THE NINTH PARLIAMENT OF THE
DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA
(FIRST SESSION)

ANNUAL REPORT OF THE

AUDITOR GENERAL

2019

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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE

ANNUAL REPORT OF THE

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NATIONAL AUDIT OFFICE

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

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NATIONAL AUDIT OFFICE

මගේ අංකය / எனது இல. / My No. AGS/AR/2019/21

ඔබේ අංකය / உமது இல. / Your No.

දිනය / திகதி / Date 29 October 2020

Hon. Speaker
Parliament of Sri Lanka
Sri Jayawardenepura
Kotte

Dear Sir

Annual Report of the Auditor General - 2019

I am pleased to present my report for the year 2019 on the performance and discharge of the duties and functions devolved on the Auditor General in pursuance of provisions in Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka. The Annual Report is presented as the seventh installment of my report presented to the Parliament and arrangements have already been made to table the other reports under the following nine installments.

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

This report on my performance and discharge of duties and functions is presented to the Parliament in the form of an Annual Report, having included the information on utilization of financial reviews and an operational review of the National Audit Office (NAO), in keeping with international best practices.

W.P.C. Wickramaratne
Auditor General

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை, இலங்கை. No. 306/72, Polduwa Road, Battaramulla, Sri Lanka.
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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.

Our Organization

- 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**
Non – Cabinet Ministries	06
Departments	96
District Secretariats	25
Corporations	285
State Companies (Brought under the scope of the Auditor General under the Nineteenth Amendment to the Constitution)	114
State Banks	10
Statutory and other Funds	64
Foreign Funded Projects	163
Other Independent Institutions	22
Provincial Councils	09
Local Authorities	341
Agrarian Service Canter's	562
Sport Associations	64
Provincial Councils Ministry, Department and Special Expenditure Units	259
Institue of Under the Provincial Councils Ordinance	61
Total	**2112**

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 Scope

The scope of the audit carried out by the Auditor General has been stated from Section 3 to 5 of the Part 1 of the Audit Act No. 19 of 2018. Accordingly,

- Auditor General Should,

  - audit all income received to the Consolidated fund and all expenditure from the Consolidated fund.

  - ascertain whether the money shown in the accounts of auditee entities as having been disbursed were legally available to, the services or purposes to which they have been applied for or charged with;

- determine whether the expenditure conforms to the authority which governs it; and
- in each audit, examine income, expenditure, transactions and events.

- The scope of an audit carried out by the Auditor General includes examining the accounts, finances, financial position and prudent management of public finance and properties of auditee entities.
- The Auditor General shall be responsible to parliament in carrying out the provisions of this Act.
- Subject to the provisions in section 3, the Auditor General may examine any matter relating to an auditee entity brought to his notice by any member of the public in writing along with the substantial proof of the matters asserted, and report thereon to Parliament.

Standards Committee established under the Sri Lanka Accounting and Auditing standards Act ,No.15 of 1995 shall be applicable to audits undertaken by the National Audit Office established under section 29.

- Where there are no auditing standards specified in Sri Lanka Auditing Standards for performance audits, environmental audits, technical audits and any other special audits, the Audit Service Commission may, by order published in the Gazette, specify the provisions of the International Standards of the Supreme Audit Institutions which shall apply to such audits, with necessary amendments to suit local requirements.

- The Auditor General is directed by the Committee on Public Accounts (COPA) and the Committee on Public Enterprises (COPE) of the Parliament.

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 2018, 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 work.

In the year 1977, the "Lima Declaration" of the International Organization of Supreme Audit Institutions (INTOSAI) also determined the principle of independence of the Government Auditing in methodological and professional terms. In the "mexico Declaration" after 30 years, the 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 to carry out a proper audit.

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.

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

- Selection 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.

Principle 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.

- Legislature or one commission of it should take the responsibility of providing required resources unanimously in order to fulfill the mandate of Supreme Audit Institutions.

- Such audit instititution has the right to appeal to the legislature if the resources provided by them are not adequate to fulfill the mandate of the Supreme Audit Institution.

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. That requirement had been fulfilled by the Audit Act No. 19 of 2018 since 1 August 2018.

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*.

- *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.*
- *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 companies registered under the Companies Act by the Government, Government company or any Local Authority which owns 50 percent or more of the share capital falls under the Auditor General's purview.*
- *The Auditor General is excluded from the definition of "Public Officer" to secure his independence.*
- *The annual budget estimates of the National Audit Office to be prepared by the Commission, reviewed by the Parliament and 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 five 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 which all are vacant at present. The second level comprises of 15 Deputy Auditor Generals who is attending policy matters and overall supervision of the Government Audit.

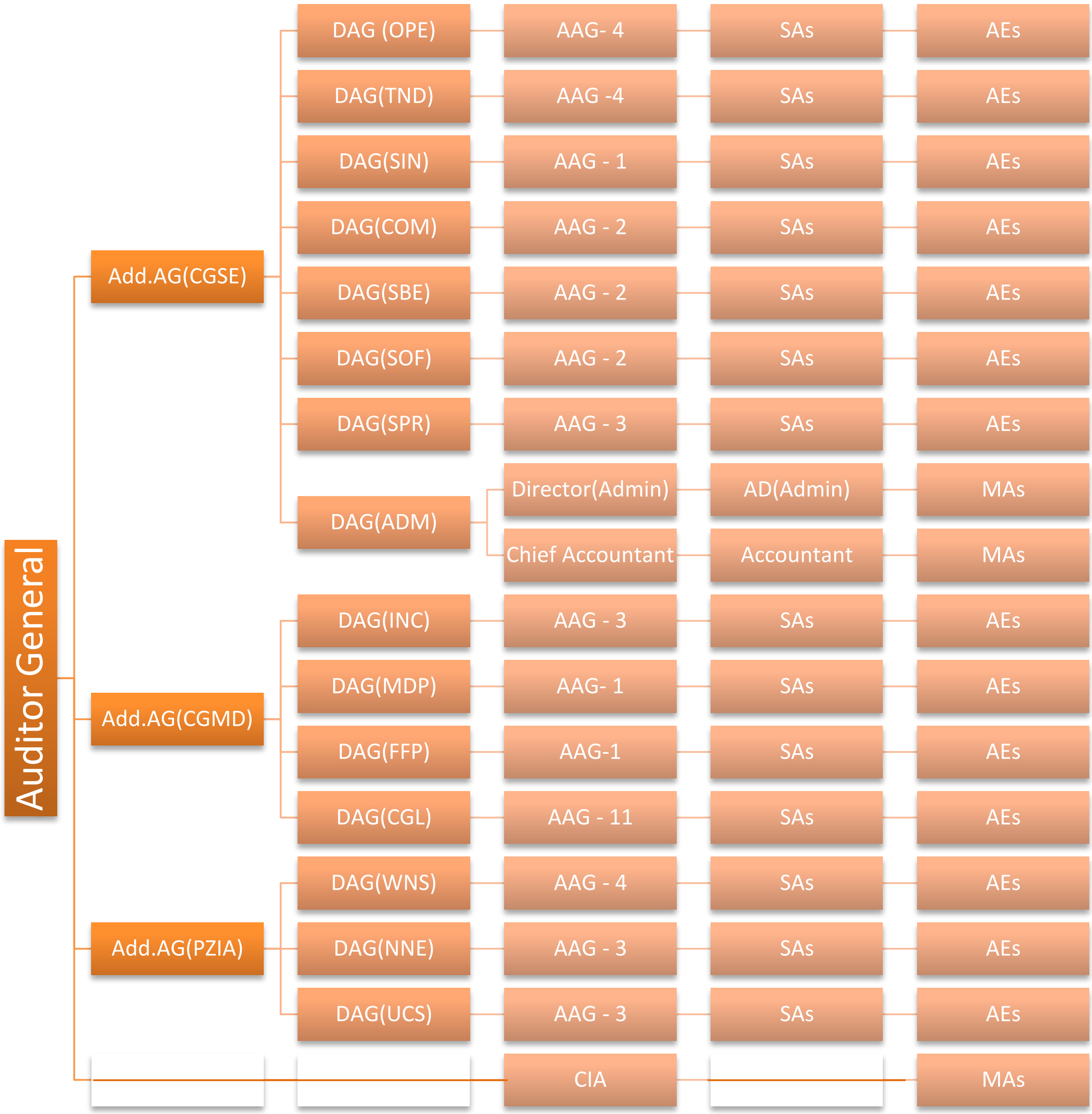
Forty four divisions are established under the Deputy Auditor Generals and the Assistant Auditor Generals headed by such divisions represents the third layer.They carry out the Government and Provincila audits. Audit Branches coming under the Divisional Heads are headed by a Superintendent of Audit or a senior officer of the Audit Examiners' Service and represent fourth 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 fifth 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 third level comprises 44 Divisions and 17 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.

An internal audit section has been established headed by a Chief Internal Auditor(CIA) and a supporting staff comprises of management assistants in order to fulfill the F.R 133 requirement. The CIA is directly under the direction of supervision of the Auditor General.

The Organizational Structure is given below.

Our Organization



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 Audit Act was empowered with the approving of Audit Commission under the Nineteenth Amendment by Parliament, and also by the Gazette of the Honorable President dated 1 August 2018. .As such, it was not possible to obtain approval for the Draft Service Minute prepared for the Department staff and also 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 2019, as at the end of year 2019 and as at 30 June 2020 under such circumstances are given in the Table 01 below.

Post	As at 01 January 2019			As at 31 December 2019			As at 30 June 2020		
	Approved Cadre	Actual	Vacancies	Approved Cadre	Actual	Vacancies	Approved Cadre	Actual	Vacancies
Audit Staff									
Additional Auditor General	3	1	2	3	1	2	3	-	3
Deputy Auditor General	15	11	04	15	11	04	15	10	5
Assistant Auditor General	44	32	12	44	26	18	44	23	21
Superintendent of Audit	288	212	76	288	205	83	288	202	86
Audit Examiner	1,200	1,102	98	1,200	1,013	187	1,200	999	201
Non-Audit Staff									
Director Administration	1	1	-	1	1	-	1	1	-
Chief Accountant	1	1	-	1	1	-	1	1	-
Other Staff Officers	17	11	6	17	11	6	17	12	5
Public Management Assistants' Service and allied Grades	127	115	12	127	113	14	127	114	13
Report Processor	42	42	-	41	41	-	41	41	-
Junior Employees	213	185	28	213	201	12	213	196	17
Total	1,951	1,713	238	1,950	1,623	327	1,951	1,600	351

Table 01 – Cadre Position as at 31 December 2019 and 30June 2020

As per the above Table, the existence of a large number of vacancies in the cadre ranging from 238 to 327 from 01 January 2019 to 31 December 2019 of every post of the Department was an impediment to discharge the statutory function of the Department. However, the said numbers of vacancies have been increased up to 351 by 30 June 2020.

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 Former Auditor General and it consisted of two other former Auditors Generals 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.

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 by the Government as a policy. Accordingly a Service Minute for the new service is being formulated after the approval of the National Audit Act No.19 of 2018.The Audit Service Commission is in the process of approving 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. Even though it has lapsed two years after the implementation of the Audit Act by 31 August 2020, it was unable to get approved the new service minute.

Staff Training

National Audit Office examines whether the Government institutions have correctly performed the responsibility of discharging financial and performance functions to make sure of providing a quality and reliable public service 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 National Audit Office makes use of the contribution of the staff of 1277 audit officers and 355 offices in supporting services to fulfill this statutory role.

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 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 51 training programmes under 10 topics in the year 2019 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 229 audit officers during the year under review for the started Malaysia Performance Audit Training Workshop and being participated 29 audit officers for 22 foreign training programme covering 10 other topics.

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

	Details of the Programme	No.ofProgrammes	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	21	40	160	706	-	906	7111
2	Performance Audit Training	9	29	213	908	-	1150	14072

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3	Procurement and Construction Audit	3		4	18	-	22	189
4	Forensic Audit	5	40	27	136	-	203	5191
5	Computer	1	-		28	-	28	609
6	Taxation	3		9	237	-	246	3507
7	Positive Thinking Development	5	40	221	1028	-	1289	17830
8	Land Aqurisam For Development Maters	1	4	6	31	-	41	892
9	Report processing	1	9	94	162	-	265	1921
10	Training for Trainers	2	8	43	25	-	76	2030
14	**Total**	**51**	**-**	**-**	**-**	**-**	**4516**	**53352**
15	Others	2	2	3	5	-	10	189
16	Training Programme for Non-Auditors	2	-	-	-	374	374	2,712
	Total	55					5,212	145,823
	Foreign Training Programm							
1	Performance Auditing	4	1	3	226	-	230	20010
2	Financial Fraud & Crime investigation	1	1	3	3	-	7	305
3	Public Audit on Public constructions	1	-	2		-	2	363
4	Information Technology audit training	1	-	-	1	-	1	87
5	State Audit Management	1	-	3	-		3	457
6	**ASSOSAI/SAI Training and other meetings**							
6.1	International Workshop on Audit of Waste management-India	1	-	1			1	73

6.2	13 BAI Seminar on IT Audit - Korea	1	-	-	1	1	51
6.3	Audit of Financial Statements of CIRDAP for the 19th Biennium- Bangaladesh	1	1	-	1	2	174
6.4	19th INTOSAI WEGA Meeting Thailand	1	-	-	1	1	44
6.5	SAI Leadership and Stakeholders Meeting	1	1	-	1	2	87
6.6	Asian Evaluation Week	1	1	-	-	1	44
6.7	Seminar on enhancing work comprehensive for young officials	1	-	1	-	1	167
6.8	IFAD Financial Management Meeting	1	-	-	-	1	29
6.9	Seminar on Belt & Road Countries Risk Management Capacity Improvement	1	1	-	-	1	94
6.10	Seminar on China's Development Experience	1	-	1	-	1	218
6.11	IPSASB Round table and Capacity Building Room	1	2	-	-	2	102
6.12	Regional Public Financial Management forum- Bangaladesh	1	-	1	-	-	29
7	Post Graduate Studies	1	-	1	-	1	
	Total	**23**	**-**	**-**	**-**	**258**	**21330**

Table 02- Local and Foreign Trainings sessions
Source- Training Division of the National Audit Office

Introduction of Computerized system

A computerized data system had been maintaining by the training division

Our Organization

since 2019 in order to identify the training requirement, organize training programs, keep individual trainees' records and update them.

Thirty nine officers working at National Audit Office had worked as resource persons in the fields included in the above table in other Government institutions to provided knowledge and skills in the fields of auditing and other related fields during the year 2019.

Providing Resource persons for external institutions

Nature of the Training	Number of institutions	Number of programs
Educate on new Audit Act	93	93
Financial Regulations and Procurement Process	1	1
Auditing and Management	1	1
Procurement and Storing	1	1
Training programs on auditing	3	6
Training programs on construction	1	1
Public Financial Management & Public Financial Accountability	2	2
Audit practices in small and medium scale institutions	1	1
Total	**103**	**106**

Table 03– Externalization of Resource persons
Source – Training Division of the National Audit Office

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. 42.64 million and Rs. 33.85 million are due to be paid for the years 2019 and 2018 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.

Four Audit Firms engaged in Public Practice assisted me in the audit of 23 Companies out of 150 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. In addition 20 audit firms helped me to carry out the audit of the Central Bank of Sri Lanka and 60 sport associations.

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 119 and 120 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 119, 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 120 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 sixteen 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 2019, the COPA has held 32 secessions to examine 20 institutions, 11 sessions to examine 09 special audit reports and the COPE held 37 secessions to examine 31 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 341 Local Authorities in Sri Lanka comprising 24 Municipal Councils, 41 Urban Councils and 276 PradeshiyaSabhas. 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, the Audit Act No.19 of 2018 and the respective Ordinances 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, 82 Surcharge Certificates valued at Rs.32.73 million had been issued during a period of 10 years from the year 2010 up to 2019 on 529 parties related to the Local Authorities. Out of that, a sum of Rs.6.11 million or 18.67 per cent had only been recovered by 30 June 2020. Due attention had not been paid to the recovery proces of surcharges by the authorities concerned.

Proformance Audit and Enviormental Audit
Subjects
Performance Audit Environmental Audit
Observaions

- **Tendency to pursue studies under the Arts Stream and unemployment of art graduates**
- **Management of Archaeological Heritage of Sri Lanka**
- **Evaluation of the performance of fallow paddy fields cultivation programmes implemented in the Western Province by the Department of Agrarian Development.**
- **Implementation of Sustainable Development Goals**
- **Import, use and reuse management of plastics in Sri Lanka**
- **Importation and use of pesticides and its environmental impact**
- **International Ramsar Wetlands**

Performance and Environmental Audit conducted by the Auditor General

Evaluation of economic, efficient and productive nature, and environmental impact of the work of public institutions in selected areas of a government entity, programme, project, and unit of expenditure and thereby, reporting with the recommendations on improvements to be made based on relevant audit observations are the functions involved in the performance audit.

Performance and environmental audits are conducted on the proposals made by other audit branches in relation to various areas of government institutions through specific areas of economic, social and environmental impact selected by this Performance and Environmental Audit Unit. Further, in addition to the financial audit reports, performance and environmental audit reports are also tabled in Parliament. Training of officers of the National Audit Office in relation to this field is also carried out.

Implementing a performance based budget system and setting key performance indicators for each organization is crucial in implementing performance auditing. Although a performance based budget system is in operation and performance indicators have been set in Sri Lanka at present, no performance is measured for the time being. Therefore, we determine performance indicators relevant to each field and conduct performance audits accordingly. The important observations made during the course of performance audits conducted in the year under review are summarized as follows.

Tendency to pursue studies under the Arts Stream and unemployment of art graduates

At present Sri Lanka records a population of about **21.3** million and an employment of about **8.3** million of the population. By the end of the year under review, the total unemployment remained approximately **362,999.** It has been reported according to a survey that **38.4** per cent of the unemployed have been looking for a suitable jobs for more than a period of year. A large percentage of them are graduates who have pursued education in the arts stream.

Since the unemployment of the Sri Lankan graduates, especially art graduates as well as students who have not been admitted to universities after completing their studies in the Advanced Level Arts stream, has become problematic as represented by various media daily, this performance audit was conducted to evaluate the intervention of the relevant government institutions in this regard.

Art is an indispensible feature in all walks of life. It is an essential element for that ensures the well-being of human society. Accordingly, it is undisputable that the art stream in general plays a vital role in producing aesthetically minded people at the school and university levels. Nevertheless, in a developing country like Sri Lanka, where economic growth is as low as **2.7** per cent and **4.3** per cent of the workforce is unemployed, the mismatch between education and employment must be minimized in moving education towards economic development.

Among the key observations revealed during the course of this performance audit, it was conspicuous that teaching activities in Sri Lanka are being carried out without timely revised educational policies for school education and higher education, more students tend to choose the arts stream for the Advanced Level due to the disparities in human and physical resources at the school level, there are obstacles for the students in particular to pursue studies in technology stream, the degree programmes in the arts stream have not been timely revised in universities and that the opportunities available for the development of English language and IT knowledge and soft skills of the students are minimal.

The manpower planning policy of the country had been revised in **2018.** Although it was expected that the responsibility for its implementation would be carried out through two institutions, neither of them had identified the existing employment issues and addressed those issues.

In such a circumstance, 54,824 graduates who had completed their degrees during the period from 2012 to 2018 were unemployed by 30 June 2018 and the Ministry of Finance, Economic and Policy Development had taken steps to grant appointments only for 19,920 (36 per cent) graduates as graduate trainees under three phases as of 18 September 2019.

Herein, it had been cited as the audit recommendations that the existing education policies should be timely amended forthwith to minimize the above problems and increase employment in the country, education disparities between provinces in the island should be minimized and equal human and physical education facilities should be made available to all, learning opportunities should be expanded through streams that can enhance vocational education skills such as technology, courses and subjects in universities should be timely revised, and that facilities should be further developed for students to develop other competencies such as English, technology, soft skills centered on the job market.

Management of Archaeological Heritage of Sri Lanka

The sites, monuments and movable antiquities dating back to before **1815** and sites and monuments that are more than a hundred years old and have been declared "protected" under the Antiquities Ordinance have built up the entire archaeological heritage of Sri Lanka. Archaeologists' gradual interest in archeological sites and monuments in Sri Lanka began to emerge from the middle of the nineteenth century. The Department of Archeology had been established in **1890** as the maximum institution that maintains and regulates such activities.

Archaeological Heritage of Sri Lanka consists of thousands of archeological sites, ancient monuments and movable antiquities that are physical remains of the nation's past, and it is indeed a national requirement to properly manage these heritages and pass them on to future generations. The emerging threat to the existence of these heritages due to various activities such as numerous illegal activities and development projects taking place at present and the social dialogue began on that matter have laid the foundation for this audit. The purpose of this audit was to evaluate the role of the Department of Archeology in the proper management of the Archaeological Heritage of Sri Lanka.

Archeological Sites Threatened with Destructions

The matters such as lack of timely amendment of the Antiquities Ordinance and National Policy, which are important for strengthening the legal framework required for the proper management of antiquities, failure to implement the projects of the department on a proper plan, failure to complete the antiquities management projects within the scheduled time due to delay in implementation of such projects, delay in the publication of identified archeological protected monuments, ancient monuments, archeological reserves etc. by the Government Gazette, emerging issues regarding the protection of antiquities due to vandalizing antiquities by human activities, difficulties regarding procuring funds, delays in procuring materials for conservation work, and lack of adequate human resources and other resources for the protection of archeological resources and experienced professionals with expertise and skills for archeological resource management and researches were mainly observed.

Recommendations such as taking expeditious action to amend the Antiquities Ordinance and the National Archaeological Policy as a remedy to the above situations, preparation of a long term programme for reporting archeological sites at the national level, carrying out all activities such as exploration, documentation, gazetting, preserving, excavation, conservation and maintenance within a legal framework and monitoring such activities, conducting operations, reviewing and following up on every task in an updated manner according to a plan, and recruitment of persons with expertise in the management and research of archeological resources and involving them in related activities, had been made in this audit.

Evaluation of the performance of fallow paddy fields cultivation programmes implemented in the Western Province by the Department of Agrarian Development.

The Ministry of Agriculture is the agency that Implements Parliamentary decisions relating to agriculture and the Department of Agriculture is functioning thereunder as the main institute associated with agriculture at the regional level. The Department of Agrarian Development had been established on 01 October **1957** with the objective of providing basic supply services for agricultural programmes and is currently governed by the Agrarian Development Act No. **46** of **2000** as amended by the Agrarian Development (Amendment) Act No. **46** of **2011.**

The objective of this performance audit was to identify the factors contributing to the fallow paddy fields in the Western Province and to evaluate the contribution made by the Department of Agrarian Development to re-cultivating fallow paddy lands and the process of resolving the relevant issues.

The Department of Agrarian Development implements various programmes related to the re-cultivation of fallow paddy lands and also carries out minor irrigation renovations. In taking into consideration the Western Province, the main contributory factor for fallow paddy fields is the irrigation and water management issues and it can be found that there are a large number of minor irrigation schemes in the Western Province that need to be rehabilitated. Although various programs have been implemented in the Western Province to re-cultivate fallow paddy lands, there has been a significant change in the extent of fallow paddy lands as well as a decrease in paddy production and cultivable land area in the year 2018 as compared to **2014**.

In view of the matters such as decrease in the forest cover as compared to the year **2015** in the evaluation of programmes implemented in the State Investment Programme, approaching the air quality in Colombo to exceed the World Health Organization (WHO) standards, aggravation of the human-elephant conflict, Sri Lanka ranking second in the World Weather Risk Index, uncertainties had arisen regarding Sri Lanka's readiness to maintain the ecological balance.

The Performance information such as not properly disposing of **84%** of the urban solid waste as indicated by the data of the Central Environmental Authority for the year **2019**, the national recycling rate being **5** per cent, increasing per capita hazardous waste generation from **9.5** kg in 2018 to **13** kg from in **2019**, decreasing the Hazardous Waste Rate of treatment, decreasing percentage of combustible clinical materials, increasing only the percentage of electronics exported for recycling ,was observed.

According to the statistics of the Department of Census and Statistics, there had been set indicators for **14** targets applicable to persons with special needs, but only **9** targets representing all parties had been specified.

It has been the current strategy to obtain the resources and capacities required to implement the Sustainable Development Agenda through the provisions made in the Annual Budget Estimate. Therein, **14** per cent of the **2018** Annual Budget Estimates (Deducting debt payments) and **17** per cent of the **2019** Annual Budget Estimates (Deducting debt payments) had been linked to major projects and targets.

The Department of Census and Statistics had prepared index and basic data for **46** out of **169** targets and index and basic data were being prepared for **29** targets. Although the relevant institutes had personal data for **131** indicators to be prepared by such institutes, they had not been integrated into the National Database in agreement with the Department of Census and Statistics.

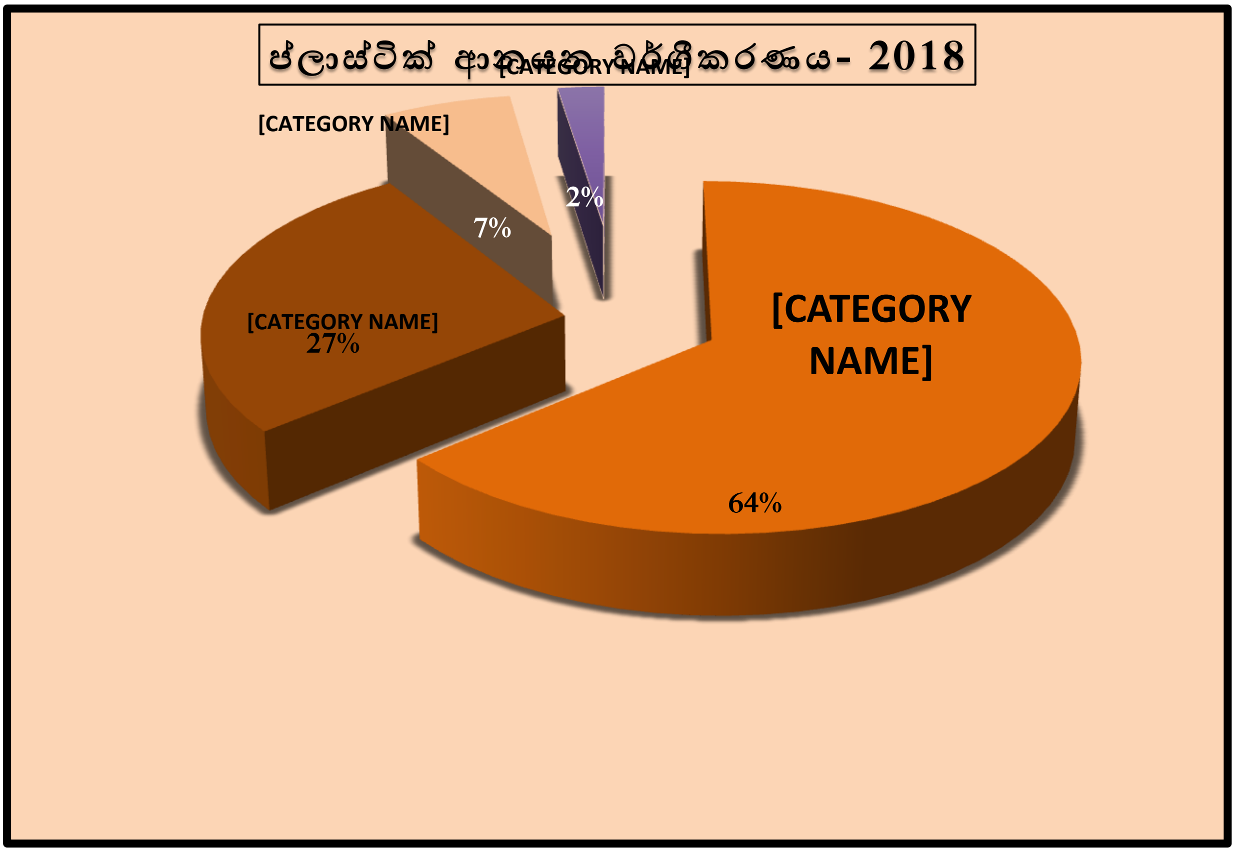
No system had been developed by December **2019** to inform the public, the executive and parliament of the progress of the **17** Sustainable Development Goals. The matters such as accelerating the process formulating Sustainable Development National Policy and Strategy by providing the Sustainable Development Council with information relevant to the preparation of Sustainable Development Goals and Strategies by Government institutions in keeping with their scope for the effective implementation of the 2030 Agenda, development of a method of measuring the performance indicators (KPIs) outlined in the Annual Budget Estimate in collaboration with the relevant agencies, regulation by the Sustainable Development Council on the reorganization of the Ministries to implement the National Plan for Sustainable Development within the vision for prosperity, which has been implemented from November **2019** in the formulation of policies on national development, focusing more attention on the environmental aspect to achieve the Sustainable Development Goals, issuing clear circulars to government institutions to facilitate the request for resources to achieve the targets, improving the coordination of all government institutions to successfully implement the Sustainable Development Goals in Sri Lanka, development of a regulatory and evaluation mechanism to regulate and evaluate the overall progress of the implementation of the Sustainable Development Goals and develop a system for timely reporting and a mechanism to make them available to the public and interested parties, had been submitted as recommendations of this audit.

Import, use and reuse management of plastics in Sri Lanka

The word plastic, derived from the Greek word "Plastikos", means " shape can be changed without breaking". The most widely used plastics in the world are mainly classified into **07** categories.

Although approval for the National Policy on Waste Management, which includes solid, liquid and gaseous waste categories, had been granted by the Cabinet on 10 October **2019**, it had not been in use even by the end of **2019.** Further, although there was no proper policy for disposal of the solid waste contained in these materials and the need to enforce the Comprehensive Liability Principle had been substantiated by the Cabinet Memorandum No. **10/2236/704/061** dated **11** October **2016**, it had not been operational even by 30 September **2019**.

The amount of plastics imported to Sri Lanka during the seven years from the year **2012** to **2018** was **3,353.9** million kilograms and a sum of Rs.**184,300.9** million had been spent thereon. Plastics are imported under four main types, that is, raw materials, finished goods, furniture and toys and **64** per cent of the total plastic imported in the year **2018** had been imported as plastic waste. Accordingly, the import of plastic raw materials in **2018** has increased by **3.7** per cent compared to **2017** and the expenditure incurred had increased by **1.23** per cent.



Imports of polyvinyl chloride (PVC) plastics had increased by **21.19** per cent, polystyrene (PS) plastics by **44.67** per cent, polypropylene (PP) plastics by **39.2** per cent and the imports of various types of plastics by **160.79** per cent in **201**8 as compared to **2014.** The amount of plastics systematically used for recycling process was approximately 30 percent of the total annual plastic importation in Sri Lanka .

During the performance evaluation carried out on **100** key centers operating in Sri Lanka on the post-use plastics management process, there observed **26** centers without Environmental Protection Licenses and as at **31** August **2019** and the licenses of **28** centers had expired.

A sum of Rs. **452.7** million had been invested in a project aimed at minimizing the damage caused to the environment by non-degradable waste as at **31** December **2018**. It was observed during the performance evaluation of the project that the parties concerned had not adequately fulfilled their responsibilities. Further, during the inspection carried out on the progress of implementation of the **6** notices published by the Central Environmental Authority in the Gazette dated **01** September **2017** with the objective of reducing the production, trade and use of polythene plastics, it was observed that the illegal production of plastics was not regulated, the public had not been made aware by the local authorities about the outdoor burning of plastics, and the required equipment was available adequately.

It was observed that reviewing the existing legal status on plastic polythene and focusing attention on expeditious action to reduce the import, production, trade, use of plastic and management of recycling process of plastic polythene by making necessary amendments is important. Discouraging the import and production of plastic polythene in the country, reducing the current use of plastic polythene in the country, providing necessary assistance for the implementation of management of plastic recycling process at the village level, and further strengthening the creation of market for the recycled plastic by implementing plastic post-use management programmes should have been done.

Production, sale, and use of high-density polythene bags, including grocery bags given to the customers when purchasing goods are prohibited and despite preparation of short term activities in the Cabinet Memorandum No. **16/1702/704/45** dated **02** June **2016** with the objective of providing eco-friendly packaging to the customers, those objectives had not been achieved as expected.

Disposal of Plastic/Polythene

The National Project for Recycling Disposable Pesticide Packages under the **2016-2018** Renaissance National Environmental Protection Programme had not been implemented until 30 September 2019**.**

According to the International Coastal Cleanup Programme implemented by the Coastal Conservancy Agency, about**150**,**242** bottles, **100**,**875** packs of food, **80**,**483** straws, **74**,**183** bottle caps, **64**,**646** plastic bags and **56**,**154** cigarette butts had accumulated within **318** km of the coast of Sri Lanka during the period of **5** years from **2013** to **2017**. Accordingly, by implementing the legal provisions introduced to regulate the use of plastics, attention should be focused on minimizing the environmental damage caused by the use of plastics.

Method of disposal of clinical waste and its environmental impact

Clinical waste disposed of daily in hospitals can be basically classified as environmentally harmful waste and non-hazardous waste. Of this, the environmentally harmful wastes should be separately identified from other common wastes and disposed of them systematically and safely.

A National Policy on Clinical Waste Management for Sri Lanka had been drafted in **2001**, but it had not been approved even by **2018.** Further, the knowledge, interest and resources required to effectively implement hospital waste management should be available adequately and maintenance of an up-to-date database to evaluate that work is needed. According to the notification published in the Extraordinary Gazette Notification No. **1533/16** dated **25** January **2008**, the Environmental Protection License and the Scheduled Waste Management License introduced by the Ministry of Mahaweli Development and Environment in respect of hospital waste management had to be obtained. According to that requirement, only **181** out of **328** hospitals and clinics, including private hospitals, had been facilitated to obtain environmental protection licenses. It was about **12** per cent of the total **1,521** registered medical institutions, and only **3** per cent of the other institutions that had obtained environmental protection licenses had obtained Scheduled Waste Management Licenses.

According to the General Circulars No. **01-12/2006** dated **21** March **2006** of the Ministry of Health and Nutrition and Indigenous Medicine and the Waste Management Guidelines of the College of Microbiological Scholars of Sri Lanka, the spectral segregation is of paramount importance at the time of generation of clinical waste. Although many hospitals have developed systems for segregation of clinical waste in their generation, a large number of hospitals subject to the audit test check had not acted accordingly as the required physical resources have not been provided in the relevant colour code. Further, it was observed in several hospitals, including National Hospitals, that the specific polythene sacks used for the disposal of clinical wastes had not met required standard. Likely, the instructions for storage, transportation, and proper disposal of these wastes have been given in the relevant Guidelines, whereas the audit test check revealed that there were hospitals that did not follow those Guidelines.

Clinical wastes had been insecurely disposed of by burning at the hospital premises, incinerating under low-temperature through the incinerators, and burial on the hospital premises. Further, instead of carrying the ash and silt left over after incineration and decomposition into a protective landfill, the waste had been disposed of or heaped up in an environmentally harmful manner and using the usual waste disposal methods in an open environment. All the hospitals established in Trincomalee, Tissamaharama, Polonnaruwa and Kataragama were subject to the audit test check and the above deficiencies were observed in those hospitals.

The Government had launched a joint project with the private sector in **2014** in order to streamline clinical waste management, and operations had been discontinued since **30** October **2018**, following a court order.

With the objective of treating and disposing of clinical waste generated in public and private hospitals in Sri Lanka through a centralized system in an environmentally friendly manner, a contractual project had been initiated on **02** January **2014** under the three major stakeholders. The Ministry of Health as the first party, the Central Environmental Authority as the second party and the private sector as the third party had involved in had involved in this project and the provision of service under these agreements was in the form of a pilot project for a period of **05** years. Under the agreement, clinical waste generated by all government hospitals and provincial hospitals affiliated to the Line Ministry and clinical waste generated by hospitals governing under the Local Government Institution had been directed for treatment. As at **31** December **2018**, the total amount of collected and untreated clinical waste stored in the hospital premises by this institution was **252,764** kg and approximately **21** containers.

The Export Finance and Insurance Corporation of Australia (EFIC) and the Government of Sri Lanka had entered into an agreement on **07** December **2015** to provide a loan of US $ **13.76** million to the Government of Sri Lanka for the treatment of hospital waste. Through this, **20** hospitals in six selected provinces of Sri Lanka had been classified and identified and it had been planned to provide Metamizers for **20** identified hospitals including Incinerators for 05 out of the above hospitals. Its total cost amounted to US $. $ **15,023,157.7**, but it had not made a significant contribution to the systematic disposal of clinical waste.

The clinical waste management project, which was initiated under Australian assistance, had not been implemented with maximum efficiency in the hospitals subjected to the audit. U.S. $ **13.76** million had been granted for that purpose and U.S. $ 14 million had been spent to provide Metamizers to **20** hospitals. The expenditure had not been made efficiently and the intended objectives too had not been achieved.

Under the World Bank assistance, the Second Health Sector Development Project had aimed at improving infrastructure facilities related to waste management in order to improve waste management process. There were instances where those provisions had not been fully utilized and the hospitals that utilized the funds had not used them effectively. A similar situation was observed at the Badulla Hospital which was subjected to the audit test check. Hospitals and medical institutions in Sri Lanka had not given priority to the clinical waste disposal process. There were weaknesses in the internal control and monitoring and regulatory function of that process. In **2019**, newspaper reports revealed that clinical waste had been disposed of in various parts of the island by unidentified individuals.

Further, the laws, regulations and policies applicable to the management of clinical waste should have been established in accordance with national and international conventions and guidelines, and adequate physical and human resources should have been provided. This problem could have been successfully remedied by taking follow up actions on the performance level of projects implemented for clinical waste management and maintaining the relevant institutional performance at the maximum level. Due to the irregularity of these activities, the impact of clinical waste on the lives of the people and the various environmental problems caused by it had become an issue that should be necessarily addressed in order to achieve sustainable development in a country.

Importation and use of pesticides and its environmental impact

Pesticides are agricultural inputs made in the form of chemical compounds such as herbicides, fungicides and pesticides. The use of pesticides for the control of various species of living plants that are harmful to crops began in the past and it is observed that their use has increased during the present day. The Pesticides Control Act No. **33** of **1980** provides for the regulation with regard to the importation, packaging, labeling, storage, preparation of compounds, transportation, sale, distribution for sale and use of pesticides as required and the Office of the Registrar of Pesticides regulates those activities.

Importation and use of pesticides and its environmental impact

This audit covered the role of the relevant regulatory body in pesticide use and its role in complying with the applicable regulations, terms and standards and in minimizing the probable health and environmental problems.

From the year **2013** to **2014** about **28,640** metric tons of pesticides had been imported to Sri Lanka and US $ **225** million had been spent thereon. As at **30** June **2019**, **80** importers registered with Office of the Registrar of Pesticides had imported pesticides into Sri Lanka and the amount of active ingredients contained therein was **200.** The quality of the pesticides imported into the country is tested for suitability based on the quality assurance currently issued by the countries where those pesticides are manufactured and it was observed that pesticide testing was not entirely carried out at hundred per cent through local laboratory tests.

In the examination of the role of issuance of pesticide marketing certificates it was observed that the relevant task was not properly implemented and regulation of pesticide outlets too had not been carried out quantitatively and continuously. Of the **110** active ingredients in pesticides used in agriculture, pre-harvest time and maximum residual limits of **219** had been determined only for **60** ingredients. Accordingly, maximum residual limits for **50** active ingredients had not been established in Sri Lanka.

About **2,057** liters of expired and undisposed pesticide in liquid form and **24,153** kg in solid form had been stored in several locations belonging to the public sector as at 30 September 2019. Necessary steps had not been taken to dispose of these expired pesticides in an environmentally friendly manner and they have been stored unsafely for a very long time.

Sri Lanka Customs had cleared the imported pesticides based on the quality certificate issued by the importers. The required human and physical resources to obtain a sample of those pesticides and test them in the laboratory had not been established at the Sri Lanka Customs and the Office of the Registrar of Pesticides in Sri Lanka.

The Good Agriculture Practice (GAP) programme had been introduced to implement human-friendly and environmentally friendly good agricultural practices. The process of promoting the programme among the farmers remained at a low level. There was possibility to create a more successful agricultural culture by implementing the above programme. Without being complied with the notification published in the Extraordinary Gazette Notification No. **2023/34** dated **14** June **2017**, farmers had used overdose of pesticides and the farmers had not followed the safety methods as in the Gazette Notification No. **1655/07** dated **25** May **2010** in the use of pesticides.

Pesticide sales are carried out primarily by private pesticide sellers, and the majority of sellers had not been given proper training on pesticides. Similarly, farmers receive instructions about pest problems and pesticides from the pesticide vendors who had not received training on the above pesticide sales. Although pesticides should be sold under a formal certificate of registration with the Office of the Registrar of Pesticides in Sri Lanka, only **1,076** out of **2,294** pesticide outlets island wide had obtained sales certificates by the year **2018**

The vegetables and leafy vegetables prepared for export in the The National Plan Quarantine Service (NPQS) were found contaminated. Out of **95** samples tests carried out for contamination of vegetables, **24** samples or **25** per cent were found contaminated due to pesticides.

Accordingly, the importation, use of pesticides and disposal of pesticides, expired pesticide and pesticide containers should be done in a systematic, efficient and an environmentally friendly manner. Hence, by taking necessary steps to enhance the role of responsible agencies in that connection, the potential adverse effects on human health and the natural environment can be minimized.

International Ramsar Wetlands

Wetlands can be introduced as unique ecosystems which are rich in biodiversity that form the background of the beginning of world human civilization. The uniqueness of these ecosystems paved the way for the establishment of the International Ramsar Wetlands Convention in **1971** as an international tool for the protection and management of these wetlands. A number of **2,331** Ramsar Wetlands had been identified worldwide by **2018** and Sri Lanka is endowed with 06 of those zones.

With population growth and urbanization, the use of available limited land resources increased, thus threatening the sustainability of wetlands. These ecologically important areas are severely challenged by human activities and the authorities concerned had not paid adequate attention thereon.

Problems such as swamp filling, deforestation, over-exploitation of wetland resources, and the rapid spread of alien invasive plants and species have arisen. Bundala, Wilpattu, Kumana, Anavilundawa, Vankalai and Madu river have been designated as National Parks and sanctuaries of International Importance as the main Ramsar wetlands in Sri Lanka. Although Sri Lanka is a member state under the International Ramsar Wetlands Convention, no separate legal framework has been established in Sri Lanka for the implementation of the Convention. This Ramsar wetland is regulated under the provisions of the Fauna and Flora Protection Ordinance. Since the declaration of the Ramsar Wetlands, there has not been initiated adequate research on the sustainability of biodiversity in wetlands. Although various strategic and national plans have been prepared for the conservation of biodiversity, specific plans have not been prepared and implemented for the Ramsar wetlands, or a performance appraisal had not been carried out on the current situation.

Although the boundaries of the lands identified as the Ramsar wetlands have been published in the Gazette, attention had not been adequately paid to resolving the boundary issues that had arisen with regard to the Ramsar wetlands even by the date of audit. Unauthorized building construction, land reclamation and many environmentally harmful activities were observed inside the Ramsar wetland and in the buffer zone and invasive plant breeding has severely disrupted the tank system and biodiversity in the protected areas.

Sub-section **02 (1)** of the Fauna and Flora Ordinance to provide for the protection, conservation and preservation of the fauna and flora of sri lanka ; for the prevention of the commercial exploitation of such fauna and flora ; and to provide for matters connected therewith or he incidental thereto .had declared the National Parks and Sanctuaries. In accordance with that clause, 03 national parks and 03 sanctuaries had been declared Ramsar wetlands from time to time under the Convention. In accordance with the provisions of the Act, the authorization for scientific research can be given in the reserve or in a sanctuary with a permit. According to the observations and recommendations obtained from these researches, the conservation work of the fauna and flora in the reserve or sanctuary remained at a poor level.

A research on the assessment, control and management of invasive plant species in Bundala Ramsa wetlands was conducted in the year 2017. According to the research, the invasive plants known as *Kalapu Andara* and thorn cactus (*Prosopis juliflora and Opuntina dillenil*) were found in **486** hectares or **8** per cent and **568** hectares or **9** per cent of the Bundala wetland, respectively. Nevertheless, adequate steps had not been taken to control them.

Even though threats had been identified by the research on the biodiversity of the Kumana Ramsa Wetland, the recommendations made thereon have not been adequately met.

The Lemnitzer littorea (Rathamilla) authentic mangrove plant, which belongs to the Competencies family, was found on an island in the Maduganga Ramsa Wetland Sanctuary. It had been identified as one of the two most endangered species of authentic mangroves, according to the Red Data Book in the year **2012**. Nevertheless, the necessary measures to preserve and replant this species had not been taken adequately.

Construction in wetlands

Boundary stones marked by the Department of Wildlife had been overturned

Disposal of garbage

Demarcation of boundaries in wetlands

Wetlands, which are critically important in terms of biodiversity, should have been identified and site reports and management plans should have been prepared when necessary. Nevertheless, the management plans required to mitigate the current situation prevailing in the Ramsar wetland had not been prepared even by 31 December 2018.

In the buffer zone belonging to the Maduganga Ramsa Wetland, swamp filling and construction of hotel projects had been carried out and no attention had been paid to complying with the provisions of the Fauna and Flora Ordinance to prevent the environmental damage caused by such activities.

Although one of the objectives of the National Wetland Policy and Strategy published by the Central Environmental Authority in **2006** is to fulfill the national responsibility in accordance with the Ramsar Convention as a party thereof, action had not been taken accordingly.

Permits had been issued for shrimp farming without ensuring that the provisions of the National Environmental Act No. **47** of **1980** were complied with in the disposal of water in prawn cages.

Disposal of waste water in prawn cages

When granting licences for aquaculture projects in wetlands, the need to focus attention on adverse consequences that could affect the biodiversity by maintaining foot massage parlors in cages on the water surface was observed.

According to the Bio Action Plan (BCAPC) of the Fifth National Report for the Conservation of Biodiversity in Sri Lanka, published by the Ministry of Environment and Renewable Energy in **2014**, the ecosystems in Sri Lanka had been classified under four main themes. Namely, forests, wetlands, marine systems, and agricultural systems. Under the action plan identified under the Wetlands of this Plan, **16** recommendations had been issued with a view to achieving three specific objectives. Nevertheless, those recommendations had not been adequately implemented even by 11 November 2019, the date of audit.

According to Gazette Notification No. **1736/21** dated 13 December **2011**, a licence had been issued to an entrepreneur engaged in fish farming in cages. Although **18** persons had obtained such licences for fish farming in cages in the Madhuganga Ramsa wetland in the Galle District, only **05** entrepreneurs had obtained licences under the category of Massage Center projects. It was observed that **13** other centers were operating without proper licences. The licenses of four fish massage centres had expired.

Adequate staff had not been deployed for turtle conservation activities. Coastal area of about **38** km along the western boundary of the Wilpattu National Park belongs to the Ramsar Wetlands. The survival of sea pigs and turtles has been severely threatened due to failure in the implementation of a programme to protect the conservation and resources of this marine region.

The Fauna and Flora Protection Ordinance had not covered provisions to regulate the possible environmental damage to the ecosystem by emitting pollutants, wastewater and emissions resulting from a development program implemented on a private land in a sanctuary / national park declared as a Ramsar wetland .

The tank system in the Wilpattu National Park had been affected by many invasive plants. About three-quarters of the Maha Wewa, the largest of these tanks, had been covered with a species called *Hambupan*. The removal of these plants had been started in **2019** and it was observed that process was slowly and inadequately in progress. In addition, other invasive plants such as Water hyacinth and Salvinia also had threatened these tanks.

Hambupan

Salvinia

The Department of Wildlife Conservation had been identified as a major partner in achieving the objectives of the National Biodiversity Strategic Action Plan for the year **2016-2022.** The evaluation of current progress of the indicators set up for the performance test of the targeted objectives had not been carried out even as at November **2019.**

Staff and other basic facilities needed for the conservation of this Ramsar wetland had not been adequately procured and it was observed that high attention should be drawn on the conservation of these wetlands of international importance. The Ramsar Wetlands rich in high levels of biodiversity and providing a wide range of environmental services, including flood control have become a paradise for many endangered species of flora and fauna. As these wetlands are important as catchments areas as well as in historical and archeological terms, the need for the Government's intervention in the conservation of these Ramsar wetlands has arisen.

Investigation Audit and Public Representation Audit

Observaions

- Overpayments of Building Rent
- Losses Incurred in the Electric Posts Manufacturing Project
- Providing Power Distribution Posts for Wired TV Connections
- Purchase of a Land for Construction of a Building
- Calculation of Unmetered Electricity Consumption Regardless of the Specific Methodology
- Leasing of Main Canteen of the Teaching Hospital, Jaffna
- Leasing of Various Premises of the Hospital by the Welfare Association
- Registration of a Land Purchased by the Government in Favour of a Non-governmental Organization
- Awarding Construction Contract to a Non-govenmental Organization
- Laundering Soild Cloths in General Hospital, Badulla
- Awarding Contract to the Only Bid Presented.
- Overpayment of Overtime Allowances
- Uneconomic Expenses
- Assignment of Irrelevant Duties to the Post
- Fialure to Perform Duty
- Overpayments on Fuel
- Failure to Renovate the Tank Properly
- Poor Management of the Student Hostel
- Non-recruitment of Approved Cadre
- Abandonment of the Construction of Chicken Coop
- Construction of Laboratories and the Office Complex
- Issue of Vehicle Import Permit under Duty Free Concession
- Calculation of Excise Duty Favourably to an Illicit Distillery
- Incuring Expenditure on Training of the Officers in the Waiting List

Investigation Audit and Public Representation Audit

Examination of the origins of the risks of gaining an advantage or benefit in an unjust or unlawful manner by an individual or group of individuals is expected from an investigation audit. In such a circumatance, the investigation audit focuses its attention on strengthening the control system in order to detect and prevent frauds.

