project on improvement of sanitary facilities should be completed as at the date of 15 October 2017 and the project should be handed over to the schools which was implemented in the North Central Province. A sum of Rs.265 million had been spent by the Provincial Council for this. The progress of the 208 schools under type B implemented by that project less than 40 per cent. The progress of 88 schools remained ranging from 40 per cent to 60 per cent. The progress of out of 27 schools 25 schools category under type G was less than 80 per cent.

Conducting in service sessions and programme

A sum of Rs.9.5 million had been spent for conducting in service sessions under 33 programmes in Zonal Education Offices under the Provincial Council in that a sum of Rs.6.1 million had not been spent for in service sessions had kept in hand as at 31 December 2017. Even though, provisions amounting to Rs.6.2 million had been made for to hold 64 in service sessions under provincial council provisions, that total provision had not been utilized. Although a sum of Rs.3.4 million give for universal programs under Central Government ESPD Project that money had not spent for activities in the project and kept in hand at the end of the year under review.

Achievement of Sustainable Development Goals

The projects implemented during the year under review to achieve the Sustainable Development Goals by the Ministry of Province Agriculture, Production, Marketing, Animal Health and Fisheries Activities following weakness were observed.

- Although the provisions of Rs.7.7 million had been made for the year under review for construction of cool conduct house in Mahaillupallama commenced since the year 2016 that provision had not been utilized end of the year. So the activities of the project had continued for the year 2018.

- Although, provision amounting to Rs.1 million had been made for the reconstruction of 100 agro well only 59 agro well were reconstructed during the year under review.
- Although provision amounting to Rs.3 million had been made and spent for cultivation of flowers on behalf of 38 beneficiaries to construct model houses 9 beneficiaries who should take part for the project had been relinquished.
- Provision amounting to Rs.4 million had been made for cultivation of plantain in 27 acres aiming 55 beneficiaries to promote export agricultural crops. After that project was relinquished.
- Instruments purchased during the year under review spending Rs.4.6 million to create 150 development farms. But, out of that instruments valued at Rs.2 million had not been distributed among beneficiaries even as at 29 January 2018.
- It was distributed 20,265 manioc strict during the year under review for the famers although it was planned to distribute 45,000 stick to cultivate manioc as an export crop.

Non-utilization of provisions and non-implementation of projects

The provincial Health Department had to be fulfilled projects or activities during the year under review it was observed in audit certain instances were not fulfilled. Details are given below.

- An estimated value of 142 projects amounting to Rs.509.99 million should be implemented during the year under review had not been implemented and had continued for the year 2018.
- Provisions amounting to Rs.1,157.23 million near about 50 per cent provisions not utilized by the provincial specific Development Grants and Second Health Sectional Development Project.
- Second Health Sectional Development Project had gave the provisions of Rs.566 million in the year 2013. Out of that provision amounting to Rs.269 million made for 47 projects not been completed even as at 30 June 2018.
- 3 Contracts aggregated value of Rs.56.06 million should be fulfilled in the year under review at Thabuththegama hospital had not been completed and over to the hospital even as at 08 January 2018.

Uva Provincial Council

A revenue totalling Rs.22,261 million comprising a sum of Rs.18,821 million from Government grants and a sum of Rs.3,440 million from internal sources had been estimated for the year 2017 by the Uva Provincial Council. An expenditure totalling Rs.22,333 million comprising a sum of Rs.19,339 million for recurrent expenditure and a sum of Rs.2,994 million for capital expenditure had been estimated for the year under review. Accordingly, a revenue totalling Rs.22,944 million comprising Rs.19,457 million from Government grants and Rs.3,487 million from internal sources had been collected in the year under review. A total sum of Rs.23,460 million comprising Rs.20,069 million for recurrent expenditure and Rs.3,391 million for capital expenditure had been spent in the year under review.

The audit observations relating to the activities of the Uva Provincial Council are summarized and given below.

Non-passing the Statutes required for collecting the Revenue

Statutes relating to 13 Revenue Items included in the list of items, assigned to provincial councils by the Thirteenth Amendment to the Constitution of the Democratic Socialist Republic of Sri Lanka, had not been passed by the Uva Provincial Council. Six Revenue Items had not been included in the financial statement in the year under review and revenue relating to 21 Revenue Items included in the Annual Revenue Estimate, had not been estimated.