The Nineteenth Amendment to the Constitution of the Democratic Socialist Republic of Sri Lanka and the National Audit Act No. 19 of 2018 have strengthened the state audit to properly manage public finances. In addition to scrutinizing official documents of audited entites, it is expected from the investigation audit to proceed with the audit while obtaining information from public representation to expand the investigation, requests of the commissions, representations in Committees on Public Accounts and Public Enterprises, representations of heads of institutions, and information revealed by the media to streamline public finance management. At the same time, the departments have taken steps to improve the methods and training of the officers to enhance their knowledge and skills, as well as to improve their physical resources, hotline numbers, emails, etc.

When the Special Investigation Division focused its attention on the important and urgent matters that need to be addressed during the year under review, expenditure of Rs.12,557.4 million applicable to 23 representations were examined and therein, the estimated loss to the Government was Rs. 9,868.1 million. The significant observations relevant to the investigations conducted during the year 2019 are summaried below.

Overpayments of Building Rent

According to a concept of the Minister of Prisons, Reformations, Rehabilitation, Resettlement and Hindu Religious Affairs, a building had been rented to bring the Ministry and all its institutions under one roof. The Ministry had entered into an agreement with the building owner to lease a building at a rent of Rs. 5,089,500 per month for a period of 24 months from 10 May 2016. The Government Assessor had estimated the monthly rent of the building at Rs. 3 million. In response to the request made by the Secretary to the Ministry to reconsider the assessment, the rent had been increased to Rs.4.2 million. Due to renting the building at the bid value submitted by the owner without negotiating to a settlement with him, an additional payment of Rs.21,348,000 at Rs.889,500 per month had to be paid for a period of two years. According to the Government Assessor's report, the area of the building was 30,808 square feet, but due to the rent paid for the 35,100 square feet mentioned by the building owner, a sum of Rs.14,931,160 had been overpaid relating to the contractual period. The government had lost Rs. 88,510,968 due to the rejection of the lowest bid and Rs. 4,212,000 due to the rejection of the second lowest bid. Without renting the two buildings with the lowest and second lowest bids, which had interior designings according to the office requirements, a sum of Rs. 19,091,396 had been spent for the interior designings of the building for which an agreement had been reached. Although any clauses had not been included in the bid documents, the Procurement Committee decided to pay a security deposit of Rs.15,268,500 at the request of the building owner. While maintaining the Commissioner of Rehabilitation's office in another building, an additional cost of Rs.799,779 per month had been incurred and a financial loss of Rs 44,779 per month had to bear due to deprivation of buiding space of 5,684 square feet for the compensation office.

Losses Incurred in the Electric Posts Manufacturing Project

Due to the electric posts manufacturing project launched in the year 2012 by the Leco Projects, a subsidiary of the company initiated with a share capital of Rs1,000 with the approval of the Board of Directors of Ceylon Electricity (Pvt) Ltd., the cumulative profit 5.9 million rupees fell to cumulative loss of 3.4 million rupees. The loss due to failure of quality tests on 786 manufactured electricity posts was Rs.7.31 million. As 19 high-ranking staff had been reccuited to the company, which was expected to carry out a very simple operation, a sum of Rs. 10.29 million had been spent as salary. Although a rent of Rs. 90,000 had been paid for 10 months for the land leased in the Panadura area expecting to carry out the production work in a proper standard, no production whatsoever had been carried out there. Although the work site in the Bandaragama area where the previous production took place had been relocated, the equipment worth Rs. 4.16 million used for the productions had been destroyed and production worth Rs. 4.83 million, which was adequate for 03 months period, had been totally written off against the profit in 2013.

Providing Power Distribution Posts for Wired TV Connections

The Leco Project Ltd. had entered into agreements with two private companies to provide cable TV connections using the distribution posts of Lanka Electricity (Pvt) Ltd. In 2013 and 2014, the debtors' or other receivable income had been written off in the profit and loss account and the aggregated value thereof was Rs. 9.27 million. That amount included Rs.5.98 milion debtor balances receivable from two private television companies. Although the private service wire could have been removed from the poles if the tax had not been paid properly as per the agreement, it had not been so done and according to the records maintained by the leco project company, the amount due as on 31 December 2018 had been Rs. **40.08** million.

Purchase of a Land for Construction of a Building

A land containing 73.85 perches in extent situated at Narahenpita had been purchased in the year 2001 at Rs.53.54 million for the construction of a new office building for the Lanka Electricity (Private) Ltd. No construction whatsoever had been done on the said land even by the year 2019. Nevertheless, more than Rs.10 million had been spent on security of the land during the period of 18 years. A sum of Rs.208 million had been paid as the rent of the building in which the headquarters is maintained relating to the period from September 1999 to June 2019 and Rs.22.3 million had been paid as the rent up to June 2019 for the additional building obtained on rent in the year 2015 due to insufficiency of the space of the above building.

Investment of Funds of the Lanka Electricity (Private) Ltd. in Shares of the Lanka Broad and Network Private Limited

Upon a decision reached by the Board of Directors of the Lanka Electricity (Private) Ltd, sums totalling Rs.20 million had been invested in the shares of the Lanka Broadband Network Private Limited comprising Rs.15 million in its preferential shares on 20 July 2001 and Rs.5 million in ordinary shares on 06 July 2001. Even though it had been agreed to pay interest for the preferential shares at an interest rate fixed by adding 2 per cent to the interest paid by the Bank of Ceylon for one-year Treasury Bills, action had not been taken to obtain interest of Rs.32.68 million due for the period up to 31 December 2018. No benefit whatsoever had been received for the invested ordinary shares and if the interest for the ordinary shares was calculated at the interest rate agreed for the preferential shares, the interest income lost as at 31 December 2018 was Rs.10.96 million. The net assets of the aforesaid invested company as at 31 December 2018 had been a negative value of Rs.1,207.13 million. Likely, the total investment of Rs.20 million made by the Lanka Electricity (Private) Ltd as in the above manner had been written off in the year 2009 as per a proposal made by the auditee company.

Calculation of Unmetered Electricity Consumption Regardless of the Specific Methodology

Out of 100KVA stock supply made to the Cargils premises at Rawathawatta, Moratuwa by the Lanka Electricity (Private) Ltd, one phase had not been metered. As the Lanka Electricity (Private) Ltd had calculated the unmetered electricity consumption by adopting a different method disregarding the usual method adopted for that purpose, a sum of Rs.1.93 million had been recovered instead of Rs.3.61 million to be recovered, thus incurring a loss of Rs.1.66 million to the electricity company.

Leasing of Main Canteen of the Teaching Hospital, Jaffna

The main canteen of the Jaffna Teaching Hospital had been attractively constructed at a cost of Rs.3.53 million with the labour contribution of the Sri Lanka Navy. The highest bid of Rs.310,000 per month presented for the leasing of the canteen from 09 April 2018 to 31 March 2020 had been fraudulently omitted and the second highest bid of Rs.123,000 had been accepted. Accordingly, the Government had lost lease income of Rs.4.03 million.

Leasing of Various Premises of the Hospital by the Welfare Association

Without any approval and payment to the Government, the administration had granted permission for various parties to maintain businesses at 11 locations in the hospital premises. Likely, out of 06 premises allocated to the welfare association, 03 premises had been leased out to the private sector and as such, the welfare society had taken steps to recover the lease income of Rs.2.62 million recoverable to the Government. The lease income lost by the Government due to sub-leasing of another two business places stood at Rs.1.60 million.

Registration of a Land Purchased by the Government in Favour of a Non-governmental Organization

On the approval granted by the District Secretariat, Jaffna to purchase a required land at a cost of Rs.12.50 million to establish an ophthalmology unit at the request of the Director of the Jaffna teaching hospital, a land had been purchased at the above value. Although that land should have been registered in favour of the teaching hospital it had been registered in favour of the Jaffna Hospital Development Union, a non-governmental organization. Government provision of Rs.1.90 million had been spent for the construction of a temporary building on that land.

Awarding Construction Contract to a Non-govenmental Organization

All the construction contracts less than Rs.2 million of the Jaffna Teaching Hospital had been awarded to the Jaffna Hospital Development Association, a registered non-governmental organization, based on the Guidelines 3.9 and 3.9.1 of the Government Procurement Guidelines. Agreements had been entered into for 310 contracts worth Rs.170.24 million in the years 2016, 2017 and 2018. The Jaffna Hospital Development Association, the contractor of the above contracts had violated the provisions in Guideline 3.9.1

of the Government Procurement Guidelines.

Laundering Soild Cloths in General Hospital, Badulla

The procurement committee of the Ministry of Health had awarded the contract worth Rs.20.52 million for laundering soild cloths of the General Hospital, Badulla from 15 May 2018 to 14 May 2019 to 04 contractors. Regardless of the capability to wash soild cloths within the Badulla General Hospital itself, it had been entrusted to the contractors. As a result, government funds of Rs.9.57 million had been spent for this purpose in the year 2018 alone.

Awarding Contract to the Only Bid Presented.

For the supply requirements of the General Hospital, Badulla, a contractor had been selected based on the only bid submitted for that purpose. Without recalling for bids in the event of presenting only one bid, supplies had been obtained from the above supplier by spending total sum of Rs.17.91 million in 30 instances.

Overpayment of Overtime Allowances

In terms of provisions in Section 5.6 of Chapter VIII of the Establishments Code and the circular instructions, the number of hours for the payment of overtime allowances should have been calculated based on the working hours which exceed 42 hours per week at 07 hours per day. Nevertheless, overtime of 18 Railway Guards attached to the Maradana railway station from 13 stations had been calculated so as to include their normal duty hours and overtime allowances of Rs.1.20 million had been overpaid to them relating to the period of 06 month from November 2017 to April 2018.

Uneconomic Expenses

An accountant of the Ministry of Health had spent Rs.691,680 as course fee and other expenses relating to following a course tited International Exposure and Professional Development Course on Hospital Management and Accounting during May and August 2016. The same officer had again involved in the same course by spending Rs.691,680. Therefore, the course fee and other expenses of Rs.691,680 incurred on one of the above two occasions had become an uneconomic expenditure.

Assignment of Irrelevant Duties to the Post

According to the Paragraph 10 of the Scheme of Recruitments and Promotions of the Survey Assistants of the Depatment of Surveyor General, recruitment to the post of Survey Assistant should be made by calling applications thgrough pubishing notices on the Government Gazette or newspapers or on the website and through a result of a subsequently conducted structural interview on priority basis. Without being taken action accordingly, the Uva Provincial Ministry of Agriculture, Irrigation, Fresh Water Fishing, Land, Tourism and Transport Affairs had recruited 07 Survey Field Assistants on casual basis on a result of an interview conducted on 01 April 2015 based on the previously received applications. Since approved 03 posts of surveyor had fallen vacant at the time of making these appointments, the Survey Assistant thus recruited had been assigned other duties.

Fialure to Perform Duty

At 03.45 a.m on 12 November 2018, the head office of the Galoya National Parlk of the Department of Wildlife Conservation had been informed via telephone that two wild elephnts were obstructing the road on the bank of the Namaloya tank. None of the officers had visited the scene to look into the matter. Even though wildlife officers had been employed to assist the villagers to save their lives and properties at times of stroming wild elephants into villages at nights, it was revealed during the inspection carried out at the head office of the Galoya National Parlk at 04.15 a.m. on 12 November 2018 that the Deputy Caretaker who had been entrusted duties at that time was not engaged in the duties of the office.

Overpayments on Fuel

Two hours time is allocated for a single boat tour to visit the Senanayaka reservoir and entries had been made in the Dily Running Charts that 17 liters of fuel (kerosene) are required to a single boat tour. As revealed at the physical inspection carried out on 05 occasions on 14 November 2018 so as to include 03 boats, the fuel consumption for a two hour's tour of a single boat ranged from 07 to 09 liters. The volume of fuel issued for 03 boats was 38,107 liters during the years 2017 and 2018 and the nuber of tours was 2,241 according to the Daili Running Charts. If the fuel consumption for a single tour is considered as 10 liters as per the physical inspection, 22,410 liters of fuel should have been consumed for 2,241 tours. Accordingly, a sum of Rs.1.04 million had been approximately overpaid for 15,697 liters of fuel (kerosene).

Failure to Renovate the Tank Properly

Out of the renovation works of the Yudanganawa tank commenced on 22 August 2017 by the Regional Engineer, Monaragala of the Irrigation Department, 80 per cent of the earth work and 60 per cent of the construction of breakwater had been carried cout and the remaining work had been discontinued halfway. Instead of finding out the resons therefor and taking relevant measures, the construction of the spillway and the sluice gate had been taken over by the Director of Irrigation Office and carried out the relevant constructions. Even though construction works of the bank and the breakwater had been further entrusted with the Regional Irrigation Engineer, Monaragala, action had not been taken to complete the relevant task even by the November 2019.

The Office of the Regional Irrigation Engineer, Monaragala had spent Rs.31.26 million for the constructions of breakwater of the tank. Sicne due care had not been exercised in laying stones and not perperly carried out supervision during the constructions, the safety carpets had been damaged beyond further sue. Further, due to not focusing attention on the nearby road and the protection of the bridge in the construction of spillway of the tank, taere was a risk of damaging the bridge by eroding the banks from spill water.

Udaganawa Tank at the time of inspection

The bridge smaller than the spillway and insecure bank had been washed away by spill water

Poor Management of the Student Hostel

The gap between the upper bed of the bunk beds and the ceiling of the dormitory of the grade 7 and 8 students in the student hostel of the Ananda College, Colombo was not in a sufficient height. As ceiling fans had been fixed above most of the beds, there was a risk of causing accidents to the students who occupied the upper bed. Likely, due to fixing electric fance, the students who were using upper beds could not use mosquito nets. Even though defects such as the decayed main rafter of the roof of the hostel, dilapidated ceiling, not properly cleaning lavatories and bath rooms, not employing an adequate number of employees for that purpose, not cleaning the nearby environment and not assembling the hostel advisory committee since July 2019, adequate steps had not been taken thereon.

Insufficient gap between the uppur bed and the ceiling

Unclean place where the water filter has been placed

Storing potatoes an unclean way

Unclean drain at the back of the kitchen

Non-recruitment of Approved Cadre

The post of Director General, the highest executive post of the National Dangerous Drugs Control Board had fallen vacvant since 30 April 2017 and 03 out of 06 post of Directors approved as the second executive posts of the Board had been in vacant since year 2018. Nevertheless, governing body had failed to make recruitments for those vacancies even by 31 May 2020. Officers of external institutions had been appointed to act in the post of Director Admin from 11 November 2018 to 30 April 2020 and the prost of Director (Finance)from 01 February

2019 to 31 May 2020.Further, the cadre approved for performing duties of the Board was 374, whereas the actual cadre as at 31 May 2020 was 254. Accordingly, the number of vacancies as at that date was 121.

Abandonment of the Construction of Chicken Coop

For the construction of a new chicken coop for the Distrcit Agriculture Training Centre, Walpita, provisions of Rs.1,500,000 had been approved under the Western Provincial Funds. The estimated cost for the relevant work was Rs.1,433,033. A registered rural development society had been selected for this construction and according to the agreement, it should have been completed by 18 October 2018. Nevertheless, the contrctor had abandoned the work after completing 60 per cent of the relevant constructions. Despite the fact that, the Assistant Director incharge of the Training Centre had recommended the payments of the bill presented by the contractor stating that the construction of relevant chicken coop had been successfully completed as per the specifications and duely handed over on completeion of the work, and sent the bill to the Provincial Agriculture Director. Accordingly, a sum of Rs.885,400 had been paid to the contractor. Action had not been taken to complete the construction of this chicken coop even by 13 January 2020 and use the same and some roofing sheets had been corroded.

Chicken coop as at the date of inspection on 13 January 2020

Roofing sheets had been corroded

Construction of Laboratories and the Office Complex

With the objective of establishing the laboratories and the office complex of the Pioneer Energy Authority of the Atomic Energy Authority of Sri Lanka outside of densely populated area, a sum of Rs.181 million had been paid to purchase of a land containing 03 Acres and 36.5 Perches at Halbarawatta in Malambe Information Technology Park on 05 occasions from 31 July 2014 to 29 October 2015. Nevertheless, Government Chief Assessor had assessed the relevant land at Rs.116 million. The land had been purchased at Rs.181 million by exceeding assessment of the Chief Assessor by Rs.65 million. Despite lapse of 03 years form making payments for the land as at 31 December 2018, the Urban Development Authority had not taken steps to lawfully vest the ownership of the land.

For the establishment of the Board, the Road Development Authority had agreed to construct a single storied laboratory building under the first stage and a memorandum of understainding had been entered into with the Road Development Authority on 25 October 2013 for the relevant construction. Accordingly, provision of Rs.419 million comprising Rs.367.2 million on credit grant of Japan International Cooperation Agency and Rs.51.8 million on domestic funds had been made for that purpose. The relevant constrcution had been commenced, but it had to be discontinued owing to a public protection staged regarding the construction. A sum of Rs.60.1 million had been spent on the construction at the time of discontinuation of the work. Therefore, it had been decided to halt the establishment of Board at Halbarawatta and carry out the construction on a leased land belonging to the National Apprentice and Training Institute situated at Orugodawatta. Accordingly, Rs.60.1 million spent on the construction carried out at the Halbarawatta land, Malambe had become an uneconomic expenditure (loss).

Due to the decision taken to carry out relevant construction at the Orugodawatta land, action had been taken to increase the total cost astimate of the construction by Rs.267.8 million. Nevertheless, due to the defects of the initial constrcutions carried out at the Orugodawatta land by the contractor, the JAICA agency suspended the contruction contrct and wawrded the contact at Rs.597.2 million to the next bidder. Accordingly, the total cost estimate of the construction (inclusive of Rs.60.1 million spent for the construction of the Malambe Halbarawawatta) had been Rs.925.7 million. Accordingly, due to stopping the construction of laboratory buildings in the Information Technology Park, Halbarawawatta, Malambe and newly commencing the constructions on the Orugidawatta land proposed to be vested in the National Apprentice and Training Institute, the estimated cost had increased by Rs.506.7 million than that of the original estimate.

Issue of Vehicle Import Permit under Duty Free Concession

The Chief Human Resources Manager (Acting) of the Sri Lanka Ports Authority had not engaged in the active service for a period of 06 months from 13 February to 13 August 2017. It had not been disclosed in the application he made for motor vehicle permit with duty free concession. Similerly, pariculars on disciplinary actions taken against him during the years 1999, 2003 and 2013 had also not been disclosed. Based on the information specified in the above application, a permit for importing a motor vehicle under duty free concession had been issued to him on 30 November 2017 before completing a period of 12 years active service. The Sri Lanka Customs had granted duty free concession of Rs.4,868,500 on 09 August 2018 for the vehicle imported thereunder.

Calculation of Excise Duty Favourably to an Illicit Distillery

The Sri Lanka Customs had identified that a private company engaged in liquor distilling had illegally imported 518,600 liters of ethanol (NES) spirit in the years 2012,2013 and 2014. According to the calculations of the committee appointed by the Commissioner General of Excise, the volume of liquor that can be distilled from the above quantity of ethanol spirit was 313,880 liters. According to the report of that commitee, the investigation committee had calculated the distillable volume of liquor from the ethanol using a basis favourable to the illicit distillery whilst disregarding the terms under the Excise Ordinance and criteria in the Excise Manual and the recoverable duty had been calculated at lesser amount. According to the above basis, the distilled volume of arrack had been stated in lerrer amount than the illegally imported volume of ethanol spirit. As a result of above errorneous calculation, recoverable excise duty of Rs.1,045.76 million had not been recovered.

Incuring Expenditure on Training of the Officers in the Waiting List

The Tea Small Holding Development Authority had called for applications for the post of Tea Taster/Extension Officer by publishing newspaper advertisements on 09 May 2018. Accordingly, relevant interviews had been conducted on 18 and 19 March 2019. Accordingly to the Board of Directors' Decision No.559, it had been scheduled to make recruitments for 08 vacant posts, retain 13 candidates in the waiting list and involve all those applicants in residential training workshop. Steps had been taken according to that decision and a sum of Rs.532,553 had been spent on the training of the officers in the waiting list. For the recruitment of officers for the posts of Taster/Extension Officer, applications had been called for again through the newspaper advertisements published on 24 June 2019. Accordingly, the expenditure of Rs.532,553 incurred on the training of the officers in the waiting list had become fruitless.

Financial Statement of National Audit Office For The Year Ended of 31 December 2019

Subjects

Statement of Financial Position

As at 31 December 2019

	Actual	
	2019	2018 Amendment
	Rs.	Rs.
Non Financial Assets		
Property, Plant & Equipment	**391,745,228**	**382,254,367**
Financial Assets		
Advance Accounts	**226,919,272**	**219,416,775**
Cash & Cash Equivalents	**6,802,571**	**-**
Total Assets	**625,467,071**	**601,671,142**
Net Assets / Equity		
Net Worth	**164,010,576**	**205,279,869**
Property, Plant & Equipment Reserve	**391,745,228**	**382,254,367**
Rent work advance reserves	**585,000**	**2,730,000**
Current Liabilities		
VAT Payble	**-**	**4,542,134**
Deposits Accounts	**62,323,696**	**6,864,772**
Imprest Balance	**6,802,571**	**-**
Total Liabilities	**625,467,071**	**601,671,142**

The Financial Statements have been prepared in complying with the Generally Accepted Accounting Principles whereas most appropriate Accounting Policies are used as disclosed in the Notes to the Financial Statements and hereby certify that figures in these Finacial Statements, Notes to accounts and other relevant accounts were reconciled with the Treasury Books of Accounts and found to in agreement.

W.P.C.Wickramartne
Chief Accounting Officer
Auditor General
Februry 2020

S.M.C.Lakshmi

Chief Accountan
Februry 2020

Format of the Preparation of Financial Statements

The financial statements of the National Audit Office have been prepared in term of the provincial in State Account circular No.273/2018 of 03 December 2019, statement of financial position and the cash flow ststement as at 31 December 2019 have been prepared on the following bases stipulated in the said circular.

Basis of Reporting

Reporting Period

The reporting period for these Financial Statements is from 01st January to 31St December 2019.

Basis of Measurement

The Financial Statements have been prepared on historical cost modified by the revaluation of certain assets and accounted on a modified cash basis, unless otherwise

The figures of the Financial Statements are presented in Sri Lankan rupees rounded to the nearest rupee.

Recognition of Revenue

Exchange and non exchange revenues are recognised on the cash receipts during the accounting period irrespective of taxable period.

Recognition and Measurement of Property, Plant and Equipment (PP&E)

An item of Property, Plant and Equipment is recognized when it is probable that future economic benefit associated with the assets will flow to the entity and the cost of the assets can be reliably measured.

PP&E are measured at a cost and revaluation model is applied when cost model is not applicable.

Property, Plant and Equipment Reserve

This revaluation reserve account is the corresponding account of PP&E.

Cash and Cash Equivalents

Cash & cash equivalents include local currency notes and coins on hand as at 31st December 2019.

Statement of Financial Performance

For the Year Ended 31 December 2019

Amendment Budget		Actual	
2019		2019	2018
Rs.		Rs.	Rs.
	Revenue Receipts		
170,000,000	Non Tax Revenue & Others	276,697,315	165,030,063
170,000,000	**Total Revenue Receipts (A)**	276,697,315	165,030,063
	Non Revenue Receipts		
-	Treasury Imprests	1,527,971,140	1,603,800,000
	Deposits	125,055,685	20,365,300
52,000,000	Advance Accounts	72,466,341	77,867,428
-	Other Receipts	74,656,439	62,339,998
-	VAT Receipts	50,146,355	26,380,610
52,000,000	**Total Non Revenue Receipts (B)**	1,850,295,960	1,790,753,336
222,000,000	**Total Revenue Receipts & Non Revenue Receipts C = (A)+(B)**	2,126,993,275	1,955,783,399
	Less: Expenditure		
	Recurrent Expenditure		
1,454,127,540	Wages, Salaries & Other Employment Benefits	1,453,700,074	1,464,526,249
330,942,460	Other Goods & Services	327,927,115	253,286,132
13,900,000	Subsidies, Grants and Transfers	13,622,630	13,771,671
128,000	Other Recurrent Expenditure	127,327	-
1,799,098,000	**Total Recurrent Expenditure (D)**	1,795,377,146	1,731,584,052
	Capital Expenditure		
28,500,000	Rehabilitation & Improvement of Capital Assets	26,759,417	12,212,631
201,400,000	Acquisition of Capital Assets	23,192,765	14,834,169
66,500,000	**Capacity Development**	61,959,414	76,136,978
296,400,000	**Total Capital Expenditure (E)**	111,911,596	103,183,778
	Main Ledger Expenditure (F)		
-	Deposit Payments	69,596,760	24,858,261
-	Advance Payments	82,113,840	73,254,303
-	VAT Payments	54,688,488	20,714,261
-	**Total Main Ledger Expenditure (F)**	206,399,088	118,826,825
2,095,498,000	**Total Expenditure G = (D+E+F)**	2,113,687,830	1,953,594,655
-	**Imprest Balance as at 31st December 2018 H = (C-G)**	13,305,445	2,188,744

Impest Adjustment Account For the Year ended 31 December 2019		
	Rs.	**Rs.**
Imprest balance according to statement of financial performance as at 31.12.2019		**13,305,445**
(+) Add		
Adjustment balance in advance account	**4,072,606**	
Debit of other department votes	**2,098,115**	**6,170,721**
		19,476,166
(-) Less		
Adjustment of advance receipts	**8,764,743**	
Expenditure for other department votes	**3,908,852**	**12,673,595**
Imprest Balance as at 31 December 2019		**6,802,571**

Statement of Cash Flows

For the Year ended 31 December 2019

	Actual	
	2019	2018 t n emdnemA
	Rs.	Rs.
Cash Flows from Operating Activities		
Total Tex Revenue		
Fees, Fines, Penalties and Licenses	276,697,315	165,030,063
Non Revenue Receipts	74,656,439	**62,249,458**
Imprest Receipts	1,588,600,000	**1,603,800,000**
VAT Receipts	50,146,355	26,380,610
Total Cash generated from Operations (a)	**1,990,100,109**	**1,857,460,131**
Less - Cash disbursed for:		
Personal Emoluments & Operating Payments	1,881,997,862	1,817,529,287
Expenditure for Other Departments Votes	3,908,852	**3,335,436**
Payment for other Departments Vote	6,802,571	**-**
Settelement of Imprest for Teasury	60,628,860	**-**
Tax Payments - VAT	54,688,488	20,714,261
Total Cash disbursed for Operations (b)	**2,008,026,633**	**1,841,578,984**
NET CASH FLOW FROM OPERATING ACTIVITIES(C)=(a)-(b)	(17,926,524)	15,881,147
Cash Flows from Investing Activities		
Divestiture Proceeds & Sale of Physical Assets	-	90,540
Recoveries of Advances	67,699,469	75,405,249
Total Cash generated from Investing Activities (d)	**67,699,469**	**75,495,789**

Less - Cash disbursed for:		
Purchase or Construction of Physical Assets & Acquisition of other Invstment	23,192,765	14,834,169
Advance Payamnts	82,039,105	72,049,806
Total Cash disbursed for Investing Activities (e)	**105,231,870**	**86,883,975**
NET CASH FLOW FROM INVESTING ACTIVITIES(F)=(d)-(e)	(37,532,401)	(11,388,186)
NET CASH FLOWS FROM OPERATING & INVESTMENT ACTIVITIES (g)=(c) + (f)	(55,458,925)	4,492,961
Cash Flows from Fianacing Activities		
Deposits Receipts	125,055,685	20,365,300
Total Cash generated from Financing Activities (h)	125,055,685	20,365,300
Less - Cash disbursed for:		
Payment of Deposits	69,596,760	24,858,261
Total Cash disbursed for Financing Activities (i)	**69,596,760**	**24,858,261**
NET CASH FLOW FROM FINANCING ACTIVITIES (J)=(h)-(i)	55,458,925	(4,492,961)
Net Movement in Cash (k) = (g) -(j)	-	-
Opening Cash Balance as at 01st January	-	-
Closing Cash Balance as at 31st December	-	-

A Summary of Audit Observations taken from published Special Audit Reports of the year 2019

Subjects

- Special Audit Report on the Structural Functionality of the Development Lotteries Board and Resultant Benefits to the Customers
- Special Audit Report on the Management of Investments of the Mahapola Higher Education Scholarship Trust Fund
- Special Audit Report on the Procedure implemented for obtaining the hospitality of the Commonwealth Games in 2018 to the Sri Lanka
- Report of the special audit conducted to investigate in to the effects of unauthorised constructions within the limits of the Municipal Council of Anuradhapura.
- Operations of the Lakvijaya Power Station and its Environmental Impact
- Special Report of the Auditor General in connection with Construction of the
- Lotus Tower - Colombo
- Special Audit Report on the Performance of the Legal Draftsman's Department
- Report of the special audit conducted for the evaluation of the production and the market
- condition of pepper of Sri Lanka
- Special Audit Report on the Management of Vehicles of the Ministry of Health, Nutrition and
- Indigenous Medicine
- Special Audit Report to evaluate the use of the Railway for transportation of goods
- Special Audit Report on the development projects under the supervision of Embilipitiya Pradeshiya Sabha with the provisions of the Sabaragamauwa Ministry of Provincial
- Roads
- Public Debt Management in Sri Lanka
- Special Audit Report on the Present Situation in the Field of Foreign Employment
- The Final Report on the Examination carried out by the Auditor General as per the Request of the Committee on Public Enterprises of the Parliament relating to Termination of Agreements of Purchase of Eight A 350 - 900 Aircrafts entered into in the years 2013 and 2014 by Sri Lankan Airlines Limited
- Report of the Examination carried out on the Request made by the

Commissioner

- General of Buddhist Affairs relating to Irregularities occurred in the Ruhunu Maha
- Kataragama Dewale
- Special Audit Report on Sri Lanka Cricket
- Special Audit Report on the Functioning and Contribution of the Agrarian Banking System
- for the Needs of the Farmers in Ratnapura District
- Special Audit Report on the Investment of Funds belonging to the Postgraduate Institute of Science Affiliated to the University of Peradeniya, in Fixed Deposits.
- Special Audit Report on the Role of the Department of Measurement Units, Standards and Services and usage of assets of the Department
- Special Report on Current Process of Issuing Driving Licenses by the Department of Motor Traffic
- Special Audit Report on the Civil Registration (Births, Marriages and Deaths) and the use of Information Technology In Sri Lanka
- Special Audit Report pertaining to usage of properties of Municipal Council of Matara by individual parties

Special Audit Reports issued in the year 2019

Twenty two special audit reports were issued in the year 2019 in terms of Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka and Section 13 of the National Audit Act, No. 19 of 2018. These reports have been issued with respect to Ministries, Department, Corporations, Boards, and other institutions being audited by the Auditor General.In the issuance of these special audit reports, areas will be determined by virtue of the discretionary powers vested in me by taking into consideration the requests made by the Committee on Public Enterprises, Committee on Public Accounts and auditee entities, disclosures made by the media paying attention on the national and timely importance or public representations.

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All the special audit reports issued in the year 2019 have been tabled in Parliament as shown below whilst taking action to upload them trilingually on the official website of the National Audit Office in order to be used by the interested parties.

Information on special audit reports issued in the year 2019 is shown in Table 03

Serial No	Name of the Report	Date of the Report	Background of the Report
01	Special Audit Report on the Structural Functionality of the Development Lotteries Board and Resultant Benefits to the Customers	**09.01.2019**	To examine and report the manner in which structural process of the Development Lotteries Board has been formed for the distribution of prizes and its effectiveness.
02	Special Audit Report on the Management of Investments of the Mahapola Higher Education Scholarship Trust Fund	**25.01.2019**	The Mahapola Higher Education Scholarship Fund had been subjected to criticism due to reasons such as improper management of investment of moneys of the Fund and allowing the ownership of the Mahapola Campus at Malabe which was initiated under the trusteeship of the Fund, to fall out from the hands of the Fund by the Board of Trustees. As such this report was prepared to examine above matters.
03	Special Audit Report on the Procedure implemented for obtaining the hospitality of the Commonwealth Games in 2018 to the Sri Lanka	**28.03.2019**	With the intention of obtaining the hospitality of the Commonwealth Games in 2018 to Sri Lanka, a state company called CWG 2018 (private) had been incorporated and a sum of Rs 689.9 million had been raised to carry out its activities. However, the objectives of establishing the company and the purpose of fund raising were not achieved due to failure in

			obtaining such hospitality to Sri Lanka.
04	Report of the special audit conducted to investigate in to the effects of unauthorised constructions within the limits of the Municipal Council of Anuradhapura.	**28.03.2019**	This report has been issued with a view to look in to the effects in social, economic, environmental and cultural aspects due to the lack of proper town planning and the increase of unauthorised constructions.
05	Operations of the Lakvijaya Power Station and its Environmental Impact	**29.03.2019**	This report had been prepared on the requirement of preparing an environmental audit report in respect of environmental issues arisen in the operation of that power station and action taken to prevent them, anticipated proposals to be implemented in future and its operation etc.
06	Special Report of the Auditor General in connection with Construction of the Lotus Tower - Colombo	**01.04.2019**	The continuous delay of the project had affected to increase the cost of the project and delay in commencing commercial activities as expected and earning income as well and this report is issued in order to report the matters observed on the said background in connection with the activities relating to the construction of the project for Lotus Tower.
07	Special Audit Report on the Performance of the Legal Draftsman's Department	**10.04.2019**	A necessity has arisen to evaluate the performance of the Legal Draftsman's Department due to reasons such as the delay in the process for drafting laws, revisions made constantly to the drafts, lack of updating the existing laws depending on timely requirements.
08	Report of the special audit conducted for the evaluation of the production and the market condition of pepper of Sri Lanka	**22.04.2019**	A large number of social as well as economic issues have arisen during the recent past as a result of the gradual increase observed in the importation of pepper and the decrease in the prices paid for the pepper production in the local market. Accordingly this report was submitted in order to identify the actual situation and further to identify remedial measures to control the situation.
09	Special Audit Report on	**22.04.2019**	The Ministry had failed to establish physical

	the Management of Vehicles of the Ministry of Health, Nutrition and Indigenous Medicine		existence of 1,794 motor vehicles. Under this circumstance, this report was prepared to examine the vehicle management process of the Ministry inclusive of ownership, existence, registration, usage, maintenance, administration and internal control pertaining to the motor vehicles of the Ministry.
10	Special Audit Report to evaluate the use of the Railway for transportation of goods	**22.04.2019**	The Department of Railways had 38 per cent of the market share of rail freight by the year 1968 and it had decreased up to 0.3 per cent by the date of the report.
11	Special Audit Report on the development projects under the supervision of Embilipitiya Pradeshiya Sabha with the provisions of the Sabaragamauwa Ministry of Provincial Roads	**22.04.2019**	To examine whether the public finance were misused in carrying out relevant purposes and utilization of those money is fruitless by taking into consideration the matters revealed by the general public and media and matters identified by the Audit in this connection.
12	Public Debt Management in Sri Lanka	**22.04.2019**	To present an analytical report on the management of debt of the Republic of Sri Lanka to Parliament
13	Special Audit Report on the Present Situation in the Field of Foreign Employment	**23.07.2019**	To study the current status of the foreign employment
14	The Final Report on the Examination carried out by the Auditor General as per the Request of the Committee on Public Enterprises of the Parliament relating to Termination of Agreements of Purchase of Eight A 350 - 900 Aircrafts entered into in the years 2013 and 2014 by Sri Lankan Airlines Limited	**17.06.2019**	The report which should be presented on the examination of termination of agreements on the transaction relating to purchase of Aircrafts to Sri Lankan Airlines Limited as per the request made to the Auditor General (Annexure 01) at the Committee on Public Enterprises of the Parliament held on 20 September 2017 for the examination of the affairs of Sri Lankan Airlines Limited.

15	Report of the Examination carried out on the Request made by the Commissioner General of Buddhist Affairs relating to Irregularities occurred in the Ruhunu Maha Kataragama Dewale	**31.10.2019**	Request of the Commissioner General of Buddhist Affairs in terms of Section 38 (1) of the Buddhist Temporalities Ordinance, No.19 of 1931
16	Special Audit Report on Sri Lanka Cricket	**23.10.2019**	For paying the special attention on five items relating to the Sri Lanka Cricket in terms of Section 13 of the National Audit Act, No. 19 of 2018.
17	Special Audit Report on the Functioning and Contribution of the Agrarian Banking System for the Needs of the Farmers in Ratnapura District	**05.12.2019**	Observation of the absence of a legal framework relating to such assets and transactions as public money and the failure of Agrarian Banks to work effectively from the beginning to the last quarter of 2019 to uplift and empower the farmer community in order to establish the financial strength required to build a self-sufficient and proud society.
18	Special Audit Report on the Investment of Funds belonging to the Postgraduate Institute of Science Affiliated to the University of Peradeniya, in Fixed Deposits.	**11.12.2019**	A comprehensive audit was carried out on the fixed deposit transactions performed by the Postgraduate Institute of Science during the period of 2015-2016. Issuance of this report including observations identified in that connection.
19	Special Audit Report on the Role of the Department of Measurement Units, Standards and Services and usage of assets of the Department	91.11.1.19	This report has been issued with the intention of paying considerable attention of relevant authorities in respect of providing maximum service from this Department to the general public.
20	Special Report on Current Process of Issuing Driving Licenses by the Department of Motor Traffic	91.11.1.19	Conducting a comprehensive examination in respect of the current process of issuing driving licenses

21	Special Audit Report on the Civil Registration (Births, Marriages and Deaths) and the use of Information Technology In Sri Lanka	91.11.1.19	Evaluation of the efficiency of the registration activities of births, marriages and deaths and recognition of the manner in which the public service had been rendered by the related parties
22	Special Audit Report pertaining to usage of properties of Municipal Council of Matara by individual parties	91.11.1.19	As per the Municipal Council Ordinance and other financial regulations, it is essential to make use of lands and buildings belonging to the Council effectively and efficiently. However, it is observed that there is a risk of not making use of lands and buildings effectively.

Reports issued in the year 2019 are summarized below.

Special Audit Report on the Structural Functionality of the Development Lotteries Board and Resultant Benefits to the Customers

In pursuance of the provisions in the Development Lotteries Board Act, No.20 of 1997, the key function of the Development Lotteries Board was to conduct of lotteries for the purpose of generating funds for the President's Fund. The funds thus generated through the conduct of lotteries are remitted to the Mahapola Higher Education Trust Fund from the President's Fund.

The number of prizes, type of each prize and the value of the prizes awarded by all the lotteries conducted by the Development Lotteries Board in the discharge of the aforesaid functions shall be in the prescribed manner. Accordingly, those prizes may consist of a house, motor vehicle, any article or a certain amount of money. The value and the number of prizes awarded had mainly attributed towards increase people's interest in the purchase of Development Lottery tickets.

However, the lottery customers entertained certain credibility on the lottery sales institutions as well as their lotteries during the bygone periods and it was mainly due to the view of the lottery customers that more prizes had been awarded comparatively to the lottery sales value and the number of lotteries and more super prize winners and millionaires had been created during the past years.

It had come to light that failure in awarding prizes adequately to the Development Lottery customers during the past period and continuation of drawing sessions without awarding the super prize had given rise to the frustrations of those customers. Accordingly, the objective of this report was to examine and report as to how far the lottery prize structure and the drawing process have become an impact towards losing the credibility of the customers on the lottery market.

It could not be observed specific criteria relating to the conduct of lotteries such as the number of draws conducted relating to each lottery type, prizes structure and percentage of prizes and the number of balls required to be inserted in the lottery drawing machine. Similarly, it was apparent that there was no proper assurance with regard to carrying out an examination on the number of balls inserted in the lottery drawing machine and their standard prior to conduct of a lottery draw.

Although the Development Lotteries Board had been established for the conduct of lotteries as a game system operated under the patronage of the Government, it should discharge functions as a Government institution. Accordingly, it is of significance to arrange the prize structure for the betterment of the poor and middle lower class people who have mostly tended to purchase lottery tickets. Nevertheless, the Board had directed its functions with the sole objective of generating and improving funds.

Special Audit Report on Management of Investments of the Mahapola Higher Education Scholarship Trust Fund

The Mahapola Higher Education Scholarship Trust Fund has been established under the Mahapola Higher Education Scholarship Trust Fund Act, No.66 of 1981 for achieving five objectives and goals including providing the youth with higher education facilities. According to Section 3(1) of the Act, the administration, management and control of the Fund have been vested in a Board of Trustees. The Board of Trustees consists of the Founder, Chief Justice of the Supreme Court, Secretary to the Ministry of Higher Education, Secretary to the Ministry of the Minister in charge of Education, Secretary to the Ministry of the Minister in charge of Trade and two persons appointed for a period of five years by the Founder. The Board of Trustees is entrusted with the power to do all things necessary for, or conducive or incidental to, the carrying out of the objectives of the Fund according to Section 6 (1) of the Act. Further, the Trustees should carry out the generation and management of funds of the Trust Fund in a more beneficial manner.

However, the decisions that have been taken by the Board of Trustees during the past period had been taken in a manner unbeneficial and disadvantageous to the Mahapola Fund. In the examination of these situations, the relevant Acts and Orders, agreements, Cabinet Decisions, decisions of the Board of Directors as well as procurement documents were examined. According to the matters revealed in those examinations, the Conditions beneficial to the Mahapola Trust Fund, by the agreement entered into on 19 March 2003 with the Sri Lanka Institute of Information Technology (Guaranteed) Limited., (SLIIT) established by the Mahapola Fund on a land of 25 acres in extent located at Malabe owned by the Mahapola Trust Fund with a view to providing the opportunity for higher education to students who are unable to enter universities, had been terminated by the agreements entered into on 14 November 2005 and 12 May 2015 and the interest claimed on the Sri Lanka Institute of Information Technology by the Mahapola Trust Fund had been converted into the position of a lease agreement. Further, the income receivable until then had not been made available to the Mahapola Fund as well. Even though the Mahapola Trust Fund is entitled to a share of 50 per cent of the profit of the Development Lotteries Board established with equal capital contribution of the President's Fund and the Mahapola Trust Fund, since the year 2012, a share of profit less than that had been received to the Trust Fund from the President's Fund.

Failure in proper supervision of the management of the investment portfolio of the Mahapola Trust Fund maintained in the Bank of Ceylon managed by the National Wealth Corporation established by the Trust Fund and failure in proper supervision relating to transactions of Government securities as well carried out by the Natwealth Securities which is a subsidy of that Company had resulted in the said companies running at a loss or earning inadequate profit during the past years. Further, the profits earned from Online Lottery which had been conducted by selecting a lottery agent without a procurement process for collection of funds, had not been received to the Trust Fund. The objective of this report is to reveal the parties responsible for the adverse effects caused to the Mahapola Fund and to direct the parties responsible in making more beneficial and correct investment decisions for realizing the expected objectives in establishing the Trust Fund.

Accordingly, it was basically identified that correct decisions required for the efficient control of the affairs of the Fund, should be taken by meticulously studying the provisions cited in the Mahapola Higher Education Scholarship Trust Fund Act for minimizing these problems on the agreement of the majority at the meetings of the Board of Trustees, amendments of the Trust Fund Act should be made timely and that Cabinet approval should be obtained prior to entering into agreements.

In terms of Section 3 of the Mahapola Trust Fund Act, it is concluded that even though the administration, management and control of the Fund have been vested in the Board of Trustees, financial and non-financial losses had occurred to the Fund due to the failure of the Board of Trustees in taking decisions beneficial and advantageous to the Fund during the period from the year 2003 to the year 2017 and taking action exceeding the powers vested.

Special Audit Report on the Procedure implemented for obtaining the Hospitality of the Commonwealth Games in 2018 to the Sri Lanka

The Ministry of Sports has taken measures in the year 2010 to obtain the hospitality of the 2018 Commonwealth Games in Sri Lanka. A state-owned company called CWG 2018 (private) had been incorporated for the execution, implementation and presenting bids of the procurement process. It was expected that the Government would hold 51 per cent of the company's share capital and 49 per cent by public institutions. Accordingly, Rs. 110 million from the initial capital had been provided by the Ministry of Sports and the General Treasury, while Rs. 18 million from the Sri Lanka Export Development Board and Sri Lanka Telecom. In addition to that, actions had been taken to obtain cash grants from private organizations and individuals. Even though the company had been incorporated by raising a sum of Rs. 689.9 million, the hosting of the Games was not received to Sri Lanka. Further, it was observed that the money which was provided was not properly monitored and spent with much of transparency and financial control that the administration activities of the company was not also complied with the relevant rules and according to the books, bills various documents, interviews and statements. Accordingly, examination of the legal provisions pertaining to the incorporation of the company in the year 2010 and the donation received to the company and expenses incurred by the company up to 31 May 2013, information on presenting company's accounts and liquidation were also examined.

Accordingly, it was observed that the company was incorporated contrary to the cabinet decisions and share certificates for the public sector equity were not issued legally, the consultant was selected to formulate the bids, the contracting and the consultants were selected contrary to the Procurement Guidelines. Further, it was also revealed that the Export Development Board has invested money in this company outside of its objectives, the company has not properly maintained books and records, and had not been wound up this company in compliance with the Companies Act after being unable to obtain the hosting and also funds have been raised from private parties without proper financial control.

It was recognized that such state companies should be under the proper supervision of the relevant Ministry and the General Treasury and the accurate information need to be provided to the Cabinet of Ministers in advance in order to make correct decisions and directing financial activities in order to safeguard money for value concept when executing activities of the state owned companies, required to follow relevant rules, circulars.

Accordingly, it was recommended that an amounting to Rs. 689.9 million financial losses had been made in the money collected for obtaining the hospitality of the Commonwealth Games in 2018 to the Sri Lanka as it was not utilized efficiently and effectively.

Report of the special audit conducted to investigate in to the effects of unauthorized constructions within the limits of the Municipal Council of Anuradhapura

Anuradhapura, one of the world Heritage Cities, which has historical value and functions as a main agriculture marketing and sales centre, is situated within an area of 42.18 sqkm and the area, which is the Western part of Malwathu Oya flowing in the middle of the city is called as the Sacred City whilst the Eastern part is called as New Town. New Town as well as Sacred City, which consists of 22 Grama Niladhari Divisions, belong to the area of Municipal Council, Anuradhapura.

The first town plan for Anuradhapura was prepared in 1949 with a view to conserve the Sacred City and to resettle the residents of Sacred City in New Town. Action has been taken again in the year 2007 to introduce general directions and zonalization regulations in order to implement "Zonalization Plan" categorizing lands under 11 zones for different purposes. Further action should be taken according to an "Urban Development Plan" by the Urban Development Authority.

Even though above mentioned plan has been prepared and approved, it was observed that constructions have been built deviating from such plans within tank reservations, obstructing the irrigations channels and neglecting the prescribed distance from the middle of roads to the line of buildings. A confusion has arisen in respect of town development plan due to the action taken without following the zonalization plans and zonalization regulations and construction regulations and further due to the misuses and application of prohibited practices and therefore it has been reported that difficulties have arisen in health care systems and transport systems of the people and it has resulted in a huge social problem. In view of the above, this audit was conducted taking in to consideration the requirement of urgent attention to the alternative measures, which are possible to transform this task to an effective, productive and economic mission through the steps taken to solve this issue.

Operations of the Lakvijaya Power Plant Station and its Environmental Impact

Lakvijaya Power Plant belongs to the Ceylon Electricity Board is one and only coal power station in Sri Lanka with the capacity of 900 MW established at Kalpitiya – Norochchele in the North Western Province. The first stage with 300 MW in the year 2006 and the second stage with 600 MW in the year 2010 had been commenced and 900 MW from the first and the second stages was added to the national grid in the years 2011 and 2014 respectively. With a contribution from 26 power stations (except private power stations) under the Ceylon Electricity Board for the present electricity generation of Sri Lanka and a contribution from 247 sub stations, the total electricity production in the year 2017 was 14,671.2 Gwh. The contribution of the Lakvijaya Power Plant for this production was 34.78 per cent. It was observed that, of the main sources of water, fuel and coal used for the production of electricity, coal is the second source of minimum average unit cost for the production of electricity.

This report has been prepared with the objective of the identification of operations of this power plant and its environmental impact. The first Environment Protection Licence had been issued by the North Western Provincial Environmental Authority for the Lakvijaya Power Plant in the year 2015 but the Central Environmental Authority had not intervened in this connection. Even though, the application for the renewal of licence for the year 2017/2018 had been forwarded on 14 June 2017, to the Provincial Environmental Authority by the power station, it had not been issued even by 10 May 2018. As sufficient attention of the Provincial Environmental Authority had not been drawn in respect of the process of operation of power plant for the achievement of objective of issuing the Environmental Protection Licence and the inefficiency of other responsible entities, it was observed that environment had adversely affected.

As a special attention was not paid in respect of the quality of coal which is the principal raw material used for the production of electricity by the Lakvijaya Power Plant had also caused a foremost factor for adverse environmental issues. Similarly, even though the disposal methodology of by products produced as fly ash and bottom ash while coal being combusted had been identified at the planning stage, that process had not been adequately implemented and as such it was observed that it would pose environmental problems and increase the cost to be incurred by the power plant in taking action to control such problems. It was observed that instead of depositing fly ash in the yard which is an environmental problem, requirement of another identified raw material for the electricity generation having being disposed of ash from the yard by an expeditious cause of action. It was further observed that the Provincial Environmental Authority had not continuously monitored to ensure whether the operations of the power plant were carried out in accordance with the ambient air quality standards published by the Provincial Environmental Authority.

The requirement of continuous supervision of the disposal of toxic air and solid waste emitted in the process of coal combustion and harmful to the environment, process of discharging refined sea water used for the operation activities of the power station, into the sea again and the continuous supervision of underground water etc. were observed in audit. It was further observed that efficiency of flue gas desulphurization (FGD) in respect of emission air and electro static precipitator (ESP) in respect of fly ash should be continuously monitored. Necessary action should be taken to carry out the maintenance function of the power station in accordance with a proper plan and to widen the wind barrier now existing round the coal yard in order to prevent the dusty particles available in the coal yard with wind and to prevent in spreading ash clustered now in the coal yard to the country side.

Action has to be taken for the minimization of impact caused to fisher – folk through the operation of power station, and planning necessary action to find the quantity of coal deposited in the seabed and minimize such deposit by carrying out the seabed surveys. It was also observed that necessary action should be taken to minimize coastal erosion and to protect the coastal line. In following all these processes, production of electricity can contribute as a value added industry to the national economy as well as an environmental friendly industry by minimizing environmental damages.

Special Report of the Auditor General in connection with Construction of the Lotus Tower – Colombo

According to the Cabinet paper No. PS/CP/44/2010 dated 13 October 2010, in connection with the construction and completion of Multi-Functional Transmission Television and Telecommunication Tower 350 meters in height associated with a park, Cabinet approval had been granted to construct a Multi-Functional Transmission Television and Telecommunication Tower 350 meters in height in a land 8.0 hectares in extent located in Paliyagoda area. The approval for all plans required to be commenced the project which was implemented by the Telecommunication Regulatory Commission had been obtained by the said Cabinet approval.

A land 2.59 hectares in extent which faced to the Bere Lake located in Colombo 10 had been identified for installation of the project considering the possibility to transfer the project to an area of having major tourist's attraction in Colombo. Accordingly, the final construction cost with the new amendments had been estimated as US$ 104,300,000 considering the development ability of the new land of the project and the project had been renamed as the "Colombo Lotus Tower Project" keeping the initial concept of the project unchanged.

The project of which the constructions had been commenced on 12 November 2012 was scheduled to be completed within 912 days and the period of construction had been extended up to October 2017 on the request of the contractor. Nevertheless the constructions of the Tower was being implemented even up to 31 December 2018. It was observed in audit that a feasibility study not being carried out in the commencement of the project, the land plots reserved for the project not being transferred properly, improper actions of awarding the sub contract for electric lifts and the stair case, delays in construction contract, limitation of agreed loan, and uncertainty of the process of commercialize the project had been affected. Accordingly, it was identified that attention of all related parties should be paid to the continuous delay in constructions of the project which had been identified as a project with national importance.

Special report on the Performance of the Legal Draftsman's Department

The Constitutional power of the Legislature has been defined in Article 75, Chapter 11 of the Democratic Socialist Republic of Sri Lanka in the following manner. „Parliament shall have power to make laws, including laws having retrospective effect and repealing or amending any provision of the Constitution, or adding any provision to the Constitution.' Accordingly the main function of the Legal Draftsman's Department is drafting and amending (New) laws (Acts), drafting and revision of subsidiary legislation in order to facilitate the successful implementation of the Government's Legislative Programme. In the meantime formulation of the local legal framework, which is necessary to facilitate the effectiveness of the Government's Legislative Programme enabling the successful implementation of the policies of the Government which are included in the decisions of the Cabinet of Ministers, falls under the main function of the Department.

Accordingly, the drafting of laws is a specific field in a country. In order to carry out functions of such a specific field, the Legal Draftsman as well as the staff of the Department should have necessarily been enriched with the knowledge and skills for drafting laws and further the knowledge on other fields of law. Since it is important for the Legal Draftsman to possess the knowledge and understanding on the proposed law and the relevant fields in drafting a certain law, he should be aware of the changes occur in the field of law both within and outside the country. As well, it is highly important to maintain the links with all other institutions, which join with the process from the phase of drafting of a law up to passing it by the Parliament.

However, positive attention should be paid to the facts such as the inability of the Department so far to gain a staff with the sufficient knowledge and experience in the process of drafting laws, changes made from time to time in the policies submitted by Ministries to draft those policies as an Act and the unavailability of a final policy, obstacles arisen in obtaining the services of Lawyers with sufficient experience, knowledge and skills even on contract basis, anomalies in the salaries observed among the similar services, requirement of an office building with necessary facilities, requirement of more local as well as overseas training opportunities, delay in the responses for laws, which are submitted as preliminary or final documents to the Attorney General's Department and other Departments for instructions and observations etc.

Updating the law of the country is one of the grave necessities of the present society. The requirement of the society is to impose new laws whilst amending many existing laws, which are not sufficient to cater to the present needs of the society in its social and economic development. In a background, where it is highly necessary to recognize, safeguard and promote the rights of the citizens transforming the policies of the Government to the law of the country, the weakness shown in the performance of the Legal Draftsman's Department has shattered the expectation of the society on the fulfillment of that role in timely manner.

The objective of this audit is to issue a message to each connected division for taking relevant measures to identify delays, if there is any delay in formulation and amendment of any law which is to be prepared on timely requirement in the social and economic development process.

Report of the Special Audit conducted for the Evaluation of the Production and the Market Condition of Pepper of Sri Lanka

There is a higher demand at the world Market for the black pepper of Sri Lanka and accordingly the price paid for the pepper of Sri Lanka also was at a higher level comparatively to other producing countries. The higher level of bio active component of peparine containing in Sri Lankan pepper comparatively to the black pepper produced in other countries has served to such advantage. Under such situation, a higher demand was observed from Middle East Countries as well as European Countries for the black pepper of Sri Lanka but the purchasing price of pepper in the local market has marked a rapid decline recently. Even though the price of the black pepper at local market was at the level between Rs. 1,200 - Rs.1,400 (per kilogram) in the year 2015, it has marked a rapid decrease from the year 2016 and at present the purchase price of black pepper remains between Rs. 600 – Rs.800 (Per kilogram). Even though the price at the foreign market for black pepper was remaining in the range of Rs.1,200 – Rs. 2,300 per kilogram, the year 2018 has marked a decline in the prices from Rs. 800 up to Rs.1,200.

Under such situation, new producers of pepper were reluctant to enter the market and they have left the field due to the issues which they have to face in the production. Therefore this report was prepared with the intension to investigate on the reasons which resulted in the decline of price for pepper in local market and further to identify social and economic issues resulted in the decline of prices. For this purpose the data available in the field of importation and exportation, data at the Department of Customs, data at the Chamber of Commerce, and data at the Department of Census and Statistics were used and action was taken further to conduct interviews with relevant parties. Accordingly, the reasons such as the low level in the harvest comparatively to the land utilized for cultivation, bulk importation of black pepper only from several countries at low prices during the harvesting season, exportation of nearly 85% from the local export volume of pepper to India, which pays low process limiting the exportation to Middle East and Western countries, which pay higher prices and the rapid decline in the prices paid to local farmers (Per kilogram) were identified as the main causes for this issue.

Further it was identified that such situation can be avoided taking several remedial measures such as taking action to suspend the tax relief granted at the importation of pepper, determination of the importation policy considering volume of the local pepper production, consuming and the excess and suspension of the importation of pepper with low quality at a lower price only from several countries and regaining the market share where Sri Lanka was given higher prices for pepper production etc. As per the facts and figures of this report, it was identified that the importation of pepper in to the country has marked a significant increase during the past period whilst the exportation of pepper to the countries, which pay higher prices, has marked a decline and further no sufficient intervention has been made either by the Government or Department of Import and Export Control to streamline the imports and exports of the country.

Special Audit Report on the Management of Vehicles of the Ministry of Health, Nutrition and Indigenous Medicine

The statistics maintained by the Department of Motor Traffic established the fact that 5,556 motor vehicles had been registered under the name of Secretary to the Ministry of Health, Nutrition and Indigenous Medicine, Director General of Health Services and various designations pertaining to the health sector and the number of such vehicles stood at 5,792 according to the Register of Vehicles of the Ministry. Further, the Ministry had failed to substantiate physical existence of 1,794 motor vehicles included in the Vehicle Registry of the Ministry. In view of the above facts, the objective of the issuance of this report is to present audit observations on the administration and management process of the motor vehicles inclusive of the matters such as the ownership, existence, registration, use and maintenance of motor vehicles. Accordingly, analysis of written confirmations obtained from the Director in charge (Transport) of the Transport Division of the Ministry and the relevant staff and analytical reviewing of the information furnished to the Audit by the Department of Motor Traffic in relation to the motor vehicles were carried out.

Despite being included in the information made available by the Department of Motor Traffic, the number of motor vehicles and motorcycles of which the physical existence could not be substantiated stood at 171 out of 202 motor vehicles not appeared in the Register of Vehicle furnished by the Ministry. Similarly, 259 motor vehicles and motorcycles confirmed by the Audit through the details of the Department of Motor Traffic that those have been transferred to external parties, 158 motor vehicles registered under the names of the Provincial Directors of Health Services, 11 motor vehicles which the Audit had revealed as not been registered with the Department of Motor Traffic, had been included in the Register of Vehicles furnished by the Ministry. Further, the Ministry had not conducted a formal physical inspection on total of 1,794 vehicles comprising 679 motor vehicles and 1,115 motorcycles, the physical existence of which could not be established by the Ministry as at 31 December 2017 and the Audit could not recognize the location of 1,239 motor vehicles and 2,795 motorcycles out of the total number of motor vehicles and motorcycles documented as to be owned by the Ministry. Furthermore, the Ministry had provided fuel worth Rs.2,360,550 for the vehicles assigned to the Minister and the office of the Minister and fuel worth Rs.4,266,280 for the vehicles assigned to the Deputy Minister and the office of the Deputy Minister exceeding the fuel allowance entitled to the Minister and the Deputy Minister.

The Chief Accounting Officer of the Ministry, officers in charge of the Transport Division and the other connected parties shall be responsible for the matters such as misplacement of 1,794 motor vehicles, failure to substantiate the legitimacy of the transfers of 177 vehicles owned by the Ministry to external parties, incurring an incomputable loss due to failure in confirming the existence or the fact of being auctioned of 171 motor vehicles out of 202 vehicles with where about unknown, further continuation of such losses owing to not introducing and implementing a formal mechanism in relation to management of vehicle fleet over 5,792 motor vehicles of the Ministry and incurring losses to the Government by providing vehicles and fuel for the Minister in charge of the subject, Deputy Minister and the relevant staff in contrary to the provisions in Circulars and sale of vehicles contrary to the procedure adopted in the disposal of Government vehicles. Accordingly, the recommendations of this report have highlighted the significance of resorting to expeditious measures in order to settle the losses incurred to the Government while managing the aforementioned situation.

Special Audit Report to evaluate due use of the Railway for goods transportation

According to the Railways Ordinance No. 26 of 1885, the Ordinance No. 09 of 1902 and the amendments made thereto, transportation of goods are carried out by the Department of Railways and 151 years had lapsed by the year 2018 after commencing the aforesaid function. The Department of Railways had earned 57 per cent of the overall freight revenue during the period of 1867 - 1934, and it had dropped up to 9.3 per cent by the year 2017. Further, the Department of Railways had 38 per cent of the market share of the transportation of goods by the year 1968. However, it has gone down up to 0.3 per cent at present. Further, it has been identified that environmental problems have arisen due to use of the road system for transportation of goods. Accordingly, this report was prepared to evaluate the impact on the revenue as well as environmental, social and economic impact due to failure to transport of goods in the efficient and effective manner. For preparation of this report, information had been collected by checking the documents including relevant Acts and Orders, circulars, analyzing base data, and physical verification.

Accordingly, it could be identified that more than 80 per cent of cargo in first class and second class had been abandoned, legislation had not been imposed for transport of goods, fuel transportation had not been done according to the local need, 60 per cent market share of fuel had been abandoned and the environmental problems have arisen due to use of road for good transportation. Moreover, it was identified that measures indicated in Chapter 10 of the report including the obtaining of policy decisions for providing in-service facilities for transportation of goods.

Special Audit Report on the Development Projects under the Supervision of Embilipitiya Pradeshiya Sabha with the Provisions of the Sabaragamuwa Ministry of Provincial Roads

Sabaragamuwa Provincial Council established under the Provincial Council Act, No. 42 of 1987 consists of five ministries and departments including 27 Expenditure Heads. Ministry of Provincial Roads Development, Rural infrastructures, Tourism, Sports and Youth Affairs is identified as the second largest provision receiving ministry next to the Ministry of Education, Information Technology and Cultural Affairs.

This ministry executes projects under the supervision of 65 implementing institutions planning its tasks for the development of Provincial Roads, Rural Infrastructure, Sports, Tourism and Youth Affairs of the Districts of Ratnapura and Kegalle of the Sabaragamuwa Province. For the fulfillment of said tasks Rs.1535.42 million (Including 541 continuation projects worth of Rs.695.88 million) had been allocated by Provincial Specific Duty Grants (PSDG), Criteria Based Grants (CBG), Collective grants and supplementary estimates have been allocated and Rs.664.12 million grants by them (43 percent) had been allocated for the development of Embilipitiya authoritative area. It is 44 percent of the provisions allocated for Ratnapura District which exceed the two fold of total provisions of Rs.79.87 million allocated for Kegalle District in year 2017.

The main reason to prepare this report was Embilipitiya Pradeshiya Sabha authoritative area has been identified as a risky area, because higher provisoins had been made without special identification of the areas to be developed. Fifty seven projects with an estimated cost of Rs.112.09 million were physically examined for auditing among above projects.

The reason for these inefficiencies and misuse had been assigning to execute the project to implementing institutions without evaluation of the human and physical resources capacity by the Ministry of Provincial Roads. As such, Rs.17.87 million of fraudulent payments and Rs.4.16 million idle payments had been observed by this report. Further, Rs.6.81 million payments have been suspended due to audit observations. It was identified that development projects should be properly supervised and follow up action taken while identifying proper procedure to provide facilities to the people of the province in equitable manner in line with the mission of the Ministry of Provincial Roads.

Public Debt Management in Sri Lanka

Necessity for the preparation of a special report regarding Public Debt Management in Sri Lanka was observed according to the matters revealed during the course of audit test check conducted on the financial statements of the Democratic Socialist Republic of Sri Lanka pertaining to the year ended 31 December 2016. Accordingly, a special report on Public Debt Management has been issued on 02 February 2018 in addition to the report presented by me in respect of the aforesaid financial statements in pursuance of the provisions in the Article 154(1) of the Constitution. The objective of this report is to forward an analytical report on the management of debt of the Republic of Sri Lanka during the period from 01 January 2005 to 31 December 2016 to Parliament. Further, according to the information made available to audit as at 31 December 2018 relating to the matters included in that report, following observations are made.

- Even though the above financial statements had been termed as financial statements of the Republic, those had been confined solely to the transactions of the Consolidated Fund. Accordingly, transactions and events of the Provincial Councils, Local Government Authorities, Public Enterprises and other institutions owned by the Republic or functioning under the Government had not been incorporated in these financial statements.
- According to the financial statements furnished to Audit, the total amount of domestic and foreign

debt payable by the Government as at 31 December 2018 approximately stood at Rs.11.5 trillion (Rs.11,467,254 million = Loan Balance as per the financial statements Rs.11,276,281 + Central Bank Advances Rs.198,633 million – Leasehold Creditors Rs.7,660 million). Nevertheless, according to the financial statements, the value of the total assets accounted for was approximately Rs.1.9 trillion (Rs.1,911,617 million). Failure to utilize the total net borrowings sufficiently in keeping with the estimations in the investment activities and failure to correctly identify and account the assets derived therefrom had been the immediate reason for this purpose.

- Even though the burden of debts of the country was rapidly on the increase, the nonfinancial assets had not increased relatively.
- A significant amount of total net borrowings obtained by the Government had been utilized for the daily needs. (Expenditure of recurrent nature).
- Continuous increase in the per capita debt.
- Decrease in the actual financing (to meet the budget deficit) as compared with the revised Budget and correspondingly, decrease in the anticipated total borrowings in the year 2018.
- Existence of the balance of debts not included in the financial statements.
- Existence of foreign debt not accounted due to lack of provisions although realized.

It was observed according to the above matters that the management of public debt remained at extremely poor position and the control of increase in the public debt balance can be identified as an indispensable matter. Similarly, the public debt obtained should be efficiently, economically and effectively utilized, and the management is responsible for the designing, implementing and maintaining internal control system in an updated manner to ensure that the debts are utilized in the above manner.

Further, it is an essential matter to obtain all domestic and foreign borrowings and other receipts to the country under the approval of a centralized institution, and the responsibility to introduce proper policies and procedures to identify the debt balances accurately, completely, under proper classification and according to the correct accounting period at any time is vested with the management.

Special Audit Report on the Present Situation in the Field of Foreign Employment

The foreign employment sector, which has been acquired a higher position in export earnings in Sri Lanka, is at present faced with many problems. Therefore, a special audit was carried out to study the current position of the foreign employment sector and this audit report was prepared based on those facts. Therein, the audit was planned and implemented to enable to make appropriate recommendations by in-depth studying on how the constraints on local job market impact on acquiring favorable conditions on the foreign employment market and a thorough study of issues, limitations and shortcomings in the field of foreign employment discouraging to direct the Sri Lankan professionals to seek foreign employment. Required information for that was obtained from various parties and institutions, as well as in both published and unpublished manner. In addition, referring books, interviews, and physical examinations were conducted. According to those tests, job orders as well as job placement led to a major downturn throughout the past period and as a whole, Sri Lanka has lost more than 55 per cent employment opportunities in all sectors, it was observed. Further, contribution and composition of foreign employment earnings and foreign exchange earnings that were not included in the national statistics data have been described and the lack of trained workforce in the local market were an obstacle to achieving favorable conditions in the international employment market as well as many issues in the foreign employment market were identified in the report.

Accordingly, the excess of skilled and semi-skilled labor force in the local market, which is being increased through training and development, can be balanced through exporting of the surplus, but lack of a state institution giving leadership and entrusted with the task of implementing of such a national program to reduce social issues, is identified as a major problem.

Further, it is emphasized the need to formalize the foreign employment field through implementation of the recommendations in paragraph 8 of this report, including the selection of workers for foreign employment by expanding the vocational training opportunities for the sectors such as health, hotels, construction and engineering, plan to increase the number of professionals, who are directed in foreign employment from these sectors, expand the public sector involvement in the preparation of vocational training programs in line with local as well as foreign employment, amend the Sri Lanka Bureau of Foreign Employment Act, No.21 of 1985 in line with the present situations with a view to ensure the protection of the migrant workers, assign the regulatory functions of foreign employment to an independent institution.

The Final Report on the Examination carried out by the Auditor General as per the Request of the Committee on Public Enterprises of the Parliament relating to Termination of Agreements of Purchase of Eight A 350 - 900 Aircrafts entered into in the years 2013 and 2014 by Sri Lankan Airlines Limited

The operating loss of Sri Lankan Airlines Limited was Rs.4,428 million at the time of withdrawal of Emirates from the management of the Airlines in the year 2008. A total of 14 aircrafts comprising five A 320 Aircrafts, four A 330-200 aircrafts and five A 340-300 aircrafts were being operated by the Company at that time.

A Business Plan for a 05 year period from 2010/2011 – 2014/2015 had been prepared by the Company in the year 2011. The requirement of purchasing other aircrafts in place of 13 wide bodied Aircrafts due to be disposed since the expiry of useful life during the period between 2013 – 2021 which belonged to the Company, had been one of the functions of the said Plan and it had been introduced as the Re-fleeting Programme.

A decision had been made therein by the management of the Company to add 14 wide bodied aircrafts into operation in place of 13 aircrafts removed of during the period from 2013 – 2021. It had been decided thereunder to purchase six A 330-300 new aircrafts and to purchase four A 350-900 aircrafts introduced in the year 2013 on operating lease basis and to purchase 04 aircrafts of the same type from the manufacturer and to sell and lease back on operating lease basis. Accordingly, 06 no. of A 330-300 aircrafts had been purchased during the year 2014/2015 on the basis of sell and lease back method. Further, the Company had entered into an agreement on 28 June 2013 with the manufacturing company for purchase of 04 no. of A 350-900 Aircrafts and agreements had been entered into on 27 September 2013 and 12 November 2014 for purchase of 04 more Aircrafts of the same type on operating lease basis.

A Restructuring Plan had been prepared again by the Company in the year 2015 and Cabinet approval had been obtained on 24 June 2015. As per the said plan, it had been proposed to refrain from adding 08 no. of A 350-900 Aircrafts agreed to be purchased for the Airline at that time into operation. Accordingly, the Board of Directors had taken a decision in the year 2015 to obtain the service of consultancy firms in taking a fair decision by holding discussions with leasing companies with which agreements had been entered into in respect of 04 no. of A 350-900 Aircrafts due to be purchased on operating lease basis. As such, the Company had obtained the service of a foreign consultancy firm for this purpose and further, the service of a foreign consultancy firm attached by the Ministry of Finance had been obtained as well. Despite having entered into agreements for purchase of Aircrafts on operating lease with the assistance of consultants under the Re-fleeting programme, 04 no. of A 350-900 Aircrafts are not required at present and as such, the Company had entered into agreements of termination with the leasing company in the year 2016 and had agreed to pay US$ 171.77 million as compensation. However, in terms of the agreement of termination entered into with the leasing company, US$ 56 had been deducted subject to conditions therein and the Company had paid US$115.77 million or Rs.16,924 million as total compensation in the years 2016 and 2017. Further, the agreement of installation of VIP kits in 02 no of A 330300 Aircrafts in the year 2015 had been cancelled by the Company as well.

Further, the discussions on terminating the agreement entered into for direct purchase of 04 no. of A 350-900 Aircrafts from the manufacturer were being held up to the date of the report and the manufacturer had proposed to discontinue the manufacturing of relevant aircrafts and to supply another type of aircrafts (A 321 Neo).

Report of the Examination carried out on the Request made by the Commissioner General of Buddhist Affairs relating to Irregularities occurred in the Ruhunu Maha Kataragama Dewale

From time immemorial the Ruhunu Maha Kataragama Dewale has been one of the few sacred sites where multi religious groups visit throughout the year for veneration and offerings and this Dewale is governed under the supervision of the Commissioner General of Buddhist Affairs in terms of provisions cited in Section 4 (1) of the Buddhist Temporalities Ordinance No.19 of 1931. Further, it shall be lawful for the Minister in charge of the subject of Buddhist Affairs to make regulations for the control of the Dewale in terms of Section 43 of the said Ordinance while the Commissioner General of Buddhist Affairs shall impose rules for the control of finance and assets of the Dewale in terms of Sections 25, 35 (1) and 35 (2) thereof.

A retired High Court Judge had carried out an inquiry relating to a problematic incident alleged to have occurred on 22 August 2017 in this Dewale, and issued a report to the Commissioner General of Buddhist Affairs on the request made by him. Further, after considering the said report, the Attorney General in his opinion had expressed that, “It is appropriate to carry out an audit or a forensic audit by the Auditor General to ascertain the irregularities occurred relating to accounts and present a report thereon, before filing a charge sheet.”

Accordingly, the Commissioner General of Buddhist Affairs had forwarded a letter bearing his No.බෞකො/විභාදේ 123 ජී 31 (1) 32 dated 26 March 2018 to me under the Heading, “Carrying out an Examination relating to Irregularities occurred in the Ruhunu Maha Kataragama Dewale”, on which I have carried out a special audit examination in this regard in terms of Section 38 (1) of the Buddhist Temporalities Ordinance, No.19 of 1931.

According to the said examinations, it was identified that the financial control of the Kataragama Dewale is not carried out in a proper manner, the internal control which exists relating to assets such as lands, vehicles and gold jewellery is inadequate and that certain transactions had been carried out without transparency by the Basnayake Nilame of the relevant period.

Making regulations by the Minister in terms of the relevant Ordinance for regularization of financial and other controlling activities of the Dewale, establishment of an effective internal control relating to all receipts and payments of the Dewale, in the application of methods of financial planning such as bank overdrafts for long term development activities, the necessity of making provisions by the

Commissioner General of Buddhist Affairs as well as the essential assignment of duties to relevant parties relating to failure in the proper control of assets were identified.

Special Audit Report on the Sri Lanka Cricket

In terms of Section 13 of the National Audit Act No.19 of 2018, the special audit report is issued relating to the Sri Lanka Cricket by drawing attention on 5 items. The report consists of 6 Chapters and the first chapter discusses general introduction on the report and Chapters from 2 to 6 discuss each item separately.

The establishment of Cricket University as a Higher Technology Training Centre for the training of Cricketers by the Sri Lanka Cricket has been examined in Chapter 2. Establishment of a University has to be done after a proper study and having being paid attention of other requirements and after fulfilling relevant legal requirements as well. After being decided such requirements, a suitable location needs to be selected. Nevertheless, without performing preliminary requirements properly to the Open University, the Sri Lanka Cricket had obtained on 30 year lease basis, a plot of land denotes as Walakumburawatta, situated within the Kandy Town Limit under the Kandy Malwatta Maha Vihara Chapter and belongs to the Kandy Gangarama Temple. Even though, an agreement had been entered into to obtain this land on lease basis, such lease rent had not been paid up to 3 years. The approval of the Executive Committee had been obtained for granting a sum of Rs.25 million each for a Malwatta Chapter Project and to the Kandy Gangarama Temple. Even though only a sum of Rs.25 million had been paid by a cheque written in the name of the Most Ven. Mahanayaka Thera of Malwatta Chapter, the Ven. Mahanayaka Thero or the Chief incumbent of Gangarama Temple, Ven. Priest were not made aware of about the balance Rs.25 million. It was therefore observed in audit that the relevant land had been acquired on lease basis without being carried out a proper study to open this University this land is in vain up to now and all expenditure incurred up to now had become fruitless.

International TV broadcast, Radio, Internet, Mobile (wireless) and sponsorship rights of Sri Lanka Cricket, entering agreements relating to marketing revenue collection and matters incidental thereto have been examined in the 3rd chapter. Collection of funds relating to the sale of telecast right and the invoicing process had been carried out through the E-mail system of the Sri Lanka Cricket and the special Technology assistance to ascertain the Technology assurance had been obtained from the Sri Lanka CERT. Accordingly, as the tender had been awarded to the Jaj TV which submitted a minimum bid relating to the transfer TV broadcast right for the period from 2013 to 2020, the Sri Lanka Cricket sustained financial loss of US$ 18,242,411 and it was accepted by the Sri Lanka Cricket as well. In accordance with that agreement 30 days before beginning of the year (for every calendar year), an unconditional, irrevocable bank guarantee by covering all payments needs to be given but it had not been so done. For the recovery of US$ 108,257.30 as demurrage charges for 3 instances of delays in the year 2018, the Sri Lanka Cricket had not even issued invoices. An attempt has been made to exchange a sum of US$ 436,541 (35%) the second instalment as per the agreement for the sale of telecast right in the Sri Lanka tour of South Africa from 12 July to August 14 of 2018 to a bank account extraneous to the official bank accounts submitted to audit by the Sri Lanka Cricket. The Sony pictures Network India (Pvt) Ltd had confirmed that the 3rd installment of US$ 187,084.70 (15%) of this tour had been paid to the Bbva campus bank said to be Sri Lanka Cricket. Similarly, the telecast rights sales income of US$ 11,128,809 relating to the Sri Lanka Tour of England Cricket team held from 10 October to 27 November 2018 had been attempted to send to an account in the name of Fanya Siln Co. bearing Account No.788 – 796894 – 883 it was observed that due to weakness of the internal control system over the Information Technology System of the Sri Lanka Cricket, this money receivable relating to the sale of telecast right had to be attempted to exchange or to exchange to other accounts. According to the Technology Confirmation in the CERT report, it was not established that the cricket authorities were unaware about this. Of the 15 bank accounts presented to audit, it was not established in audit that for what purpose, 4 bank accounts had been opened. It was further observed that another 3 accounts in foreign banks, not submitted to audit had existed in the name of Sri Lanka Cricket. In addition, a risk of existing some other bank accounts was observed.

Recruitment of a National Chief Trainer for the Sri Lanka Cricket Team had been examined in the 4th chapter. It was not established that a formal approval to take decisions for the recruitment of a new trainer had been given to an officer by the Executive Committee and an agreement had been entered into without making aware of the executive Committee about conditions, agreements, directions and remuneration etc. In terms of Section 10 of this agreements, it was observed that the deviation conditions from the agreement had been included, very favourable to the trainer as compared with the Sri Lanka Cricket on the agreement of settling PAYE tax amounting to Rs.15,537,700 on behalf of the Trainer, an additional expenditure had to be incurred by the Sri Lanka Cricket. As a result of disregarding certain income in the tax computation of the payment of a total Pay As You Earn tax of Rs.1,593,455 had been evaded to the Department of Inland Revenue.

Sale of local Broadcast right on international cricket tournament by the Sri Lanka Cricket was subjected to examine in chapter 5. In this issue, contrary to the cabinet decisions in marketing radio broadcast right and without following tender procedure, transactions had been carried out through an E-mail account of an officer’s name of the Institute instead of the official E-mail account. Bank guarantees had not been obtained and instances of being evaded payments were observed. It is also served here that the Sri Lanka Cricket had transacted with a same Company network during various periods and appearing by various names.

The 6th Chapter consists of activities relating to the establishment of a company, limited by guarantees named as Cricket Aid (Guarantee) Ltd. of the Sri Lanka Cricket. Before being registered this company, the approval of the Executive Committee had not been obtained. At the beginning of the company a sum of US$ 54,000 had been sent to a party reside in England for Programme called Cricket Aid charity event at Lords Lounge Room for the treatment of Kidney patients and that party had been given authority to open foreign bank accounts as well. However, the manner how the expenditure was incurred or a specific report on the collection of funds therein were not made available to audit. Furthermore, agreements had been entered into those receivables due from various sponsors of the Sri Lanka Cricket to be paid to this company and accordingly a sum of Rs.14 million had been paid to that company in the year 2018. However, payment of any assistance to kidney patients whatsoever or a formal programme had not been prepared. Further the manager of the company was paid a salary up to now even exceeding the expenditure incurred on charitable activities. A fruitless expenditure of Rs.1,285,885 as demurrage charge due to delay in discharging a stock of food from the port sent by a foreign country to be distributed as aids and proper financial statement had also not been prepared but a sum of Rs.694,654 had been spent as audit and accounts functions. Action had not been taken to get the accounts of the company audited by the Auditor General and it was not established that the audit had not been got done even by a professional auditor. Accordingly, the expected objectives were not achieved with the establishment of this entity as Cricket Aid (Guarantee) Ltd.

Special Audit Report on the Functioning and Contribution of the Agrarian Banking System for the Needs of the Farmers in Ratnapura District

In terms of Section 46 (1), 46 (2), 46 (3) and 46(4) of the Agrarian Services Act No. 58 of 1979 as amended by the Agrarian Services (Amendment) Act No. 4 of 1999, read with Section 99 (2) (b) of the Agrarian Development Act No. 46 of 2000 these Agrarian Banks (Pilot) project was initiated in 1998 to facilitate the function assigned to the Agrarian Services Committee with the objective of building a proud and self-sufficient Agrarian Society which is a sub-unit of the Agrarian Development / Agrarian Services Committee and it has been in service for nearly 20 years.

When all the objectives of the Agrarian Bank are summed up, the main objective of the Agrarian Bank is to alleviate the poverty of the rural farmer community, increase their investment strength and expand the agrarian economy. This report reviews the extent to which the 30 Agrarian Banks in the Ratnapura District have contributed to achieve this objective effectively.

The following shortcomings and weaknesses in the functioning of the Agrarian Bank in the Ratnapura District need to be identified and corrected in the inability of the Department of Agrarian Development to implement strategic plans to implement the Agrarian Bank (Pilot) Project in a developmental approach during the last 20 years to become the official banker of local agrarian development by providing a wider range of services for the prosperity of Agrarian life through agriculture.

- Lack of awareness of Agricultural Research and Production Assistants who should be closer to the target farmer in the Ratnapura District about Agrarian banking system and lack of their rural leadership.
- Instead of serving the target community as a business unit the banks are functioned in the nature of an office which maintains books, documents and files due to lack of proper supervision of Agrarian Banks in Ratnapura District.
- Lack of adequate communication about Agrarian Bank to the farmers in the District
- Although it is essential that farmer organizations intervene in the upliftment of farmers and contribute to the agrarian banking system lack of substantial contribution from farmer organizations in the district.
- When state commercial banks implemented government subsidy schemes for the farmer community as well as other welfare schemes and refinancing schemes the failure of Agrarian Banks in the District which can be closely related to farmer community.
- Not functioning in the district as an institution that helps the rural farmers to increase their savings and gain the capital they need.
- Functioning of Agrarian Banks in the Ratnapura District is a dormant institution which maintains the salaries and allowances of the employees which is an additional burden to the Government.

Accordingly, by achieving the objectives set by the Agrarian Bank, Ratnapura District farmers should be saved from informal financial transactions by the provision of microfinance facilities to the farmers. Agrarian Banks should be the leading agency for the farming community in the district to achieve global indicators for sustainable development with the objective of building a strong agrarian generation and promoting sustainable agriculture by building a commercial agrarian economy beyond subsistence agriculture. Moreover, since these banks are not regulated by an institution which regulates financial institutions, it was observed that a formal arrangement with proper regulation and follow up and also special attention is needed in respect of the said institutions with the intervention of Government including the Ministry of Agriculture and the Department of Agrarian Development.

Special Audit Report on the Investment of Funds belonging to the Postgraduate Institute of Science Affiliated to the University of Peradeniya, in Fixed Deposits

The Postgraduate Institute of Science had been established in terms of the provisions set out in Sections 18 and 214 of the Universities Act, No. 16 of 1978. Fees are levied on the students enrolling for the courses, and that contributes to the income of the Faculty. The excess of the income so collected, had been invested in fixed deposits by the Institute, and it was identified in audits that there were risks involved in the withdrawal of such fixed deposits.

Hence, a broader audit was conducted on the investments made by the Postgraduate Institute of Science in fixed deposits during the period of 2005-2016. This report is issued with the inclusion of observations made in that connection. As such, the facts observed include: a fraud involving a sum of Rs.50,338,159 had been committed by the then Senior Assistant Bursar when the said deposits had been withdrawn; a sum amounting to Rs.5,000,000 had been misappropriated during a period of 06 months; and, due to those reasons, the Institute had been deprived of an interest income amounting to Rs.24,346,723.

The said Bursar had withdrawn the fixed deposits without an approval or a requirement, and those funds & the interest income had neither been banked, nor accounted properly. Furthermore, the connected parties had not taken measures to ensure proper supervision whilst being observed that the Bank had neglected their responsibility as well.

Special Audit Report on the Role of the Department of Measurement Units, Standards and Services and Usage of Assets of the Department

In engaging services and monitoring activities based on measurements, with the main objective of ensuring the equity and justice of producers, traders, supply of metrological and other service providers and consumers the Department of Measurement Units, Standards and Services and the National Measurement Laboratory have been established in Sri Lanka in terms of Measurement Units, Standards and Services Act, No.35 of 1995. Nevertheless, according to the functions of the Department of Measurement Unit Standards and Services during the previous period it was identified that such objectives have not been achieved as anticipated and as such this report was issued. The audit was carried out by drawing more attention on the present functions of the Department and its assets control. It could be identified that the Department had not taken action to accomplish services to general public effectively due to various weaknesses, comprising non-execution of powers vested in the above Act properly, non-use of the National Measurement Laboratory belongs to the Department for researches effectively non-fulfilment of annual raids and verifications appropriately, non-execution of procurement procedures appropriately, non-use of assets effectively etc. It is recommended that the Department needs to take necessary steps to prevent the entering of substandard weighing and measuring equipment to the Market, execution of powers and functions vested by the Measurement Units, Standards and Services Act No.35 of 1995 appropriately, regularize the measurement functions carry out by District Offices regularize the Procurement functions of the Department, effective use of properties belongs to the Department and plan functions of the Department in a manner enabling to provide an efficient service to the general public.

Special Report on Current Process of Issuing Driving Licenses by Department of Motor Traffic

The Department of Motor Traffic was established in terms of the Motor Traffic Act No. 17 of 1951 and it had been shown that one of its main functions was to issue Driving Licenses for motor vehicles. Accordingly, the Department had issued the Driving License Books (DLB) until 1989 and instead of the DLB, a card had been introduced as a Driving License Card in the year 1989. Steps had been taken to insert a strip of Holographic Security Devices and Magnetic Tape as a safeguard for the Driving Licenses. The new Smart Card category had been introduced to the Driving Licenses since 27 March 2009 with the objectives of the possibility of forged printing of existing Driving Licenses, the necessity of printing of a new Driving License with the very safe and operating facilities using latest technological methods and implementing laws relating to supervision of drivers more efficiently and effectively.

The approval of the Cabinet of Ministers had been granted to enter into agreement for developing and implementing of a Computer System and a Computer Information System for the issuance of a New Driving License and to transfer those systems to the Department later on (on BOT Basis). It had been entered in to an agreement on that approval on 27 November 2006 for 07 years with the Metropolitan Office (Pvt.) Company and Face Technologies (Pvt.) Company. The amount payable by the Department for the tasks of "Developing a computer system and information system for issuance of Smart Card type Driving Licenses, implementation of those systems by the contractor for a period of seven years and subsequently transferring that system to the Department" as per the agreement, had been absorbed by the Company to the cost of a Smart Card Driving Licenses printed and issued during the contract period. For that reason, the price of a Smart Card had been at a high cost of Rs.1,340 + VAT.

By present, all other functions relating to the issuance of the Driving Licenses besides the printing of Driving Licenses are being carried out by the officers of the Department and since the agreement period of all assets required for the purpose of printing the Driving License had expired, those should be owned by the Department. Accordingly, it was not observed that the necessary steps were taken to carry out a study by the Department and to take over the assets and carry out printing of Driving Licenses. Development of the required background to carry out that task efficiently and effectively was not completed yet by providing information to police officers to enforce the traffic law on supervision of drivers which was one of the main objectives of developing a new Smart Card Driving Licenses. Also in extending the contract period, the financial benefits receivable to the Department had not been considered due to the assets which should belong to the Department of Motor Traffic were handed over to the Company itself for re-use. Further, due to the fact that the investment for infrastructure development had been fully earned during the supplier contract period (that is, by March 2016), the cost of transfer to the contractor could be recognized as a futile expense furthermore. It was observed that currently, because of the new technological advances enable to print Smart Cards with electronic chips at a high quality laser engraving technology for a maximum price between Rs.300 - Rs.500. Therefore, it was recognized that the Department should draw attention to the additional high prices imposed on public on Smart Card Driving Licenses.

Special Audit Report on the Civil Registration (Births, Marriages and Deaths) and the Use of Information Technology in Sri Lanka – Registrar General's Department

Civil registration of the public, the custody and preservation of registers on births, marriages and deaths and the issuance of copies of those certificates is one of the main functions assigned to the Registrar General's Department. Accordingly, the Registrar General's Department had introduced a methodology to augment the efficiency of this process with the use of state-of-the-art technology. For this purpose, two projects comprising the (e-BMD) programme , the programme for the issue of births, marriages and deaths certificates with the use of information technology and the (e-Population) programme, the programme of filing, creating , retaining in safe custody or issuing the data relating to the births and deaths through the electronic mode had been implemented. The minimization of inordinate time taken in searching data, expediting the public service, minimization of storage space facilities required for storing files containing certificates and the damages physically caused to such data by the natural disasters were the objectives expected from the implementation of those projects.

The background that induced the issue of this report was to evaluate the efficiency of the registration activities of births, marriages and deaths through the said e-programmes and recognize the manner in which the public service had been rendered by the related parties whilst properly fulfilling their responsibilities. The information for this report was

gathered through the conduct of spot inspections at the Head Office of the Registrar
General's Department, Central Record Room and 14 Divisional Secretariats in Colombo, Gampaha and Kalutara District.

Although this programme was launched with the prospect of achieving above objectives, the total number of birth, marriage and death certificates yet to be scanned pertaining to the period from 1960 to the month of May 2018 was observed to be 3,423,590 and permission had been granted to issue certificates so as to cover the whole island (except for Kandy and Mullaitivu Districts). Albeit, due to a large number of issues such as to lack of LGN facilities in 12 Divisional Secretariats, deficiencies found in the LGN facilities provided and their slow operations, failure in duly operating the e-population registration system despite lapse of 06 years from the scheduled date of its enforcement with effect from 10 July 2012, the above objectives could not be achieved.

Special Audit Report pertaining to Usage of Properties of Municipal Council of Matara by Individual Parties

Municipal Council of Matara which was established on 15 April 2001 through the Gazette notification No. 1152/21 dated 06 October 2000, has been playing its role of development of roads, common health facilities, public utility services & welfare services and wellbeing on the theme of „Prosperous commercial city shouldering development of proud residents of Mathota'.

Municipal Council of Matara possessed and owned a land area of 106 acre and 32.245 perches and 51 buildings. Although it is essential to efficiently make use of lands and buildings as per Municipal Council Ordinance, other circulars and instructions, such properties of the Council were not used and some of them are being improperly used by individuals resulting in a risk of not productively using lands and buildings. That is the main reason to prepare this report and in that process a random of council lands and buildings was subjected to a physical inspection.

In such documentary and physical inspections following matters were observed. Lands and buildings owned by the council had not been annually surveyed, not duly documented, misused by individuals, properties existed unused, properties were not assessed, agreements were not updated and rentals were not properly recovered. This inspection and report has emphasized the need of preparing a proper system to productively and efficiently use Council lands and buildings adhering to the vision of the Municipal Council.

Consolidated Fund

Observations

- **Government Revenue**
- **Tax Revenue**
- **Government Revenue and Budget Deficit**
- **Inadequacy of Revenue for Settlement of Recurrent Expenditure**
- **Budget Deficit**
- **Financing the Budget Deficit**
- **Public Debt**
- **Obtaining Loans exceeding the Limit of Debt restricted by Parliament**
- **Exceeding Maximum Loan Restriction**
- **Increase in Per Capita Debt**
- **Growth in Foreign Borrowings in the Public Debt Balance**
- **Domestic and Foreign Borrowings, Payment of Loan Installments and Interest and Government Revenue**
- **Decrease in Government Revenue and Increase in Payment of Loan Installments and Interest**
- **Inadequacy of collected Revenue for Payment of Loan Instalments and Interest**
- **Payment of Loan Instalments and Interest exceeding Loans obtained**
- **Non-utilization of Loans in Development Projects**
- **Understatement of Borrowings of Rs.152 billion in the Financial Statements of the Republic**

Consolidated Fund

In terms of provisions in Article 148 of Chapter XVII of the Constitution of the Democratic Socialist Republic of Sri Lanka, Parliament shall have full control over public finance. In terms of Article 149 of the Constitution, the revenue collected by the Government should be credited to the Consolidated Fund and the manner of making payments from the Consolidated Fund is stipulated in Articles 150 and 152 of the Constitution.

Legal provisions required for the Government expenditure for year 2019 have been made by the Appropriation Act, No 6 of 2019. Accordingly, provision amounting to Rs. 4,728.19 billion including additional provision granted, have been made for supplies and services of the Government. Details appear in Table 04

Source	Capital Provision	Recurrent Provision	Total
	Rs. Billions	Rs. Billions	Rs. Billions
Provision made by the Appropriation Act for supplies and services	**844.29**	**1,275.77**	**2,120.06**
Provision for special law services charged on the Consolidated Fund and approved by existing laws	**1,300.86**	**931.14**	**2,232.00**
Provision made additionally for supplies and services (Supplementary Estimate)	**147.55**	**205.39**	**352.94**
Provision made additionally for expenditure on special law services	**0.16**	**23.03**	**23.19**
Total	**2,292.86**	**2,435.33**	**4,728.19**

Table 04 – Provision made for Government supplies and services
Source – Department of National Budget

In terms of Section 6 of the Appropriation Act, No 6 of 2019, additional provision of Rs. **176.10** billion had been made for the utilization of provision for purposes mentioned in paragraph 2.3.3 of the Annual Budget Estimate under the Supplementary Support Services and Contingent Liabilities Project under the Development Programme of the Department of National Budget – Head 240. A sum of Rs. **159.77** billion of the said provision had been transferred to other Expenditure Heads in the year under review. Accordingly, a sum of Rs. **16.33** billion of the provision made for the aforesaid project, had been saved by the end of the year under review. Details appear in Table 05

Nature of Expenditure	Net Provision	Transfer of Provision to other Heads	Savings	Savings as a Percentage of the Net Provision
	Rs. Billions	Rs. Billions	Rs. Billions	
Recurrent	**70.40**	**69.54**	**0.87**	**1.23**
Capital	**105.70**	**90.23**	**15.47**	**14.63**
Total	**176.10**	**159.77**	**16.33**	**9.28**

Table 05 – Provision and Transfers under the Supplementary Support Services and Contingent Liabilities Project
Source – Department of National budget

Provision made for Government supplies and services for the year under review had been Rs. **4,728.19** billion while provision made for the preceding year had been Rs. **4,297.83** billion. The provision for the year under review had been increased by Rs. **430.36** million representing 10.01 per cent as compared with the preceding year. A sum of Rs. **4,075.83** billion of the provision made for the year under review had been utilized and a sum of Rs. **652.36** billion or 13.80 per cent of the provision made, had been saved.

The total net provision made for recurrent expenditure amounted to Rs.**2,416.74** billion and out of that, a sum of Rs. **2,321.62** billion had been utilized. As such, provision of Rs. **95.12** billion had been saved and it represented 3.94 per cent of the net provision. Moreover, provision of Rs. **1,011.45** billion had been made for capital expenditure of the year under review and out of that, a sum of Rs. **637.22** billion had been utilized, thus indicating savings of Rs.**374.23** billion representing 37.00 per cent of the provision made. Further, provision of Rs. **1,300.00** billion had been made for the payment of installments on domestic and foreign borrowings and out of that, a sum of Rs. **1,116.99** billion had been utilized, thus indicating savings of Rs. **183.01**billion representing **14.08** per cent of the provision made for payment of installments on domestic and foreign borrowings.

Except for the payment of loans relating to the year under review, the capital provision amounted to Rs. **1,011.45** billion and out of that, a sum of Rs. **637.22** billion representing 63.00 per cent had been utilized. However, it had increased by Rs. **11.91** billion as compared with the utilized amount of capital provision amounting to Rs. **625.31** billion for the preceding year. Moreover, provision of Rs. **2,416.74** billion had been made for recurrent expenditure of the year under review and out of that, a sum of Rs. **2,321.62** billion representing 96.06 per cent of the provision made, had been utilized.

However, it had increased by Rs. **212.66** billion as compared with the recurrent expenditure of Rs. **2,108.96** billion for the preceding year. As such, the total expenditure (Except for payment of loans) amounting to Rs. **2,734.27** billion of the preceding year had increased up to Rs. **2,958.84** billion by Rs. **224.57** billion in the year under review. The total expenditure except for payment of loans of the year under review, had been 18.97 per cent of the estimated Gross Domestic Product. Information on Government expenditure and Gross Domestic Product for the year under review and 05 preceding years, is given in Table 06

	2014	**2015**	**2016**	**2017**	**2018**	**2019**
Recurrent Expenditure (Rs. Billions)	1,370	1,673	1,771	1,946	2,109	2,322
Capital Expenditure (Rs. Billions)	596	684	594	657	625	637
Total Expenditure (Except for payment of loans) (Rs. Billions)	1,966	2,357	2,365	2,603	2,734	2,959
Gross Domestic Product (Rs. Billions)	9,785	11,183	11,839	13,289	14,200	15,600
Capital Expenditure as a Percentage of the Total Expenditure(Except for payment of loans)	30	29	25	25	23	22
Total Expenditure (Except for payment of loans) as a Percentage of Gross Domestic Product	20	21	20	20	19	19

Table....... – Recurrent and Capital Expenditure and Gross Domestic Product
Source - Financial Statements of the Republic and Annual Reports of the Central Bank

Except for the payment of loans, the capital expenditure of the year 2014 had been Rs.**596** billion and it had been 30 per cent as compared with the total expenditure (Except for payment of loans) of Rs.1,966 billion of the year. The said percentage had decreased up to 22 per cent by 8 per cent by the end of the year under review. The total expenditure (Except for payment of loans) amounting to Rs. **1,966** billion of the year **2014** had been 20 per cent of the Gross Domestic Product of that year and the said percentage had decreased up to 19 per cent by the end of the year under review. Details on those percentages during the period of 05 preceding years appear in Figure 01

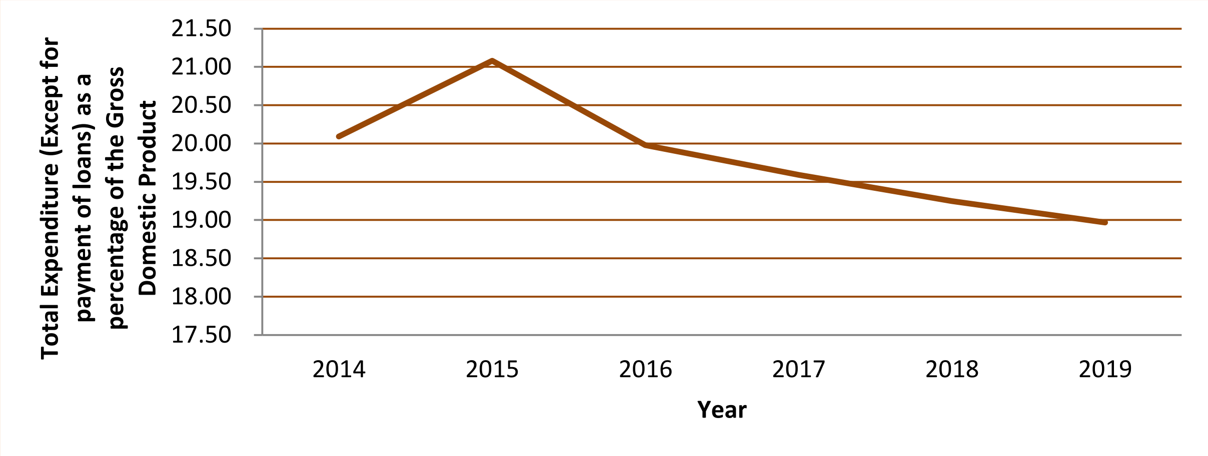


Figure....... – Total Expenditure as a percentage of the Gross Domestic Product
Source - Financial Statements of the Republic and Annual Reports of the Central Bank

A total sum of Rs. **888.79** billion had been spent for payment of interests on domestic and foreign borrowings and payment of discounts on Treasury bills and Treasury Bonds in the year under review. It represented 38.21 per cent of the total recurrent expenditure and it had increased by Rs. **36.60** billion representing **4.29** per cent as compared with the preceding year. In addition to that, a sum of Rs. **528.79** billion for personal emoluments, Rs. **703.51**billion for grants and subsidies and Rs. **199.83** billion for other goods and service expenditure, had been spent. The above expenses had made a great contribution to the total recurrent expenditure and the revenue collected during the year was inadequate to settle the overall recurrent expenditure. Accordingly, the recurrent expenditure over the total Government expenditure during the year under review had been Rs. **414.43** billion. It had increased by Rs. **240.56** billion representing **138.35** per cent as compared with the preceding year. Details on recurrent expenditure, Government revenue and recurrent expenditure over the Government revenue of the year under review and 05 preceding years are given in Table 07

	2014	**2015**	**2016**	**2017**	**2018**	**2019**
	Rs.Billions	Rs.Billions	Rs.Billions	Rs.Billions	Rs.Billions	Rs.Billions
Government Revenue	1,127.63	1,394.24	1,698.76	1,845.02	1,935.09	1,907.20
Recurrent Expenditure	1,370.05	1,672.92	1,770.88	1,945.57	2,108.96	2,321.62
Recurrent Expenditure over the Government Revenue	242.42	278.68	72.12	100.55	173.87	414.42

Table 07 : Government Revenue, Recurrent Expenditure and the Recurrent Expenditure over the Government Revenue
Source :- Financial Statements of the Republic

Moreover, a sum of Rs. **637.22** billion had been spent in the year under review for capital expenditure as well and domestic and foreign borrowings had to be obtained for the payment of part of recurrent expenditure, public investments and loan installments. Accordingly, a considerable amount had to be paid as annual loan installments and interests thereon and it had become an incremental cost annually.