Non-remittance of Revenue relating to Local Authorities

Sums of Rs.77.59 million and Rs.74.32 million had been received by the Provincial Council as court fines and stamp fees respectively. In terms of provisions of Acts relating to Local Authorities, those monies should be remitted to two Municipal Councils, an Urban Council and to 25 Pradeshiya Sabhas. Nevertheless, those monies had not been remitted even by the end of the year under review.

Non-use of Finger Print Machines

In terms of Public Administration Circular No.2009/09 of 16 April 2009, finger print machines had been purchased at a cost of Rs.7.69 million for 135 institutions belonging to the Provincial Health Department. Those machines had not been used for recording the arrival and departure of officers even by 31 December 2017.

Dogs Sterilization Project

Provisions of Rs.21.63 million had been granted in the year under review for the Dogs Sterilization Programme of the Uva Province through the Letter No. DDG/PHSI/DA4/R/6/2017 of 07 April 2017 of the Deputy Director General (Public Health Services) of the Ministry of Health, Nutrition and Indigenous Medicine.

Even though agreements had been entered into with the contractor to sterilize 9,000 dogs at the inception of the Project itself, a less number of dogs of about 44 per cent of the expected number had been sterilized even by the end of the year under review. Moreover, attention had not been paid to obtain the assistance of the Uva Provincial Department of Animal Production for this Project.

Cessation of Treatments for Pulmonary Diseases

The Cosmed Quark PFT 4 Lung Function Machine which is the only machine available in the Uva Province, for carrying out tests on Total Lung Capacity and DLCO relating to pulmonary diseases, had remained idle since the year 2016. That machine had not been repaired even by 20 April 2018 by the Provincial Health Department and as such, treatments had ceased nearly over a period of 20 months.

Non-repair of Medical Equipment

The Therapeutic Ventilator equipment which was installed on 21 August 2014 in the Intensive Care Unit of the Mahiyanganaya Base Hospital, had remained idle from time to time due to Airway pressure high (indicated alarm) defect. Even though requests had been made even in 06 instances in the year 2017 to repair that equipment, it had not been repaired even by 07 December 2017.

A Continuous Renal Replacement Therapy machine had been purchased at a cost of Rs.4.50 million for the Intensive Care Unit of the Mahiyanganaya Base Hospital on 28 November 2016. Even though there is a possibility of obtaining necessary consumable parts of that machine from the supplier, an agreement had not been entered into with that supplier. As such, that machine had remained idle throughout the year due to failure in obtaining necessary consumable parts over a period of 10 years.

Failure of Hospital Affairs due to Lack of Staff

Three Hemodialysis machines had remained idle due to lack of nursing staff and junior staff of the Mahiyanganaya Base Hospital and the opportunity of obtaining treatments had been deprived of by kidney patients who arrived at the hospital due to lack of staff. Moreover, the ENT Unit of the Mahiyanganaya Base Hospital had been totally inoperative over a period of 04 months due to lack of a surgeon.

Inadequate Water Supply

Only one water tank with the capacity of 10,000 litres was available with 04 Units such as GYN, Maternity Labor, ICU and PBU by which essential services are supplied, out of 33 Units operated in the Mahiyanganaya Base Hospital. As such, there was no adequate water supply for carrying out services of those Units.

Drugs Management

The following shortcomings were revealed in hospitals and stores of the Provincial Council.

- There was a stock of drugs in the stores premises due to supply of 128 types of drugs valued at Rs.4.50 million not ordered by the Girandurukotte Regional Hospital. There was a risk of expiring of drugs due to failure in using those drugs and due to excess of drugs.

- Eighty five types of drugs valued at Rs.2.73 million had been oversupplied than the quantity ordered by the Girandurukotte Regional Hospital.

- There were 48 items of slow moving drugs valued at Rs.11.82 million by 15 January 2018 in the stores of the office of the Badulla Regional Director of Health Services. As action had not been taken to distribute those drugs to hospitals by identifying hospitals with requirements for those drugs, there was a risk of expiring of those stocks of drugs.