The recurrent expenditure, public investments and loan repayments of the year under review totalled Rs. **4,075.83** billion and out of the said overall expenditure, 27.41 per cent for payment of loans and 21.80 per cent for payment of loan interests and discounts had been spent. Details appear in Figure 02

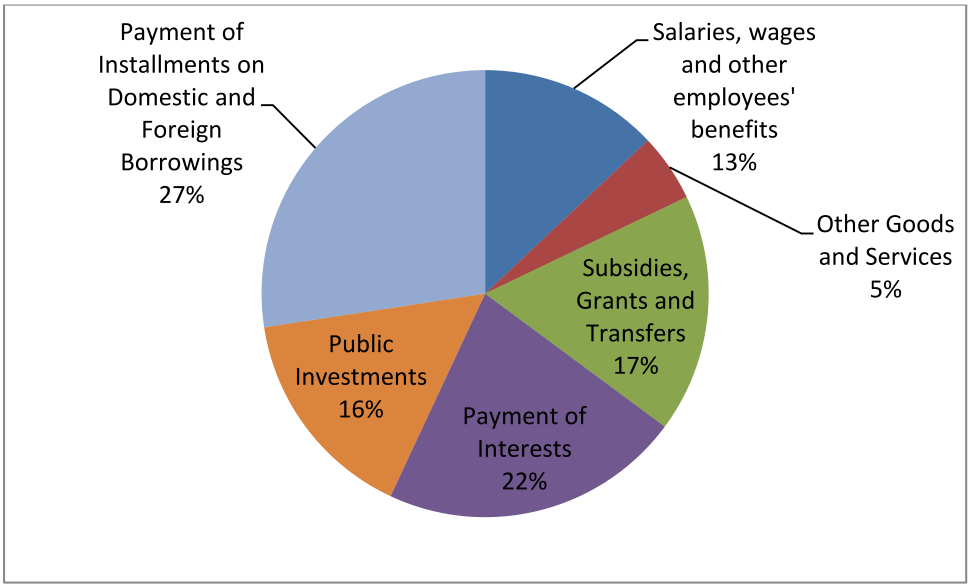


Figure 02 – Recurrent, Public Investments and Payment of Loans of the year 2019
Source - Financial Statements of the Republic

The role of the Government had been classified under 42 Sectors and 13 Clusterts according to paragraph 4.6 of the Annual Budget **2019**. The manner of division of the overall Government expenditure appears in Figure 03

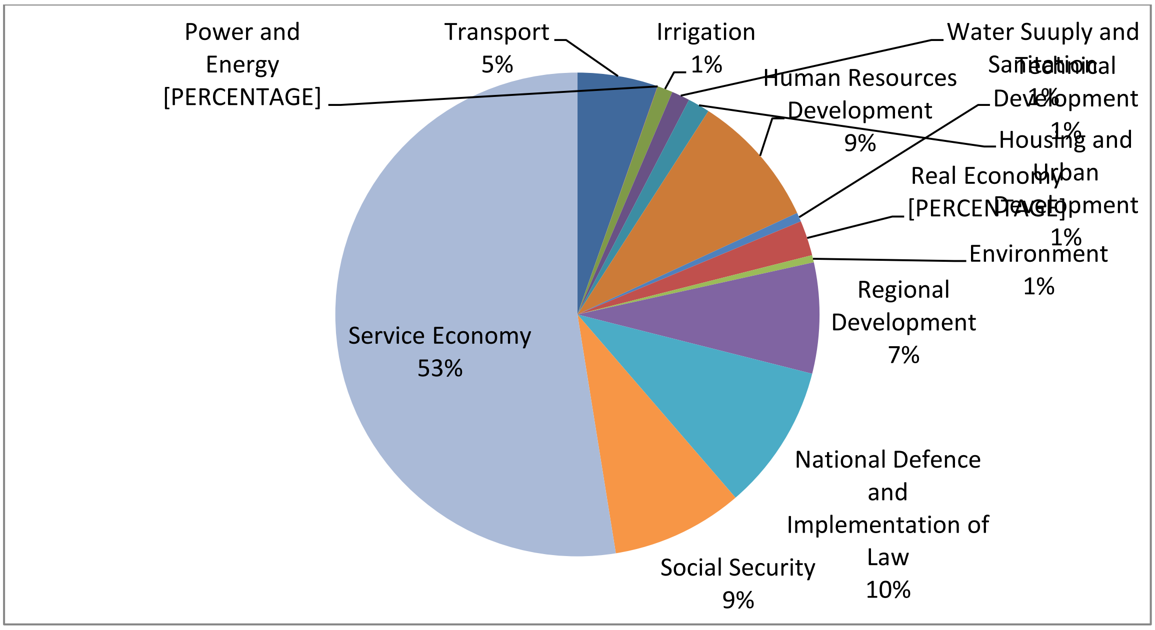


Figure 03 – Manner of division of the overall expenditure among 13 Sectors
Source – Financial Statements of the Republic- **2019**

Even though out of the overall expenditure, a sum of Rs. **2,140.47** billion had been spent for service economy, out of that, sums of Rs. **1,116.98** billion and Rs. **888.79** billion had been spent for the payment of installments of domestic and foreign borrowings and interests thereon respectively. Accordingly, payment of installments and interests out of expenditure for service economy appear in Figure 04

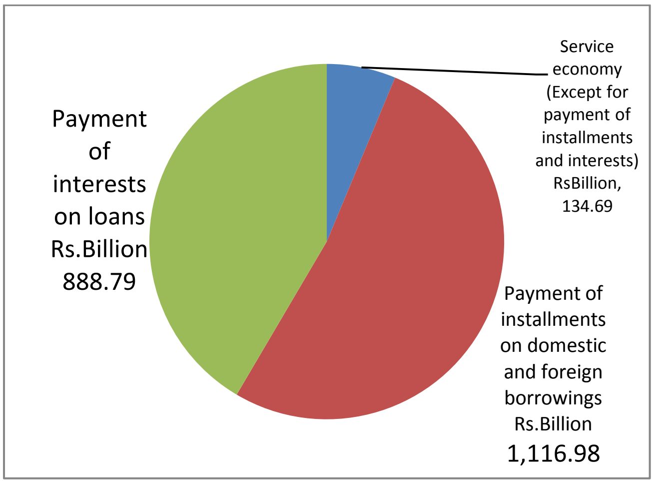


Figure 04 – **Total Service Expenditure and Payment of Loan Installments and Interests**
Source – Financial Statements of the Republic- 2019

Government Revenue

According to the Annual Budget Estimate for the year 2019 approved by the Parliament of the Democratic Socialist Republic of Sri Lanka, the Government Revenue estimated as tax revenue, non-tax revenue and other revenue amounted to Rs.2,360.60 billion and it was an increase of Rs.**127.50** billion or **5.71** per cent as compared with the estimated revenue amounting to Rs. **2,233.10** billion for the preceding year. Revenue of Rs. **1,907.19** billion had been collected in the year under review as compared with the estimated revenue and it had decreased by Rs. **453.40** billion representing **19.21** per cent than the estimated revenue. The revenue collected in the year under review had decreased by Rs. **27.90** billion representing 1.44 per cent as compared with the revenue of Rs. **1,935.09** billion collected in the preceding year. In comparing the Government revenue with the Gross Domestic Product, it had been 13.62 per cent in the preceding year. However, it had decreased up to **12.23** per cent in the year under review. The said ratio had been reported as 14.3 per cent in the year 2016 and the ratio of subsequent years was gradually decreasing. Details appear in Figure 05

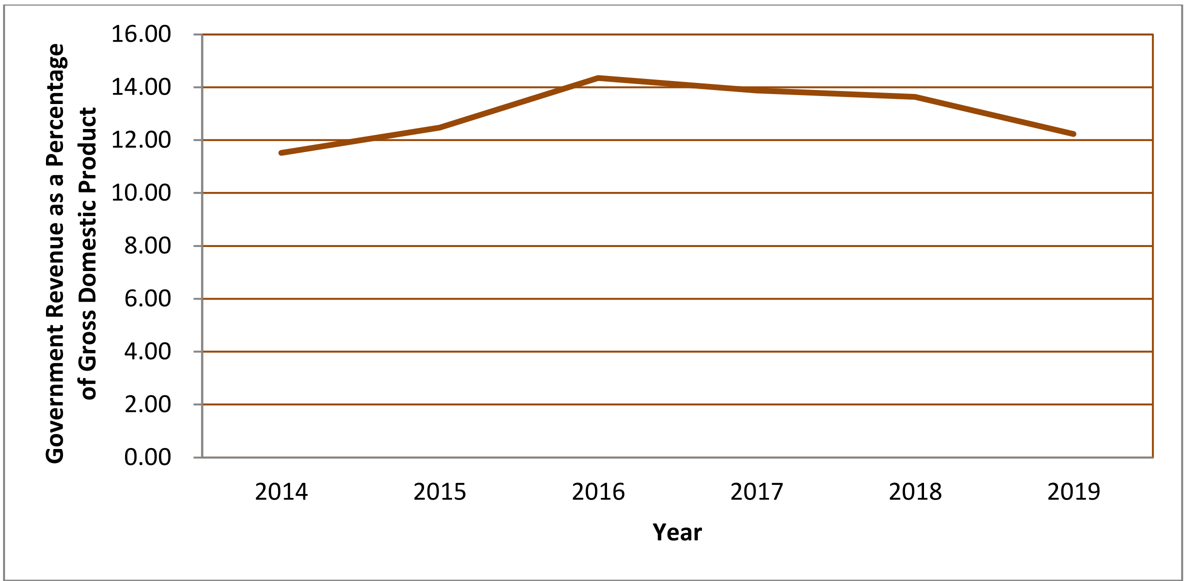


Figure 05 - Government Revenue as a Percentage of Gross Domestic Product
Source – Financial Statements of the Republic

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 and shown as "Income Tax, Taxes on Domestic Goods and Services and Tax on International Trade" in the financial statements of the Republic. Even though the collection of Rs. 385.00 billion as Income Tax had been expected for the year under review, revenue of Rs. 427.70 billion had been collected exceeding the said target of Rs.**42.7** billion representing **11.09** per cent. Even though it had been estimated to collect Rs. **1,291.36** billion from taxes levied on Domestic Goods and Services, only Rs. **973.84**, billion out of that, had been collected. Even though it had been estimated to collect Rs. **400.64** billion from taxes levied on International Trade, only a sum of Rs. **333.38** billion out of that, had been collected by the end of the year under review. Even though it had been expected to collect Rs. **2,077.00** billion from the Tax Revenue, out of that, only a sum of Rs. **1,734.92** billion or **83.53** per cent had been collected. Even though the collection of Rs. 283.60 billion from the other non-tax revenue had been estimated for the year under review, revenue amounting to Rs. **172.27** billion had been collected. Classification of the Government revenue for the year under review and the Government revenue and the revenue collected according to the said classification, appear in Figure 06

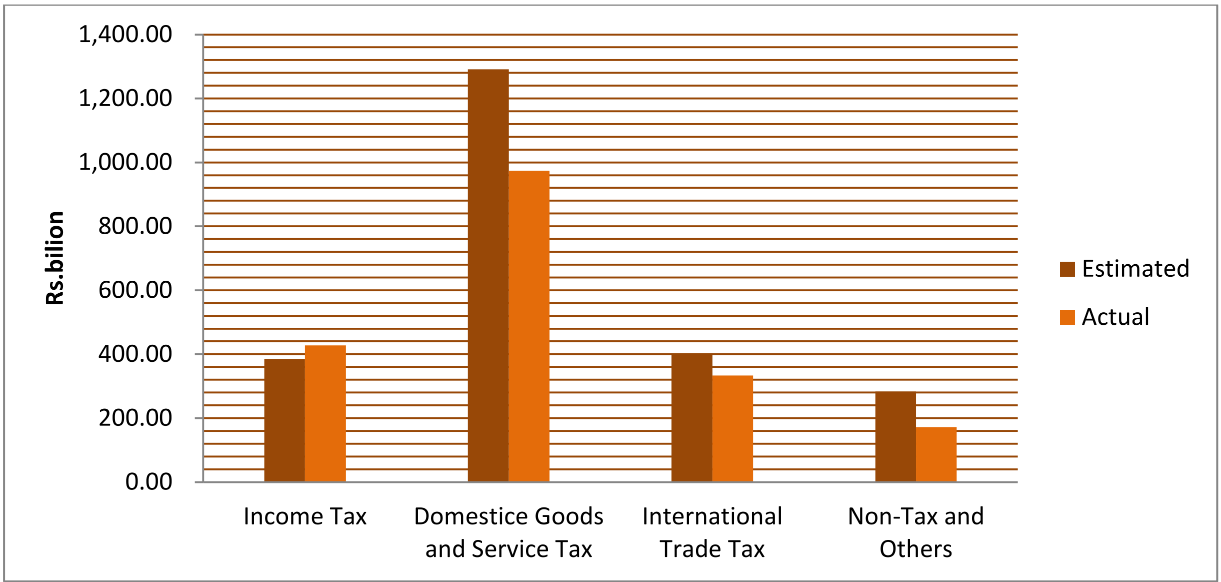


Figure 06 **– Estimated and Actual Government Revenue**
Source – Financial Statements of the Government - 2019

Tax Revenue

According to the financial statements of the Republic, the tax revenue for the year under review amounted to Rs. **1,734.92** billion and it represented 90.97 per cent of the total Government revenue. The tax revenue of the preceding year had been Rs. **1,712.32** billion and it had increased by **1.32** per cent representing Rs. **22.60** billion in the year under review.

Income tax

The income tax which was Rs. **310.45** billion had increased up to Rs. **427.70** billion by **37.77** per cent representing Rs. **117.25** billion in the year under review. It represented **24.65** per cent of the total income tax and **22.43** per cent of the total Government revenue. Increase in the corporate income tax and non-corporate income tax by Rs. **101.35** billion and Rs. **15.90** billion had mainly attributed to the said improvement of income tax.

Taxes on Domestic Goods and Services

Out of the tax revenue collected in the year under review, taxes levied on domestic goods and services had been Rs. **973.84** billion representing **56.13** per cent of the total tax revenue and **51.06** per cent of the total Government revenue. It had been **61.91**per cent and **54.79** per cent of the total tax revenue and total Government revenue respectively in the preceding year.

According to the financial statements of the Republic of the year under review, the Value Added Tax and Nation Building Tax collected under domestic goods and services had contributed over **26.98** per cent towards the total Government revenue. Revenue of Rs. **115.38** billion had been collected from excise duties in terms of the Excise Ordinance and it represented 6.05 per cent of the total Government revenue. Revenue of Rs. **284.09** billion had been collected from taxes charged on products (Special provisions) such as cigarettes, liquor, petroleum products, motor vehicles, and other revenue and it represented **14.90** per cent of the total Government revenue.

Taxes levied on International Trade

According to the financial statements of the Republic, revenue of Rs. **333.38** billion had been collected in the year under review from taxes levied on international trade and it represented **19.22** per cent and **17.48** per cent of the total tax revenue and total Government revenue respectively. Collection of revenue from taxes levied on international trade had decreased by Rs. **8.33** billion representing **2.44** per cent in the year under review as compared with the preceding year.

The following factors had materially impacted on the great contribution and improvement of the revenue which can be considered as indirect taxes in the structure of the Government revenue as mentioned above and revenue collection departments had not taken adequate measures to compute the financial value of those impacts. As such, it was observed that it is not adequate to take into account the growth of the revenue collected alone, to measure the actual performance of the revenue collection departments.

- Imposition of higher rates of taxes by the Government.
- The improvement of the Tax Revenue due to the increase of imports on special occasions.
- The improvement of the Tax Revenue resulting from the increase of prices of goods and services in the foreign market.
- Improvement of Tax Revenue resulting from the increased cost of imports due to the deterioration of the foreign exchange rates.

In addition, it was observed that the detailed information on the impact on the Government revenue caused from the waiver, relaxation and exemption from duty made by the Foreign Trade Agreements and other Laws had not been taken into consideration for the measurement of performance of Departments concerned.

Non-tax Revenue

The relative contribution of the non-tax revenue towards the Government revenue structure of the year under review had been a value as low as 9.03

per cent and it was **11.51** per cent in the preceding year. The non-tax revenue for the year under review had dropped by Rs. **50.51** billion representing **22.67** per cent as compared with the preceding year.

Government Revenue and Budget Deficit

According to the financial statements of the Republic, the estimated budget deficit of the year under review had been Rs. 1,**067.59** billion and it had increased by Rs. **239.23** billion representing **28.88** per cent as compared with the estimated budget deficit of the preceding year. According to the financial statements of the year under review, the actual budget deficit amounted to Rs. **1,051.64** billion and it had decreased by Rs. **15.95** billion or **1.49** per cent as compared with the estimated budget deficit. However, the actual budget deficit of the year under review had increased by Rs. **252.47** billion representing **31.59** per cent as compared with the preceding year.

As compared with the Government revenue, the budget deficit for the year under review was **55.14** per cent whilst the said value had been **41.29** per cent in the preceding year. Details on the budget deficit as compared with the Government revenue since the year 2015, appear in figure…..

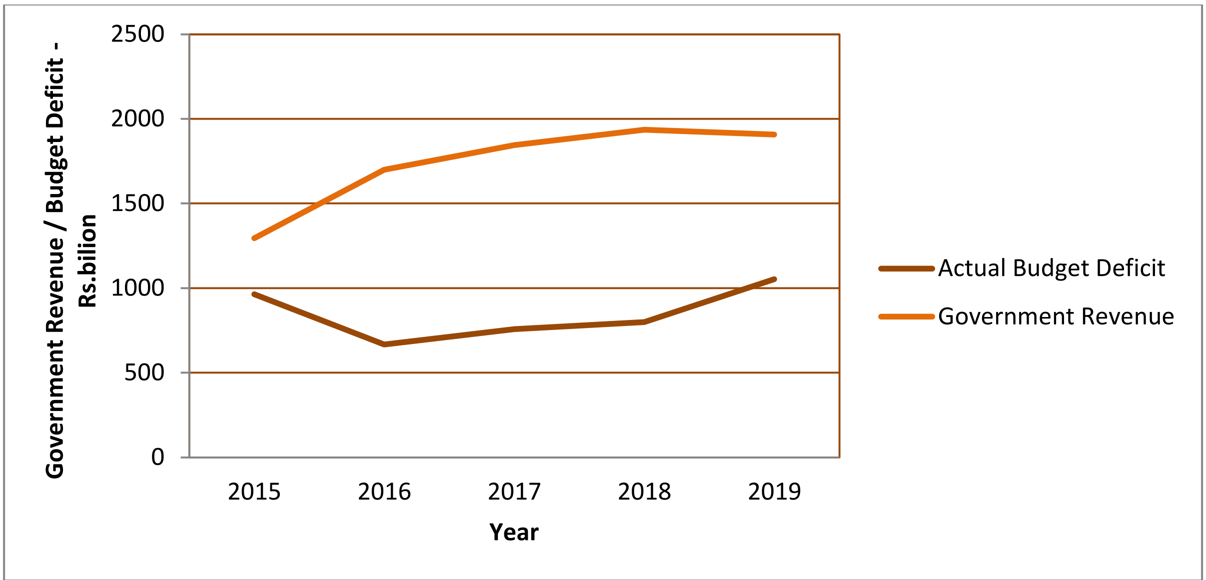


Figure 07 – Budget deficit as compared with the Government Revenue
Source – Financial Statement of Government

Inadequacy of Revenue for Settlement of Recurrent Expenditure

According to the Financial Statements of the Republic, the recurrent expenditure and the capital expenditure of the Government for the year under review amounted to Rs. **2,321.62** billion and Rs. **637.22** billion respectively. Nevertheless, the overall revenue earned by the Government amounted to Rs. **1,907.19** billion and as such, that was not adequate even for the settlement of the recurrent expenditure of the year. Accordingly, recurrent expenditure had been incurred exceeding the overall Government revenue by Rs. **414.43** billion.

Budget Deficit

It had been indicated in Section 3(a) of the Fiscal Management (Responsibility) Act, No.3 of 2003 that, "the reduction of Government debt to product levels, by ensuring that the budget deficit at the end of the year 2006, shall not exceed five per centum of the estimated gross domestic product and to ensure that such levels be maintained thereafter," as an objective based on fiscal management with responsibility which should be adhered to, by the Government. However, according to financial statements of the Republic, the estimated budget deficit of the preceding year and the year under review had been Rs.828.37 billion and Rs.1,067.59 billion respectively. Moreover, the budget deficit relating to those years had been 5.83 per cent and 6.85 per cent of the estimated Gross Domestic Product respectively. Accordingly, the Treasury had failed to take action in terms of provisions of the Fiscal Management (Responsibility) Act. Further, the actual budget deficit of the year under review had been Rs.1,051.64 billion and it had represented 6.74 per cent of the estimated Gross Domestic Product. The said ratio had been 5.62 per cent in the preceding year.

The total Government revenue for the year under review had been Rs.1,907.19 while the total Government expenditure (recurrent expenditure + public investments) had been Rs.2,958.84 billion. Accordingly, the budget deficit had been Rs.1,051.64 billion. Details of Government revenue, expenditure and budget deficit of the year under review and 7 preceding years are shown in Figure 08.

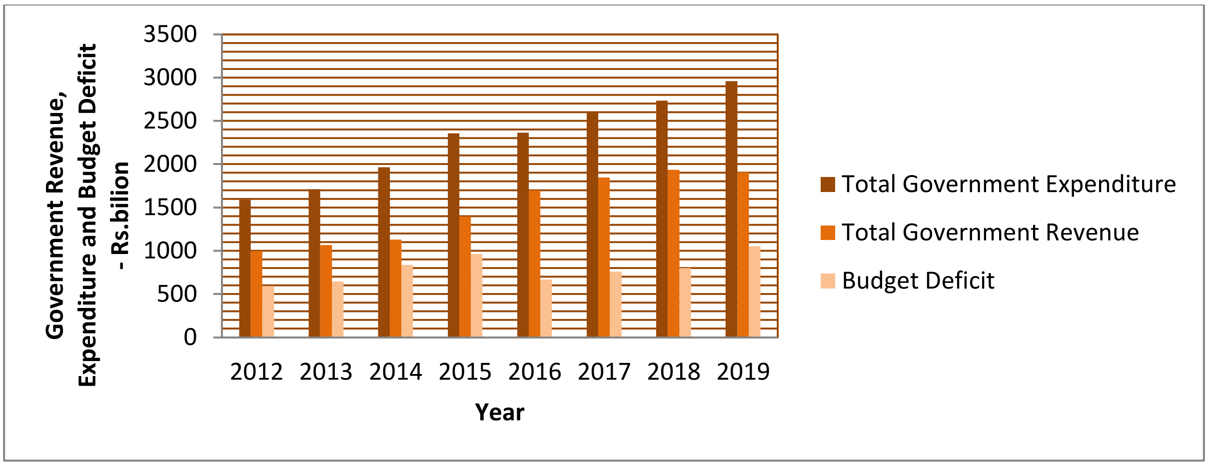


Figure 08-Total Government Revenue, Total Expenditure and Budget Deficit
Source . Financial Statements of the Republic

Financing the Budget Deficit

The budget deficit and net foreign borrowings of the year under review had increased by Rs.252.46 billion representing 31.59 per cent and decreased from Rs.464.59 billion to Rs.362.76 billion by Rs.101.83 billion representing 21.92 per cent respectively as compared with the preceding year. Net domestic borrowings had increased from Rs.169.92 billion to Rs.523.03 billion by Rs.353.11 billion representing 207.81 per cent. Accordingly, domestic borrowings had contributed immensely towards financing the budget deficit of the year under review and it had represented 49.73 per cent of the total financing. Moreover, net foreign borrowings and sub-loan recoveries had been 34.49 per cent and 1.74 per cent respectively while the net change in deposit accounts and liabilities had been 8.37 per cent.

Public Debt

Parliament shall have full control over public finance including public debt in terms of Article 148 of the Constitution of the Democratic Socialist Republic of Sri Lanka and approval of the Parliament should be obtained for all debts of the Republic. Accordingly, in terms of Section 2.1(a) of the Appropriation Act, No.6 of 2019, Parliamentary approval had been granted for obtaining loans within Sri Lanka or outside for or on behalf of the Government.

According to financial statements of the Republic, a total of Rs.2,002.78 billion comprising of foreign borrowings of Rs.935 billion, domestic non-bank loans (including net borrowings from Treasury Bills) of Rs.1,068 billion had been obtained in the year under review. As compared with the loans of Rs.1,870.87 billion (including net borrowings from Treasury Bills) obtained in the preceding year, it had increased by Rs.132 billion representing 7.05 per cent. Even though the Government had paid more attention on domestic loans, the amount of domestic loans obtained in the year under review had decreased by Rs.31 billion representing 2.87 per cent as compared with the domestic loans of Rs.1,099.26 billion ((including net borrowings from Treasury Bills) obtained in the preceding year. The amount of loans obtained in the year under review as compared with the preceding year, are shown in Table 08.

Description	9109	9108
	Rs. Billion	Rs. Billion
Foreign Borrowings	939.10	771.61
Domestic Borrowings		
Treasury Bills (net)	038.87	33.09
Treasury Bonds	768.00	763.02
Foreign Currency Bank Units (non-project)	67.94	69.38
Development Bonds	61.86	933.09
Foreign Currency Bank Units (non-project)	0.01	5.68
Treasury Bonds (enacted Responsibility Act)	30.00	-
Total Domestic Borrowings	1,067.68	1,099.26
Total Borrowings in the year	2,002.78	1,870.87

Table 08- Classification of Borrowings

Source – Department of State Accounts / Financial Statements of the Republic

According to financial statements of the Republic, the total public debt balance payable as at 31 December 2019 (except for Central Bank advances and bank overdraft) amounted to Rs.12,187.86 billion and as compared with the total public debt balance (except for Central Bank advances and bank overdraft) of Rs.11,276.28 billion as at 31 December 2018, it had increased by Rs.911.58 billion representing 8.08 per cent. A description on total public debt as at the end of the preceding year and the year under review is shown in Table 09

Subject	Balance as at 31 December	
	2019	2018
	Rs.Billions	Rs.Billions
Treasury Bills	897.67	798.80
Treasury Bonds	3,338.28	3,999.93
Rupee Loans	93.09	93.09
Sri Lanka Development Bonds	961.23	603.22
Domestic Borrowings in Foreign Currency	068.01	010.51
Foreign Currency Bank Units (Projects)	07.70	19.51
Loan obtained for constructing Suhurupaya building	6.26	6.82
Treasury Bonds (enacted Responsibility Act)	31.00	-
Pension Gratuity Loan	60.13	-
Lease Creditors	2.88	7.66
Total Domestic Borrowings	**6,106.25**	**5,531.55**
Foreign (Projects)	3,015.83	3,093.16
Timely Loan Facilities in Foreign Currency	939.19	331.17
International Sovereign Bonds	9,733.59	9,991.41
Total Foreign Borrowings	**6,081.61**	**5,744.74**
Total Public Debt Balance	**12,187.86**	**11,276.28**
Estimated Gross Domestic Product	09,611.00	03,911.00
Total Public Debt Balance as a percentage of estimated Gross Domestic Product	78.03	79.30

Table 09- Classified Loan Balance as at the end of the Year
Source - Department of State Accounts / Financial Statements of the Republic

Obtaining Loans exceeding the Limit of Debt restricted by Parliament

In terms of Section 2(1) (b) of the Appropriation Act, No.6 of 2019, the balance arising from loans obtained in the financial year of 2019, shall not exceed Rs.2,079 billion in any instance in the financial year of 2019 or at the end of the year. According to the information made available to Audit, the loans obtained in terms of provisions of the Act by the end of the year under review, had been Rs.2,158 billion. As such, by the end of the year under review, the restrictions laid down by the Parliament had exceeded by Rs.79 billion. Details are given in Table 10

Description	Rs.billions	Rs.billions	Rs.billions
Foreign Borrowings		935.**10**	
Foreign Borrowings realized but not accounted in year 2019		**176.84**	
Foreign Borrowings accounted outside the Balance Sheet – Receipts in the year		8.**12**	
Domestic Borrowings			
Treasury Bonds		768.**00**	
Foreign Currency Bank Units (non-projects)		67.94	
Sri Lanka Development Bonds		**61.86**	
Foreign Currency Bank Units (Projects)		1.**01**	
Issue of Treasury Bills	1,719.**33**		
Payments for Treasury Bills	1,580.**45**	13**8.88**	
Total Loans obtained for year 2019			9109**7.75**
Maximum Loans obtainable for year 2019 in terms of Appropriation Act, No.6 of 2019			2,079.**00**
Exceeding Loan Restrictions in year 2019			7**8.75**

Table 10 – exceeding Loan Restriction
Source - Financial Statements of the Republic

Exceeding Maximum Loan Restriction

In terms of Fiscal Management (Responsibility) Act, No.3 of 2003 as amended by the Fiscal Management (Responsibility) (Amendment) Act, No.15 of 2013, the maximum value of liability as at the end of a particular year shall not exceed 80 per cent of the estimated Gross Domestic Product. According to financial statements of the Republic presented to Audit, the said restrictions had been complied with. However, in auditing the financial statements of the year 2019, taking into consideration the liabilities of Rs.1,035 billion as foreign borrowings, Treasury Bonds and liabilities relating to various public enterprises which had been accounted outside the statement of financial position, Central Bank advances and bank overdrafts, the total liability of the Government had been Rs.13,493 billion. It had represented 86.49 per cent of the Gross Domestic Product of the year 2019. As such, the maximum restriction of liabilities cited in the Fiscal Management (Responsibility) Act had been exceeded. Details are shown in Table 11.

Liabilities	Liabilities as at 31 December *
	Rs. Billions
Bank Overdraft	094.52
Central Bank advance	936.61
Public Debt (According to Financial Statements of the Republic)	**12,187.86**
Liabilities not accounted in the financial statements	
- Foreign Borrowings accounted outside Balance Sheet	339.45
- Under accounting the Treasury Bond balance	308.25
- Unaccounted Foreign Borrowings	901.19
Total Liability	**13,493.88**
Estimated Gross Domestic Product	**15,600.00**
Total Liability as a percentage of estimated Gross Domestic Product	**86.49**

Table 11 - Exceeding Maximum Loan Restriction
Source – Financial Statement of Government

- **Sureties and relief letters valued at Rs.858 billion granted to banks for loans obtained by public enterprises on Treasury securities and values of Rs.165 billion included in statements of liability in annual financial statements of Ministries, Departments and special expenditure units have not been included in the above liabilities.**

Increase in Per Capita Debt

In comparison of the total public debt with the midyear population, the per capita debt was Rs.264,824 as at 31 December 2012 and it had increased up to Rs.558,999 by 31 December 2019. Moreover, as compared with the per capita debt of Rs.520,364 as at 31 December 2018, it had increased by Rs.38,635 representing 7.42 per cent. The increase in per capita debt is shown in Figure 09.

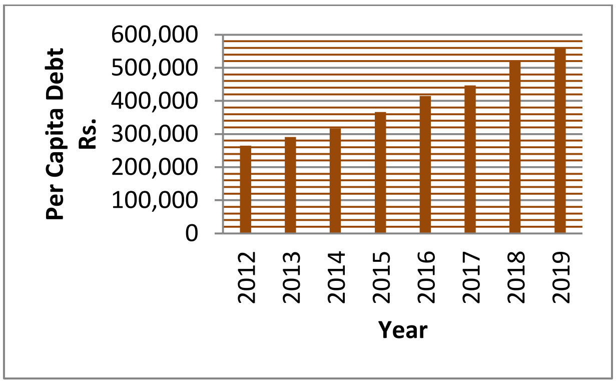


Figure 09 – Per Capita Debt
Source – Financial Statements of the Republic/ Annual reports of the Central Bank of Sri Lanka

Growth in Foreign Borrowings in the Public Debt Balance

Forty nine per cent of the total public debt comprises of foreign borrowings. The payable balance of foreign borrowings had continuously increased due to the increase in the Rupee value of the balance of foreign borrowings as a result of devaluation of the Rupee.

Domestic and Foreign Borrowings, Payment of Loan Installments and Interest and Government Revenue

Domestic and Foreign Borrowings in Year 2019, Payment of Loan Installments and Interest and Government Revenue as compared with the five preceding year are shown in Table 11.

Description	2014	2015	2016	2017	2018	2019
	Rs.Billions	Rs.Billions	Rs.Billions	Rs.Billions	Rs.Billions	Rs.Billions
Domestic Borrowings in the year*	2,020.23	2,793.43	2,517.78	2,548.63	2,718.43	2,648.13
Foreign Borrowings in the year	422.54	556.37	574.25	601.31	771.61	935.10
Total of Domestic and Foreign Borrowings	2,442.77	3,349.80	3,092.03	3,149.93	3,490.04	3,583.33
Payment of Installments on Domestic Borrowings **	1,583.77	2,265.48	2,072.67	2,340.15	2,548.51	2,125.10
Payment of Installments on Foreign Borrowings	106.98	187.11	145.12	219.35	307.01	572.34
Payment of Interest on Domestic Borrowings	376.46	450.05	509.82	597.02	667.66	654.82
Payment of Interest on Foreign Borrowings	69.93	77.17	101.08	138.55	184.53	233.97
Total Payments on Installments and Interest	2,137.14	2,979.82	2,828.68	3,295.06	3,707.72	3,586.23
Government Revenue	1,127.03	1,394.24	1,698.75	1,845.02	1,935.09	1,907.20
Payment of Loan Installments and Interest exceeding the Government Revenue	1,010.11	1,585.58	1,129.92	1,450.04	1,772.62	1,679.03
Public Debt balance as at 31 December	6,577.48	7,684.95	8,793.96	9,588.10	11,276.28	12,187.86

Table 11 – Domestic and Foreign Borrowings, Payment of Loan Instalments and Interest and Government
Revenue

Source – Financial Statements of the Government

* Monies obtained from issuing Treasury Bills are included in the domestic borrowings in the year.

[Value of Treasury Bills issued in the year under review + (according to Note 13 of the Financial Statements Domestic Borrowings in the year under review + Net Borrowings from Treasury Bills)]

[Eg:- Rs.1,719.33 billion + (1,067.68 – 138.87) = 2,648.13 in the year under review]

** The payments made during the year for Treasury Bills are included in domestic loan instalments. (according to Note 14 of the Financial Statements domestic borrowings repaid in the year under review + value of Treasury Bills paid in the year under review)

(Eg:- Rs.544.65 billion + 1,580.45 = 2,125.10 in the year under review)

Decrease in Government Revenue and Increase in Payment of Loan Installments and Interest

The total revenue of the year under review had decreased by Rs.27.90 billion representing 1.44 per cent as compared with the preceding year and in relation to the estimated revenue it had decreased by Rs.453.40 billion representing 19.21 per cent. Moreover, the net borrowings (domestic and foreign) in the year under review had increased by Rs.251.29 billion as compared with the preceding year and interest payments on loans had increased by Rs.36.60 billion representing 4.29 per cent in the year under review as compared with the preceding year. **Details are shown in Figure 10.**

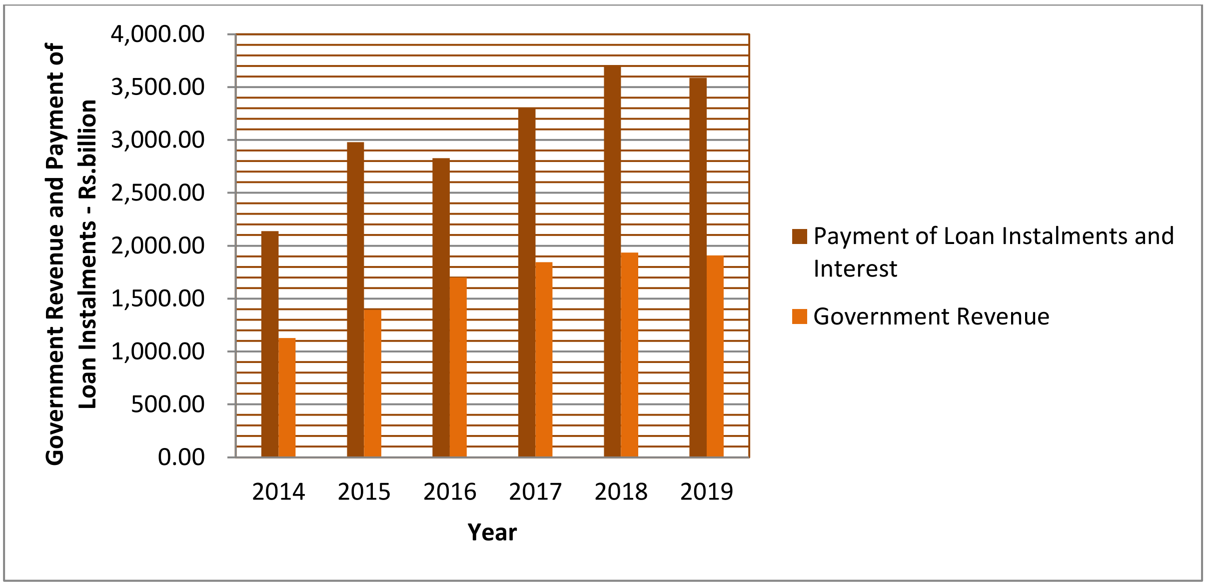


Figure 10 – Decrease in Government Revenue and Increase in Loan Instalments and Interest
Source – Financial Statements of the Republic

Inadequacy of collected Revenue for Payment of Loan Instalments and Interest

Even though the revenue collected in the year under review had been Rs.1,907.20 billion, loan instalments and interest payable had been Rs.3,586.23 billion. Accordingly, the collected revenue was adequate for paying only 53.18 per cent of the loan instalments and interest payable in the year under review. As such, domestic or foreign borrowings had to be obtained in the year under review for settling 46.82 per cent or Rs.1,679.03 billion of the loan instalments and interest payable.

Payment of Loan Instalments and Interest exceeding Loans obtained

The total payments of loan instalments and interest of the preceding year, stood at 106.23 per cent of the total loans obtained in the year while it was 100.08 per cent in the year under review.

Accordingly, the total loans obtained in the year, had not been adequate even for the payment of loan instalments and loan interest of the year. As such, it was observed that the total public debt balance as at the end of the year had continuously increased throughout many years.

Non-utilization of Loans in Development Projects

The total public debt balance of Rs.12,187.86 billion as at 31 December 2019, had been 78.13 per cent of the estimated Gross Domestic Product of Rs.15,600 billion. Accordingly, a considerable amount of domestic and foreign borrowings obtained throughout a long period by the Government, had been used to pay back loan instalments and interest. As such, an adequate investment could not be made in development projects as anticipated.

Understatement of Borrowings of Rs.152 billion in the Financial Statements of the Republic

- According to financial statements presented to Audit, the public debt balance payable as at 31 December 2019 by the Government, had been Rs.12.19 billion. However, it was observed during the course of audit test checks that it had been understated by Rs.701 billion as given below.

- **The Accounting Policy relating to Treasury Bonds included in the financial statements of the Republic, has been rectified from the year 2016 and accordingly, in issuing Treasury Bonds, accounting had commenced at their face value instead of their net value. However, the face value of Treasury Bonds issued prior to year 2016 had not still been adjusted in the accounts. As a result, the total liability by 31 December 2019 relating to Treasury Bonds had been understated in accounts by Rs.318 billion in the financial statements.**

- **Out of loans obtained by the Government for constructing the Hambantota Port, a balance of Rs.172.72 billion had been payable as at 31 December 2019. A Cabinet Memorandum thereon had been submitted on 20 July 2017 by the Ministry of Port and Shipping Affairs and the Cabinet approval had been granted therefor on 04 August 2017. As such, the responsibility of repaying the loans further payable out of loans obtained by the Government for constructions of the Hambantota Port, had been taken by the General Treasury from the effective date of the said relief**

agreement. However, the said loan balance had not been included in the financial statements of the Republic. Moreover, the said loan balance had been eliminated from the financial statements as at 31 December 2019 of the Port Authority.

- The foreign borrowings of Rs.8.16 billion received in the year 2019 under Loan No.2012033 – Hambantota Port Development Project – Phase II, had not been included in the financial statements of the Republic or the financial statements of the Sri Lanka Ports Authority.

- A sum totalling Rs.210.19 billion comprising Rs.176.84 billion relating to 129 agreements on foreign borrowings realized in the year 2019 and Rs.33.34 billion relating to 19 agreements on foreign borrowings realized in the year 2018 or prior to that, had not been accounted as foreign borrowings, even by 31 December 2019.

- According to the statement of financial performance in the financial statements of the Republic, the value of foreign loan repayments in the year 2019 was Rs.572.34 billion. However, according to Note 29 in the financial statements (statement of foreign loan balance), the value of payment of foreign loans in the year 2019 had been indicated as Rs.565.82 billion. As such, in comparison of the financial statements with the notes relating thereto, a difference of Rs.6.52 billion existed in the repayment value of foreign loans.

- According to financial statements of the Republic, the total public debt balance as at 31 December 2019 amounted to Rs.12,187.86 billion. However, according to information of the Central Bank of Sri Lanka, the public debt balance as at that date had amounted to Rs.13,301.41 billion. As such, a difference of Rs.843.55 billion existed between the public debt balances in the financial statements of the Republic and the information maintained by the Central Bank.

- In comparison of Report 854-1 of the Department of External Resources and the statement on foreign loan balances Note 29 of the financial statements of the Republic, the financial statements had been understated by Rs.341 million relating to 04 agreements on foreign borrowings and overstated by Rs.2,049 million relating to 05 agreements on foreign borrowings as at 31 December 2019 while a difference of Rs.01 million existed relating to 02 agreements on foreign borrowings.

Public Enterprises

Observations

- Performance Evaluation
- Financial performance
- Sustainable development
- Opinion of the Auditor General regarding financial statements
- Unqualified Opinion
- Qualified Opinion (Subject to Opinion)
- Adverse Audit Opinion
- Disclaimer of Audit Opinion
- Maintenance of Fixed Asset Registers
- Preparation and Submission of Annual Financial Statements
- Lack of Autonomy to recruit and to retain Professional Staff
- Limited liability companies owned by the government
- Other Non-Profit oriented Public Enterprises

Public Enterprises

Public Enterprises are state-owned corporations, statutory boards or other undertakings vested in the Government under any written law and companies, registered under the Companies Act and conducting commercial or non-commercial activities and the Government has the majority ownership. Accordingly, 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.

Furthermore, state-owned business enterprises are state-owned businesses that engage in business activities through the sale of goods or services and thus generate revenue. Trade enterprises that provide utility services and financial enterprises, such as financial institutions, are included under the public business enterprises. Some state-owned enterprises are responsible for providing community service to certain individuals and communities, but generally operate to make a profit, even if they operate for the purpose of providing goods and services at a significantly lower cost or free of charge. Accordingly, earning a return on its assets is essential for future development. Regulatory, developmental and educational public enterprises are not traditionally owned by the commercial sector 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

The composition of 416 state enterprises audited under the National Audit Office by 31 December 2019 is shown in the following Figure 11.

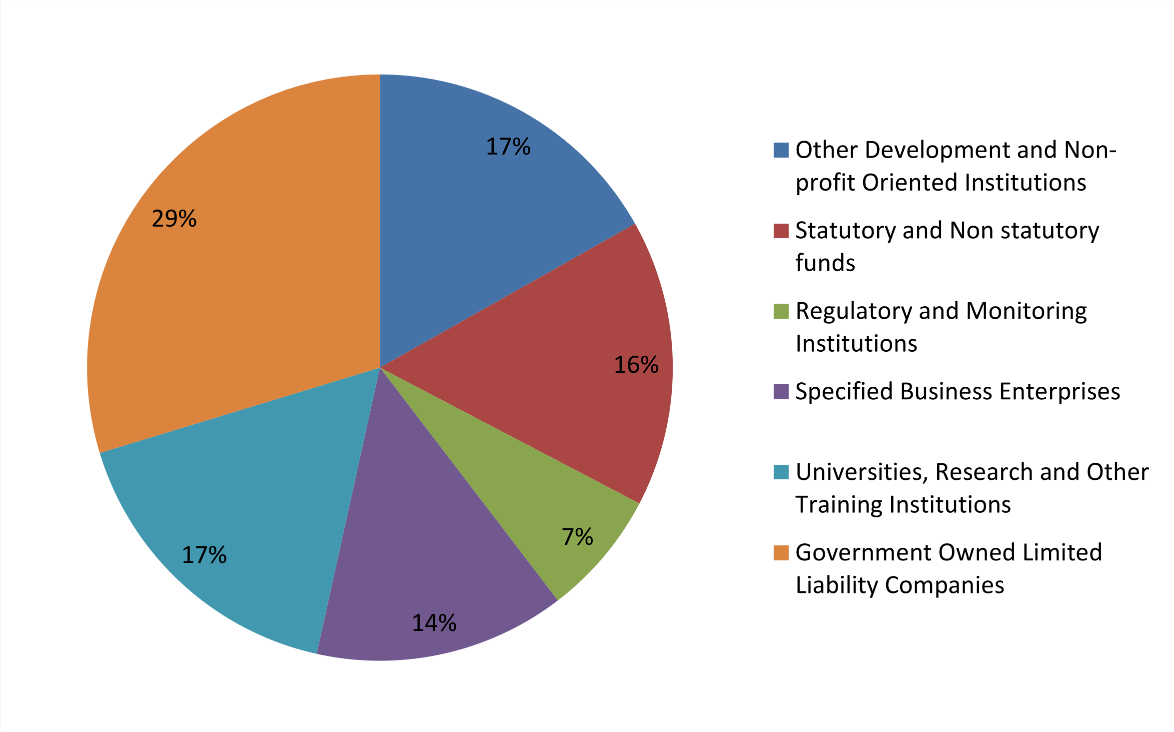


Figure 11- Composition of Public Enterprises in the Year 2019

Accordingly, crucial sectors of the economy are operated by the Public Enterprises. Strategically vital sectors of the economy such as electricity, water, petroleum products, telecommunication and air transport, port etc. are operated with the direct intervention of the Public Sector. The corporate governance of all the public enterprises is of great importance to the overall equity and competitiveness.

Performance Evaluation

Audit of Public Enterprises is not only confined to financial and compliance audits but Audit of Public Enterprises also focuses on efficiency, economy and productivity to achieve goals and objectives.

The efficiency and effectiveness of public enterprises are audited on the basis of certain standards and criteria. Profit is not the key criterion of performance; it is more effective to achieve the performance and objectives of managing public funds economically and efficiently. The objectives vary from enterprise to enterprise. One of the primary functions of an audit is to identify criteria for evaluating entrepreneurial performance. In the case of a manufacturing enterprise, for example, the Ceylon Petroleum Corporation, the criteria for measuring performance are the objective and the basis of investment, capacity, costs and time schedules, consumption terms, earnings, productivity, cost, benefit ratio, etc. Long-term and short-term capital and operational planning performance of an enterprise are other related features of performance evaluation.

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, earnnigs 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, earnings, 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 certifies 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.

Financial performance

In the analysis of the operational results of the public sector according to the information received, it is observed that many public enterprises, operate in sectors that are very critical to the economic development are operating at a loss. The analysis of the profit and loss status of 254 state enterprises as per the information received for the year ended 31 December 2019 is shown in Figure 12.