Provincial Passenger Transport Activities

The Board of Directors of the Authority had not taken action even by the end of the year under review to formulate regulations for the Passenger Transport Services Act, No.1 of 2001. Moreover, a procedure with transparency as well had not been formulated by the Provincial Passenger Transport Authority for the issue of new route permits. Even though the budget should be prepared prior to 03 months of the commencement of the ensuing financial year and be approved by the Board of Directors of the Authority, budgets for the Passenger Transport Authority had not been prepared relating to preceding years including the year of audit.

Textile Industry

Ninety six handlooms of the Uva Provincial Department of Industry Development had remained idle due to lack of Technicians. Textile products had been sold on credit, on the basis of recovery in 8 installments. A sum of Rs.2.84 million had been outstanding by 31 August 2017.Out of that outstanding balance, a sum of Rs.2.26 million had been outstanding over a period of 10 years.

Rattan Industry

Even though a Rattan Industry Manufacturing and Training Centre had been established at Radaliyadda, no production whatsoever had been made therein from the year 2014 even up to 31 August 2017. A total sum of Rs.1.43 million spent for paying salaries to the Instructor of Rattan Manufacture and the Watcher who were deployed in the service and spent for supply of water to this Centre, had become fruitless due to failure of the industry.

Presentation of False information on Drivers Training

A programme on issue of driving licences to trainees in Badulla District had been implemented by spending 50 per cent by the trainee and the remaining by the Provincial Council out of the payment to be made for providing drivers training. The Provincial Department of Industry Development had informed the Audit that 23 trainees had been trained successfully and temporary driving liences had been issued to them by the Provincial Council.

However, according to confirmations of Motor Traffic, the said 14 trainees who had been trained, had not even sat for the written test.

Herding imported Milch Cows in unhygienic Conditions

One hundred milch cows of high breed had been imported from Australia on 24 December 2017 to the Boralanda Animal received from the Department Farm. Agreements had been entered into on 06 November 2017 for the construction of cattle shed for those animals and the constructions thereof should have been completed by 03 February 2018. However, the said construction had not been completed by 23 March 2018 and they were herded in unhygienic conditions.

Sabaragamuwa Provincial Council

A revenue totalling Rs.25,709 million, comprising a sum of Rs.21,659 million from government grants and a sum of Rs.4,050 million from internal sources had been estimated by the Sabaragamuwa Provincial Council for the year 2017. A sum of Rs.23,245 million as recurrent expenditure and a sum of Rs.2,464 million as capital expenditure totalling Rs.25,709 million had been estimated to be utilized in the year 2017. Accordingly, the revenue totalling Rs.27,821 million, comprising a sum of Rs.23,580 million from government grants and a sum of Rs.4,241 million from internal sources had been collected in the year 2017. A total sum of Rs.28,931 million comprising a sum of Rs.22,668 million as recurrent expenditure and Rs.6,263 million as capital expenditure. had been utilized in the year 2017.

Significant audit observations revealed in the audit of the Sabaragamuwa Provincial Council relating to the year 2017 appear below.

Providing Motor Cycles on Concessionary Rates for Public Representatives

According to budget proposals of the Government in the year 2014, the programme of providing motor cycles on concessionary rates to public representatives of Local Authorities for the supervision of development activities, had been implemented. Accordingly, a loan of Rs.50,000 had been granted by the Divineguma Development Department to 63 public representatives of Local Authorities belonging to the Sabaragamuwa Province for obtaining motor cycles under Phase I. The unpaid outstanding balance out of that loan had been Rs.873,951 by 31 January 2018. Moreover, the Divineguma Development Department had failed even by February 2018 to recover the total of Rs.1.85 million from 37 public representatives who had obtained motor cycles on the basis of outright payment of the concession of Rs.50,000.

Expenditure on Foreign Tours

The following deficiencies were revealed relating to the expenditure incurred by the Provincial Council for foreign tours in the year under review.

- A sum of Rs.2.70 million had been spent as combined allowances and entertainment allowances for 05 foreign tours in which the Chief Minister and the Private Secretary participated without obtaining confirmation on the facilities provided by the foreign institution that extended the invitation. A sum of Rs.1.24 million had been spent from the Provincial Fund for taking gifts in 04 tours.

- It had been accepted that the allowances obtained by 10 officers for the tour of Vietnam in the year under review had been erroneous and out of the monies obtained, a total sum of Rs.3.23 million had been repaid. A sum totalling Rs.1.94 million had been further recoverable from the Chief Minister, the Private Secretary and 04 officers who participated in the said tour.

- A group of officers of the Ministry of Industries and the Industrial Development Authority had been on a foreign tour in China for a project on promoting electricity by solar power. Matters such as obtaining technological skill, providing training, carrying out direct foreign imports which were the expected purposes of the tour, had not been achieved. Subsequently, a sum of Rs.5.83 million had been spent for meeting the solar power requirement of 05 institutions under the Provincial Ministry of Industries, Social Welfare, Probation and Childcare, Rural Development and Rural Industries, through a local institution. Accordingly, the sum of Rs.6.89 million spent for the foreign tour had become a fruitless expenditure.

Conducting Workshops in Hotels

In terms of Letter No. CSA/P/1/40 of 28 February 2007 of the Secretary to the President, Ministries, Departments and Government Institutions should not select hotels for holding their meetings, seminars and workshops etc. Moreover, it had been instructed that hotel charges payable for food and accommodation in local tours should not be settled with Government funds. Contrary to those instructions, the following workshops had been held in hotels by the Provincial Council.

- The Chief Ministry and the Council Secretariat had paid a sum totalling Rs.1.11 million in the year 2017 to private hotels for training programmes of the officers of the Provincial Ministry and Provincial Ayurveda Practitioners.

- The Council Secretariat had conducted a three day workshop for the Ministers, members and senior officers of the Sabaragamuwa Provincial Council in a private hotel and spent a sum of Rs.3.33 million therefor. A sum of Rs.190,000 had been spent for additional fuel for that workshop and the sum of Rs.656,500 of the expenditure on room charges and lecture hall had become fruitless.

Overpayment of Fuel Allowances for Supervising Members

According to the report of the 40th Cabinet meeting dated 15 October 2014, an additional fuel allowance of Rs.10,000 had been approved apart from the fuel allowance entitled to supervising members appointed to each Ministry of the Provincial Council. Contrary to that, two Provincial Ministries had paid a sum of Rs.15,000 per month as additional fuel allowances. As such, an overpayment of fuel allowances totalling Rs.2.30 million had been paid to 16 members relating to the period from October 2014 to September 2017.

Irregularities

The following irregularities were revealed in the functions performed by the Provincial Council.

- A sum of Rs.8.34 million had been donated to temples for various religious ceremonies by the Chief Minister, Ministry of Law and Order, Finance and Planning, Local Government, Health, Indigenous Medicine, Women's Affairs, Co-operative, Commerce and Food, Transport, Estate Welfare, Environment, Information, Housing and Construction and Religious Affairs. In the examination of a sample of 20 per cent of those donations or Rs.1.70 million of those donations, it was revealed that a sum of Rs.1.33 million had not been distributed to the relevant temples.

- A cheque for Rs.150,000 had been obtained by a Karyala Karya Sahayaka from the Chief Minister, Ministry of Law and Order, Finance and Planning, Local Government, Health, Indigenous Medicine, Women's Affairs, Co-operative, Commerce and Food, Transport, Estate Welfare, Environment, Information, Housing and Construction and Religious Affairs for repairs to the roof of an Early Childhood Development Centre and for providing play materials after preparing forged documents.

- Payments of Rs.1.99 million had been made to Farmers' Organizations for Phase I of the Thimbolketiya School Playground Development Project implemented by the Ministry of Provincial Roads Development, Rural Infrastructure, Tourism, Sports and Youth Affairs under the supervision of the Embilipitiya Pradeshiya Sabha. Such functions had not been performed under that Phase.

- An overpayment of Rs.5.07 million had been made exceeding the value payable for 06 works implemented by the Ministry of Provincial Roads Development, Rural Infrastructure, Tourism, Sports and Youth Affairs under the supervision of the Embilipitiya Pradeshiya Sabha.