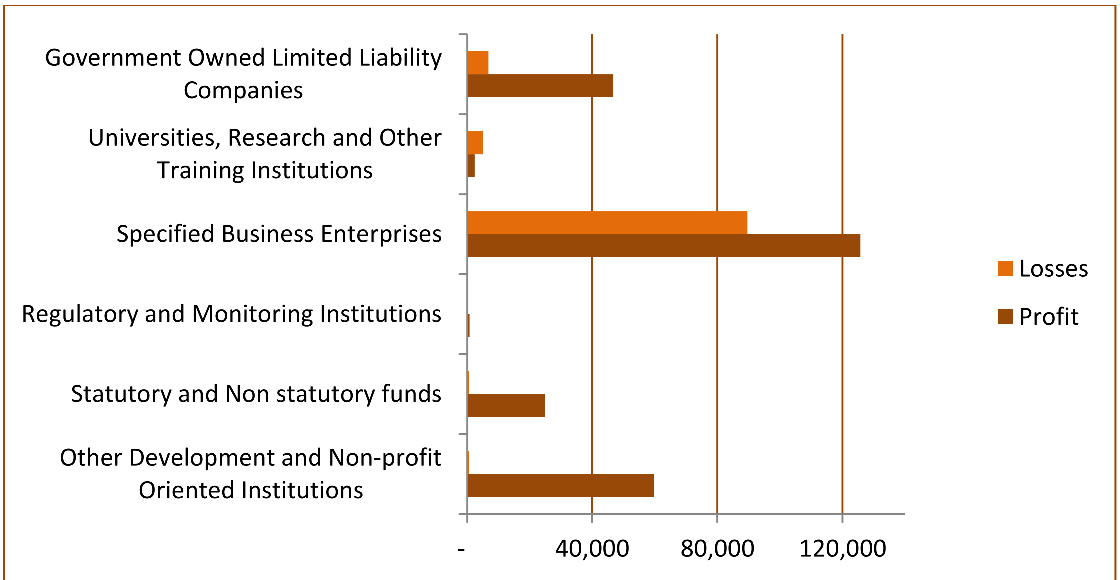


Figure 12 - Analysis of Profit and Loss Status of Public Enterprises in 2019

According to the above information, the total loss of the state enterprises is Rs. 102 billion and the total profit is Rs. 260 billion. Accordingly, the total net profit of state enterprises for the year 2019 is Rs. 158 billion. Out of 254 institutions that submitted financial information, financial result of 92 state enterprises was a deficit and financial result of 162 state enterprises was a surplus. Accordingly, 25 institutions including the Sri Lanka Mahaweli Authority, the National Housing Development Authority, the Ceylon Electricity Board, Sri Lankan Airlines Limited and university colleges had showed significant financial deficits among the institutions that showed a deficit in their financial result.

The total assets that are under control of the public enterprises as at 31 December 2019 was Rs. 11,354 billion and it is an increase of Rs. 489 billion compared with that of in the year 2018. The composition of the total assets of 254 public enterprises of each category as compared with that of at the end of the previous year is shown in Figure 13.

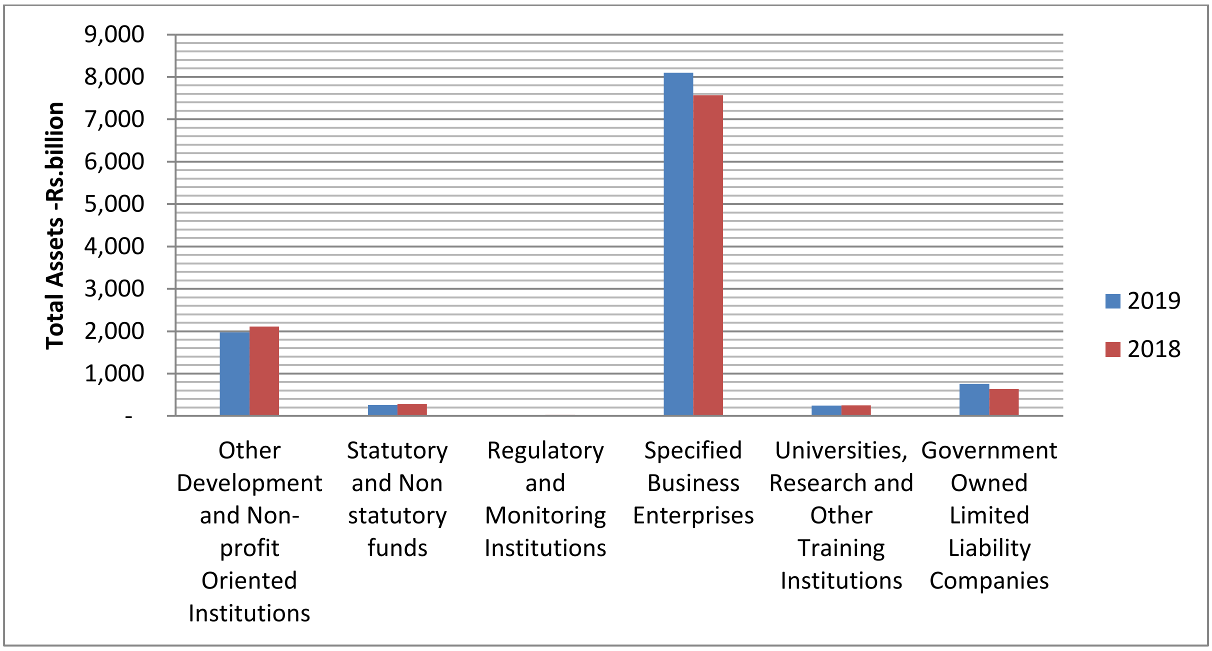


Figure 13 - Total Assets of Public Enterprises in the years 2018 and 2019

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 by-product 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.

Opinion of the Auditor General regarding 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 as to whether a fair position is reflected by statement of financial position and statement of financial performance of public enterprises and whether the Financial Statements are in accordance with the Sri Lanka Public Sector Accounting Standards, which are in compliance with International Accounting Standards and to the Sri Lanka Financial Reporting Standards.

Four types of opinions are expressed after considering quantitative errors or disagreements and limitation of scope and disagreements that arise between management and audit in accordance with the financial statements. They are:

Unqualified Opinion

This opinion is expressed when there are no material misstatements or noncompliance 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 of the institution.

Adverse Audit Opinion

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

Disclaimer of Audit Opinion

When there are material / broad disagreements and misstatements between management and auditing on selected accounting policies, the adequacy of disclosures in the system or financial statements in which they are applied.

In expressing an audit opinion the assistance of the computerized audit software is obtained in view of expressing a fair opinion. The audit opinion is determined on the results arrived after adjusting the total uncorrected misstatements as a percentage of the entire materiality level related to the audit sample selected by examining the accounts.

Table 12 shows the audit reports issued on the financial statements submitted in relation to 416 public enterprises for the year 2019 including the institutions which had not submitted information along with the comparison to the previous year.

Type of Audit Opinion	2019	2018
Unqualified	**62**	**90**
Qualified	**110**	**176**
Disclaimer	**7**	**17**
Adverse	**4**	**8**
Not yet decided	**71**	**14**
Not submitted Information	**162**	**111**

Table 12- Information related to 416 State Enterprises

Maintenance of Fixed Asset Registers

Property and equipment are assets that are used in manufacturing and servicing and are held for rent or administrative purposes and are intangible assets that are expected to be used for more than one reporting period. Moreover, current assets are introduced as assets that are intended to be sold or consumed during the normal operating cycle or expected to be realized within twelve months after the reporting period. It was observed that if all the fixed assets are not properly numbered and the fixed asset records are not maintained properly, the assets will not be properly identified and physical verification of them will become a failure. The procedure for keeping a record of each fixed asset facilitates an organization to ensure asset control and prevent misuse of assets. Depreciation is also a measure of the correct value of assets that allow for taxation and insurance purposes. The fixed asset register generates complete and accurate records tailored to management needs. Even though Accounting Officers should be satisfied that adequate and systematic arrangements are made for the safekeeping and preservation of cash, inventory and other assets owned or held by the Government and that they are periodically verified and complied with the prescribed regulations and instructions, it was revealed at the audit that most of the institutions had not maintained asset registers in accordance with the circulars and had not conducted an annual verification of goods in terms of the FR 756 and the Public Finance Circular No. 05/2016 of 31 March 2016.

Unserviceable assets in many government institutions remained idle and the government loses the proceeds from the sale of those goods and assets due to improper disposal of disposable goods and assets in public institutions as per Public Finance Circular No. 438 of 13 November 2009. It was observed that additional cost had to be incurred for safeguarding and storing those goods.

Preparation and Submission of Annual Financial Statements

The draft annual report and Financial Statements must be submitted to the Auditor General within 60 days subsequent to the end of the Accounting year as per Public Enterprises Circular No. PED/12 of 02 June 2003. The financial statements of 162 Public Enterprises for the year 2019 had not been presented to the Auditor General for audit by 30 September 2020.

In terms of Section 12 of the National Audit Act No. 19 of 2018, the Auditor-General shall, within three months of the receipt of the approved annual financial statement and other relevant documents and information of a public corporation or a company in which the Government or a public corporation holds fifty per centum or more of the shares, present a report to the Chairman of the governing body of such public corporation or company for publication in its annual report.

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. Most of the Public Enterprises had to struggle hard to recruit and retain qualified professionals, especially professionals for the posts of Accountants, Engineers, Valuers etc. due to poor salary structure as compared with the salary structure of the private sector.

Limited liability companies owned by the government

State-owned limited liability companies had been established under the Companies Act as public enterprises, and these companies are fully state-owned companies or operating as a public-private partnership with a certain percentage of the share capital owned by the government. Private sector intervention acts as a control mechanism to prevent many problems arising for fully state-owned enterprises. There are also state-owned companies created by state-owned enterprises and registered under the Companies Act as subsidiary or affiliated companies that invest capital by the relevant private enterprises without the intervention of the Treasury.

The government has the power to appoint directors to limited liability companies in which the government or state-owned enterprise owns 100 per cent of the shares and no individual can receive a share of the profits. It is, in fact, the equivalent of the transformation of a state-owned corporation into a simple "private sector" company by a simple sale of shares. The government also has the power to appoint company directors when selling less than 50 percent of the shares. Even with the sale of more than 50 per cent of the shares, the government is in a position strong enough to influence corporate policy. However, it was observed that many public corporations do not maintain their governing Authority over their subsidiaries even though the majority of the members of the Board of Directors of the subsidiaries are comprised of their members.

The Department of Public Enterprises has issued PED Circulars from time to time to control the activities and operations of public enterprises. Public companies have to obtain the consent of the Ministry of Finance to execute some of its decisions. However, instances were observed where decisions had been executed without obtaining such consents.

Other Non-Profit oriented Public Enterprises

These enterprises consist of regulatory and monitoring institutions, Universities, research and other training institutions and other development and non-profit oriented institutions. The main feature of these institutions is the annual government grant or a levy imposed by the Government on certain goods or services are the main source of revenue of those institutions.

Local Government

No of Local Government Institutes

Local Government Institute	No of Institute
Municipal Councils	24
Urben Councils	41
Pradesiya Scna	276
Total	341

Local Government

As for the 341 Local Authorities established in Sri Lanka, 24 Municipal Councils function under the Municipal Councils Ordinance (Cap 252), whilst 41 Urban Councils function under the Urban Councils Ordinance (Cap 255), and 276 Pradeshiya Sabhas function under the provisions set out in Pradeshiya Sabhas Act, No. 15 of 1987. Table 13 presents the progress on the presentation of financial statements of those Local Authorities to the Audit relating to the year 2019 and a summary of audit opinions issued on those financial statements.

Category of the Local Authority	No. of Sabhas to Present the Accounts	No. of Accounts Presented to the Audit as at 2020.08.15	No. of Sabhas to which Audit Reports were Issued	Audit Opinion as per the Reports Issued as at 2020.08.15			
				Qualified	Unqualified	Disclaimed Opinion	Adverse Opinion
Municipal Councils	24	24	19	16	-	-	03
Urban Councils	41	40	37	37	-	-	-
Pradeshiya Sabhas	276	275	264	251	04	01	08
Total	341	339	320	304	04	01	11

Table 13- The financial statements presented by the Local Authorities and the audit opinions issued.
Source : National Audit Office.

Given below is a summary of some of the significant observations disclosed in the audit reports relating to the financial statements of the Boards of Authority of the Local Governments .

- A Cab worth Rs. 1.30 million and a tractor worth Rs. 2.65 million had remained idle at the premises of the Bulathkohupitiya Pradeshiya Sabha for a period of 04 years whilst a garbage compactor valued at Rs. 6.22 million had remained idle over a period of one year.

- Seven road improvement projects had been implemented under the *Maganeguma Project* by the Pradeshiya Sabha, Embilipitiya in the year 2011. The activities of those 07 projects had been carried out through community-based associations. The contract for the supply of paving blocks for those constructions had been awarded to a private company by the Chairman of the Pradeshiya Sabha and agreements had been entered into in that connection without being approved by the Sabha. The said contractor had supplied paving blocks to the community-based associations, and a sum of Rs. 2.09 million remained payable to the contractor by the Pradeshiya Sabha. Due to failure in paying the sum of Rs. 1.31 million on the paving blocks supplied for 04 works, cases had been filed by the relevant companies at the district court of Nugegoda against the Pradeshiya Sabha. The community-based associations which had executed those 04 works, presented the final bills after completion of the works, and the Sabha had settled those bills with the retention money released to the community-based associations. The value of paving blocks supplied by the contractor with respect to those works, had not been deducted from the value of those bills.

- In order to implement a project for the construction of a market complex and a bus station for busses traveling long distances, a fruitless expenditure of Rs. 15.67 million had been incurred by the Pradeshiya Sabha, Elahara for the removal of a rock without approval of the Pradeshiya Sabha and a feasibility study.

- A Cab obtained by the Pradeshiya Sabha, Hingurakgoda on a lease, had met with an accident in the year 2015. An indemnity of Rs. 6.30 million remained receivable. Of that, a sum of Rs. 3.30 million had been paid to the Sabha by the insurer, but that sum had been retained in the current account by the Sabha without any benefit. The compensation of Rs. 3.00 million receivable from the insurer had not been obtained.

- The lease rent of Rs. 1.95 million receivable from 24 stalls at the new market complex pertaining to the Pradeshiya Sabha, Hingurakgoda for the year under review, had remained outstanding. As the revenue in arrears had exceeded the sureties of Rs. 627,978 obtained on those stalls, the Sabha could not set off the revenue in arrears with the sureties.

- The weekly fair at Divulankadawala had been constructed at an expenditure of Rs. 2.25 million under the Pradeshiya Sabha inter-village development programme of the community development and livelihood improvement project implemented by the Pradeshiya Sabha, Medirigiriya. The said weekly fair remained idle over a period of 05 years.
- Due to failure in the recovery of lease rents from 16 trade stalls pertaining to the Pradeshiya Sabha, Welikanda in accordance with the monthly assessments of the Department of Valuation, a loss of Rs. 910,000 had been sustained during the period from May 2018 to December 2019.
- A lease rent of Rs. 1.18 million receivable on 06 properties of the Pradeshiya Sabha, Buttala including weekly fair, beef stall, mutton stall and chicken stall that

had been given on lease during the period 1988-2012, had not been recovered.

- The sum of Rs. 819,100 receivable for the preceding year on 182 hoardings displayed in the division of the Pradeshiya Sabha, Buttala, had not been recovered.

- Monthly lease rents receivable from 142 stalls that had been given on a long term lease by the Pradeshiya Sabha, Medagama, had been recovered without being based on the assessment made by the chief valuer of the Uva province. As such, the Municipal Fund had been deprived of a revenue totaling Rs. 11.06 million that should have been received as at 31 December 2019.

- Lease rents of Rs. 768,277 continued to be receivable over a period of 10 years in respect of the fish stalls, meat stalls and weekly fair that had been given on lease by the Pradeshiya Sabha, Thanamalwila, had not been recovered.

- Having been constructed by the Western Provincial Road Development Authority, the trade stalls at the shopping complex, Maho had been handed over to the Kurunegala Municipal Council on 22 September 2016. Due to failure of the Municipal Council to rectify the defects of those stalls and lease them out even up to 31 December 2019, the Sabha had been deprived of a revenue of at least Rs. 2.58 million.

- Having obtained provision from the Central Environmental Authority, the Kurunegala Municipal Council had commenced a plastic recycling project by incurring a sum of Rs. 8.00 million. Two machines had been installed in the year 2012 to cut plastic into pieces and melt them. Those machines had become non-functional in the year 2014, and been repaired. As the Municipal Council had not implemented the project, the sum spent had become fruitless.
- The Kurunegala Municipal Council had constructed a bio-gas unit with the capacity of 70 cubic meters at the premises of the fair by utilizing a donation of Rs. 3.05 million made by an external institution in the year 2014. No benefit whatsoever had been reaped from that unit even by 31 May 2020.
- By the end of the year under review, an income on water charges amounting to Rs. 61.00 million had remained outstanding with the Kurunegala Municipal Council. An income of Rs. 13.54 million remained due from 27 consumers of water who had an outstanding balance of over Rs. 100,000 out of the said income in arrears.
- Action had not been taken to recover the sum of Rs. 600,000

given to 04 persons by the Pradeshiya Sabha, Naththandiya in the year 2002 for the construction of an abattoir. Although instructions had been issued at the Committee on provincial accounts the meeting of which had been held on 14 October 2016 that the said sum be recovered from the officers responsible for the payment, the Sabha had not taken action even up to 31 May 2020 for the recovery of that sum.

- The waste management activities at the compost yard constructed by the Pradeshiya Sabha, Wanathavilluwa at an expenditure of Rs. 4.24 million, had been completely halted since the year 2018.
- The holiday resort in Neelabamma constructed by the Pradeshiya Sabha, Karuwalagaswewa in the year 2014 at an expenditure of Rs. 5.00 million, and the buildings constructed in the year 2014 at the weekly fair incurring expenditures of Rs. 10.00 million and Rs. 3.00 million, had remained idle with no utilization at all since the year 204. The water purification plant constructed in the year 2018 remained idle as well.

- The Pradeshiya Sabha, Suriyawewa had not taken action by the end of the year under review to recover water charges of Rs. 75.11 million from 75 water consumers.

- The building of the weekly fair, Katuwana valued at Rs. 9.98 million had been handed over to the Pradeshiya Sabha, Katuwana in the year 2015. That building along with the trade stalls at the bus station of Kirama had remained idle over a period of 05 years.

- The multipurpose building, weekly fair and the lavatories constructed under the *Pura Neguma* Project at an expenditure of Rs. 44.46 million by the Pradeshiya Sabha, Nagoda in the year 2016 had not been made use of since the date of construction.

- A motor grader worth Rs. 24.93 million had been granted by the Ministry of Public Administration Provincial Councils, Local Government and Democratic Governance to the Pradeshiya Sabha, Karandeniya in the year 2015. The machine had not been made use of since the date of receipt up to 31 May 2020.

- Eight stands and 17 stalls had been constructed at the upper floor of the market by the Urban Council, Hikkaduwa at an expenditure of Rs. 30 million in the year 2005, and those stands & stalls remained idle since the date of construction.

- The gully bowser valued at Rs. 3.00 million given to the Urban Council, Hikkaduwa by the Ministry of

Nation Building in the year 2006, had not been operated after the year 2013.

- A sum of Rs. 10.20 million that would have been utilized on a development activity under the consent of Urban Development Authority, had been retained in a savings account by the Galle Municipal Council without being used for any development purpose.

- The processing of Geographical Information System had been carried out by the Galle Municipal Council with the objective of reaching completion by 02 July 2013, and a sum of Rs. 4.08 million had been spent thereon. The works thereof had not been completed even by the end of the year under review.

- An accident and health insurance policy had been introduced by the Moratuwa Municipal Council contrary to the activities stated under Subsection 188(1) of the Municipal Councils Ordinance (Cap 252). That insurance policy had been introduced for 27 members, and the Sabha had spent a total of Rs. 2.04 million comprising sums of Rs. 0.95 million and Rs. 1.09 million spent in the years 2015 and 2016 respectively. The members should have paid contributions to the Council in respect of the said insurance policy, but by the end of the year under review, the Sabha had been unable to recover contributions totaling Rs. 1.70 million.
- The compactor of the Moratuwa Municipal Council had met with an accident on 10 August 1999. The Driver of the Council, after being pleaded guilty, should have paid a sum of Rs. 3.00 million, but that sum had been paid from the Municipal Fund, and even as at 28 February 2019, only a sum of Rs. 112, 205 therefrom had been recovered from the Driver. Recovering from the Driver had been halted with effect from March 2019; as such, a sum of Rs. 2.9 million remained further receivable to the Council. The Driver was to be retired on 26 November 2020 though, the officers responsible had not taken action to recover the dues.
- The revenue of Rs. 1.18 million collected by the Dehiwala-Mount Lavinia Municipal Council through the supply of services to the public in the divisions of miscellaneous revenue, rates, and planning during the period from January to June 2019, should have been credited to the Municipal Fund in accordance with Section 185 (2)(e) of the Municipal Councils Ordinance. However, without doing so, the said sum had been disbursed among 27 officers sans proper approval.
- Construction works of a reception hall had been commenced by the Colombo Municipal Council in the

year 2001 and the constructions had been completed in the year 2007. The Council had spent a sum of Rs. 5.42 million thereon, and the reception hall remained idle until the year 2015. The reception hall had been demolished in the year 2015, and a new two storied building had been constructed at the same location by 31 December 2015 at a cost of Rs. 42.88 million. That building had also remained idle even by 30 June 2020.

- Chemicals used for diagnosing cancers had been purchased by the Colombo Municipal Council in the year 2016 by spending a sum of Rs. 1.66 million. As no tests had been carried out for diagnosing cancers following the year 2016, the chemicals valued at Rs. 1.49 million remained unused.
- Twenty three persons of the Colombo Municipal Council including Municipal Commissioners, Heads of the Departments, officers and employees had been disqualified to occupy Government quarters due to reasons such as, transfers and retirements. They had not vacated those quarters and still occupied them even by 31 December 2019. Action had not been taken in terms of Section 7.2 of Chapter XIX of the Establishments Code to recover penalties from the officers whose period of lease had lapsed. A sum of Rs. 27.10 million had been computed as being the penalty recoverable from 02 officers by June 2020.

- Lease rents totaling Rs. 122.02 million remained receivable as at 31 December 2019 from 3046 stalls at 18 market places belonging to the Colombo Municipal Council. By that date, 384 stalls that had not been given on lease, remained idle. A lease rent totaling Rs. 87.20 million remained due from 30 stall owners whose outstanding lease rent on stalls had exceeded Rs. 1.00 million as at 31 December 2019.

- The cheque valued at Rs. 974,800 received in the year 2014 for the reception hall at the shopping complex of Pradeshiya Sabha, Hendala had been dishonored. However, even by 31 December 2019, the Sabha had not been able to recover the sum receivable with respect to that cheque.
- No legal action had been taken even by 31 December 2019 on two financial irregularities involving a sum of Rs. 47.17 million that had taken place at the Anuradhapura Municipal Council during the period 2012-2018.

- Legal action had not been taken to settle the salaries and allowances of Rs. 1.82 million paid to an employee of the Anuradhapura Municipal Council who had been transferred in the year 2013, with respect to the period from the year 2013 up to June 2018.

- The buildings at the weekly fair constructed by the Pradeshiya Sabha, Thambuttegama in the year 2017 at an expenditure of Rs. 9.50 million had been left to be encroached by wilderness without being used.

- A Cab belonging to the Pradeshiya Sabha, Rambewa worth Rs. 6.39 million had met with an accident on 16 May 2019 causing a damage of Rs. 1.58 million. Owing to erroneous information and misuse, indemnity had been refused. The vehicle remained at a regional repair shop of the local agent even as at 31 December 2019.

Foreing Funded Project

Observations

- **Presentation of financial statements of the Foreign Funded Projects for the Audit**
- **Agriculture Sector**
- **Social Welfare Sector**
- **Electricity Sector**
- **Higher Education Sector**
- **Water Supply Sector**
- **General Observations**

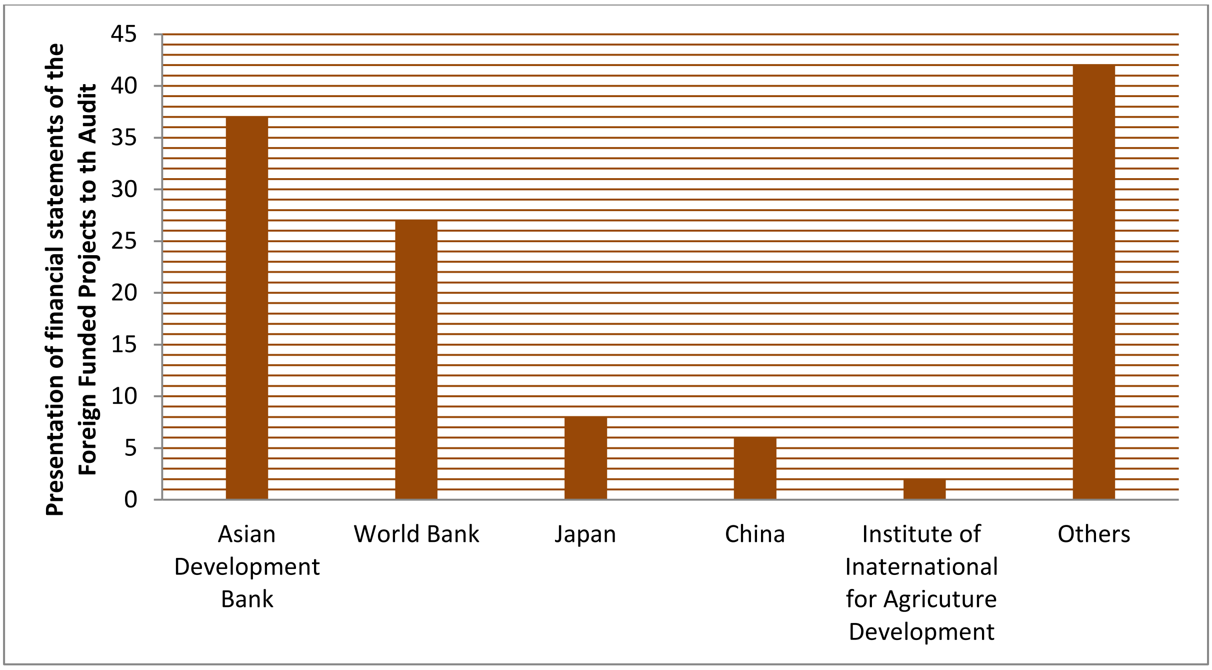
Foreign Funded Projects

The Government had obtained a sum of Rs.702.4 billion from domestic sources and a sum of Rs.314.1 billion from foreign sources as loans for the settlement of a sum of Rs.1,016.5 billion, the total budget deficit of the year under review, as per the Annual Report of the Ministry of Finance for the year 2019. A decrease in the foreign borrowings could be seen in the year under review as compared with the net foreign loans amounting to Rs.324 billion, obtained from foreign sources in the year under review.

The Government had entered into 41 foreign financing agreements with foreign development parties and with Lending Agencies in the year under review and it had been scheduled to obtain a sum of USD 3,378.8 million in the forthcoming years, by those agreements.it consisted of a sum of USD 3,312.5 million, intended to be obtained by loan agreements and a sum of USD 66.3 million, scheduled to be received in the forthcoming years by Grants Assistance. These loans and assistance money was scheduled to be utilized mainly for the sectors of roads and highways, bridges, urban development, electricity, education and training, environment, health and sanitation and social infrastructure facilities.

Presentation of financial statements of the Foreign Funded Projects for the Audit

One hundred and sixty three foreign funded projects remained in their Implementation Stage by the year under review and the Annual Financial Statements of 122 foreign funded projects out of them, had been furnished to audit. However, the financial statements of the projects implemented under the Indian Loan Scheme, Assistance of the Chinese Government and under the Bilateral Loan Scheme had not been furnished to audit due to the condition that the Annual Financial Statements should be examined by the Auditor General not being stated as a mandatory requirement in the loan agreements relating to those projects. A description on the Foreign Funded Projects implemented by the Foreign Development Parties and by Lending Agencies in the year 2019 appear in the Graph 14 below.



Graph 14- Presentation of financial statements of the Foreign Funded Projects to th Audit

Agriculture Sector

The Agriculture Sector of Sri Lanka consists of the sectors of plantation crops and non- plantation crops and the total productivity of the agriculture sector had improved by 0.60 per cent grossly, from the year 1980. As such, the growth rate of the Agriculture of Sri Lanka remains at a lower level than the growth rate of the Agriculture in the other South Asian countries. The Project for the Modification of the Agricultural Sector was initiated in the year 2017 with the objective of the fulfillment of the factors of increasing the agricultural income, improving the productivity, diversification for uplifting the economy of the agrarian community and of the country by avoiding that condition.

It had been initially planned to establish 7 Modern Technology Model Parks, based on the 7 districts of Jaffna, Mulletivu, Anuradhapura, Batticaloa, Monaragala, Matale and Polonnaruwa districts that had been identified as high in their poverty rates in Sri Lanka, with the assistance of an International Service Provider by the component established by the Ministry of Agriculture and to provide financial assistance as capital adjustment allowances by the component established under the Ministry of Primary Industries for the development of the value chain of the agriculture products of the agrarian organizations and of the agricultural businesses, that would emerge relating to those Parks as per the Consolidated Cabinet Memorandum presented by the Secretaries to the Ministry of Agriculture and the Ministry of Primary Industries for the Project Evaluation Register and for the initiation of the Project.

However, the above agriculture parks could not be established by the Project even by the year under review due to the weaknesses remained in the procurement activities relating to the selection of an International Service Provider and it had not been able to achieve the objectives planned under the purview of the Ministry of Primary Industries. Moreover, it had been approved to provide a sum of Rs.1,410.38 million as Capital Adjustments Grants for the businesses in other 14 districts and from the key objectives identified by the components under the purview of the Ministry of Primary Industries. As such, only a sum of USD 29.22 million equivalent to 23.77 per cent of the loan amounting to Rs.18,243.75 million that was agreed to be provided by the International Development Association had been utilized by 02 Line Ministries as at 31 December 2019.

Social Welfare Sector

Sri Lanka had achieved a considerable development relating to decreasing extensive poverty as well as to the equal distribution of resources within the past decade by Human Development Indexes such as the literacy rate and the life expectancy of Sri Lanka remaining at a high level as compared with the other countries of the region. Even though it is being broadly implemented, it is seen that currently, it is being implemented with a proper coordination on the Social Security System of Sri Lanka being a scattered system in its nature.

The "Social Security Networks System" was initiated for the implementation of the procedure of providing benefits to the poor and economically unstable persons in the society, with the objectives of providing concessions targeting the persons who suffer from extensive poverty and the persons who live on the poverty limit by a proper Social Security System as well as including them into the economic process and protecting the economically unstable persons from unexpected economic traumas and either to provide allowances to persons who are engaged in informal economic activities within their period of retirement or to formulate the procedure relating to providing opportunities relating thereto, in a fair, efficient and transparent manner. This project was initiated in the year 2017 and was planned to be completed in the year 2022 and it had been agreed to provide a sum of USD 75 million as loan assistance by the International Development Association relating thereto. It was intended to minimize the impact of poverty that could be inflicted towards the Medium- term Public Finance Integration Programme planned, by improving the efficiency of the social networks and, it also facilitates in timely reviewing the Social Security Programmrs that are currently prevailing, to the Government of Sri Lanka and it was also intended to face the challenges in public finance, that are being imposed by a gradually aging population. However, only the establishment of the Social Welfare Benefits Board had been executed out of the activities of the Project planned to be completed by March 2022 and, the relevant Social Welfare Benefits Act had not been passed even by the year under review. Even though 36 months had lapsed after the initiation of the Project, only a sum of USD 3.5 million equivalents to 4.7 per cent had been utilized by 31 December 2019 from the sum of USD 75 million, agreed to be provided by the International Development Association due to weak performance. As such, it was observed in the audit that the objective of this Project had not been totally achieved for providing the benefits that should be received by the impoverished persons in the society, efficiently and with transparency.

Electricity Sector

Foreign Funded Projects had been implemented by the Ceylon Electricity Board to distribute electricity in a reliable manner and to improve the quality in the electricity supply. It was not implemented under a single Project Director as in other Foreign Funded Projects and it had been implemented under different components of a single Project, under the various sectors of the Ceylon Electricity Board and of the Sustainable Energy Authority of Sri Lanka. As such, even though Regional Offices of the Ceylon Electricity Board had been established in a manner that covers the whole island, a proper coordination had not been maintained between these projects and between the activities of the Ceylon Electricity Board. Moreover, it was observed as general matters that more than 2 years had lapsed after the initiation of the activities of the projects for the awarding of contracts due to the delays in procurement activities and that a condition of impossibility in completing the contractual activities within the period of the contract remains due to the above reason.

Office facilities had been obtained separately on lease basis from various areas for the implementation of the projects. As such, a sum of Rs.8.9 million had been paid as the Office rent within the period from January 2017 to 31 December 2019 by the Electricity Supply Reliability Improvement Project. A sum of Rs.176.9 million had been paid to the contractors by this Project and, it was observed that a luxury motor car valued at Rs.23.4 million was among those purchased motor vehicles.

Moreover, a sum of Rs.69.11 million had been paid from the year 2017 to 31 December 2019 for obtaining the motor vehicles necessary for the Electricity Supply Reliability Improvement Project that had been initiated from December 2016, on lease basis, through an external contractor.

A sum of Rs.3,374.48 million had been stated in the financial statements as Items of Stocks as at 31 December 2019 by the Electricity Supply Reliability Improvement Project and it was observed in the Investigation Audit Examination relating to those stocks that the Stocks Records relating thereto had not been properly maintained and as such, the Items of Stocks that had been received from the projects could be separately distinguished from the relevant Items of Stocks.

Higher Education Sector

The Higher Education Sector had been identified as a core field in the development of the path towards an upper medium- level income social status from a low- level income social status. The Project on accelerating the Expansion and Development of Higher Education was initiated to assist the Higher Education Sector with the loan assistance of the World Bank. It had been planned to initiate the activities of this Project in March 2018 and to complete on June 2023. Broadening the university entrance opportunities for the specifically identified, priority subjects such as Science, Technology, Engineering and Mathematics and encouraging the research and innovations in the Higher Education Sector had been the objectives of the Project and it had been agreed by the

World Bank to provide a loan amounting to USD 100 million in this connection.

Even though a sum of Rs.80.8 million had been provided as Advances to 15 State Universities and to Sri Lanka Institute of Advanced Technological Education for carrying out the activities of the Project in the year under review, a sum of Rs.15 million of that Advance had not been spent for the relevant activities by the year under review and had been retained in the Current Accounts of those Institutions.

A sum of Rs.86.2 million of the sum of Rs.760.54 million provided for 06 State Universities for the procurement of the educational equipment necessary for the capacity development of the Science, Technology, Engineering and Mathematical Faculties, with the objective of increasing the entrance of the university students for the above degree courses had been retained in the Bank Current Accounts of the relevant Institutions without being utilized for over an year and it was revealed in the Investigation Audit Examination that the educational equipment valued at Rs.35.3 million procured under this objective had not been utilized for those activities.

Water Supply Sector

The Greater Colombo Water and Drainage Management Improvement Investment Programme e maintaining the water of which any income whatsoever is not being collected, which remains at 49 per cent, at a low level of 18 per cent by the year 2020 by the improvement and the management of the water supply and the drainage water supply services in the city of Colombo, providing a quality operative on 24 hours to the city of Colombo, in the year 2013. The performance of the 03 projects remained at a low level due to factors such as the delay in the activities of preparing the Project, delay in awarding the contracts, alteration of the initial plans, and delay in obtaining the prior permission from the relevant Institutions for damaging roads. As such, it had been failed to complete the activities of the project within the planned period and extensions had been given for those activities ranging from 40 months to 48 months. Moreover, it had been compelled to pay a sum of Rs.170.28 million as liabilities on the under- utilization of funds. The water of which any income whatsoever is not being collected had been decreased only up to 40.8 per cent even by the end of the year 2019, which remained at 49 per cent in the year 2012 despite 7 years had lapsed due to the considerable delays in the activities of the Project.

General Observations

The utilization of the loan funds for the activities irrelevant to the Project by adding new Units and the projects being compelled to hold a percentage value for the coverage of the Profit Margin and the General Operating Expenses, in addition to the contractual amount of the contractors, were the general deficiencies observed in the audit. Moreover, it was observed in the audit that there is a risk prevailing in the ownership of the relevant motor vehicles not being entrusted either to the Line Ministry or to the Public Institutions as at the end of the period of the project on the Project being compelled to pay an amount greater than the amount spent on directly purchasing motor vehicles, to the contractor due to the motor vehicles not being purchased by the Project and including that requirement as an Item in the Bill of Quantities of the Project and due to the ownership of the relevant motor vehicles remaining under the title of the Contractual Companies.

Extensions of the time frame had been given due to the utilization of funds remaining at a low level due to the physical progress of the projects remaining behind the intended targets and for the achievement of the targets of the Project. As such, the Government of Sri Lanka had to incur a huge cost as liabilities on the non- performing loans.

It was observed in the audit that the financial statements had been presented by the Project Management Units on going concern basis even after the completion of the operative time period of the Foreign Funded Projects due to proper instructions nit being given on the manner that the financial statements should be prepared in the final year of the project, by the

Banking

Government Banks

- Central Bank of Sri Lanka
- Bank of Ceylon (BoC)
- People's Bank (PB)
- National Savings Bank (NSB)
- Sri Lanka Savings Bank (SLSB)
- State Mortgage and Investment Bank (SMIB)
- Housing Development Finance Corporation Bank (HDFC)
- Pradeshiya Sanwardana Bank (PSB)

Banking

Banking sector consists of 32 banks as 26 Licensed Commercial Banks (LCBs) and 6 Licensed Specialized Banks (LSBs) as at the end of 2019. The 26 LCBs include 13 foreign banks and out of these, 2 foreign banks had commenced closing procedures based on decisions taken by their head offices. Lankaputhra Development Bank Limited was merged with Pradeshiya Sanwardana Bank and Sri Lanka Savings Bank Limited was acquired as a subsidiary by the National Savings Bank during the year 2019. Detail are given in the table 14 below.

Distribution of Banks, Bank Branches and Other Banking Outlets as at the end of year 2019					
Category		**Banks**	**Branches**	**Student Savings Units**	**ATMs**
LCBs	Domestic Banks	13	2,857	3,783	5,158
	Foreign Banks	13	50		
LSBs	National Level Savings Banks	1	262	-	413
	Housing Finance Institutions	2	64		
	Other LSBs	3	371		

Table 14- Distribution of banks, bank branches and other banking outlets as at the end of year 2019
Source- Central Bank of Sri Lanka (Revised or Provisional Data)

The banking sector supports the financial intermediation of the economy by enhancing banking services, expanding banking network and introducing technology-based products/services. 42 bank branches and 564 ATMs were established during the year 2019 while 11 bank branches and 13 ATMs were closed. Accordingly, total number of banking outlets and ATMs had increased to 7,387 and 5,571 respectively by end of 2019.

Licensed Banks (LCBs & LSBs) had contributed by Rs.12,522.7 billion or 62 percent to the Rs.20,159.4 billion total assets of the financial sector as at the end of year 2019 and Central Bank had contributed to the total assets of financial sector by Rs.1,919.4 billion or 9.5 percent as at the year end 2019. Assets of the Central Bank includes Rs.1,509.8 billion international reserves as at the end of year 2019. Detail of the total assets of the banking sector are given in the diagram 15 below.

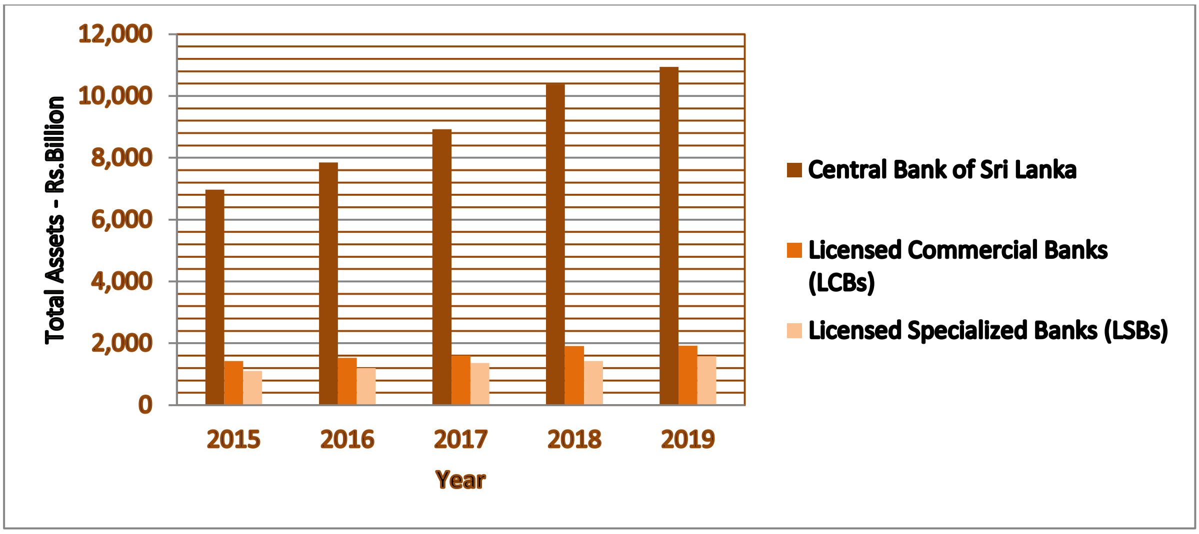


Table 15- Total Assets of the Banking Sector
Source: Central Bank of Sri Lanka (Revised or Provisional)

Assets

The asset base of the LCBs and LSBs have been surpassed Rs.12.5 trillion as at the end of year 2019 with the increase of Rs.728.7 billion assets or 6.2 percent during the year. However, recorded growth rate for the year 2019 was lower than the growth rate of 14.6 per cent of year 2018. Detail of composition of assets of LCBs & LSBs are given Diagram 16 below.

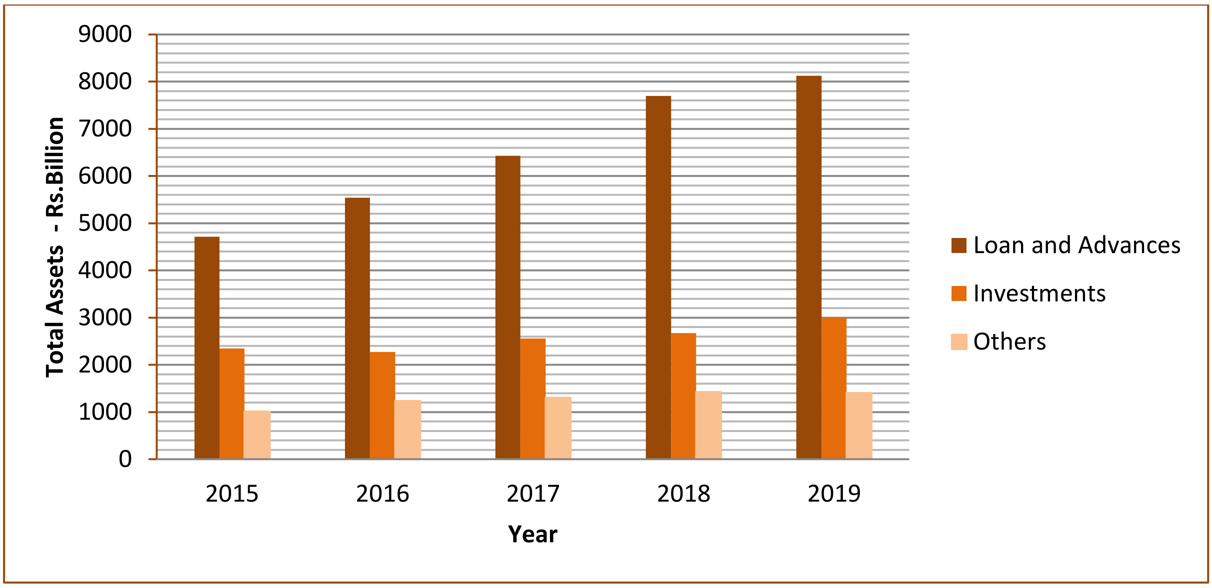


Diagram 16 - Composition of Assets of LCBs & LSBs
Source: Central Bank of Sri Lanka (Revised or Provisional Data)

Rs.7,362 billion or 91 percent from the total loans as at the end of year 2019 had been granted by LCBs and the balance Rs.760 billion or 9 percent were granted by LSBs. Growth in loans have been decreased significantly from 19.6 percent in 2018 to 5.6 percent during the year 2019 due to Easter Sunday attacks in April 2019 and political uncertainties prevailed during the year 2019.

Lower demand for credit resulted directing more funds of banks towards investments and therefore, growth in investments have been increased from 4.6 percent as at the end of year 2018 to 12.2 percent as at the end of year 2019. Held to maturity portfolio had been increased by 18.1 percent and investments in trading portfolio had been decreased by 7.3 percent during the year 2019.

Non-Performing Loans (NPL)

NPL ratio of the banking sector had been increased up to 4.7 percent as at the end of year 2019 from 3.4 percent at the end of year 2018 due to adverse business conditions prevailed during the year. Accordingly, total NPLs of the sector had been increased by Rs.118.5 billion in 2019 compared to the increase of Rs.102.5 billion in 2018. Diagram 17 Non-performing Loans Ratio

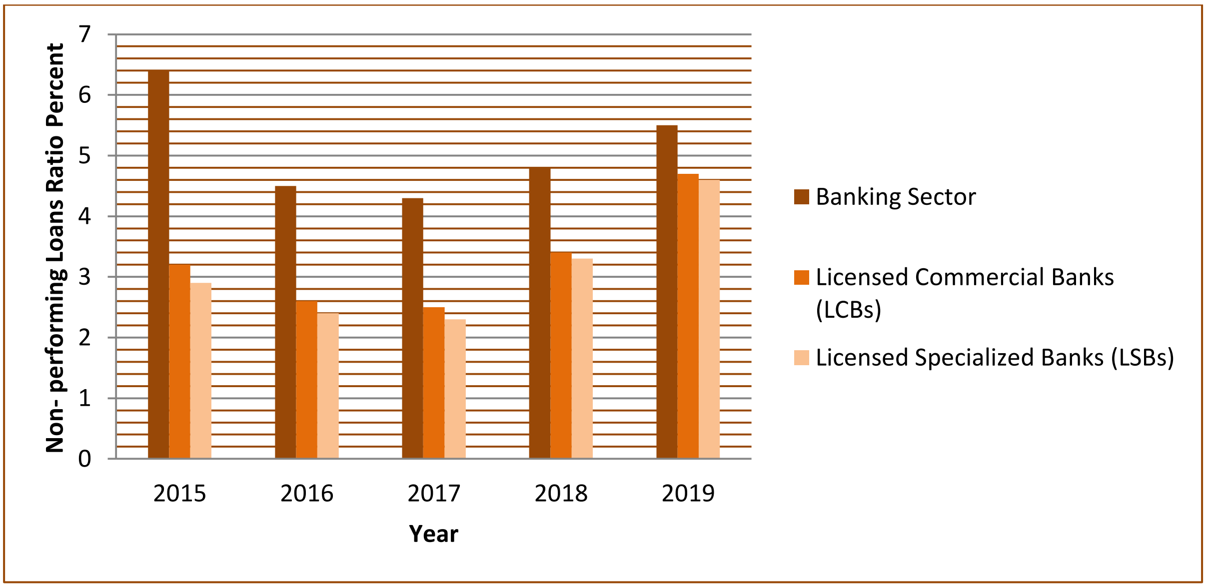


Diagram 17. - Non- performing Loans Ratio
Source: Central Bank of Sri Lanka (Revised or Provisional Data)

Liabilities and Capital

Liabilities of the Central Bank were Rs.1,919.4 bn and it included mainly Rs.613.8 billion deposits of international governments & institutions, Rs.254.6 billion deposits of commercial banks and Rs.678 billion currency issued as at the end of year 2019.

73.2 percent of total liabilities of the LCBs & LSBs as at the end of 2019 were deposits. Deposit base have been reached Rs.9,162.3 billion as at end of year 2019 with the increase of Rs.669.8 billion in 2019 compared with the increase of Rs.1.1 trillion in 2018.

Borrowings of the LCBs & LSBs were Rs.1,679.4 billion as at the end of year 2019 with the decrease of Rs.84 billion or 4.8 percent in 2019 compared to the increase of Rs.156.3 billion or 9.7 percent in 2018. The decrease was mainly due to the decrease in Sri Lanka rupee borrowings by Rs.47 billion in 2019. Details are given diagram 18 below.

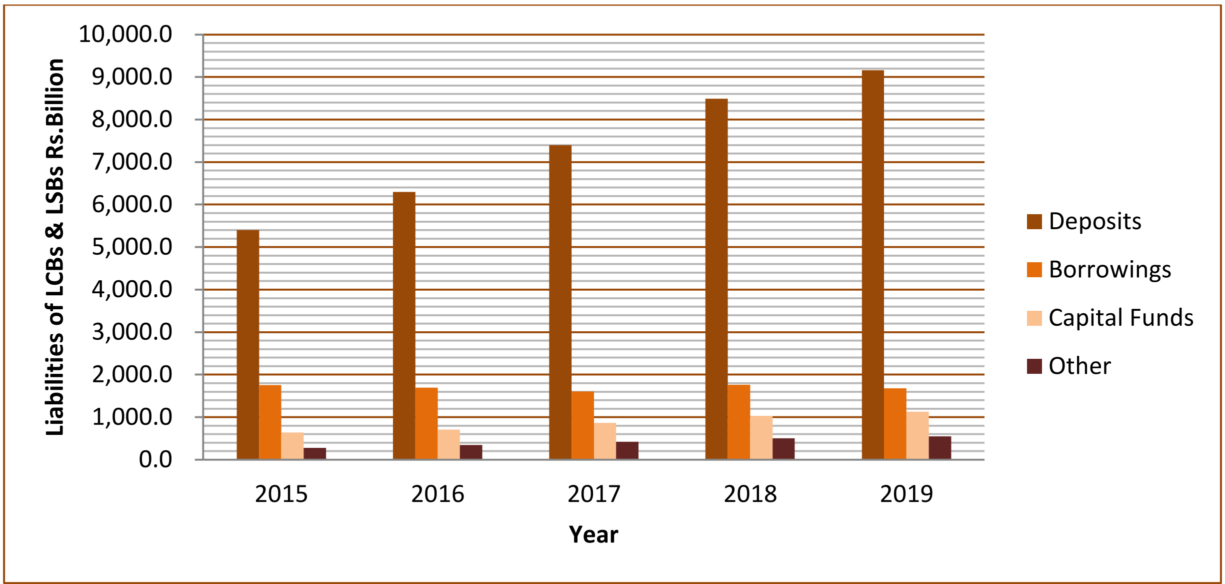


Diagram 18 - Liabilities of LCBs & LSBs
Source: Central Bank of Sri Lanka (Revised or Provisional Data)

Deposits

The growth rate in deposits declined to 7.9 percent as at the end 2019 as compared with the 14.8 percent as at the end of year 2018. Time deposits of LCBs & LSBs were Rs.6,092.5 billion and which accounted for 66.5 percent of the total deposits as at the end of year 2019 while savings and demand deposits accounted for 25.6 percent and 5.8 percent respectively. Details are given Diagram 19 below.

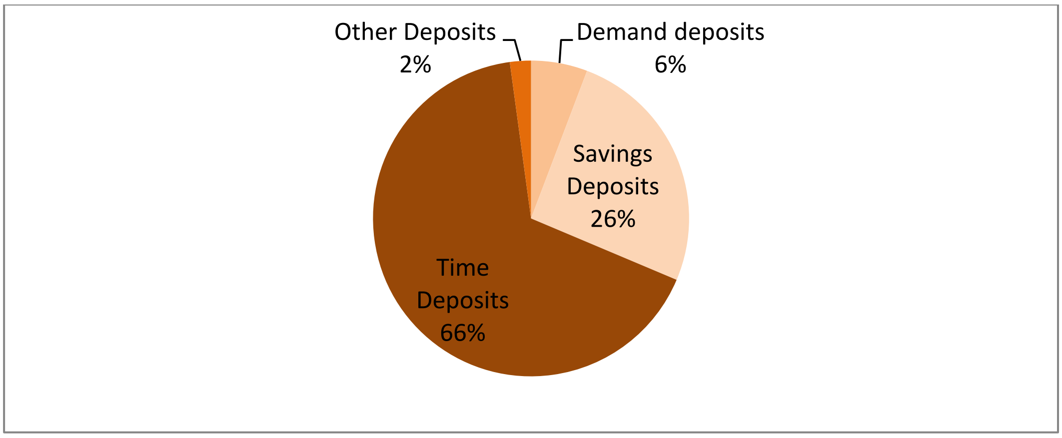


Diagram 19 – Composition of Deposits of LCBs and LSBs
Source – Annual Reports of Central Bank of Sri Lanka

Central Bank of Sri Lanka

The Central Bank of Sri Lanka (CBSL) was established under the Monetary Law Act No.58 of 1949 as amended, as the apex authority responsible for the administration, supervision and regulation of monetary, financial and payment system of Sri Lanka. Central Bank of Sri Lanka is charged with the objectives of securing economic and price stability and financial system stability with a view to encouraging and promoting the development of the productive resources 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. The overall reduction in policy interest rates during the period from 31 May 2019 to 03 April 2020 amounted to 200 basis points, resulting in the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) to remain at 6.00 per cent and 7.00 per cent, respectively as at the close of business on 03 April 2020. SDFR and SLFR were further reduced to 4.50 per cent and 5.50 per cent respectively with effect from 9 July 2020 in order to support a rapid recovery of the economy.

Reserve money contracted by 3.0 per cent, year-on-year, at end 2019 compared to the growth of 2.3 per cent recorded at end 2018. In absolute terms, reserve money contracted by Rs. 28.5 billion to Rs. 932.6 billion during 2019, compared to an expansion of Rs. 21.3 billion in the previous year. With the reduction in the SRR in March 2019 to 5.00 per cent, commercial banks' deposits with the Central Bank decreased by Rs. 65.5 billion to Rs. 254.6 billion by end 2019. The Statutory Reserve Ratio (SRR) was further reduced from 5.00 per cent to 4.00 per cent with effect from 16 March 2020 and from 4.00 per cent to 2.00 per cent with effect from 16 June 2020.

Assets side of the reserve money consist of Net Domestic Assets (NDA) and Net Foreign Assets (NFA) of the Central Bank. NDA of the Central Bank contracted by Rs. 173.9 billion to Rs. 36.6 billion by end 2019 in comparison to an increase of Rs. 116.9 billion during 2018. In contrast, NFA of the Central Bank increased by Rs. 145.5 billion during 2019, compared to the decline of Rs. 95.6 billion in 2018.

The Central Bank continued to maintain flexibility in the determination of the exchange rate during the year. The Sri Lankan rupee, which recorded a significant depreciation in 2018, appreciated marginally by 0.6 per cent against the US dollar in 2019. The relative stability in the exchange rate can be mainly attributed to the contraction in the trade deficit.

The financial sector expansion and performance slowed down during the year 2019 compared to the previous year mainly due to subdued economic activities and the uncertainty caused by the Easter Sunday attacks and the political instability which prevailed during the year.

The banking sector profitability declined compared to the previous year due to deteriorating asset quality, rise in operating costs and increase in taxes. The asset base of the banking sector increased by Rs. 728.7 billion or 6.2 per cent during the year and surpassed Rs. 12.5 trillion by end-2019, whereas the growth rate recorded in 2018 was 14.6 per cent. Deposits continued to be the main source of funding representing 73.2 per cent of total liabilities of the banking sector as at end 2019, while borrowings accounted for 13.4 per cent. Quality of credit of the banking sector deteriorated further during 2019 with Non-Performing Loan ratio (NPLs) increasing from 3.4 per cent at the end of 2018 to 4.7 per cent at the end of 2019.

Licensed Finance Companies (LFCs) and Specialized Leasing Companies (SLCs) sector comprised of 42 LFC s and 4 SLCs at end 2019. In order to address the issues faced by a few LFCs in the sector, the Central Bank continued to take prudential measures to maintain the stability of the sector with much consideration given to reviving business operations of the companies with supervisory concerns. However, Licenses of TKS Finance Limited had been cancelled by the Monetary Board of the Central Bank of Sri Lanka with effect from 19 September 2019 due to deficient capital level, poor asset quality, continuous losses and failure in repaying depositors' money on demand or at maturity, and license of another finance company PLC with effect from 22 May 2020 due to deteriorating financial status and severe liquidity crisis.

Depositors of those Companies are entitled to get compensation up to Rs.600,000 from the Sri Lanka Deposit Insurance and Liquidity Support Scheme.

Licensed Commercial Banks

Bank of Ceylon (BoC)

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 mission 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 stakeholders.

To achieve above mission, the bank has distributed their services through 581 branches, 62 limited service branches, 11 mobile branches, 164 CDM Machines, 1,033 ATM/CRM machines, 14 regional loan centers and 15 SME centers by the year 2019. In addition, 8,503 numbers of staff had been involved.

BOC holds a national long term rating at "AA+(lka)" with a stable outlook by Fitch Ratings Lanka Ltd in September 2019. Further, ICRA Lanka Ltd also reaffirmed the issuer rating of BOC at (SL)AAA with the revision outlook to "Negative" from "Stable" in October 2019, reflecting its highly systematic importance as the largest bank in Sri Lanka, quasi-sovereign status, role as a key lender to government and full state ownership.

People's Bank (PB)

People's Bank, as a government owned bank was incorporated in Sri Lanka by People's Bank Act No.29 of 1961 and was established as a licensed commercial bank. The purpose of the bank in terms of section 4 of the Act and amendments thereto shall be to develop and assist the Co-operative movement of Sri Lanka, rural banking, agriculture and industry and to carry on the business of a commercial bank, pawn broker and merchant bank.

People's bank currently operates with 739 Branches Island wide as at the end of the year 2019. In addition, there were 755 ATMs, 270 CDMs, 222 Kiosks and 239 self banking units.

The People's Bank (Amendment)Bill was passed in Parliament in September 2019, enabling the Bank to issue debentures with relative ease to augment its regulatory capital. Post amendment, the bank successfully raiser Rs.10 billion in Basel III, Tier II compliant Debentures.

The success of the Bank in digital platform is demonstrated through the awards received internationally which include the Best Digital Bank 2019 by both the Asian Banker Magazine and Asia Money and being the recipient of the Best Mobile Banking Application by the Asian Banker Magazine for 2019.Bank also received the highest international accreditation for information protection and Security –the ISO-IEC 27001:2013 certification. Further bank received many accolades and obtained many accreditations including "SLIM NIELSON PEOPLE'S AWARDS -2019", "LANKAPAY TECHNOVATION AWARDS-2019","ADB TFP AWARDS-2019","THE ASIAN BANKER AWARDS-2019","ASIAN MONEY AWARDS-2019"and "EUROPEAN GLOBAL BANKING AND FINANCE AWARDS-2019".Bank has a national long term rating of "AA+(lka)" by Fitch Rating Lanka Ltd.

Throughout the year, several deposit mobilization campaigns were launched and offered range of credit products to cater different customer segments.

Licensed Specialized Banks

National Savings Bank (NSB)

The National Savings Bank was established in 1972 through the National Savings Bank Act, No.30 of 1971 via amalgamating four unique institutes engaged in providing financial services to the people at the time. Bank was granted the status of Licensed Specialized Bank in terms of Banking Act No. 30 of 1988.

The mission of the bank providing their customers with total financial solutions to optimize their savings and investment needs, while meeting the expectations of all their stakeholders.

To achieve above mission, the bank has distributed their services through 256 branches, 4063 post and sub-post offices and 334 numbers of CDM / ATM / CRM machines. In addition, the Bank has involved 4715 number of staff inland wide.
Fitch Ratings has affirmed the AAA (lka) national long-term rating to NSB with stable outlook following their periodic review of the large banks peer group. Further it had affirmed the Long-Term Issuer Default Ratings (IDRs) as „B+' with negative outlook.

Group

Group has two subsidiaries, NSB Fund Management Company and Sri Lanka Savings Bank Ltd. Bank has fully acquired Sri Lanka Savings Bank Limited (SLSB) with effect from 11 October 2019 in alignment with the proposal made in Government Budget 2016. Accordingly, Investment in subsidiaries increased to Rs. 4.8 billion at the end of 2019 against Rs.1.7 billion at the end of 2018.

Sri Lanka Savings Bank (SLSB)

Sri Lanka savings bank is a public limited liability company incorporated in

Sri Lanka under the provisions of the Companies Act No: 17 of 1982 and re-registered under the Companies Act No:7 of 2007. Further, it was established as a Licensed Specialized Bank under the Banking Act No.30 of 1988.

The mission of the Bank is upholding of savings habits & facilitating of the microfinance & SME network to ensure the most reliable & the most preferred financial service for income generating micro entrepreneurship & SME business activities in Sri Lanka.

ICRA Lanka Limited had placed the issuer rating of (SL)BBB- to the Sri Lanka Savings Bank under rating watched with developing implications. Accordingly, bank carries moderate credit risk and has moderate degree of safety regarding timely servicing of financial obligation.

State Mortgage and Investment Bank (SMIB)

State Mortgage and Investment Bank is a government owned bank which was incorporated in State Mortgage and Investment Bank Law No. 13 of 1975 and amended 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.

The mission of the bank is SMIB will continue to be the premier housing bank to the nation and a valued partner in development banking customer, Business partner, Employees, Shareholders, Technology, and Society.

To achieve above mission, the bank has distributed their services through 25 branches.

Housing Development Finance Corporation Bank (HDFC)

Housing Development Finance Corporation Bank, is 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 2019 and accordingly total branches stood at 39 and having credit rating of BB+ (lka) at the end of the year 2019.

Pradeshiya Sanwardana Bank (PSB)

Pradeshiya Sanwardana Bank, as a state owned Licensed Specialized Bank was established in Sri Lanka with the amalgamation of six provincial development banks in 2010 by Pradeshiya Sanwardana Bank Act No.41 of 2008. The objective of the bank in terms of section 6 of the act shall be 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, mainly by granting financial assistance to Micro Finance Institutions and Small and Medium Enterprises.

As a financial institution, dedicated to Development Finance, Pradeshiya Sanwardana Bank is continuing to play a vital role in the upliftment of social and economic development activities in the country. The Bank has been in the forefront of most development programs in the Island, playing a vital role as a financier. Bank is committed in empowering the customers of the bank and thereby developing the Nation through its island-wide branch network of 276 branches.

Pradeshiya Sanwardana Bank acquired 100 percent equity stake in Lankaputhra Development Bank on 31 December 2018, in line with Government Budget proposal for the year 2016 thereby proposing Lankaputhra Development to be merged with Pradeshiya Sanwardana Bank and upon receipt of Cabinet approval on 14 February 2018. PSB acquired entire shareholding of LDB for a purchase consideration of Rs. 4.176 billion and the purchase consideration was settled by way of a new share issue for the said value in favour of the General Treasury effective on 31 December 2018. The banking operations of LDB was taken over by PSB effective from 1 April 2019 and merger was completed on 30 April 2019.

Major Audit Findings

Bank of Ceylon Bank

- According to the financial statements presented, total interest income of the bank had been increased up to Rs.220.5 billion by 12.8 percent and interest expenses up to Rs.145.3 billion by 11.9 percent during the year 2019. Accordingly, net interest income had been increased by 14.6 percent during the year as compared with the previous year. Impairment charges have been increased by Rs.3.6 billion or 23.6 percent as compared with year 2018. Personnel expenses have been increased by 5.8 percent during the year. The bank had recorded a pre-tax net profit of Rs.40.2 billion for the year under review as compared with the corresponding pre-tax net profit of Rs.43 billion for the preceding year, thus indicating a decrease of Rs.2.8 billion or 6.5 percent in the financial results.

- However, Profit for the year of the bank was Rs.23.1 billion with the 10 percent increase as compared with year 2018. The main reason for the improvement is the reduction of income tax expense due to exemption granted by the Department of Inland Revenue on interest income earned from Sri Lanka Development Bonds (SLDB) with effect from 01 April 2018. Return on Average Asset (ROAA) and Return on Average Equity (ROAE) had been decreased by 18.75 and 2.9 percent respectively when compared with the previous year.

- Gross Loan and advances had been increased up to Rs.1,648.8 billion as at the end of the year under review compared with the previous year by Rs.138.3 billion or 9.2 percent. The increase of the term loans, pawning, housing loans and loans under schemes are mainly contributed for the above increase. Term loans, pawning, housing loans and loans under schemes have increased by 21 per cent, 19 per cent, 13 per cent and 12 per cent respectively while decreasing the overdraft, lease and other loan balances by 9 per cent, 18 per cent and 31 per cent respectively during the year under review when compare with the previous year.

- The total non-performing loans and advances has increased by Rs.24.3 billion or 44 per cent during the year under review when compare with the previous year following the industry-wide deterioration of the portfolio quality. This deterioration has reflected through the increase of impairment charges by 27 per cent during the year under review when compare with the preceding year. Though the gross NPA ratio has increased from 3.62 per cent to 4.79 per cent in the year under review it is in line with the industry average.

- Total deposit base of the bank had been increased by 13.2 per cent or from Rs.1,771 billion to Rs.2,005.2 billion at the year end.

- The Bank was able to maintain 11.2 per cent of Tier I Capital and 15.6 per cent of Total Capital by exceeding the minimum requirement of 10 per cent and 14 per cent respectively for the year 2019.The liquid assets ratio (Domestic), Liquidity coverage ratio (LKR) and Liquidity coverage ratio (All currency) recorded 24.6 per cent, 188.2 per cent and 125.6 per cent respectively during the year under review which is above the minimum requirement of 20 per cent 100 per cent and 100 per cent respectively.

- The impact to the Bank due to changes that took place in its normal business practices due to COVID-19 pandemic is significant. The bank is in the process of assessing the impact of COVID-19 and the moratorium introduced by the government to protect the economy. However the real impact due to COVID-19 is yet to be estimated.

Group

Group reported a pre-tax net profit of Rs.41.5 billion for the year 2019 representing a 5.2 percent decrease as compared with the previous year. Total assets base of the group had been increased up to Rs.2,462.5 billion as at the end of year representing 5.7 percent increase as compared with the previous year. Gross loans & advances and total deposits had been increased by 8.9 percent and 13.1 percent respectively compared with the year 2018.

People's Bank

Gross income of the bank reached Rs.197 billion in 2019, recording an increase of 8.7 percent as compared with previous year. Interest income of the bank had been increased up to Rs.184 billion by 10.6 percent and interest expenses up to Rs.125.5 billion by 13 percent during the year 2019. However net interest income of the bank increased by Rs.3.1 billion or 5.6 percent compared to year 2018. Impairment charges have been increased by Rs.3.2 billion or 121 percent as compared with year 2018. Bank reported the profit before tax of Rs.19.7 billion which was 19.3 percent decrease against the previous year.

- Total deposits base of the bank expanded by Rs.68 billion during the year reaching to Rs.1,491 billion by the end of the year 2019 and gross loans & advances reached up to Rs.1,413.6 billion as at the end of year 2019. with a growth of Rs.47 billion or 3.4 percent as compared with previous year. Total assets base of the bank claiming Rs.1.873Tn by end of December 2019.

- At a Bank Level, absolute Non-Performing Loans (NPLs) increased during the year to Rs.43.6 billion compared to Rs.31.5 billion at the end of previous year. As a result, the Bank's impairment charges rose by 121 percent Despite an industry wide increase in NPLs during 2019, bank's NPL ratio is at 3.3 percent which was well below the industry average of 4.7 percent as at 31 December 2019.

- Total Tier I Capital Ratio and Total Capital Ratio stood at 10.68 percent (minimum 9.50 percent) and 14.66 percent (minimum 13.50 percent) respectively. Further Bank is in a constant and continuous process of undertaking measures reasonably necessary to bolster its regulatory capital levels. As 2020 plan includes revalue its land and building, issue a minimum Rs.8 Bn in Basel III, Tier II complaint debentures and continue to maintain its dividend policy.

Group

Group reported a pre-tax net profit of Rs.25.66 billion for the year 2019 representing a 17.7 percent decrease as compared with the previous year. Total assets base of the group had been increased up to Rs.2,050 billion at the end of year 2019 compared to previous year balance of Rs.1,908 billion.

National Savings Bank

- According to the financial statements presented, the Bank had recorded a pre-tax net profit of Rs.10.5 billion for the year under review as compared with the corresponding pre-tax net profit of Rs.7.9 billion for the preceding year. Total interest income of the bank had been increased by 7 percent or from Rs.110.5 billion to Rs.118.7 billion in the year 2019. Return on Average Asset (ROAA) and Return on Average Equity (ROAE) had been increased by 17 percent and 4.37 percent respectively during the year 2019 compared with previous year.

- Total deposit base of the bank had been increased by 21 percent or from Rs.839.6 billion to Rs.1,016.6 billion compared with previous year. Percentage of time deposit out of the total deposit base, 76 percent in 2018 had been increased to 78 percent in 2019.

- Gross loans and advances of the bank had been increased by Rs.31.9 billion or 7 percent during the year under review. This was due to the increase of Retail lending portfolio by 15.29 percent against the decrease of corporate lending portfolio by 3.69 percent compared with previous year.

- Gross NPL ratio of the bank has increased to 1.57 percent in 2019 from 1.44 percent in 2018. According to the management, this caused by difficulties in recovering loans after Easter Sunday attack to gather with other challenging conditions prevailed in the country.

- Bank's Common Equity Tier 1 (CET1) ratio position decreased to 12.02 percent as at 31 December 2019, from 13.08 percent as at 31 December 2018. Further, total Capital ratio decreased to 14.35 percent as at the end of year under review against 15.90 percent as at the end of previous year. However, Bank achieved the regulatory minimum requirements of 8.5 percent of CET1 and 12.5 percent of total Capital ratio set for capital adequacy during the year 2019.

- Group reported a pre-tax net profit of Rs.13.1 billion for the year 2019 representing a 65 percent increase as compared with previous year. Gross loans & advances and total deposits had been increased by 8 percent and 21 percent respectively compared with the previous year.

Sri Lanka Savings Bank

- Gross loans and advances of the bank had been decreased by Rs.197 million or 5 percent during the year under review when compare with the previous year. The decrease of the micro finance loan by Rs. 91 million or 7 per cent and Personal loans by Rs. 67 million or 19 per cent had affected to above decrease. Further total non-performing loans and advances had increased by Rs.106 million or 7 per cent during the year under review when compare with the previous year.

- The total deposit of the Bank had been decreased by Rs. 12 Million or 1 per cent during the year under review when compare with the previous year. The decrease of Fixed Deposit of Rs. 20 million or 4 per cent during the year under review had affected to above decrease.

- The bank's main objective as per the article of Association is to identify, develop, promote, catalyze and support sustainable income generating opportunities and a higher quality of life for the poor through a range of activities including productive self-employment micro enterprises and rural work by the provision of financial assistance and services. However, without considering above main objectives, bank had invested nearly 72 percent of its total investment in fixed deposits, financial instruments, equity instruments etc at the end of year under review.

State Mortgage and Investment Bank

Amended financial statements not submitted by the bank as at 01 September 2020.

Housing Development Finance Corporation Bank

Loans granted were expanded to Rs. 41.2 billion in 2019, compared to Rs.37.9 billion in 2018 which was 8.6 percent increase. Hence during the year interest income increased by 15 percent, reaching Rs.7.7 billion, from Rs. 6.7 billion in the previous financial year. Further the bank expanded its deposit base from Rs.37.02 billion to Rs. 42.5 billion during the year and it was 14.8 percent increase.

- Total assets of Rs. 55.95 billion, increase from Rs. 49.3 billion in 2018 and Bank's total assets increased by Rs.6.7 billion. Nonperforming loan ratio of the bank had increased from 20.46 percent in year 2018 to 25.26 percent in year 2019.

- Bank reported the profit before tax of Rs.774 million in 2019 which was 23.17 percent increase against the previous year. Further, net interest income of the bank increased by Rs.661 million or 29.55 percent compared to year 2018.

- Capital adequacy and minimum capital requirement, value creation for shareholders was top priority and shareholder funds increased by 7.6 percent in 2019. Asset value per share grew from Rs. 73.51 to Rs.79.11 in 2019 which marks a 7.6 percent increase. However, earning per share decreased from Rs. 8.72 to Rs. 7.35 during the year 2019, due to decrease profitability. Core Capital Ratio (Tier 1) and total Capital Ratio (Tier 2) remains above the minimum requirement at 18.21 percent and 19.14 percent, as against the regulatory requirements of 7.00 percent, 8.5 percent and 12.50 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 on1 January 2016. However, by the letter dated 30 July 2015, CBSL gave an extension for fulfilment of the minimum capital with a time bound action plan, upon request of the Bank. Accordingly the Bank had to meet an Rs.4,000 million capital by 1 January 2017 and an Rs.5,000 million by 1 January 2018. The Central Bank gave a further extension until 30/06/2019, to meet the full requirement of Rs.5,000 million on the request of the Bank. In 2019, having acquired the additional capital through an AT1 Bond issued to the Treasury, the Bank is now complaint with the Rs.5 billion capital adequacy requirement.

Pradeshiya Sanwardana Bank

- Total deposit base of the bank expanded by Rs.8 billion or 5.7 percent during the year reaching to Rs.149.6 billion by the end of the year 2019. Total asset base of the bank expanded by Rs.23 billion or 13 percent surpassing Rs.199.99 billion by end of December 2019. The increase in assets was mainly attributed to merger of LDB, increase in investments and loans.

- Bank reported the profit before tax of Rs.1.2 billion which was 41.8 percent decrease against the previous year. Major reason for the above decrease was increase in impairment expenses. Interest income had been increased by Rs.1.5 billion or 6 percent and interest expenses had been increased by Rs.944 million or 7 percent. Accordingly, net interest income had been increased by Rs.547.6 million or 5 percent only.

- Adverse trend in assets quality was observed with the significant increase in NPL ratio up to 9.48 per cent as at 31 December 2019 from 5.40 per cent as at the previous year end. Loans categorized under stage 3 have been increased to Rs.14.1 billion from total gross loans as at 31 December 2019 representing 86 percent increase as compared with the previous year end. Further, 18 percent from total loans have been categorized under stage 2 as at the yearend with the increase risk of recoverability.

- The staff cost to operating expenses of the year 2019 was 74.55 per cent as compared with the sector ratio of 55.4 per cent. Return on Assets and Return on Equity had been decreased further up to 0.26 per cent and 3.33 per cent respectively as at 31 December 2019 as compared with previous year end. However, the bank has maintained minimum Capital Adequacy Ratio as at 31 December 2019.

National Security and Law Enforcement

Sectors

National Security

Internal Affairs

Courts and Prision Affairs

Observations

- **United Nations Peacekeeping Operational Duties**
- **Collection of License Fee Revenue**
- **Renewal of Issued Firearm Licenses**
- **Outstanding Loan Balances**
- **Strategic Defence Communication Network Project**
- **Making Payment beyond Approval**
- **Registration of mechanical saws used for felling trees**
- **Revenue of Holiday Resorts and Function Halls**
- **Non preparation of Payment Vouchers**
- **Construction of Trincomalee Shipyard Jetty**
- **Maintaining Internal Funding**
- **Transformation of Helitours into a State-owned Company**
- **Income earned by Hiring Aircrafts**
- **Welfare of war heroes**
- **Establishment of an Overhauling Centre for the Sri Lanka Air Force**
- **Losses and Damages**
- **The Teaching Hospital of the Sir John Kotalawala University of Defence**
- **Resolving of Crimes**
- **Prevention of Traffic Accidents**
- **Control of Narcotics**
- **Progress in the implementation of major programmes.**
- **Not taking Action on Damage**
- **Uneconomic Transactions**
- **Translating Judgements into Sinhala and Tamil languages**
- **Chances for Misappropriating Government Funds**
- **Not commencing Project Works**
- **Abandoning Projects Midway**

- **Revenue in Arrears**
- **Outstanding Loan Advances**
- **Project for the Consolidation and Revision of Legal Enactments**
- **Non filling of Vacancies in the Posts of Legal Draftmen**
- **Developing a Prison Information Management Syste**
- **Severe Overcrowding in Prisons**
- **Not issuing formal Appointment letters for Confrming Offices in the Service**
- **Submission of Reports of Government Analysts**
- **Developing Policy Plans to Prevent the Breakdown of Family Units**

National Security

The following role had to be accomplished by the Ministry of Defence and seven Departments and seven statutory bodies that come under the purview of the Ministry to ensure the territorial integrity of Sri Lanka and to maintain air, sea and land security.

- Ensuring the territorial integrity and national security of Sri Lanka
- Maintain security in air, sea and land domains
- Conducting research and development activities related to national security
- Assisting in the maintenance of the pride and dignity of Sri Lanka
- Formulation and implementation of policies on security related programmes and projects
- Maintaining law and order
- Formulation of extensive reforms that ensure social discipline
- Take action to prevent and suppress various forms of crime and anti-social activities that have become a social catastrophe.
- Controlling traffic
- Prevention and control of using dangerous drugs
- Providing a reliable and secure printing service to the public by improving management systems and procedures using modern technology

The Parliament had allocated provisions amounting to Rs. 1,131,929 million during the year under review and during the last two years for fulfilling the above roles. Provision amounting to Rs. 1,060,711 million out of that had been utilized. Accordingly, 6.29 percent or Rs. 71,218 million of the provision made by the Parliament during that period had been saved. Details are shown in figure 20.

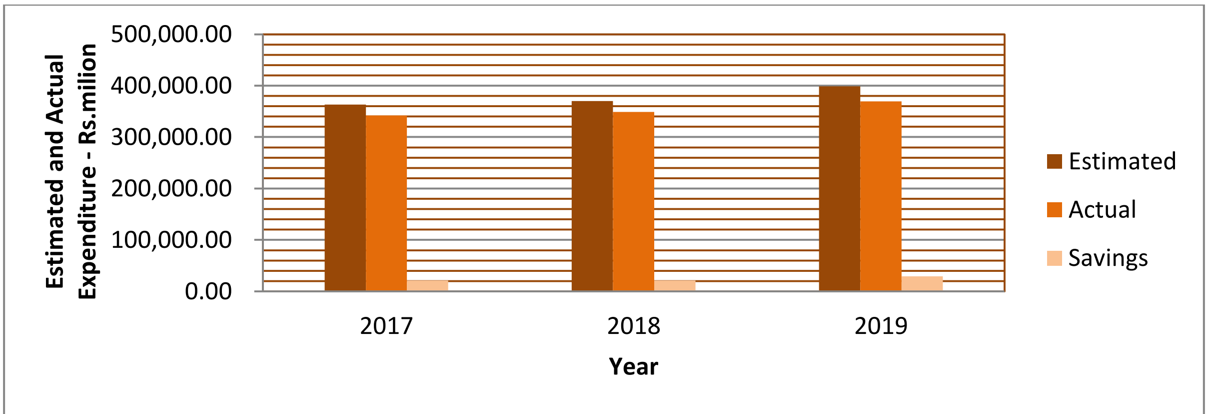


Figure 20. - Utilization of the provision made by the Parliament
Source - Final Account Statements of the General Treasury

The audit observations revealed during the audit test checks carried out regarding the accomplishment of the above role are summarized and given below.

United Nations Peacekeeping Operational Duties

Military personnel of Sri Lanka Army and Sri Lanka Air Force were being deployed in United Nations peacekeeping missions in **5** countries. Even though revenue amounting to Rs. **3,850** million was anticipated for the year under review, only Rs.**1,681.41** million or **43.67** percent out of the anticipated revenue had been collected. A revenue totalling to Rs.2,404.35 million comprised of an amount of Rs. 219.79 million that should be receivable from operational duties carried out by the Sri Lanka Army in Lebanon and Sudan and an amount of Rs. 2,184.56 million receivable for operational duties carried out by the Sri Lanka Air Force in Central Africa and South Sudan were in arrears. Out of this amount, revenue amounting to Rs.280.07 million receivable for operational duties in Central Africa had been in arrears for a period of more than two years.

Even though Sri Lanka Army had been on the United Nations peacekeeping missions in Mali since 24 December 2017, a Memorandum of Understanding had not been signed with the United Nations Organization even by the end of the year under review. The revenue of USD 6,604,752 or Rs. 1,197.96 million earned by discharging those duties had not been included in the annual budget estimates and the financial statements of the Ministry.

The Cabinet approval had been granted on **11** May **2016**, to purchase weapons, armoured vehicles, propellant vehicles, communication equipment and other equipment required for the establishment of the UN Special Forces Task Force for United Nations Peacekeeping operations in the Republic of Mali during the year under review, Parliament had approved provision amounting to Rs. **300** million, of which **29.6** percent or Rs. **88.79** million had only been utilized. Although equipment was purchased at a cost of Rs. 880.73 million during the period of 2017 to 2019, the equipment was stored in a camp even by the end of the year under review. The Commanding Officers had conducted training sessions for officers, who were to be reported for peacekeeping duties from 2016 to 2019 and arrangements had not been made to carry out the United Nations peacekeeping duties even by August 2020.

Collection of License Fee Revenue

The Ministry of Defence had collected Rs. 22.77 million as license fee revenue during the year under review. Revenue amounting to 1.13 million had been in arrears by the end of the year under review. Revenue amounting to Rs. 304 million out of that revenue arrears, had been in arrears for more than two years.

Although the charges levied in terms of the Public Finance Circular No. PED/04/08/01/59 of 11 December 2015 had to be revised timely in view of the changes in the economic situation, the gun license fees as per the Guns (Amendment) Act No. 22 of 1996 had not been amended for a longer period of time.

Renewal of Issued Firearm Licenses

Firearms licenses for 1,351 pistols and revolvers were issued to persons in 21 Districts for the protection of life and property and for agricultural and non-agricultural activities. The licenses issued for 111 firearms in 14 Districts had not been renewed for the year 2019 even by 28 February 2019, the date of the audit.

Further, the Ministry had entrusted the renewal of firearm licenses issued for agricultural and non-agricultural activities to the District Secretaries under the Gun Ordinance. During the audit carried out in relation to the renewal of Firearms licenses in 81 Divisional Secretary's Divisions in 04 Districts, 2,288 firearms out of 9,421 firearms of 12 and 16 bore firearms had not been renewed by the month of February 2019. Licenses for 188 firearms had not been renewed in two Districts out of these Districts for more than 05 years.

Surveys had been conducted in 09 Divisional Secretary's Divisions of the Gampaha District in the year 2017 and in Grama Niladhari Divisions of 04 Divisional Secretary's Divisions in the year 2018 in relation to the Firearm licenses that had been issued. According to the reports of the surveys, reasons such as the firearm licensee died, the licensee died and the children had also left the residence, the weapon could not be found, the transfer was not formally confirmed, stating that firearm was stolen, the firearm was sold without stating the household number / address in the Grama Niladhari's Division, misplacement of the firearm, not matching the address, going abroad, not being able to find information, etc. were revealed and such instances had not been rectified even by the end of the year under review.

Outstanding Loan Balances

A loan balance of Rs. 8.87 million had to be recovered from 150 officers who had been transferred, deceased, retired, interdicted and vacated their posts and other officers out of the officers who had served in the Ministry as at 31 December 2019. A loan balance of Rs.3.23 million out of that loan balance had been in arrears for more than 05 years.

According to the time analysis of loans of employees presented to the audit by the Sri Lanka Navy, an amount of Rs. 22 million (excluding officers serving in the Navy) had been in arrears for more than 05 years.

Loan balance of Rs. 62.06 million to be recovered from deceased officers, retired officers, interdicted officers and officers who had vacated their posts in the Sri Lanka Army had been in arrears for a period of 01 year to 05 years. However, the recovery of the loan balances was in a poor condition.

Strategic Defence Communication Network Project

It had been planned to provide a wide range of communication needs for a period of 10 to 15 ensuing years for the police services, including the Armed Forces in order to establish a public communication mechanism among the security services to address the current threats to the national security. For that purpose, the |Cabinet of Ministers had granted approval in the year 2013 to construct 11 new communication towers at a cost of Rs.1,191 and to establish a Network Management System (NMS) comprised of 37 microwave radio links through 21 locations in the island using 10 towers that were existing.

The project, which had to be completed in 2016, had taken an additional period of three years by 2019. However, the project could not be completed by the end of the year under review and was still in progress. Significant delays had occurred in the procurement of 11 communication towers and the construction of towers due to the selection of project sites and obtaining preliminary approvals in accordance with the provisions of four government agencies, including the Telecommunications Regulatory Commission and the Central Environmental Authority. Bids had been invited for the purchase of the Microwave Radio Network Management System and bids had been evaluated and cancelled on three occasions over a period of five years and 22 generators purchased for the towers had been idling since 2017.

Making Payment beyond Approval

Various issues that had arisen in the utilization of vehicles, which had been owned by the terrorists during the war and which were later seized by the security forces and a survey was conducted to ensure that the said vehicles were properly seized by the Armed Forces. The Secretary of the General Treasury had approved the payment of Rs. 50,000 per one member to the officers involved in the survey. The Ministry had paid Rs. 3.08 million by exceeding the approved limit during the year under review.

Registration of mechanical saws used for felling trees

In concurrence with the National Programme implemented for the conservation of the Environment and to safeguard the forest cover of the Country, the Ministry had spent a total of Rs. 4.74 million comprised of Rs. 3.29 million for the propaganda campaign through print and electronic media and Rs.**1.45** million for printing documents. Although 82,614 mechanical saws were registered in 484 police stations under 42 Police Divisions in the country during the year under review, the Ministry had not conducted following up activities for the implementation of this national programme as a fixed programme after 31 May 2019.

Revenue of Holiday Resorts and Function Halls

The Sri Lanka Navy operates 08 holiday resorts and 06 festival halls in 06 naval commands and naval officers and other ranks have been attached for operations and maintenance activities. The salaries and allowances of those naval officers and other ranks were paid from the Consolidated Fund and the income collected from holiday resorts and festival halls had not been credited to the Consolidated Fund. The financial statements for the relevant holiday resorts and function halls had not been submitted to the Auditor General and the copies of the reports pertaining to the internal audits conducted in relation to those functions had not been submitted to the Auditor General.

Likely, crops were cultivated in more than 122 acres of land in 17 naval bases covering 07 naval commands of the Sri Lanka Navy. One hundred and eleven (111) sailors, who get salaries from the Consolidated Fund had contributed in the cultivation of crops and the income of Rs. 8.8 million earned from crop cultivation had not been credited to the Government Consolidated Fund and the income had credited to the Agricultural Fund of the Sri Lanka Navy.

Non preparation of Payment Vouchers

Although vouchers for all payments are required to be duly prepared and submitted in the prescribed forms for payment in terms of FR 225 (1), the Sri Lanka Navy had made payments totalling to Rs. 305.5 million without preparing payment vouchers.

Construction of Trincomalee Shipyard Jetty

Provision of Rs. 1000 million had been made in 2019 for the construction of the jetty at Naval dockyard in Trincomalee. An amount of Rs. 136.8 million had only been spent out of the provision made by the end of the year under review. Accordingly, the financial progress was in a low level of 13.68 per cent.

Maintaining Internal Funding

Ninety seven (97) Internal Funds had been established at various Bases and Units of the Sri Lanka Air Force Headquarters in pursuance of the Command No. 5 of the Commander of the Air Force No. 852 of 30 November 2011. The physical and human resources of the Sri Lanka Air Force were utilized for the operation of these funds and for the profitable projects carried out by the funds. It is stipulated in Article 149 (a) of the Constitution of the Democratic Socialist Republic of Sri Lanka that all receipts received by the Republic, which are not specified under any written law, should be credited to the Consolidated Fund. Nevertheless, action had not been taken to credit the income generated by those funds to the Consolidated Fund.

Transformation of Helitours into a State-owned Company

Helitours is a privately held company using the physical and human resources as well as funds of the Sri Lanka Air Force. The company had made a profit of Rs. 57.4 million for a period of 10 years from 2010 to 2019. Even though action should have been taken to transform the private company into a State-owned company following the instructions of the Department of Public Enterprises and the recommendations of the Committee on Public Accounts and to transfer the ownership of its shares to the Secretary of the General Treasury, this transformation had not been carried out even by the end of the year under review.

Income earned by Hiring Aircrafts

Revenue amounting to Rs. 13.17 million earned from hiring aircrafts by the Sri Lanka Air Force had been in arrears even by the end of the year under review. Revenue arrears of Rs. 10.82 million out of that Revenue arrears had been in arrears for 4 to 15 years. The following up activities to recover that revenue arrears were in a poor position.

Welfare of war heroes

Three hundred and fifty four (354) wheel chairs, 583 crutches, 472 prosthetic legs and 165 pairs of spectacles had been requested for the disabled war heroes. However, the Ranaviru Seva Authority had provided 25 wheel chairs, 29 crutches, 9 prosthetic legs and any spectacles had not been provided. Accordingly, the Authority was unable to accomplish the objective of fulfilling the needs of the war heroes. Likewise, a sum of Rs.10 million had been granted from Api Wenuwen Api Fund on 11 July 2019 for this purpose, the Authority had not utilized the amount to purchase support equipment.

Establishment of an Overhauling Centre for the Sri Lanka Air Force

Although Parliament had provided Rs. 297.85 million for the establishment of the Aircraft Overhaul Wing at Sri Lanka Air Force Base for the Sri Lanka Air Force, the entire provision had been saved as any utilization had not been made from the provision by the end of the year under review.

Losses and Damages

Losses and damages amounting to Rs. 143,368.75 million had been incurred in relation to 172 incidents of the Sri Lanka Army by the end of the year under review. These losses and damages had been prevailing for a period of 1 to 10 years. It was not possible to recover the losses and damages from the relevant responsible parties or write off or waive off the losses and damages.

The Teaching Hospital of the Sir John Kotalawala University of Defence

The Teaching Hospital was officially inaugurated in May 2017 to provide practical training to the medical students of the General Sir John Kotelawala Defence University and the hospital commenced operations in December 2017. The teaching hospital had been constructed with the funds comprised of foreign currency amounted to US $ 177.329 million and with an amount of Rs.3,165.12 million obtained from the National Savings Bank. Operational activities of the dental unit, executive testing unit, kidney unit, medical wards of the 5th floor, eye, ear, orthopedic unit of the 7th floor and cardiac surgery units in the 8th floor established in the Teaching Hospital of the University had not been commenced even by 31 December 2019. Only 30 percent of the total capacity had been utilized by the end of the year under review due to the shortage in the staff and due to other defects.

Resolving of Crimes

A key indicator of the progress made in maintaining law and order in the country is the absolute volume of crime reports in the country and the relative value of resolution of reported crime. The table 15 below shows the information on the percentage of complaints resolved out of the complaints received by the Sri Lanka Police.

	Type of Crime	2018			2019		
		Number Reported	Number Resolved	Resolved Percentage	Number Reported	Number Resolved	Resolved Percentage
01	Grave Crimes	36,355	28,246	77.69	34,578	25,612	74.07
	Grave Crimes against Children	3,344	1,572	47.01	3,065	1,742	56.84
	Grave Crimes against Women	775	326	42.06	638	248	38.87
02	Petty Crimes Petty Crimes - Against persons	41,888	27,831	66.44	39,463	25,405	64.38
	Petty Crimes – Against Property	31,415	14,143	45.02	29,490	12,760	43.27
03	Miscellaneous Complaints	971,617	971,617	100.00	959,015	893,373	93.16
04	Offences related to liquor	129,813	104,048	80.15	112,414	103,741	92.28
05	Offences related to narcotics	124,940	120,052	96.09	129,765	124,166	95.69
06	Vice Offences	954	868	90.99	1,274	1,182	92.78
07	Statutory Offences	40,607	38,102	93.83	36,629	34,530	94.27

Table 15 - Percentage of Complaints Resolved out of the Complaints Received by the Sri Lanka Police
Source - Information Report of the Research and Development Division of the Sri Lanka Police

The percentage of resolution of 04 types of crimes out of the 07 types of crimes mentioned in Table 15, had decreased in the year under review as compared with that of in the previous year.

Prevention of Traffic Accidents

It is the duty of the Sri Lanka Police to take necessary steps to regulate traffic to protect the lives and property of the people. The total number of road accidents during the year under review had decreased by 5,323, while the number of fatal accidents decreased by 10 percent and the number of serious accidents decreased by 9 percent. The number of road accidents occurred in the country during the period of 2017 to 2019 is shown in Table 16

Type of Accident	Number of Accidents by 31 December		
	2017	2018	2019
Fatal Accidents	2,962	2,953	2,645
Major Accidents	8,666	8,475	7,718
Minor Injuries Accidents	13,102	12,264	10,679
Damage Accidents	12,866	12,064	9,391
Total	**37,596**	**35,756**	**30,433**

Table 16 - Number of road accidents occurred in the country
Source - Research and Development Division of the Sri Lanka Police Division Information Report

Control of Narcotics

Preventing the use and circulation of dangerous drugs is a major function of the Sri Lanka Police. Accordingly, the number of cases reported in relation to narcotics had increased by 4,825 in the year under review compared to that of in the year 2018, while the amount of heroin seized increased by 1,380 kg and the number of persons arrested for possession of heroin increased by 8,672. The details are shown in Table 17

Type	Year 2018						Year 2019					
	Number Reported	Number of Cases Filed	Number of Persons Became Offenders	Arrested quantity (kg/g/mg)			Number Reported	Number of Cases Filed	Number of Persons Became Offenders	Arrested quantity (kg/g/mg)		
				Kilogram	Gram	Miligram				Kilogram	Gram	Miligram
Cannabis	71,505	69,886	63,603	8,884	457	162	63,585	62,024	56,231	15,389	235	934
Opium	3	1	1	-	8	380	169	141	147	9	583	198
Hashish	199	189	161	82	291	597	603	597	536	10	164	637
Heroin	47,355	44,346	36,356	721	363	175	56,482	52,553	44,983	2,101	691	246
Morphine	254	187	165	-	194	784	18	18	18	-	1	950
Cocaine	74	62	45	9	859	780	133	122	119	24	725	653
Others	5,550	5,381	4,770	556	389	26	8,775	8,711	7,907	480	845	576
Total	124,940	120,052	105,101	10,254	563	904	129,765	124,166	109,941	18,016	246	194

Table 17 - Information on Offences related to narcotics

Source: Information Report of the Research and Development Division of the Sri Lanka Police

Progress in the implementation of major programmes.

The major functions, such as, the Amendment of the Police Ordinance as approved by the Cabinet of Ministers in the year 2014, Implementation of the "Action Plan on Police Reorganization" of which the report had been submitted in May 2017, establishment of a University for the Sri Lanka Police as identified since 2015 and the establishment of Automated Penalty Charging System, which was being planned since 2014, had not been accomplished even by the end of the year 2019.

Judicial and Prison Affairs

Action has been taken by the Ministry of Justice, Human Rights and Law Reforms and its affiliated institutions and departments to provide final judgements and conclusions for cases which had been filed in the Supreme Court, the Court of Appeal, the High Court of Civil Appeal, High Courts, Special High Court, District Court, Magistrate's Court and Juvenile Courts by contributing in the establishment of an efficient and meaningful system of administration of justice while protecting the rights of citizens.

Even though the Department of Prisons, which is governed by the Ministry of Justice, Human Rights and Law Reforms, provided protection and care for prisoners in the early days, today it has become a **house of social correction** that goes beyond the provision of protection and care for prisoners and directs prisoners to a better rehabilitation process. Accordingly, 03 closed prisons, 19 remand prisons, 02 correctional centres for young offenders, 09 work camps, 02 open work camps, 20 **lockups** and 01 prison schools dispersed island wide are governed by Superintendents of Prison.

Even though the Parliament has allocated Rs. 59.38 billion for these sectors from 2017 to 2019, a total of Rs. 53.95 billion had been utilized for the three years. Accordingly, provision amounting to Rs. 5.43 billion, out of the provision allocated by the Parliament during those 03 years, had not been utilized. Detailed Figure is shown in 21.

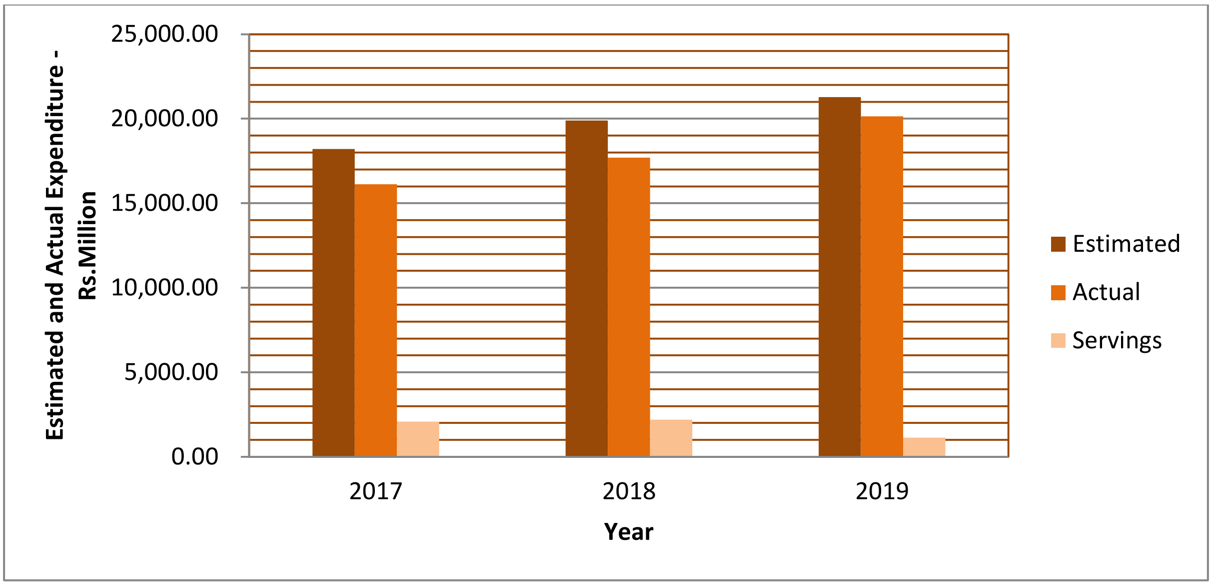


Figure 21 - Estimated Income and Expenditure
Source - Treasury Final Account Statements

Not taking Action on Damages

A cab belonging to the Ministry of Justice, Human Resources and Law Reforms had been in an accident on 08 March 2017 and the vehicle had been kept outside from that date and it had been carried to the Ministry premises after the lapse of more than two years. A Board of Inquiry was appointed on 07 June 2017 in relation to that vehicle accident and the report that should be submitted by the Committee had not been forwarded even by December 2019.

Uneconomic Transactions

The International Arbitration Centre, which is under the purview of the Ministry had been established at a place obtained on lease basis since 2013. An amount of Rs. 18.82 million has been paid as rent for the period from January to June 2019. Although this Centre had been established as a Company Limited by Liability from December 2016, the manner of raising the capital requirement of the Company had not yet been decided and a Board of Directors had not been appointed. As a result, the Company had been inoperative. Accordingly, the Ministry of Justice had failed to establish this Centre in a permanent location although 6 years have elapsed since 2013. The rent of Rs.18.82 million paid in 2019 had become an uneconomic transaction since the Company that had been established was inoperative. The Centre was removed from the role to be accomplished under the Ministry of Justice with effect from July 2019.

- Since 66,171 English copies of legal reports up to Volume – I from the year 2010 to year 2016, printed in English Language by incurring a sum of Rs. 1.28 million had been kept in the Ministry without utilization and therefore, the amount incurred on that had become idle.

- Fourteen (14) computers with virus protection, a printer and other equipment purchased at a sum of Rs. 1.35 million in the year 2016 with a three-year warranty period were received by Negombo Prison on 23 March 2017. Although the three-year warranty period had expired by 31 May 2020, the computers and devices had not been used for the intended purpose even by that date.

Translating Judgements into Sinhala and Tamil languages

Even though the Ministry had set up a Translation Unit on 01 August 2004 to translate judgements given by Courts into Sinhala and Tamil Languages, the Unit was not operational even by August 2020. Even though Rs. 4.06 million had been spent on translating and editing legal reports from Volume I in 2004 to Volume I in 2011 into Sinhala, printing activities had not been completed. Although three parts of Volume I in 2004 were handed over to the Government Press to obtain a copy for second proof reading, the copies had not been returned.