Failure in Supply and Installation of Passenger Shelters within the expected period

The Chief Minister, Ministry of Law and Order, Finance and Planning, Local Government, Health, Indigenous Medicine, Women's Affairs, Co-operative, Commerce and Food, Transport, Estate Welfare, Environment, Information, Housing and Construction and Religious Affairs had entered into an agreement with a private company on 30 December 2015 for supply and installation of passenger shelters for a value of Rs.56.70 million within a duration of 90 days for 200 selected places in the Sabaragamuwa Province. The loss occurred to the Provincial Council Fund due to the deficiencies in procurement evaluation and awarding of contract and defects in constructions carried out for that purpose had totalled Rs.11.01 million. Moreover, the work of 15 passenger shelters had not been completed even by 31 January 2018. Proper extensions of time had not been given after 30 June 2016 and liquidated damages totalling Rs.2.35 million had not been recovered by 31 January 2018 for the delay of 580 days.

Improper Recovery of Rent on Government Quarters

Contrary to the provisions in the Establishments Code, housing rents had been recovered from officers occupying the Medical Officers' Quarters of the Nivitigala Hospital, Quarters of the Medical Officer of Health, Embilipitiya and 09 Rural Health Centres belonging to that office from the year 2009 to the year 2017. As such, the Provincial Council had been deprived of a revenue totalling Rs.2.02 million.

Non-provision of Facilities for storing Non-degradable Waste

According to the report on the meetings on Sabaragamuwa Province Special Dengue Prevention Programme held on 27 July 2016, it had been decided to construct buildings for providing storing facilities for Local Authorities, without facilities for storing non-degradable waste. Permanent buildings had not been constructed even by 30 March 2018 for 12 Authorities out of selected Local Authorities.

Failure in taking Action relating to Training and Capacity Building of Officers

Provisions of Rs.22.49 million made for training and capacity building by the Provincial Ministry of Lands and Agriculture had been spent for purchasing 750 agro stalls instead of utilizing for the said purpose. Forty one agro stalls totalling Rs.1.23 million so purchased and not distributed even by 23 November 2017 had not been submitted to Audit for physical inspection. The selection of beneficiaries had not been carried out on the supervision of a Government institution or a Public Officer and evidence on confirmation that those agro stalls had been distributed to the suitable beneficiaries on a fair basis, had not been made available to Audit.

Deficiencies in Purchase and Distribution of Musical Instruments

Sets of band instruments had been purchased by spending a sum of Rs.9.42 million by the Provincial Education Ministry for distribution among schools. Agreements had been entered into in December 2016 for purchase of 36 Euphoniums totalling Rs.1.59 million out of that amount.

However, those instruments had not been supplied even by December 2017. The remaining stock of instruments valued at Rs.7.82 million received in December 2016 had not been distributed among schools even by January 2018. Even though the warranty period for the instruments had been 02 years, they had been in the stores for a period of one year even before making use of them. Moreover, the Technical Evaluation Committee had taken a period of 12 months to issue the quality test report on those instruments.

Taking Action on Schools closed down

One hundred and thirty schools in the Sabaragamuwa Province had been closed down during the period from 1992 to 2018 due to the lack of students or due to natural disasters. Out of those, 57 schools had not been vested with Divisional Secretariats and 05 schools had been released for other purposes. Wooden furniture and equipment of 17 schools had not been vested with any institution. Moreover, land and buildings of 42 schools had remained idle for a period ranging from 2 years to 18 years without being made use of.

Non-recovery of Assets given to former Provincial Members

The assets supplied to Provincial Council members by the Council should be returned after dissolving the Council. Nevertheless, the Provincial Council had failed to recover 58 assets valued at a total of Rs.7.16 million supplied to the Provincial Council members including the former Chief Minister.

Eastern Provincial Council

Revenue totalling Rs. 25,629 million comprising a sum of Rs. 22,154 million from Government Grants and a sum of Rs. 3,475 million from internal sources had been estimated for the year 2017 by the Eastern Provincial Council. A total of Rs. 26,295 million comprising Rs. 22,154 million for recurrent expenditure and Rs. 4,141 million for capital expenditure had been estimated to be utilized in the year 2017. Accordingly, revenue totalling Rs. 22,281 million comprising Rs. 18,668 million from Government Grants and Rs. 3,613 million from internal sources had been collected in the year 2017. A sum of Rs. 23,209 million comprising Rs. 22,052 million for recurrent expenditure and Rs. 1,157 million for capital expenditure had been utilized in the year 2017.