Chances for Misappropriating Government Funds

It had been allowed to misappropriate a sum of Rs. **223,916** received to Nugegoda Magistrate's Court on 04 September 2019 by retaining the amount in hand without depositing in the bank even by 20 January 2020 and to misappropriate a sum of Rs. 1,190,071 out of fines, bail amounts and instalment payments of Pugoda Magistrate's Courts in the years 2018 and 2019 using forged documents since proper internal control system had not been established.

Not commencing Project Works

Although mobilization advance of Rs. 5.47 million had been paid in November 2019 for the construction of the official residence of the Magistrate of Nawalapitiya Magistrate's Court, work of the project had not been commenced even by 31 May 2020. Accordingly, an external party had been allowed to misuse government funds for more than 06 months.

Abandoning Projects Midway

Mobilization advance had been paid to an external contractor in the year 2010 for the construction of the Puttalam Legal Aid and Community Correctional Building, which was awarded to an external contractor in that year. However, the contractor had abandoned the project midway. Although a total of Rs.594,286, comprised of Rs. **254,691**, advance that had already been paid and Rs.**339,595** out of the performance security had to be recovered, the amount had not been recovered even by 06 February 2020.

Revenue in Arrears

The Attorney General's Department had provided legal services and legal advice on a fee-for-service basis to government institutions such as State Corporations, Boards, Statutory Institutions and Universities. Revenue amounting to Rs. 269.69 million for providing such services had been in arrears by 31 December 2019. Sixty-five per cent (65%) or Rs. 173.94 million out of the revenue in arrears had been outstanding for a period more than 03 years.

Outstanding Loan Advances

An amount of Rs. 23.06 million, out of the loan advances given by the Ministry to public officers, had been in arrears by the year under review. Thirty-five per cent (35%) or Rs. 7.96 million out of the outstanding loan balance had been in arrears for more than 5 years.

Project for the Consolidation and Revision of Legal Enactments

Project for the Consolidation and Revision of Legal Enactments was launched by the Legal Draftsman's Department on 01 July 2014 as per the approval of the Cabinet of Ministers granted on March 2014 and it had to be completed by 31 December 2017. The Cabinet approval was sought to extend the Project to another six years starting from 01 January 2018 since the project could not be completed by 31 December 2017. The Cabinet had extended the period only for three years. Accordingly, the project had to be completed by 31 December 2020 and only a sum of Rs. 11.68 million had been spent during the period from the year 2014 to 31 December 2019. Although provision amounting to Rs. 185 million had been made in relation to that period, only 6.3 per cent out of the provision allocated had been utilized.

Non-filling of Vacancies in the Posts of Legal Draftsman

The role assigned to the Legal Draftsman's Department is the transformation of the Government policies on diverse subjects into legislation for the establishment of good governance. The approved cadre (senior level and tertiary level), who directly contribute in the accomplishment of this role as at 31 December 2019 was 70. There were 33 vacancies for those Posts by 31 December 2019. The number of vacancies by the end of the previous year was 28. Seven out of eight Posts of Senior Assistant Legal Draftsman had remained vacant. Even though the Post of Senior Assistant Draftsman can be filled by promotions of the officers in the Post of Assistant Draftsman, who have completed a service of 10 years, there were no officers in the Post of Senior Assistant Draftsman, who had completed that period of service by 31 May 2020. Therefore, the Post of Senior Assistant Draftsman had further remained vacant. Likewise, it was not possible to fill 06 vacancies in the Post of Assistant Draftsman as the Scheme of Recruitment for that Post had not been amended.

Developing a Prison Information Management System

A period of 07 years had elapsed by 31 December 2019 subsequent to the initiation of the function of developing a

Prison Information Management System at a cost nearly Rs. 101 million. The networking of Welikada Prison had been handed over to Sri Lanka Telecom in 2016 with the objective of implementing the Prison Information Management System and a sum of Rs.957,978 had been incurred in that regard. A contract had been awarded to a private company in the year 2018 to network 12 prison institutions and Rs. 30.51 million had been paid for that purpose. Another 16 companies are to be networked in the future. However, it was not possible to implement the information system in the entire prison system even by the end of the year under review.

Severe Overcrowding in Prisons

Prisoners of each type had to be kept separately according to the space facilities available in the prison. It was not possible to classify and to detain prisoners in that manner in Negombo and Kalutara prisons due to the severe overcrowding prevailing in those prisons. According to the audit test check carried out, the number of inmates that could be detained in an area of 18,853 Square feet in 16 wards of the Negombo Prison was 350 as per the provisions of the Ordinance. However, the number of inmates detained in five occasions during the year under review was in the range of 1,695 to 1,843. Although the number of inmates that could be detained in an area of 177,126 square feet in 22 wards in the Kalutara Prison was 317 as per the provisions of the Prisons Ordinance, the number of inmates detained in 06 occasions in the year 2019 was in the range of 1,159 to 1,415.

Not issuing Formal Appointment Letters for Confirming Officers in the Service

Two hundred and fifty one (251) officers out of the total officers of 437 in 17 prison institutions out of 30 prison institutions, had fulfilled the relevant qualifications during the period of 1998 to 2017 for being confirmed in the posts. Action had not been taken to confirm those officers in the service even by 31 May 2020. Although action should have been taken to confirm 53 officers who were appointed to the five prison institutions during the period of 2009 to 2017, the appointments could not be confirmed as the files of those officers had not been updated. Their posts could not be confirmed as personal files of 34 officers who were appointed in 11 prison institutions during the period of 2008 to 2018 had not been updated and training opportunities required to confirm those officers in their services had not been offered to them. The files of 37 officers in 11 prisons who were transferred during the period of 2005 to 2017 had not been updated and as a result, the files could not be forwarded to the Appointing Authority for confirming them in the service.

Submission of Reports of Government Analysts

The expert evidences provided by the two main Divisions of the Government Analyst's Department, Forensic Science and Food Science, are very important to expedite court proceedings. In the year 2019, 40,745 such expert reports had been issued to the Courts. However, it was not possible to issue 14,171 reports to reach the Courts even by the end of the year under review.

Developing Policy Plans to Prevent the Breakdown of Family Units

A total of 171,858 persons had visited 83 Legal Aid Centres located island wide belonging to the Legal Aid Commission of Sri Lanka to seek access to justice for people, who are unable to obtain legal redress due to poverty. The Legal Aid Commission of Sri Lanka had provided services of lawyers free of charge for 45,963 cases pending before the courts. Seventy-two (72) per cent of those cases, or 32,980 cases were cases filed for divorce and maintenance. However, the Commission had not contributed in the formulation of policy plans to prevent the breakdown of family units.

Real Economy

Sectors

Agriculture
Livestock
Plantation
Fisherise and Water Resources
Industries
Land Affairs

Observations

- **Building Obtained on Lease for the Ministry of Agriculture**
- **Quality of Imported Fertilizer**
- **Agri-village Entrepreneurship Development Programme**
- **Overestimation of the Value of Insurance Liabilities and Enter into Re-insurance.**
- **Insurance Scheme Based on Indicators for Crop Damage Assessment**
- **Digital Economic Strategy Development Project for Sri Lanka**
- **Fishermen's Pension and Social Security Scheme**
- **Non-payment of Arrears of Pensions**
- **Failure to Update Information**
- **Long-term Debt Balance**
- **Failure to Start Planned Projects**
- **Paddy Production of Female Farmers**
- **Agricultural Mechanization and Postgraduate Degree in Organic Agriculture**
- **Research on Organic Agriculture Policy**
- **Failure to Update the Database and Issuing Annual Publications**
- Importation of Dairy Cattle
- Project of Development of Cooperative Societies of Dairy Producers
- Unutilized Cattle Food Production Machines
- Unutilized Lands
- Production of Animal Food
- Non-production of Milk to fit the Capacity of Machines

- Decrease in Milk Production
- Increase in the Expenditure on Milch Cattle Food
- Annual Lease Rental Income
- Decrease in Tea Production in Sri Lanka
- Declining Global Tea Market Share
- Replanting of Tea
- Purchasing of Forks to use in Tea Lands
- Failure to Maintain a Minimum Production Level
- Less Function than Production Capacity
- Increase in Bank Overdraft Balance
- Continued Decline in Overall Rubber Production
- Decrease in Raw Rubber Export Income
- Targeted Replanting Rubber Cultivation
- Balance Due from Officers who had Violated the Conditions
- Decrease of Annual Yield
- Small Tea and Rubber Estate Revitalization Project
- Shortage of coconuts
- Vavili Saviya Manpower Project
- Exportation of Coconut Related Products
- Increasing of Seed Coconut Production
- Damage Caused by Coconut Mite
- Lack of Proper Establishment of Sugar Industry in the Country
- Control of White Leaf Disease in Sugarcane Cultivation
- Decrease of Sugarcane Supply
- Empowering the Fishing Community
- Coastal Rehabilitation and Resource Management Programme
- Improvement of Villages in 10 Coastal Districts
- "Village with a Lake" Programme
- Cleaning of 10 Lagoons
- Demarcation of Survey Plans and Lagoons
- Production of Artificial Bait Cuttlefish
- Northern Provincial Sustainable Development Project
- Construction and Renovation of Anchorages and Fishery Harbours
- Construction of a 3-Storied Building
- Obtaining a Regular Water Supply for the Fish Breeding Center in Iranamadu
- Improvement of Coastal and Marine Aquaculture Production
- Safety of Fish Ponds
- Construction of 04 Ponds and 04 Brick Tanks
- Supply and Installation of a Water Supply System

- Carp Breeding Center, Udawalawa
- Establishment of a Food Production Unit for Tilapia
- Purchasing the Machines
- Classification and Extraction of Amino Acid (Peptides) Using Fish Waste Examining the Quality of Fish in Multi-Day Fishing Vessels with Deep Freezers
- Making Recruitments
- Industrial Estate
- Non-utilization of the two storied building for productive work
- Not Utilizing Funds in a Productive Task
- Sewing Machines Remained Idle
- Commencement of handicraft related self-employment
- Distribution of Machinery and Equipment to Artisans
- No Returns on Investment
- Agreement on Leasing out the Limestone Deposit
- Mortgage of a Land owned by the Corporation to the Bank
- Bimsaviya Programme
- Amending of Acts
- Acquisition of Lands
- State Land Information and Management System
- Management of Land tax Income
- Not Reaching Targets
- Following the Lands Leasing Procedure
- Maintenance of a Land register
- Implementation of the Decisions of the Cabinet of Ministers
- Failure to carry out the surveying requirement
- Preparation of Land Use plan and Implementation of Land Use Policies
- Complaints against Surveyors’ Professional Misconduct

Agriculture

Increasing food production to ensure food security in the country had been the intended purpose of this sector. In order to achieve that objective, the Ministry of Agriculture, Rural Economic Affairs, Livestock Development, Irrigation and Fisheries and Aquatic Resources Development and the two Departments under it and 11 statutory bodies had to play the following role.

- Ensuring local food security.
- Carrying out all activities related to paddy lands.
- Providing welfare for the farming community and Social security activities.
- Production of organic manure and promotion of poison free farming.

A sum of Rs. 181,266.57 million had been made available by Parliament for the period from the year 2017 to 2019 to execute the above mentioned functions and a sum of Rs. 162,922.99 million had been utilized thereof. Accordingly, a provision of Rs. 18,343.58 million or 10.12 per cent out of the provisions made available by Parliament had not been utilized. Details are shown in Diagram 22.

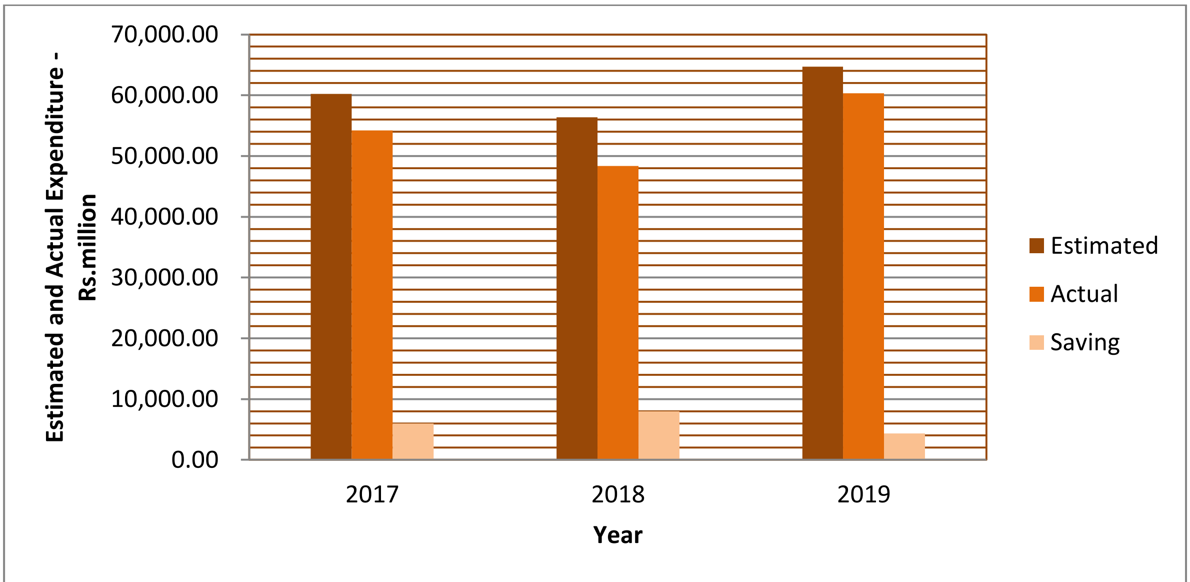


Diagram 22- Provision and utilization provided by Parliament
Source - Treasury Final Account Statements

Building Obtained on Lease for the Ministry of Agriculture

It had been decided to utilize the "Govijana Mandiraya" where the Ministry of Agriculture established for the Reform of Parliamentary Committee System and additional office space requirement. Therefore, a 09 storied building belonging to a private company in Rajagiriya for the Ministry of Agriculture had been obtained from 08 April 2016 based on a monthly lease rent of Rs. 21 million and a service charge of Rs. 6 million without following the provisions in Guidelines 3.2.1 and 3.2.2 of the Government Procurement Guidelines.

Although the building requirement **f**or the Ministry of Agriculture which has a total staff of about 300 was 66,500 square feet, the area of the 09 storied building that had been obtained on lease basis was 103,000 square feet. Further, although the lease period should be a maximum of 03 years as per Financial Regulation 835 (2) (e), the conditions such as stating that as 05 years, to increase the lease rent by 15 per cent after three years and to pay the two-year lease of Rs. 504 million at once had been accepted on the request of Lessor .

Similarly, although the market value of the rent for the building was Rs. 13.5 million per month as per the assessment of Government Chief Valuer , it had agreed to pay a rent in excess of Rs. 21 million. Accordingly, a total of Rs. **1,524.44** million had been spent as at 31 December 2019, including taxes amounting to Rs.1,229.58 million (VAT and NBT), Rs. 229.20 million for service charges, 63.64 million for electricity bills and 2.02 million for water bills. In addition, a sum of Rs. 342.7 million as well had been spent on partition of rooms for the use of this building as an office complex, laying carpets, installing information system and purchasing office furniture. Even though such payments have been made, on lack of necessary office facilities (room allocation, carpeting, installation of information system) within the first 15 months from the date of the agreement, the building had not been utilized for the office purposes. Nevertheless, since the "Agrarian Bank" had not been fully utilized for the purpose of establishing the Committee System, although the Ministry had been relocated at the old office complex "Govijana Mandiraya" from 31 January 2020 on a Decision of Cabinet of Ministers, a sum of Rs. 28.05 million had been paid as lease rent and service charges in terms of the agreement from January 2020 to August 2020. Likewise, the Ministry is bound to pay lease rent and service charges as per the agreement until 01 April 2021.

Quality of Imported Fertilizer

The following shortcomings were revealed in importing quality fertilizer to implement the National Fertilizer Subsidy Programme by the National Fertilizer Secretariat.

- Lack of consideration of remaining fertilizer stock at previous season, updated fertilizer recommendations and failure to maintain an updated information system in determining the fertilizer requirement for paddy by the National Fertilizer Secretariat,
- Selection of companies to import chemical fertilizers without following a competitive procurement system,
- Although the samples should be taken at the Port to test the quality of imported chemical fertilizers, the

samples were taken from the open warehouses owned by fertilizer importing companies,

- Lack of proper and adequate regulation and supervision of the Fertilizer Secretariat on the methodology for selection of laboratories for testing of imported chemical fertilizers, sending of samples to laboratories, receipt of laboratory reports, testing and granting of trade approval,
- There were nearly 55 forged laboratory reports remained at the audit test checks carried out as per the laboratory reports related to the samples obtained by the National Fertilizer Secretariat to test the quality of imported chemical fertilizers in the years 2018 and 2019 and releasing of 81,655 MT of substandard fertilizers related to 9 types of fertilizers to the market accordingly.

Agri-village Entrepreneurship Development Programme

A sum of Rs. 83.97 million had been spent on the Agro Village Entrepreneurship Development Programme by 31 December 2019. This programme had been implemented in Kahaththewela Village and the following deficiencies were revealed during the sample audit in this regard.

- Although it had been advised in accordance with the Paragraph 06 of Public Administration Circular No. 11/2015 of 20 May 2015 that the holding of official functions should be limited at the expense of the public money and that such ceremonies should be organized in a manner that minimizes the cost, a sum of Rs.1.49 million had been spent on the function of launching of the programme.

- Although a highly organized agricultural company can be formed by a unity of several farmer organizations, a Janatha Samagama had been established to operate this programme by a name called Kahaththewela Limited without the direct intervention and supervision of the Ministry. Although a farmers' organization had been established in 2018 with the intention of establishing that Samagama, that farmers' organization had not been registered with the Department of Agrarian Development.

- It had been provided a sum of Rs 1.41 million on office furniture and machinery and a sum of Rs 45.91 million on protected houses for farmers. Although action should be taken to recover 50 per cent of the value of those protected houses from the beneficiaries, actions had not been taken by the end of the year under review.

- Likewise, 35 electrical circuits valued at Rs. 770,000 had been handed over to Janatha Samagama and an income had to be earned by offering Rs. 1,000 per month for one electrical circuit providing on a rental basis and that income as well had not been collected. Arrangements had been taken to lease out the Sangharaja Pirivena premises which was improved as a model farm with a center for the storage of machinery and collection of vegetable and fruit to the Janatha Govi Samagama on a low rent such as Rs. 1,000 per month.

- Similarly, protected houses, fruit plants, agricultural equipment , bee-culture and equipment valued at nearly Rs. 10 million had been rendered to the above shareholders of the Janatha Samagama by free of charge without any basis.

Overestimation of the Value of Insurance Liabilities and Enter into Re-insurance.

The liability had been overestimated when the Agricultural and Agrarian Insurance Board entered into a Re-insurance Agreement with a Malaysian Insurance Company due to the free insurance that was in place to compensate for possible damages during the 2018 Yala and 2018/2019 Maha seasons. No damages were reported during those seasons beyond the re-insurance liability and in such a case, since the Board was unable to obtain any benefit due to the terms and conditions of the benefit were not included in the Agreement, the sum of Rs.473 million premium paid to a foreign institution had been useless by not being able to get any benefit from the Board.

Insurance Scheme Based on Indicators for Crop Damage Assessment

The Agriculture and Agrarian Insurance Board had entered into an agreement in collaboration with the International Monetary Fund (IMF) affiliated to the World Bank, to develop and implement an insurance scheme based on indicators in 06 Districts in between 05 May 2016 and May 2019. It had been implemented at the research level in Vavuniya, Anuradhapura, Kilinochchi and Mullaitivu Districts during the 2018/2019 Maha season. Even though it had been intended to implement an indicator-based insurance system to introduce modern methods of assessing damages, the compensation had been calculated only in Vauniya District under this system.

Digital Economic Strategy Development Project for Sri Lanka

The Ministry of Agriculture had launched the Digital Economic Strategy Development Project for Sri Lanka. Under this project, the Agriculture and Agrarian Insurance Board had implemented a pilot project based on the Gampaha and Badulla Districts to build a database of farmers' information, identify farm lands for Sri Lanka and computerize them. Even though it had been intended the database prepared by the Department of Agrarian Development to be used for the Gampaha District, the Board was unable to apply that database directly to the project implementation. Out of 80,006 plots of land in 26 Agrarian Service Centers in the Gampaha District, only 10,825 plots of land had been mapped due to protests of Agricultural Research Officers and financial difficulties occurred. Out of 27,139 plots of land in 10 Agrarian Services Centers in the Badulla District, only 9,995 plots had been mapped and completed. If this project will be stopped halfway, implementing only within a period of nearly 7 months, the expenditure made amounting to Rs. 9.61 million could have been useless.

Fishermen's Pension and Social Security Scheme

The Fishermen Pension and Social Security Benefit Scheme which had been established to achieve the objectives such as to provide social security to fishermen in old age or disability, to provide relief to the dependents of a fisherman in the event of his death, to encourage fishermen to continue their livelihood, to direct young people to the fishing industry and to create the habit of saving among fishermen and improving the thrift.

The minus balance of the Fishermen Pension Accumulated Fund under the Scheme was Rs. 3,288.94 million at the end of the year under review. It had increased by 11.58 per cent higher than the preceding year. As a result, it had adversely affected the continuous existence of the scheme. Further, since this situation will be worsening in the future years, the institution had not taken steps to restructure the Scheme and implement it with financial viability by the end of the year under review.

Non-payment of Arrears of Pensions

Although it was stated that the members of the Farmers' Pension and Social Security Scheme were to be paid their pensions from the date of attaining the age of 60 years, on the contrary, the payment had been made from the date on which the pensions were prepared. The total amount of pensions payable to 27,049 farmers was Rs. 584.36 million from April 2017 to 31 December 2019. Likewise, a number of 90,573 farmers who are entitled to receive pensions for the period 2012-2013 amounted to Rs. 3,033.33 million had not been paid due to the financial difficulties.

Failure to Update Information

The number of active contributors to the Farmers' Pension and Social Security Scheme was 959,254 at the end of the year 2012 and the information on the number of people who had left the Scheme after 2012, being disable, number of deceased, and the number of evacuations due to non-payment of installments had not been updated. As a result, it was impossible to calculate the number of active members, annual contributions collect and the accurate pension value to be paid at the end of the year under review.

Long-term Debt Balance

The debt balance of Rs. 26.03 million remained in the Farmers' Trust Fund as at 31 December 2019 was in the arrears for the period from 03 yeas to 18 years without recovery.

Failure to Start Planned Projects

The Fund had been commenced to fulfill the objectives stated in the Deed of Establishment of the Farmers' Trust Fund and for the agricultural development and welfare of small farmers. Investing a sum of Rs. 755.00 million in fixed deposits, Rs. 93.51 million in Treasury Bills during the year under review a sum of Rs. 131.78 million had been earned as interest income. Arrangements had been made to commence 78 projects cost at Rs. 826.40 million during the year under review. Out of this, commencing only 32 projects cost at Rs. 197.40 million only a sum of Rs. 40.30 million had been incurred as development expenses.

Paddy Production of Female Farmers

Ran Geviliya Social Enterprise Pvt. Ltd. was established with the objective of cultivating of 3000 acres of paddy lands spread across the Polonnaruwa District in the year 2018/2019 according to the Global Gap Certification Scheme, raising awareness among the farming community on international standardization methods and achieving economic benefits by adopting eco-friendly sustainable farming methods. A sum of Rs.5.9 million interest free loan had been released to that company from the Farmers' Trust Fund on the recommendation of the Polonnaruwa District Director of Agriculture on a one-year payment basis. Although it was expected to obtain GAP (Good Agriculture Practice) certification for paddy production of rural female farmers by March 2019 according to the time frame of the Project, any female farmer had not reached the intended level even by June 2020. The loan amount provided by the Fund had not yet been settled even by the end of the year under review.

Agricultural Mechanization and Postgraduate Degree in Organic Agriculture

The Agricultural Research Policy Council had stated that researchers trained under the referral programme for foreign postgraduate degrees, should choose their research topic focusing on the issues that Sri Lanka currently facing or may face in the future in the field of agricultural sector. The number of officers who have selected for the postgraduate degree in Agricultural Mechanization and Organic Agriculture, that have been identified as required to be improved for the betterment of the agricultural sector in Sri Lanka, was at a very low level. The Agricultural Research Policy Council had not made any planned arrangements to improve this circumstance.

Research on Organic Agriculture Policy

Agricultural Research Policy Council had introduced07 priority areas to existing research institutes in Sri Lanka to enhance research in those areas recognizing the importance of focusing on organic agriculture. Nevertheless, the research had not been conducted on the quality of organic foods available in the market currently since 2017 as per the organic agricultural policy.

Failure to Update the Database and Issuing Annual Publications

Although the Agricultural Research Policy Council had collected information on the number of researches conducted in agricultural research institutes, funding for research, research officer, scientist and other staff and physical resources of the institutes up to the year under review, updating the database after 2016 (Information for Agricultural Research Managers) and issuing of Annual Publications containing that information had not been made since 2010.

Livestock

The functions such as provision of necessary facilities for enhancement of livestock products and taking steps necessary for promotion, propagation and development of livestock-based products should have been performed by the Ministry of Agriculture, Rural Economy, Livestock Development, Irrigation & Fisheries and Aquatic Resource Development, a department and 03 statutory institutions under its purview.

Provision of Rs. **22,257.32** million had been made by Parliament for performing aforesaid functions relating to the period from the year 2017 to the year 2019 and out of that, a sum of Rs. **16,387.01** million had been utilized. Accordingly, out of the provision made by Parliament for the said period, a sum of Rs **5,870.31** million representing **26.37** per cent had not been utilized. Details are given in Figure 23.

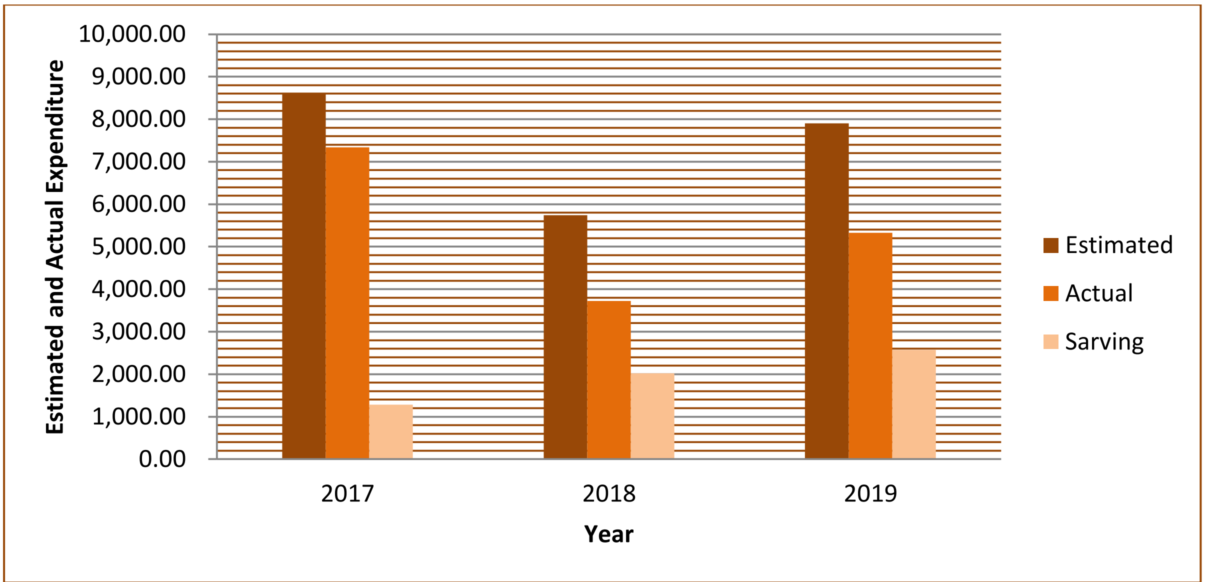


Figure - 19 Provision made by Parliament and Utilization
Source – Final Treasury Accounting Statements

The audit observations revealed at the audit test checks carried out on the discharge of the said functions by the Ministry, and institutions under its purview, are summarized below.

Importation of Dairy Cattle

The Attorney General had been consulted regarding the cancellation of the agreement entered into for importation of these cattle and he had informed on 03 May 2019 that the said agreement cannot be cancelled due to payment of advances. Advances had been paid by a loan obtained from a foreign bank and as such, the Government of Sri Lanka had to incur the cost of interest thereon and sustain the loss due to devaluation of foreign

exchange. When the failure of the project is obvious, Government monies had been misused by another part due to payment of advances. According to the revised agreement, the Ministry of Mahaweli, Agriculture, Irrigation and Rural Development had agreed to implement the project of importation of 20,000 dairy cattle under two phases, that is, according to order schedule, initially import 5,000 cattle within 07 months under first phase and depending on its success, to import the remaining 15,000 dairy cattle within 12 months by granting advances under second phase. However, provision therefor had been requested by the Letter dated 16 May 2017 of the Director General of Budget. It had been planned to import 2,500, 7,500 and 5,000 cattle in the years 2018, 2019 and 2020 respectively according to provision granted by the Director General of National Budget.

Even though the Audit, according to reports obtained from farms and the public media had pointed out that the dairy cattle imported under first phase is unsuccessful, without paying attention thereon, a sum of Rs. 1,749.67 million representing US$ 11,093,108 had been paid to the contractor on 08 May 2018 as advances of 20 per cent out of US$ 55,465,541 allocated for importation of remaining 15,000 cattle despite not having Parliamentary provisions therefor in the year 2018. No dairy cattle had been imported under the said project from the year 2018 to 31 August 2020.

Project of Development of Cooperative Societies of Dairy Producers

The implementation of the project proposal of development of 12 cooperative societies of small scale dairy producers had been commenced since the year 2013 under concessionary loans of Euro 11.4 million subjected to repayment within 34 years commencing after 10 years at an annual interest of 0.0016 per cent under the Government of France, and under the Government provision of Rs.15 million and contribution of beneficiaries of Rs.50 million with the intention of increasing the income of dairy producers by providing them with a competitive market and encouraging the participation of dairy farmers in collecting, freezing and transporting of milk. In entering into agreements on 28 September 2018, it had been agreed to grant loan of Euro 13.9 million under the Government of France at the same interest rate. The Cabinet approval had been granted on 03 October 2018 to re-obtain 50 per cent of the loan granted, by beneficiaries within the due period and to provide tax relief for relevant imported equipment.

Before obtaining the said Cabinet approval, provision comprising Rs.

400 million and Rs.40 million under foreign loans and domestic loans respectively in the year 2017 and Rs. 900 million and Rs.300 million under foreign loans and domestic loans respectively in the year 2018 had been made and 99 per cent of the said provision had been saved. The entire provision of Rs. 2,000 million under foreign loans made to the said project for the year 2019 had been saved and provision of 99 per cent of Rs.65 million under domestic loans, had been saved.

Unutilized Lands

A land of 12,617.43 hectares in extent is owned by the three companies namely, the National Livestock Development Board, Mahaweli Livestock Enterprises Ltd. and Sri Lanka Poultry Development Company (Private) Limited and by the end of May 2019, a land of 2,311.35 hectares in total extent comprising of lands of 2,266.05 hectares, 9.7 hectares, 35.6 hectares in extent owned respectively by the National Livestock Development Board, Mahaweli Livestock Enterprises Ltd. and the Sri Lanka Poultry Development Company (Private) Limited, had remained idle without being utilized.

Unutilized Cattle Food Production Machines

There were 04 machines in 4 farms of the Livestock Development Board, with a capacity of producing 3.75 tons of cattle food per day at a single operation. Accordingly, 900 metric tons (3.75*30 days* 8 hours) of cattle food per month is produced by a single machine and 10,800 metric tons could have been produced per year. Machines of such capacity had remained idle from a period of 01 to 10 years.

There are 10,088 head of cattle on 22 farms under the National Livestock Development Board and 1,198.75 metric tons of cattle food are required for those cattle per month in the year 2018. As such, a sum of Rs.876.72 million had been spent on 3 private institutions for an annual requirement of 14,385 metric tons of cattle food. According to accounts of 04 farms, the expenditure on cattle food in the said farms had been 69 per cent of the income from milk.

Production of Animal Food

Five poultry feed processing machines owned by three farms under the National Livestock Development Board. Moreover, there were one and two food grinding and mixing machines owned by the Mahaweli Livestock Enterprises Ltd. and the Sri Lanka Poultry Development Company (Private) Limited respectively for processing of animal food. Those machines had the capacity of producing 30,960 metric tons of poultry food at the rate of 2,580 metric tons (10.75* 30 days*8 hours) per month. However, by the end of the year 2019, those 8 machines had remained idle for a period ranging from 01 year to 10 years without being used for production.

A total quantity of poultry food at 4,553.3 metric tons per year, comprising of 2,319 metric tons for 12 farms under the National Livestock Development Board, 559.6 metric tons for the Sri Lanka Poultry Development Company (Private) Limited and 1,674.7 metric tons for the Mahaweli Livestock Enterprises Ltd. was required. A sum totalling Rs.248.77 million had been paid to the Board and two companies for supply of poultry food. This expenditure stood at 39 per cent, 64 per cent and 54 per cent of the gross income of each company respectively.

As these farms are running at a major loss, attention had not been drawn to run these companies profitably by increasing the profitability of farms to minimize this loss by minimizing the expenditure on animal food by producing high quality animal food by using the knowledge and tests of officers of the Department of Animal Food by utilizing the above mentioned machines, producing basic raw materials which could be grown for the requirement of producing animal food, using the non-utilized land.

Non-production of Milk to fit the Capacity of Machines

The Factories Modernization Project had been completed by spending a sum of Rs.5,854.66 million for modernization of factories of the MILCO (Pvt) Ltd. as at 31 December 2017. Moreover, agreements had been entered into on a cost estimate of Rs.9,932.71 million for establishment of Badalgama milk process plants and the project was being implemented by 31 December 2017 by spending a sum of Rs.8,083.22 million. According to management and performance reports of the Company, only 26 per cent and 25 per cent of milk had been produced for use through the capacity of machines in the years 2018 and 2019 respectively in the Ambewela factory producing milk powder of which constructions had been completed under the modernization project. After completion of constructions presently carried out in the Badalgama factory, it had been reported that the company requires 600,000 litres of milk per day based on the increase in capacity of the machines. However, the quantity of milk which can be collected per day by the company at present had been only 200,000 litres. Accordingly, the full capacity of these machines could not be used due to inadequate supply of milk and failure in paying attention towards increasing the supply of milk.

Decrease in Milk Production

The National Livestock Development Board had spent foreign loans of Rs.1,655 million and Rs.2,807 million respectively in the years 2012/2013 and 2015 and imported 2,000 and 2,495 milch cows. In view of obtaining a milk production of 24.75 million litres in the year 2016, a milk production of 20.10 million litres in the year 2017 and 20.03 million litres in the year 2018 by all milch cows in 20 farms including the 04 farms where those milch cows were sheltered, plans had been prepared so as to decrease the milk production annually. Despite having prepared plans so as to decrease the expected milk production, the Board had failed to gain even that milk production. Accordingly, the actual milk production had been 17.15 million litres, 14.37 million litres and 14.00 million litres respectively relating to the years 2016, 2017 and 2018. Accordingly, as compared with the milk production of the year 2018 with the actual milk production in the years 2016 and 2017, the milk production had further decreased by 18 per cent and 2.5 per cent respectively.

Increase in the Expenditure on Milch Cattle Food

The expected milk production of the National Livestock Development Board had decreased. However, during the audit test checks carried out relating to the farms of Menikpalama, Bopaththalawa, Dayagama and Ridiyagama, the expenditure on cattle food had been Rs.780.21 million and Rs.735.99 million relating to years 2017 and 2018 respectively. The expenditure on milch cattle had been 68 per cent and 69 per cent of the income from milk respectively. After deducting the direct expenses of the Milk Project, losses of Rs.220.04 million and Rs.411.53 million had been reported respectively in the years 2017 and 2018.

Plantation Industry

Improvement of productivity, profitability, and sustainability of targeting the export market with the view of achieveing an accelarated economic developmenet of the country had been expected outcome of the Plantation Sector. The Ministry and the **22** Statutory Bodies should have performed the following functions in order to achieve the expected outcome set out below.

- 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
- Issuing of licenses to Tea and Rubber
- Issuing of permits for the export of Tea
- Issuing of licenses regarding fragmentation of Tea and Rubber and control
- Optimum use of plantaion lands through multi-crop cultivation and collective farms methods and thereby achieving increased production and employment

A sum of Rs. 41,974.14 million had been made available by Parliament for the period from the year 2017 to 2019 to execute the above-mentioned functions and a sum of Rs.30,727.83 million had been utilized thereof. Accordingly, a provision of Rs.**11,246.31** million or 29.79 per cent out of the provisions made available by the Parliament, had not been utilized. Details are shown in Diagram 24.

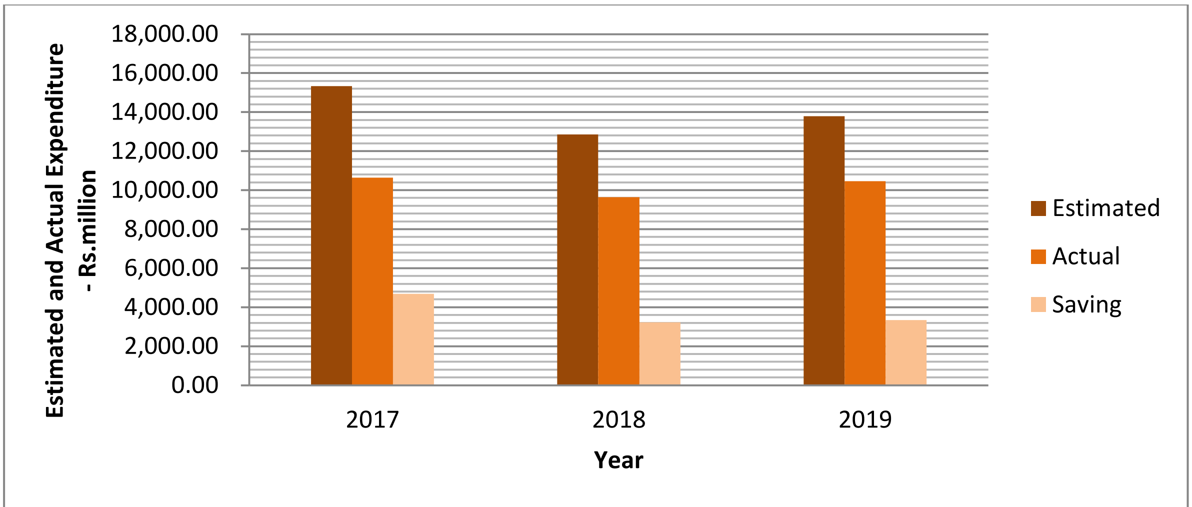


Diagram 24 - Provision made by Parliament and utilization
Source – Treasury Final Account Statements

Audit observations revealed at the audit test checks carried out in respect of execution of the functions of the above institutions are summarized below.

Annual Lease Rental Income

Out of the total 617,486 acres of State-owned Estates handed over by the Ministry of Plantation Industries to 23 plantation companies in 1992, receiving of the annual lease rent income per acre had been a low value income ranging from Rs. 456 to Rs. 3,067. Action had not been taken to revise the lease levied at present considering the commercial value of the land even by the end of the year under review.

When leasing state-owned land to local plantation companies in 1992, the net asset value should have exceeded Rs. 200 million to compute the rent. Accordingly, it had elapsed 27 years by handing over the 20,757 hectares of land without lease rent to 03 plantation companies less than that value as at that date. The rent could not be recovered since the net assets of two companies had exceeded Rs. 200 million by the year under review due to lack of provisions in the lease agreements regarding the way to act in such cases.

Decrease in Tea Production in Sri Lanka

Sri Lanka has a leading position in the world tea market as one of the invincible tea producers in the world . At present, the situation is gradually declining. Although the establishment and operation of tea factories had been the function of the Board, the number of tea factories registered with the Board had been 920 by the end of the year under review. Out of those factories, 190 had not been an operating condition. Accordingly, the number of non-active factories had been 21 per cent as compared to the registered number of tea factories. The total tea production in Sri Lanka also continued to decline from 2014 to the year under review.

Declining Global Tea Market Share

Assisting, encouraging to sell tea in Sri Lanka and abroad as well as improving tea demand and tea research in the world market had been a function of the Sri Lanka Tea Board. The global tea market share for Sri Lankan tea was 18 per cent in 2011. The approval of the Cabinet of Ministers had been received to plan a five-year strategic programme using Rs. 8 billion from the tax collected from exporters on the need to implement an effective promotion campaign. Nevertheless, although two years had elapsed since the five-year deadline, the plan could not be implemented effectively. Although the Board has increased its annual promotional expenditure, it is revealed that the Sri Lanka's share of the global tea market had fallen to 15 per cent by the end of the year under review, as per the statistics of the International Tea Committee. The diagram shows the decline in tea production and exports in Sri Lanka.

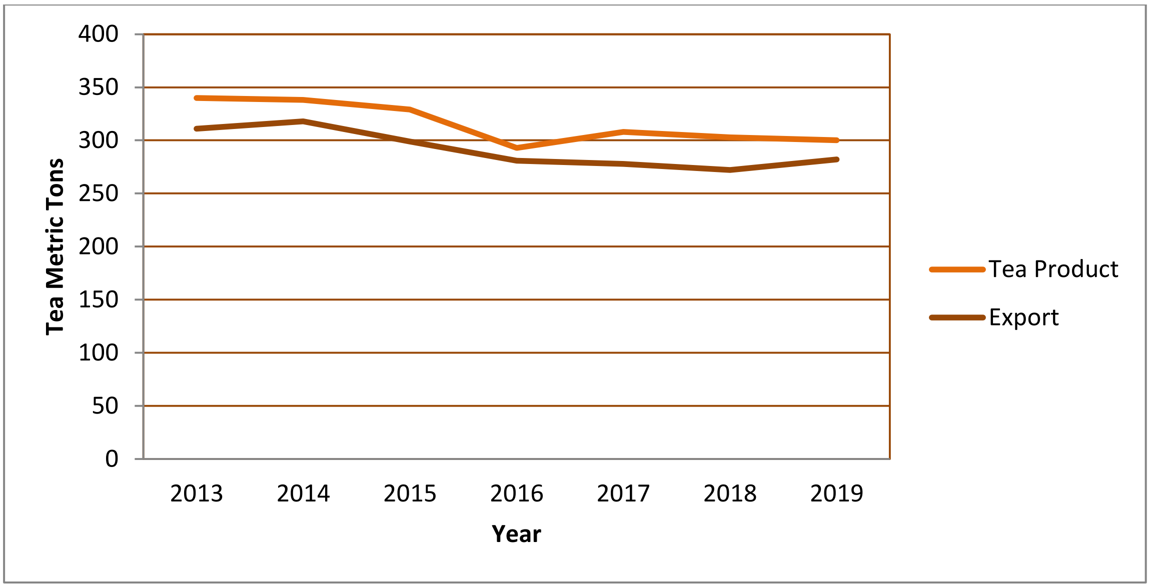


Diagram 25 - Tea Production and Export in Sri Lanka
Source - International Tea Committee Reports

Replanting of Tea

A sum of Rs. 1,744.67 million had been paid as tea replanting subsidy under five phases by the Tea Small Holdings Development Authority during the period from 2012 to 2016 with the view of replanting 2 per cent of area of the tea smallholdings as a national policy in order to maintain the sustainable area of tea plantations with maximum yield. The farmers who had received Rs. 918.11 million from the tea replanting subsidy only for the first three phases had not taken actions to obtain the remaining subsidy and replanting the tea. The Tea Smallholdings Development Authority had not been able to divert 50 per cent of the replanting subsidy given during the last five years to the desired objectives. However, the Management had not drawn attention to get those beneficiaries attract to replanting of tea or to recover that money.

Purchasing of Forks to use in Tea Lands

The most suitable fork had been the one where the blades and handle were put together in a melted metal mould for use in tea lands as per the recommendations of the Tea Research Institute. The Tea Small Holdings Development Authority had called bids for the purchase of the forks. A specification had not stated for that. As a result, a number of 9,450 forks made of iron handle and blade with metal welding had been purchased at a cost of Rs. 27.15 million. Accordingly, the most suitable fork that can be used in the tea industry for the farmer had not been purchased.

Failure to Maintain a Minimum Production Level

Out of 100 kg of green tea leaves input, the production level should have been maintained at least 21.5 kg of made tea as per the criteria of the Tea Board. The Kalubowitiyana Tea Factory Ltd. had not achieved the optimum level of production at its four tea factories during the year under review. Therefore, an uneconomic expenditure of Rs. 24.10 million had been incurred on green tea leaves. Non- use high of quality green tea leaves for the production had mainly attributed for this. Although a sum of Rs. 1.57 million had been spent under the Super Green Leaf concept to obtain high quality green tea leaves for production, the desired objective could not be achieved.

Less Function than Production Capacity

It is observed that the tea factories owned by the Company is being operated below the production capacity during the year under review whereas the Hiniduma and Menikdiwela factories were at underutilizing condition such as 71 per cent and 72 per cent respectively. Since it had led to an increase in the fixed cost consisted on a kilo of tea it had contributed to an increase in the production cost of a kilo of made tea. Although a sum of Rs. 1,531,453 and Rs. 1,543,417 had been paid to green leaves suppliers as green leaves incentives aiming to increase production at Hiniduma and Derangala tea factories respectively during the year under review, the intended purpose had not been achieved.

Increase in Bank Overdraft Balance

Kalubowitiyana Tea Factory Ltd. had obtained overdraft facilities keeping fixed deposits as guarantee in 2015/16 to meet its financial requirements and there was a bank overdraft amounting Rs. 63.07 million at the end of that year. It had grown to Rs. 87.06 million by the end of the year under review. Due to the increase in bank overdraft, a sum of Rs.13.51 million had been paid as interest on overdraft in the year 2019/20 and the negative balance in net financial income had caused for this. The management had failed to maintain the financial position of the Company in a good manner.

Continued Decline in Overall Rubber Production

The Department of Rubber Development had implemented subsidized programmes to increase the extent of rubber plantation lands and increase the productivity of rubber plantation lands. However, the total production of rubber continued to decline from 2014 to 2016 and the production of rubber which was 83,070 metric tons in 2017 was reduced to 82,560 metric tons in 2018 and it had reduced to 74,753 metric tons in 2019. The details are shown in the diagram 26.

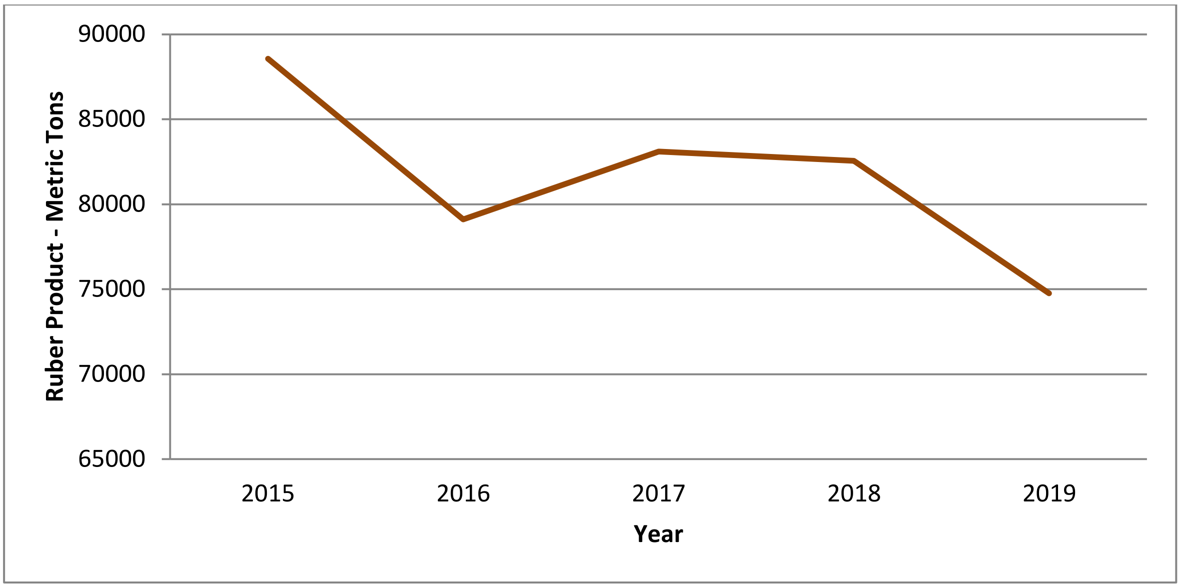


Diagram 26- Total rubber production

Source - Central Bank Annual Report – 2019

Decrease in Raw Rubber Export Income

The 13,982 metric tons of Rubber exports in 2018 to 13,003 metric tons in 2019 by 7 per cent and in the year 2018, the rubber export earnings amounted to Rs.**5,088** million to Rs.4,321 million by 18 per cent in 2019 had been decreased. Details are shown in diagram 22.