Material and important audit observations made during the sample audit carried out in the year 2017 relating to the activities of the Eastern Provincial Council are given below.

Non-utilization of Transport Ferry

A ferry used for passengers transport service between Kinniya and Trincomalee had been brought to Kattankudy in 2012 incurring a cost of Rs. 323,550 to use for transport service for Kattankudy to Kokkadicholai and the Divisional Secretariat, Kattankudy had also spent a sum of Rs. 489,500 to repair this ferry. However, it had remained idle up to 30 June 2018. As a result, the purposes for which this ferry was taken had lost.

Auction of a Four-wheel Tractor

A four-wheel tractor valued at Rs. 600,000 donated to the Urban Council, Kattankudy in 1992 had been used up to 31 December 2014 and the Council had spent a total sum Rs. 315,203 during the year 2012 to repair this tractor. However, it had been sold on auction only for a sum of Rs. 16,150 by the Secretary of the Council on 02 July 2016 without considering conditions pointed out in the Public Finance Circular No. 02/2015 dated 10 May 2015.

Renting out of Library Building

Even though the Department of Valuation had valued the monthly rental of the Library building of the Kattankudy Urban Council as Rs. 125,000, the Council had rented out this building to a private educational Institution on a monthly rental of Rs. 5,000 for a period of 04 years. As a result, the Council had lost the rent income of Rs. 4.75 million

Non-utilization of Medical Waste Incinerator

Installation of an Incinerator with a view to burning the hazardous waste disposed from hospitals at the Weeranagar area of the Trincomalee Urban Council had been commenced in the year 2015 and completed in the year 2017. The expenditure incurred therefor amounted to Rs. 4,230,155. However, this Incinerator remains idle even by the end of the year under review due to the failure in obtaining electricity to operate it. As a result, the hazardous waste of hospitals is being disposed of to the open land of the area of Kanniya in Trincomalee district.

The lands belonging to the Council handed over to the Private Sector

Even though the Chairman has no authority to hand over the lands belonging to the Trincomalee Urban Council to the private sector, lands in extent of 3,212 perches belonging to the Council had been handed over to 576 persons by the former Chairman in the year 2008. However, no legal actions against the former Chairman had been taken in this regard even up to 30 June 2018.

Non-operation of Trade Stalls

Out of 299 stalls belonging to the Trincomalee Urban Council, 90 stalls were remained idle since the year 2011 without being rented out. As a result, a revenue approximately Rs. 2,000,000 had been deprived of to the Council.

Non-utilization of Solid Waste Disposal Containers

424 solid waste disposal containers purchased by Trincomalee Urban Council at a cost of Rs. 1.8 million had remained idle for a period ranging from 01 to 02 years without being utilized for the intended purposes. As a result, the purpose of segregating solid wastes by the households had been lost.

Non-completion of Library Building

Out of an estimated cost of Rs. 195 million, a sum of Rs. 74.7 million had been spent for the construction of the Public Library Building for the Batticaloa Municipal Council during the years from 2011 to 2013. However, the Council had not taken actions to complete the construction work for more than 4 years. As a result, the estimated cost of completing the balance works (80 per cent) had been increased from Rs. 195 million to Rs. 207 million.

Non-utilization of Medical Equipment and Drugs

There were no Dialysis Units at Base Hospitals of Nintavur and Valaichenai due to the lack of Chronic Kidney Disease (CKD) patients. However, the Provincial Department of Health had procured equipment for dialysis treatment at a cost of Rs. 18.5 million and the medical drugs amounting to Rs. 6.15 million for those hospitals without considering the needs. As a result, such equipment were remained idle from 22 March 2017. Furthermore, 02 x-ray machines issued to the Base Hospitals, Pottuvil and Thirukovil at a cost of Rs. 4.89 million had remained idle for a period ranging from 01 to 05 years due to lack of suitable Technicians of Profession to Supplement to Medicine (PSM) to operate the equipment.

Non-utilization of Vehicles

Even though according to Circular No.01/08 dated 12 January 2018 of the Ministry of Healthcare and Nutrition, the unused vehicles of a Department should not be remained in the official premises of the Department. 15 vehicles of Provincial Department of Health Services had remained in the premises of Regional Medical Supply Division of Trincomalee for the period ranging from 02 to 84 months without taking actions to repair or auction.

Appointment of Performing Principals

According to Section 06 of the Circular No. 1998/23 dated 06 July 1998 of Ministry of Education, Performing Principals could be appointed for until qualified Principals are appointed. However, 255 teachers in the Sri Lanka Teachers' Service had been deployed as Performing Principals in the Schools of Eastern Province without considering the newly recruited 215 officers for the Principals' Service.

Shortage and Excess of School Teachers

There were 291 excess of teachers at the Zonal Education Offices of Kalmunai, Sammanthurai and Paddirupu whereas, there were 1237 vacancies for school teachers in the Zonal Education Offices of Akkaraipattu, Batticaloa Central, Batticaloa West, Kalkudah, Kinniya, Muthur and Trincomalee within the Eastern Province. Further, there were excesses of 227 teachers for Primary (General) subject at the Zonal Education Offices of Batticaloa, Kalmunai, and Paddirupu whereas, there were 157 vacancies for teachers for the same subject in the Zonal Education Offices of Akkaraipattu, Batticaloa Central, Kalkudah, Kinniya and Muthur. However, actions had not been taken to implement a proper scheme of allocation of teachers to address shortages for school teachers within the Province.

Transfer of School Teachers and Principals

According to Circular No. 2007/20 dated 13 December 2007 of the Ministry of Education, transfers should be given to the teachers who had continuously served for more than 08 years in a school. However, 523 teachers in the Sri Lanka Teachers Service, 24 Principals had remained in the same school for a period ranging from 10 to 18 years without being transferred to suitable schools even up to 15 April 2018.

Non-functioning of Computer Resource Centre

A Computer Resource Centre at Zonal Education office, Akkaraipattu had not been functioning since 01 October 2015 due to outdated computers. As a result, the teachers and students had lost the opportunities to complete IT courses and training facilities from this Centre and the furniture and equipment such as 32 computers & accessories, 30 computer chairs, 28 computer tables, 20 lecture hall chair, 03 air conditioners and 06 ceiling fans available in the Centre had remained idle for more than 02.

Failure to return Laptops and Fax Machines

Former members of the Provincial Council had obtained 37 laptops and 37 fax machines during the period from 2008 to 2011. However, 21 laptops and 21 fax machines had not been returned even up to 30 June 2018.

Unsettled Loan Balances of Former Members of the Provincial Council

Loan balances aggregating Rs. 0.9 million had remained unrecovered from the former Members of the Provincial Council for more than 08 years.

Construction of Houses according to Housing Development Plan

According to the Housing Development Plan of the Provincial Housing Authority, it was expected to construct 6000 houses at the total estimated cost of Rs. 2,937 million during the year 2017. However, no houses had been constructed during the year under review since the inception of Housing Authority.

Non-utilization of Furniture and Equipment

Furniture and equipment purchased at a cost of Rs. 3.5 million for the use of Tourism Bureau, Eastern Province without the operation of the Bureau had remained idle for a period ranging from 01 to 03 years.

Non-settlement of Advances for Korean Languages Classes

A sum of Rs.2 million had been paid as an advance to the former Secretary to the Chief Minister to conduct Korean language classes for unemployed youths during the year 2008. However, the above mentioned classes had not been conducted as envisaged and the advance paid had not been settled even up to 30 June 2018.

Collection of Stamp Duty from under-valued Properties

According to the mobile service conducted during the year under review by the Provincial Department of Revenue relating to the collection of stamp duty from the registration of lands at the Land Registry in the Eastern Province, it was revealed that 93 land owners had declared less value for their lands in order to pay less amount as stamp duty. Therefore, additional stamp duty aggregating Rs. 5.9 million had been imposed for those undervalued properties. However, the Provincial Department of Revenue had not taken actions even up to 30 June 2018 to recover the above mentioned additional stamp duties from the land owners to whom they were imposed.

Arrears of Lease Income

Lease income for Government Lands used by private companies on long lease totalling Rs. 273 million had remained arrears since the year 1991 without taking action to recover such arrears of income.