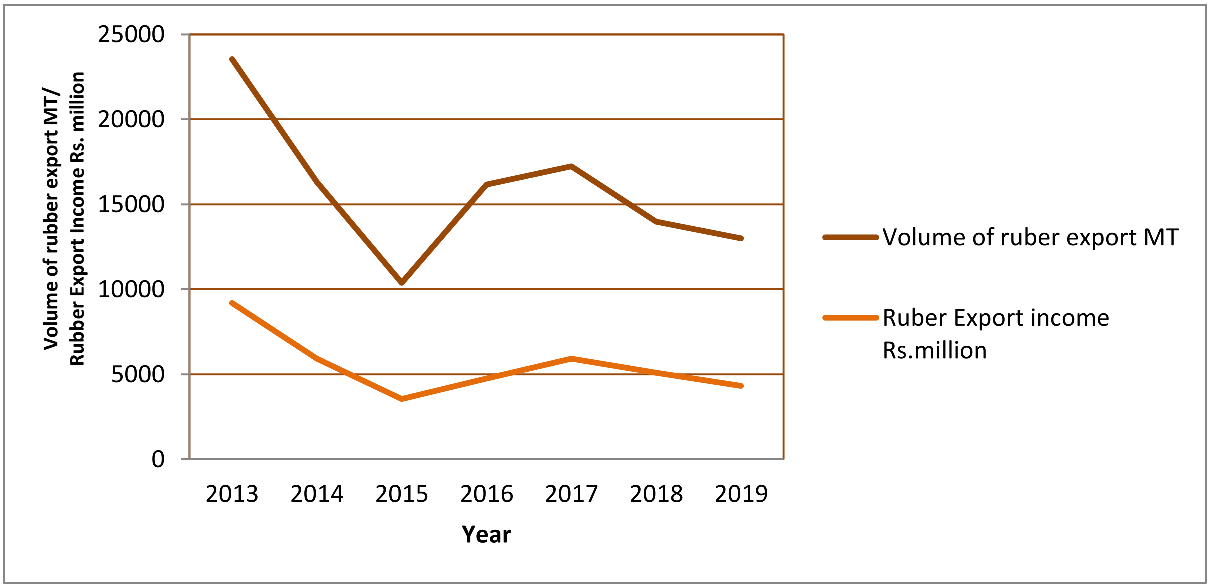


Diagram 27 Rubber Export Volume and Revenue

Source - Annual Performance Report of the Ministry of Plantation Industries and Export Agriculture 2019

Targeted Replanting Rubber Cultivation

Although 870 hectares of rubber smallholders' lands and 900 hectares of plantation companies' lands had been expected to be replanted during the year under review, rubber had been replanted on only 578 hectares and 463 hectares, respectively by the end of the year under review. Accordingly, out of the extent of land expected to be replanted for rubber , it could not be replanted 34 per cent and 49 per cent of land in extent .

Likewise, even though it had been planned to cultivate 350 hectares of new land in traditional and non-traditional areas with rubber during the year under review, out of this, only 215 hectares of land was under rubber cultivation. Accordingly, 39 per cent of the planned amount of rubber had not been cultivated.

Balance Due from Officers who had Violated the Conditions

Four officers had gone abroad on with pay leave after signing bonds for academic purposes, according to Section 4: 7 of Chapter XV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka. Due to breach of bond conditions as agreed by those officers a sum of Rs. 3.51 million should have been collected to the Rubber Research Board. Although that arrears had remained for a period ranging from 2 to 28 years, the amount could not be recovered by the end of the year under review.

Decrease of Annual Yield

The main objective of the Rubber Research Board had been to increase national rubber production. Accordingly, the annual yield should have been in the range of 1500 kg to 3,000 kg per hectare. Despite the introduction of a high-end clone group in 2009, the annual yield was as low as 780 kg / ha. according to the 2018 Annual Performance Report of the Ministry of Plantation Industries.

Small Tea and Rubber Estate Revitalization Project

- A total of Rs. 109.26 million had been paid as basic subsidies to 3,331 beneficiaries for tea cultivation in 729.77 hectares in 06 Districts in 2017 and 2018 by the Small Tea and Rubber Estate Revitalization Project. Future subsidy payments had been halted due to delay in surveying of land, delay in planting, withdrawal of farmers from subsidy scheme and non-compliance with tea cultivation guidelines.

- A total of 3,000 hectares of rubber had been planned to be cultivated in two Districts between 2016 and 2017 according to the plan completion report. Accordingly, the Project had identified 5,295 hectares of land, of which, licenses had been issued only for 2,575 hectares. Due to the withdrawal of farmers from the project process and the reasons such as switching to other crops, only

2,094 hectares had been cultivated out of the expected target by the end of the year 2019.

- According to the plan completion report, a loan scheme of Rs. 422.6 million had been planned to cover the lost income to the farmers when replanting of tea and new rubber cultivation until plucking tea leaves and rubber is harvested respectively and to meet the financial facilities required to generate other short-term income. It had not been functioned even by the end of the year under review.

Shortage of coconuts

The Coconut Cultivation Board had spent Rs.6.38 billion on coconut seedling distribution, development programmes and breeding services during the period from the year 2010 to 2019. However, there was a (average) coconut shortage of 625.29 million nuts annually remained in the country.

Vavili Saviya Manpower Project

The Valvili Saviya Manpower Project had been launched in 2017 to achieve the main objective of establishing a trained workforce for the coconut industry. It had been expected to utilize 76 per cent of the funds of the Project for training and 24 per cent for field equipment according to its project proposal. The Coconut Cultivation Board had utilized 21 per cent for training and 79 per cent for the purchase of field equipment and tablets from the allocation by the end of the year under review. Accordingly, the provisions had been utilized in contrary to the objectives of the Project.

Exportation of Coconut Related Products

The officials of the Coconut Development Authority had spent a total of Rs. 130.77 million to promote Sri Lankan coconut-based products in foreign markets from 2017 to 2019. Out of the 37 coconut related products exported, the export volume of 16 products had decreased by the end of the year under review. Accordingly, the Authority had failed to increase exports of coconut related products.

Increasing of Seed Coconut Production

The Coconut Research Board had introduced varieties of coconut such as Kapruwana, Kapsetha and Kapsuvaya in 2004, 2012 and 2013. The seed coconut production of those varieties were 97,097 nuts from 2014 to 2019. It had been as low as 1.22 per cent of the total seed coconut production of the Board during that period. Accordingly, the Board had not been able to establish seed coconut gardens for these special coconut varieties and thereby increase of seed production and spread it among the people.

Damage Caused by Coconut Mite

It had been estimated that approximately 10 per cent to 15 per cent of the national coconut yield per year is affected by coconut mite. Nine per cent and 6 per cent of the actual coconut production in the estates belonging to the Coconut Cultivation Board and the Coconut Research Board had been affected respectively. The Coconut Research Board had spent Rs. 13.77 million for the researches to control the mite menace, during the period from 2000 to 2019. The mite infestation could not be minimized due to practical difficulties occur in the field in the implementation of the recommendations made by those researches (application of predatory mite, application of palm / vegetable oil mixture and application of fuel oil mixture).

Lack of Proper Establishment of Sugar Industry in the Country

The Sugarcane Research Institute had been not empowered by the Sugarcane Research Act No. 75 of 1981 to carry out commercial sugarcane cultivation, development activities related to the local sugarcane industry, regulate the local sugarcane industry and to determine the commercial adoption of the introduced sugarcane varieties. Although 35 years had elapsed since the establishment of the company, the sugar industry had not been properly established in the country. According to the Central Bank Report of Sri Lanka, it had been stated that 92 per cent of the domestic sugar requirement was imported.

Control of White Leaf Disease in Sugarcane Cultivation

Although, the measures had been taken by the Sugarcane Research Institute to control the disease, introducing sugarcane varieties resistant to sugarcane diseases, selects resistant varieties present in the genome plasma pool and uses them for future breeding activities, identifies carrier leaf miners and makes recommendations for control of those , installation of hot water treatment units, conducting awareness programs for farmers on disease and pest control, conducting training programs, distributing instruction leaflets and setting up primary nurseries the white leaf disease, which was diagnosed in 1972, had not been eradicated even by December 2019.

Decrease of Sugarcane Supply

Although the total cultivable land belonging to the Sevanagala Sugar Factory had been 4241 hectares, Ceylon Sugar Pvt. Ltd. had cultivated sugarcane in an area of 3355 hectares by 2018. Accordingly, although the Company had sufficient lands to obtain the supply of sugarcane required to maintain the operation of the factory at maximum capacity, the Company had not taken steps to cultivate sugarcane on those lands and increase the factory production. Likewise, out of the maximum capacity 897,500 metric tons of sugarcane of the factories of the Company 34 per cent capacity had not been used during the year under review due to declining sugarcane supply so.

Idle Assets

The supplier had not established the crane purchased under lease facilities worth Rs. 128.91 million in 2013 in the factory as agreed with Lanka Sugar Pvt. Ltd. As a result, the machine remained inactive from the date of purchase. Also, the amount of lease installments to be paid further in respect of this machine was Rs. 11.81. million.

Kantale Sugar Factory Limited

It had been decided in the year 2015, to restructure Kantale Sugar Factory which was totally owned by the government and failed to make any contribution to local sugar production for about 25 consecutive years. Nevertheless, it had been impossible to overcome the objectives intended from the restructuring successfully. The ownership of the factory's assets had removed from the government with the restructuring. Further, a compensation of Singapore $ 894,516.83 and US $ 211,913.93 had to pay to a private party. Even though the cost of the Project had increased by 15 per cent, commencing the relevant Project and the local sugar production could not be carried out even by the end of the year under review.

Galoya Plantation (Pvt) Ltd. Limited

The Galoya Plantations (Pvt.) Ltd had made a net loss of Rs. 1,817.58 million for the year ended 31 March 2019. The continuity of the Company had been uncertain since there were liabilities amounted to Rs. 6,234.98 million exceeding the total assets of the company by that date. There was a credit balance of Rs. 2,177 million by the end of the 2014/2015 financial year. An interest of Rs. 529 million had been paid for that in that year. The amount of loans obtained by the 2018/2019 financial year had increased up to Rs. 7,400 million by 239 per cent. Accordingly, since an interest on the loan amounting to Rs. 1,803 million had been paid , the interest as compared to the interest paid in 2014/2015 had increased by 240 per cent. The financial condition of the Company had become unsatisfactory level due to the continuous borrowing to maintain the operations and to meet the working capital requirements of the Company.

Payment of Allowances Without Formal Approval

A sum of Rs. Rs. 13.24 million and Rs. 9.89 million had been paid Thirty-six officers of the Kurunegala Plantation Company and twenty-eight officers of the Chilaw Plantation Company respectively during the year under review as employment allowances without the approval of the Treasury.

Non- Contributed to the Employees Provident Fund

When making contributions to the Employees Provident Fund in terms of Section 10 (2) of the Employees Provident Fund Act No. 15 of 1958, the contributions for the relevant month had to be made before the last day of the following month. The Sri Lanka Cashew Corporation had not paid the contributions totalled to Rs. 4.96 million for the months of May, June and July 2019 even by the 30 June 2020.

Failure to Take Over the Ownership of Lands

The Committee on Public Enterprises had made directives at the meeting held on 24 July 2012 to Ceylon Cashew Corporation to take over the legal ownership of lands to which the Corporation did not have legal ownership. The Corporation had failed to obtain the legal ownership of 12,044 acres of land belonging to 09 Cashew Estates and 04 Seed Orchards owned by the Corporation even by 30 June 2020.

Fisheries and Aquatic Resources

The objectives expected through this sector included : to improve the nutritional level of the people through increased consumption of fish, to increase foreign exchange earnings, to improve the quality of life of the fisher folks by increasing the employment opportunities in the fishing industry. In order to achieve those objectives, the following functions should have been discharged by the Ministry of Agriculture, Rural Economic Affairs, Livestock Development, Irrigation and Fisheries and Aquatic Resources Development, along with a Department and 04 statutory institutions functioning thereunder.

- Development and management of marine brackish water and fresh water fisheries.
- Operation and management of fishing vessels owned by the Government.
- Development and management of fishing activities within the exclusive economic zone.
- To enhance researches on the fisheries and livestock sector through modern technology.

For discharging the said functions, provision amounting to Rs. 25,655.05 million had been made by Parliament relating to the period 2017-2019, and a sum of Rs. 15,759.76 million therefrom had been utilized. As such, a sum of Rs. 9,859.29 million equivalent to 38.57 per cent of the provision made for that period by Parliament had not been utilized. Particulars are given in Figure 28below.

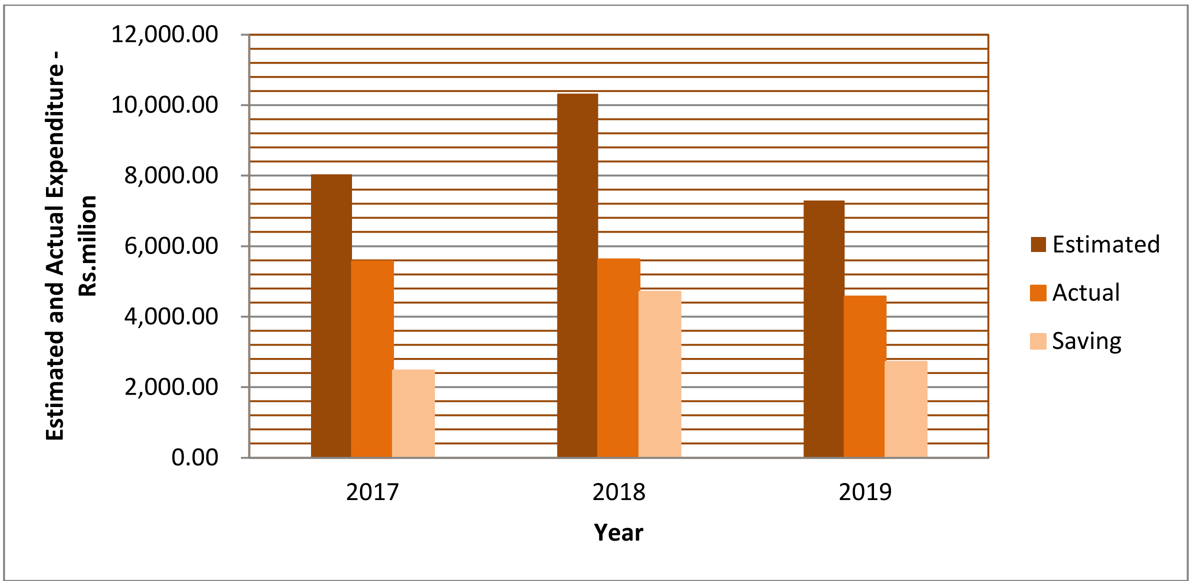


Figure : Expenditure and Provision Made by Parliament.
Source :: Final Treasury accounting statements.

A summary of audit observations made in audit test checks conducted on the Ministry, Department, and statutory institutions discharging the said functions, is given below.

Empowering the Fishing Community

Provision amounting to Rs. 100 million had been made for the Ministry through the annual budget for the year 2019 in order to empower the fishing community under the fishing industry development project. A sum of Rs. 62 million had been spent thereon by the Department of Fisheries and Aquatic Resources, and the National Aquaculture Development Authority, but only 11 of 76 activities identified in the year 2019 had been executed. Provision made for the year under review had been made use of for the execution of activities relating to the years 2017 and 2018.

Coastal Rehabilitation and Resource Management Programme

Provision totalling Rs. 70 million had been made through the annual budget estimate for the said programme. Provision had been provided with the National Aquaculture Development Authority in order to construct hatcheries for fish, and the Authority had spent a sum of Rs. 57.29 million in that connection. Provision made for that programme during the preceding years had continuously been utilized on other activities without being spent thereon.

Improvement of Villages in 10 Coastal Districts

Provision totalling Rs. 100 million had been made through the annual budget estimate – 2019 on the project for improving villages in 10 coastal districts including Hambanthota, Jaffna, and Batticaloa. The said provision had not been utilized to implement the project; instead, *DiyawaraPiyasa* Housing and Sanitation Facilitation Development Program for fishermen launched by the Department and the National Aquaculture Development Authority in the preceding year, had been implemented, and a sum of Rs. 46.3 million had been spent thereon.

“Village with a Lake” Programme

In order to establish integrated fishing villages under the “Village with a Lake" programme, provision amounting to Rs. 200 million had been made for the year 2019. Of the 102 development projects identified by the National Aquaculture Development Authority and the Department under that programme, 62 projects had been implemented incurring a sum of Rs. 92 million. Eighteen of the projects so implemented, should have been completed by the year 2018.

Cleaning of 10 Lagoons

Provision amounting to Rs. 60 million had been made for cleaning 10 lagoons selected under the master plans in accordance with the Action Plan for the year 2019. A sum of Rs. 23.60 million had been spent thereon in the year under review with a physical progress of 70 per cent achieved. Furthermore, provision amounting to Rs. 9.8 million had been made to prepare a report by conducting a national aquatic resources research for quantifying the caring capacity in the year 2019, but that report had not been prepared. The National Aquatic Resources Research and Development Agency had spent a sum of Rs. 6.5 million from that provision on 02 other activities. Provision amounting to Rs. 40 million had been made for dredging and cleaning the lagoons in Jaffna, Panama, and Arugambay, but those activities could not be completed even by the end of the year under review.

Demarcation of Survey Plans and Lagoons

Provision amounting to Rs. 25 million had been made in the year 2019 for marking the demarcation lines in the survey plans for lagoons. A sum of Rs. 22 million had been spent as at 31 December 2019, but the expected target had not been achieved.

Releasing Fishlings to the Lagoon and Supplying Materials for Moda Nests

The said project had been implemented in the year 2018 by the Department of Fisheries and Aquatic Resources, and a sum of Rs. 48 million had been spent thereon. Provision amounting to Rs. 157 million had been made in the year 2019 on that project as well, and by 31 December 2019, a sum of Rs. 68 million had been spent therefrom. The planned activities could not be executed in the year 2019.

Production of Artificial Bait Cuttlefish

In order to implement a project proposal presented by a private company to produce a sum of Rs. 2.5 million had been paid to the National Aquatic Resources Research and Development Agency by the Ministry on 02 October 2018 without obtaining approval of the Secretary to the Ministry. Contrary to the Government Procurement Guidelines, the Agency had awarded the contract to produce and hand over 1,500 artificial bait cuttlefish , to a private company. The total amount had been paid to that company on 16 October 2018. The items supplied had not complied with the amounts and the specifications. As the artificial bait cuttlefish had not been able to attract fish as per the conclusion of the report issued on 30 August 2019 following the research conducted by the National Aquatic Resources Research and Development Agency, the sum incurred by the Government had become fruitless.

Northern Provincial Sustainable Development Project

According to the agreement entered into between the Government of Sri Lanka and the Asian Development Bank on 20 March 2017, the Northern Provincial Sustainable Development Project had been scheduled to be commenced and completed by 01 June 2018. The cost of the project amounted to Rs. 24,035 million. The project period had been extended up to 31 May 2020 without obtaining Cabinet approval.

It was an activity of the project to plan the construction of fishery harbours in Peduruthuduwa and Pesale. Even though a sum of Rs. 18.6 million had been spent as at 31 December 2019 on the construction of fishery harbour in Pesale , that had been removed from the scope of the project in the year 2019. According to the progress reports of the project presented, the total expenditure of the project amounted to Rs. 185.4 million as at 31 December 2019. As compared with the total project cost being Rs. 24,035 million, the financial progress of the project remained as low as 0.77 per cent.

As the project had been halted following the instructions given by the Department of External Resources on 08 January 2020, the going concern of the project had been affected. The Asian Development Bank had refused providing loans for the project due to public protest, and the project had been discontinued on 31 May 2020.

Construction and Renovation of Anchorages and Fishery Harbours

Provision amounting to Rs. 1,586.57 million had been made in the year 2019 for executing 20 activities including the construction of fishery harbours and anchorages. A sum of Rs. 1,066.78 million had been spent in the year under review on 11 activities including the construction of 05 fishery harbours.

The project for the construction of new fishery harbour in Wellamankara had been scheduled to be commenced in the year 2018 and completed by 2020, and provision amounting to Rs. 2,355 million had been made for the project. A sum of Rs. 639.7 million had been spent thereon in the year 2019. The total expenditure on the constructions amounted to Rs. 1,003 million, and the physical progress on the construction of breakwater was only 40 per cent as at 31 December 2019.

The construction of fishery harbour in Kalamatiya had been scheduled to be commenced in the year 2014 and completed by 2017. A sum of Rs. 105.24 million had been spent thereon. Even though a period of over 2 years had elapsed since the scheduled date of completion, the constructions of the project had not been completed.

Even though a sum of Rs. 27.82 million had been spent on the green fishery harbour in Chilaw the constructions of which should have been completed by the year 2017, the project remained incomplete even by the end of the year under review.

A total cost estimate of Rs. 350 million had been prepared for the remaining works of the green fishery harbour in Mirissa, and that project should have been completed by June 2018. Provision amounting to Rs. 18 million had been made in that connection, but no utilization had been made therefrom even by the end of the year under review.

A sum of Rs. 87.74 million had been spent in the year 2019 on the project to provide necessary facilities and convert the Miliddy harbor that should have been completed by May 2019 at a total cost estimate of Rs. 392 million, into a fishery harbour. Due to failure in completing the construction of breakwater, no progress had been achieved.

The projects for constructing Galle jetty fishery harbour, and anchorage in Peraliya should have been completed by June 2018 and July 2017 respectively. Sums of Rs. 21.72 million and Rs. 17.00 million had respectively been spent on those projects in the year under review. Even by the end of the year under review, the constructions had not been completed thus failing to hand over the projects.

Stages I, II, and III of the project for constructing , Karainagar shipyard should have been completed by January 2018. Provision amounting to Rs. 39 million had been made on that project in the year 2019, and only a sum of Rs. 13 million had been spent therefrom with the works thereof remaining incomplete even by the end of the year under review.

Stage III of the Negambo lagoon development project should have been commenced in March 2019 and completed by December 2019. A sum of Rs. 63.24 million had been spent in the year under review, and the entire progress of the project was about 38 per cent as at 31 December 2019.

Construction of a 3-Storied Building

The Cabinet Memorandum, No. අමප/17/1318/718/077/TBR had been presented informing on the lack of space in the new 6-storied secretariat building wherein the Ministry of Fisheries and Aquatic Resources had been maintained. Approval of the Cabinet had been granted to construct a 3-storied building with an area of 29,000 square feet for the Ministry at a cost of Rs. 242.5 million. The contract was awarded to a contractor who had been ineligible in accordance with the Government Procurement Guidelines and the registration with the Institute for Construction Training and Development. Even though a sum of Rs. 68 million had been paid to the contractor as at 30 October 2019, the constructions had been abandoned halfway by the end of the year under review.

Obtaining a Regular Water Supply for the Fish Breeding Center in Iranamadu

In order to make essential improvements on the siphons to ensure a regular water supply for the breeding center, Iranamadu functioning under the Aquaculture Development Authority, the contract valued at Rs. 16.60 million had been awarded to a private company on 25 July 2018. Even after a lapse of over one year by the end of the year under review since the contract had been awarded, the works had not been completed. The sum of Rs. 368,081 spent thereon through variation orders, had become fruitless.

Improvement of Coastal and Marine Aquaculture Production

Constructions had been planned to be carried out during August 2016 – August 2018 with the objective of enhancing the coastal and marine aquaculture production using a land located at the wildlife reserve zone in Wedithalativu of Mannar district. Reports on environmental impact, feasibility reports, and risk assessment reports had not been obtained even by the end of the year under review, but a sum of Rs. 25.19 million had been spent for obtaining water and electricity for the project.

Safety of Fish Ponds

A sum of Rs. 4.52 million had been spent to renovate the fence around the land including the additional works in view the safety of fish ponds in the Tilapia breeding center, Udawalawa. As a sum of Rs. 1.65 million had been spent on additional works, only a length of 343.45 m of the fence had been renovated considering the limit of provision despite the length of 550 m that had been estimated to be renovated. Due to reasons such as, failure to construct the fence covering the fish ponds, and existence of holes at some locations of the fence constructed, the fish ponds did not remain in safety, thus failing to achieve the objective of the work for which a sum of Rs. 4.52 million had been spent.

Construction of 04 Ponds and 04 Brick Tanks

A sum of Rs. 17.07 million had been spent on the construction of 04 ponds and 04 brick tanks at the Tilapia breeding center, Udawalawa. According to the physical inspection carried out by the Audit on 18 June 2019, there was no fish in 03 of the 04 ponds, and 02 of the 04 brick tanks constructed.

Supply and Installation of a Water Supply System

A sum of Rs. 8.63 million had been spent on the work of supplying and installing the water supply system for the new Aquaculture Development Center, Udawalawa, and the works had been completed by 11 February 2018. Due to failure in obtaining electricity for the pump house even by 19 June 2019, a maximum efficiency could not be reaped from the project implemented at an expenditure of Rs. 8.63 million.

Carp Breeding Center, Udawalawa

Sums of Rs. 2.46 million and Rs. 140.6 million had respectively been spent on repairing the official quarters of the carp breeding center and constructing the shelter for laborers at the Tilapia breeding center, Udawalawa. The works had been completed on 03 July 2018, but even by 19 June 2019, the official residence and 02 houses for laborers remained idle without being occupied.

Establishment of a Food Production Unit for Tilapia

Having prepared a project proposal for establishing a food production unit for Tilapia, it had been planned to produce qualitative food by the Authority at a minimum production cost, and save Rs. 05 million from the expenditure incurred annually on foods for fish. All the preliminary activities that should have been done prior to requesting for the appointment of a Procurement Committee in terms of Government Procurement Guideline such as, preliminary environmental inspection, assessment on environmental impact, assessment on social impact, and other activities relating to the project, had not been done. A sum of Rs. 10.23 million had been spent on the machine producing fish food at the carp breeding center, Udawalawa in the year 2019. Due to reasons such as, failure to prepare the building for installing the machine, failure to obtain electricity, and lack of infrastructure facilities, the machine remained non-functional from August 2019 to August 2020; as such, a sum of Rs. 57.79 million had to be spent on fish food in the year under review as well. Moreover, the machine remained idle during its period of warranty, thus failing to achieve the objectives of the project on which a sum of Rs. 10.23 million had been spent.

Purchasing the Machines

A contract agreement had been entered into by the Aquaculture Development Authority to purchase 03 machines for removing weeds and debris at a value of Rs. 161.40 million under the lagoon development programme. As for the said purchase, a sum of Rs. 42.57 million had been paid by the Authority to the contractor on 13 July 2018 as an advance. The contractor had presented forged documents on the agreement, and advances had been paid to him without verifying the authenticity of such documents. No disciplinary action whatsoever had been taken even by the end of the year under review in terms of Chapter XLUIII of Volume II of the Establishments Code against the officers responsible for making advance payments. The sum of Rs. 42.57 million, paid improperly, had been allowed for personal use over a period of 06 months before being recovered. Furthermore, 04 officers had proceeded abroad to inspect those machines at an expenditure of Rs. 363,504 incurred by the Authority.

Classification and Extraction of Amino Acid (Peptides) Using Fish Waste

In order to minimize environmental pollution caused by the waste disposed of by the factories processing Tuna fish, provision amounting to Rs. 1.75 million had been made by the National Aquatic Resources Research and Development Agency for extracting and classifying peptides by using waste from fish. By the end of the year under review, a sum of Rs. 771,569 had been spent thereon. It was revealed in the physical inspection that classification of peptides, a main objective of the research, had not been done. The basis of choosing that project had been stated as being the failure to make proper use of the waste disposed of by the factories, but the said waste was already being used for producing food for fish; as such, the project had been selected without a proper evaluation.

Examining the Quality of Fish in Multi-Day Fishing Vessels with Deep Freezers

Provision amounting to Rs. 3 million had been made for examining the quality of fish stored in the deep freezers of the multi-day fishing vessels. A sum of Rs. 3.61 million had been spent by the end of the year under review on the said research project. It was the objective of this project to examine the quality of fish stored in the multi-day fishing vessels with deep freezers but it was revealed as per the performance report that the Agency had examined the quality of fish in the vessels over 50 feet in length without deep freezers.

Even before the year 2017 the National Aquatic Resources Research and Development Agency had found that the post-harvest damage of the fish with respect to the multi-day fishing vessels without deep freezers had been around 40 per cent. Instead of taking action to minimize the post-harvest damage, researches had been conducted to further examine the post-harvest damage by incurring a sum totalling Rs. 7.49 million during the years 2018 and 2019.

In order to design a multi-day fishing vessel with a deep freezing system under the objective of minimizing the loss of quality in the fish harvest of the multi-day vessels, a consultancy report had been obtained from the University of Moratuwa in the year 2017 by spending a sum of Rs. 950,130. Nevertheless, action had not been taken to design a multi-day fishing vessel by using that report.

Making Recruitments

A person who had not been qualified in accordance with the Scheme of Recruitment approved by the Department of Management Services for the post of Director Finance, had been recruited by the National Aquatic Resources Research and Development Agency to the said post. Salaries and allowances totaling Rs. 5.44 million had been paid to that officer relating to the period from May 2017 to 31 December 2019.

An officer who had not met the required qualifications had been recruited to the post of Research Assistant by the National Aquatic Resources Research and Development Agency since May 2014 , and a sum totaling Rs. 2.89 million had been paid to him as salaries and allowances as at 31 December 2019.

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Industries

Creation of a globally competitive and profitable business environment had been the expected outcome from this sector. The following role should have been accomplished by the Ministry of Industry and Commerce, Res ettlement of Protracted Displaced Persons and Cooperative Development and a Department under its purview and four statutory bodies in order to achieve that outcome.

- Industrial promotion and development
- Develop strategies to integrate the entrepreneurship with the national economic flow
- Development and popularization of designs for the handicraft production in Sri Lanka.

Provision amounting to Rs. 42,219.94 million had been allocated by the Parliament for the period of 2017 to 2019 and provision amounting to Rs. 21,820.27 million had been utilized to fulfill the above role. Accordingly, 48.32 per cent or Rs. 20,399.67 million of the allocation made by Parliament for the period had not been utilized. Details are given in figure 29

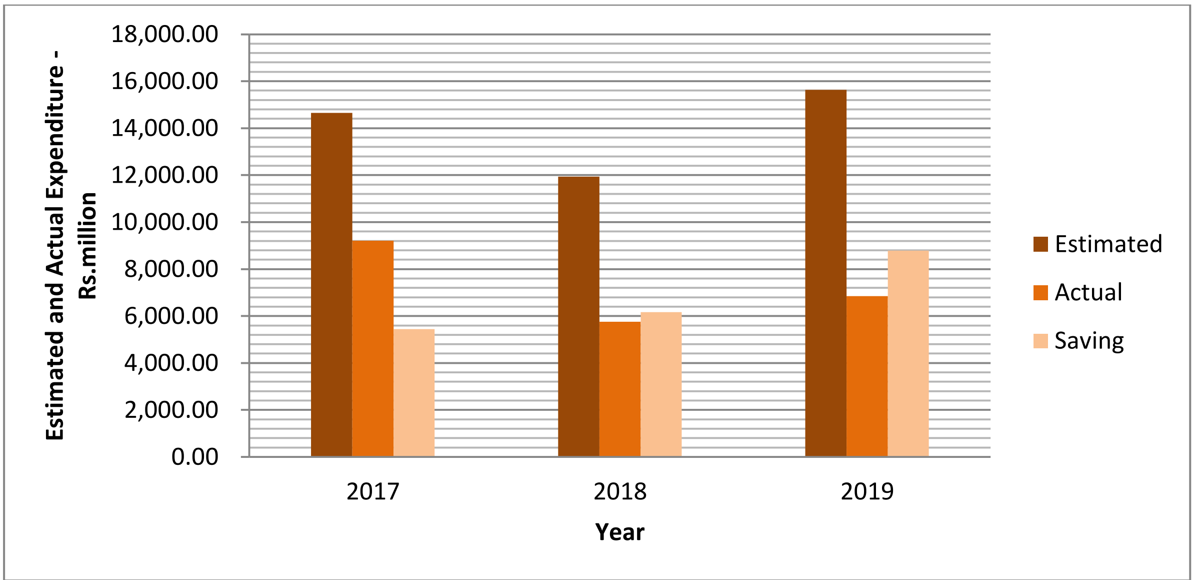


Figure ..... - Provision made by Parliament and its utilization
Source - Final Treasury Accounting Statements

The audit observations revealed during the audit test checks conducted on the accomplishment of the aforementioned role by the Ministry and the Department under its purview and the statutory bodies are summarized and stated below.

Industrial Estate

Provision amounting to Rs. 212.74 million had been allocated for 25 projects under the Industrial Estate as per the action plan for the year 2019. Any level of physical progress had not been achieved by 23 projects and a progress of about one per cent only had been achieved by two projects. Accordingly, provision amounting to Rs. 199.48 million, out of the provision allocated for the above 25 projects, had been saved without utilization.

Although the Ministry had constructed 05 factory buildings in 02 industrial estates at a cost of Rs. 279.28 million, those buildings remained idle even by the end of the year under review. Likely, the total land allotted for the industrial park along with the land under the 17 industrial parks currently in operation was 634.92 acres. An extent of 235.58 acres or 37.1 per cent of the total land area had not been utilized even by 30 June 2019.

The value of liabilities related to the "Nanwamu Lanka" Project was Rs. 136.16 million and the value of obligations was Rs. 4.32 million. The Ministry had no information on the types of expenses from which those liabilities and obligations had been made of even by 30 June 2020. Although Rs. 167.9 million had been paid to three parties in 2015 for the initial activities of a garment and allied industrial promotion project, the project was abandoned without implementation due to the land acquisition issues and action had not been taken to recover the money even by 01 July 2020.

Non-utilization of the two storied building for productive work

A new two storied building was constructed at a total cost of Rs. 60.12 million by 31 December 2019 without taking over the land on which the Head Office of the National Design Centre is located. Since air conditioning units had not been installed in the building, it had not been used for a productive activity by 30 May 2020. Likewise, the construction of the building had not been completed even by 30 May 2020, up to an utilizable level. As a result, a building had been obtained on rental basis at the rent of Rs. 84,975 per month to conduct the education division of the Centre. A total of 1.02 million in the year 2019 and Rs.339,900 up to August 2020 had been paid as rents.

Not Utilizing Funds in a Productive Task

The National Design Centre had implemented a project to develop the technical capacity of artisans and to provide consultancy assistance for a period of 02 years from December 2014 to December 2016 under the financial contribution of the United Nations Development Programme (UNDP). Even though three (03) years had elapsed after the termination of the term of this project by the year 2019, a sum of Rs. 2.32 million had only been spent in 2019 from the funds received for the project. The funds received from the project had not been utilized for a productive task for enabling the achievement of the intended objectives by 31 December 2019 and Rs. 2.32 million of those funds had been idling in a current account of another bank.

Sewing Machines Remained Idle

Ten (10) sewing machines and 01 motor had been purchased at a total cost of Rs. 459,900 under the Polgolla Development Project implemented by the National Crafts Council on 28 December 2016. In addition to the 10 machines, a total of 18 sewing machines were purchased, including 04 normal sewing machines and 04 zigzag machines. By the end of the year under review, the sewing machines had been idling in their packaging boxes at Polgolla Provincial Training Centre for about three years without utilizing them for any productive task even without being distributed for the needs of the artisans or without being used for the training of the artisans at the Training Division of the.

Commencement of handicraft related self-employment

The National Crafts Council had allocated annual budget provision amounting to Rs. **2.30** million for the initiation of handicrafts related self-employments under the facilitation (raw material / equipment) with the expectation of providing benefits to 600 artisans. An amount of Rs. 629,000 had been spent out of the provision made and benefits had been given to 31 beneficiaries in the year 2019. The financial performance of the project was 27 per cent and the physical performance was as minimal as 5 percent.

Distribution of Machinery and Equipment to Artisans

The Ministry had made provisions for the Entrepreneurship Village Development Programme in the year 2019. A sum of Rs. 1.29 million had been spent out of these provision by the National Crafts Council to purchase handloom machines, sewing machines and equipment for distribution to artisans in the Tharapuram village in Mannar. According to the action plan, the equipment had to be distributed among the beneficiaries by the end of the year under review. The distribution of these items to the beneficiaries had not been completed even by June 2020.

No Returns on Investment

Sri Lanka Cement Corporation had invested a total of Rs. 6.40 million in Mahaweli Marine Cement Co Ltd as share capital as at 31 December 2019. The Corporation received returns for the investment only in 2014 and thereafter, the Corporation had not received any returns. Sufficient information on the manner of accounting the investment value and regarding the shares related to the investment had not been disclosed in the financial statements of the year under review.

Agreement on Leasing out the Limestone Deposit

Sri Lanka Cement Corporation had entered into a Lease Agreement bearing No. 495 for leasing the limestone deposit to Holcim (Lanka) Limited on 23 August 1996. Certain Conditions of the

Agreement had been amended by the Supplemental Lease Agreement bearing No. 268 signed on 07 November 2019. Accordingly, the Corporation had obtained a total of Rs. 58.02 million in two installments as the revised rental during the year under review. The Corporation had lost the rental of USD 1.37 million, which should have been increased for the period of 1993 to 2018 as a result of entering in to this Supplemental Lease Agreement by the Corporation without obtaining the written approval of the General Treasury. The approval of the Attorney General had not been granted to this unfavourably amended lease agreement.

Mortgage of a Land owned by the Corporation to the Bank

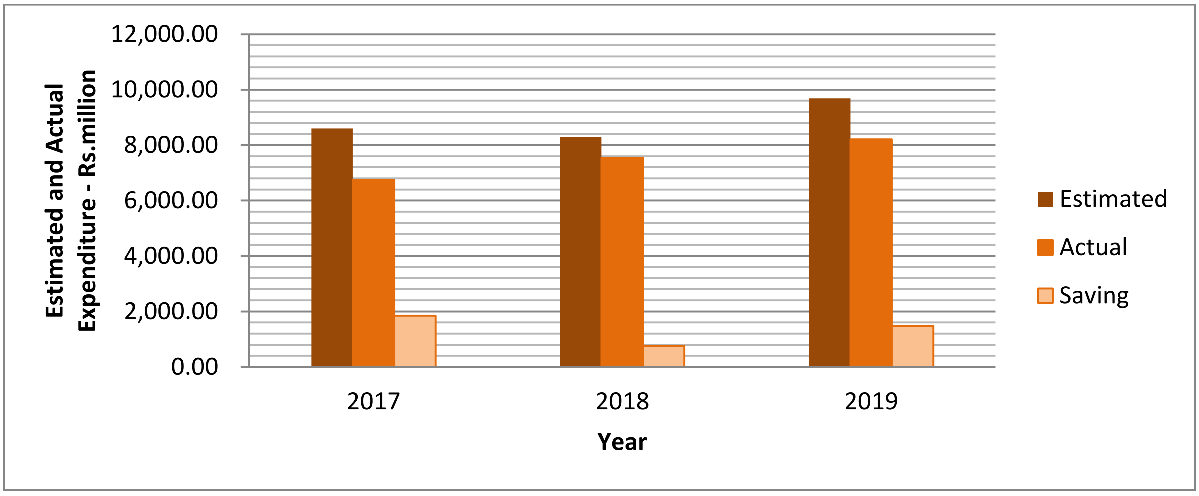
The Sri Lanka Cement Corporation had obtained a loan of Rs. 97.70 million by mortgaging a land in Kollupitiya owned by the Corporation to a bank on 31 December 2019. The loan was scheduled by the Bank on 25 June 2018 and a total of Rs. 24.00 million had been paid as loan instalments and Rs. 11.54 million had been paid as the interest for the loan during the year 2019. A loan arrears, totaling to Rs. 73.70 million had to be paid by 31 December 2019. Despite the issue that the loan arrears had to be repaid, Rs. 19.26 million had been invested on 31 December 2019 and Rs. **51.50** million had been invested in January 2020 in fixed deposits in state banks for obtaining interest income lower than the interest payable to the loan amount even without getting the written permission.

Land Affairs

The expected output from the Land Division was the optimization of the use of land resource for Sustainable Development. To achieve the above goal, the following functions were to be performed by the Ministry of Lands, Four Departments and two statutory Boards.

- Preparation and implementation of policies, porogrammes and projects related to lands subject.
- Giving instructions for related sections based on the studies done in accordance with land use policies for Sustainable Development.
- Administration and Management of State lands.
- Alienation of lands as specified by law
- Acquisition of lands for national needs.
- Providing Grants to establish the ownership of the State land.
- Long term and short term leasing of State land for development and residential needs.
- Registration of title certificates for establishing the ownership of lands.
- Surveying of land, preparation of maps and tracing aimed at national planning.
- Preparation of Data Base of all State lands.

Parliament had provided allocations totaling Rs.26,585.71 million for the period from 2017 to 2019 to carry out the above functions and Rs.22,492,68 out of the above amount had been utilized. Accordingly,15.40 percent or Rs 4,093.03 had not been utilized and details are shown in the graph 30 bellow.



Graph ....Allocations provided by parliament and utilization.
Source. Final Accounts statements of the Treasury

The following shortcomings were revealed at the sample audit done in connection with carrying out above functions by the Ministry, departments, and statutory Councils

Bimsaviya Programme

The following activities out of the proposed activities mentioned under Action plan of the year 2019, had not been executed.

- Preparation of 50,000 Leaflets and manuals in connection with obtaining clear land titles of the propaganda programmes of the Land Development Division.

- Conducting 05 interviews in electronic media ,publishing 05 short advertisements and conducting 04 awareness building programmes on Bimsaviya for 600 officers including Title Investigation Officers, Legal Officers, Bank Officers, District Secretaries and Divisional Secretaries

- Conducting 02 programmes for 100 heads of Local government bodies, conducting 04 programmes for 500 officers including Grama Niladharies and other field officers and provision of essential infrastructure facilities for related sections of the Ministry engaged in issuing Title Certificates under facilitation of maintenance of computer and information systems.

Amending of Acts

Amending of the Land Development Ordinance, Condominium Act, State Land Bank Act and National Land Use Policy Act and Publication through gazette notifications had not been done by coordinating related institutions of Lands Policy Section and by obtaining legal drafts and observations of the Attorney General.

Acquisition of Lands

As per the proviso 38(A) of the Lands Act No 09 of 1950, acquisition of lands from the private sector for the development process of the Government is a collective effort of the Ministry of Lands, the Institution engaged in carrying out the development activity, Valuation Department, Divisional secretariat, Survey department and other related institutions and for that, preparation of proper procedure and identification of time frames should have been done. Since actions had not been taken for preparation of such procedure, activities related to as low as 315 files only had been completed out of 1311 files for which 38 (A) order and Proviso 38(A) had been issued during the period from 2015 to 2019. Accordingly owing to the delay of payment of compensation for lands acquired during the period from 1980 to 2014, Rs. 920.54 million as interest on compensation had been paid in the year under review. Thus the instance of having to pay such large amount of money was due to the non-performing of functions mentioned in the Acquisition Act by the officers of the Ministry and affiliated institutions. The following instances have proved this fact through sample audits.

- Land acquisition activities had not been completed for the construction of a playground for Walathara Junior School even after lapsing of 18 years.

- Land acquisition activities had not been completed for the construction of a playground for Mahamaluliya Government School even after lapsing of 12 years.

- Nonpayment of compensation for the project of construction of a Vocational Training center for information Technology even after lapsing of 18 years from 2001.
- Nonpayment of compensation for the project of construction of Mathugama Ananda Sasthralaya even after lapsing of 15 years from 2004.

- Payment of compensation for the project of construction of Hanguranketha Ananda Sasthralaya had taken 05 years.

State Land Information and Management System

State lands information and management system has been created and maintained from the year 2013 and Rs.129.98 had been incurred for that until 2019. Since information of all leased lands had not been entered into that system even by the end of the year under review, it was not possible to obtain required information on recovering tax.

Management of Land tax Income

Collection of land tax in inter provincial colonization scheme areas is done by the Land Commissioner General's Department. Since follow up actions related to such collection of income has not been at satisfactory level, Rs.28.75 million had not been recovered.

Collection of income tax in areas other than inter provincial colonization scheme areas is done by the Provincial Lands Commissioner General's Department. Administration of Crown lands and full powers of supervision of officers related to administration in those areas are vested with the Commissioner General of Lands as per the section 91 of Land Ordinance and the Presidential Secretariat's Circular No S P/R D/02/10 dated 03rd February 2010 on Crown lands administration. However, since the leasing process and recovering of tax money have been at unsatisfactory level, an income of Rs.2,913,07 million had been in arrears by the end of the year under review.

Not Reaching Targets

Although it had been preliminarily planned to start the Bimsaviya Programme in 2002 and to end it in 2021 and although 17 years had elapsed by the end of2019,surveying activities had been completed only in 1359 Grama Niladhari Divisions out of the 3621Grama Niladhari Divisions in 57 Divisional secretariat Divisions in which this programme was underway. Accordingly, 46 percent success had been achieved. 34,660 files had been kept aside in 2019 during title settlement process and the total number of files kept aside as at 31 December 2019 had been 449, 203.However, after sorting out issues, title declaration had been issued for 10,508 files kept aside in 2019. Accordingly, the success of works carried out on files kept aside was 30 percent.

Following the Lands Leasing Procedure

When transferring lands on lease to the technical sector by the Lands Reforms Commission, the Normal procedure of the council had been to recover 6 percent tax of Government valuation. The council had been deprived of Rs.17.20 million on account of annual recovering 04 percent of valuation in the instance where Lelandwatta land was leased for a technical purpose. Further 06 acres had been given on lease to the lessee on 09th September 2005, and however no lease agreement had been given even after lapsing of 14 years. 80 perches from templeburg watta had been given on lease on 19.December 2003 however no lease agreement had been given even after lapsing of 16 years. Although 10 years had lapsed by the year under review after the termination of lease agreement in the instance where 75 acres had been given from Kotagalawatta on 30 year lease agreement, action had not been taken to renew the agreement or enter into a new agreement. Although it is necessary to enter into an agreement with the lessor when lands are given on lease for projects, instances were observed where lands had been given without entering into such lease agreements.

Maintenance of a Land register

Ever since the Lands Reforms commission was established in 1972, the institution had not maintained a register related to acquired lands containing information such as acreage, situated area, party of acquisition, current particulars of transfer of possession, from whom the land acquired, related gazette notifications and all information related to disposition of lands. The institution had even failed to give an explanation in that regard with supporting documents. .Accordingly, it was not possible to verify the correctness of physical existence and valuation of acquired lands worth Rs 676.17 million stated in Financial Statements.

Implementation of the Decisions of the Cabinet of Ministers

Lands had been alienated outside the procedure set out by the Lands Reforms Commission for leasing lands for projects during the period from 2002 to 2004 and in 2004 that procedure was prohibited by a Cabinet Paper. Those lands had had been listed under 02 categories as *transferred to the occupant* and *not transferred to the occupant*. 760 acres and 31 perches out of the lands transferred to the occupant had not been handed back. Actions had not been taken to return the advances to the applicants that had been made in respect of 1689 acres of which the possession had not been handed over .

Failure to carry out the surveying requirement

The minimum number of blocks a surveyor should survey in a month as has been specified by the survey Department from 37 years is 20 (Norms).Since this standard has not been reviewed taking into consideration the current advancement of surveying techniques and equipment the, the Department had failed to carry out 25.809 surveying orders against the backdrop with the number of the Government's surveying requirement exceeding 3.6 million blocks that had been accumulated for over 10 years and the number of surveying orders received by the Department by the end of the year under review being 38,879 .

Preparation of Land Use plan and Implementation of Land Use Policies.

The land Use Policies Planning Department was established by a notification published in the Extra Ordinary Gazette No1654/21 dated 20 May 2010, with the objective of preparing a national land use plan and implementation of Land Use Policies The Department had not completed the preparing of the legal background for formulating the Land Use Planning and implementation of Land Use policies.

Complaints against Surveyors' Professional Misconduct

The Land Survey Board had been established in order to ensure that surveyor profession and its practices are properly maintained as per the survey Act No 17 of 2002 and those who practice the profession maintain the highest standards of the profession. Out of 103 complaints regarding professional misconduct of surveyors received in the year under review, 54 complaints or 52 percent of complaints had been investigated and settled.Adequte measures had not been taken to investigate cases where surveying had been done without being registered with the Board.

Transport

Sectors

Passenger Transport
Port and Aviation
Roads

Observation

- Project of the Construction of Matara -Kataragama Railway Line
- Kelani Valley Railway Line
- Train delays and Decrease in the Number of Train Turns
- Failure to purchase the Sets of Locomotives
- Failure to Perform the Functions as Planned
- Purchase of Train Engines and Power Sets
- Revenue Earned from Vehicle Insurance
- Achievement of Sustainable Development Goals
- Issue of Passenger Service Permits
- Construction of the Bus Stand in Kilinochchi
- PAS (Process Automation System) Project
- Purchase of Spare Parts
- Failure to ascertain the Ownership of Lands
- Operating the Busses
- Idle Assets
- Purchase of Bus Ticket Machines
- Maintenance of Cameras and GPS Systems for Luxury Busses
- Providing Medical Services
- Blood Grouping Kits
- Obtaining a Health Insurance Cover
- Project for the Expansion of Katunayaka International Airport
- Non-compliance with the Civil Aviation Services Act
- Failure to value the Assets
- Going Concern of the Sri Lankan Airlines
- Non-payment of Loan Installments
- Purchase of 04 Aircrafts of Type A 350-900
- Underutilization of the Aircraft 4R-ALS of Type A 330-200
- Failure to update the Joint Agreements
- Failure to reach the Sustainable Development Goals
- Transportation of Public Sector Shipping Cargo

- **International position in container operations and the market share of the Ports Authority**
- **Shipping operations**
- **Decline in Terminal Operations of the Sri Lanka Ports Authority.**
- **Failure to commence operations of the Eastern Container Terminal**
- **Foreign loans obtained for the construction of the Hambantota Port**
- **Being a Guarantor for loans obtained by a subsidiary company**
- **Failure to install CCTV camera system in the port premises**
- **Appeal for relief of Customs penalty**
- **Receivables from the General Treasury**
- **Recruitments Exceeding the Approved Cadre**
- **Engineers of the Staff being Released to Other Projects**
- **Spending Revenue Generated from Expressways on External Activities**
- **Facilitating the Officers of Sri Lanka Police**
- **Failure to Implement Projects to Improve and Widen the Roads Failure to Complete the Targeted Works**
- **Extension of Southern Expressway Project**
- **Integrated Road Investment Programme and Integrated Road Investment programme - Tranche 2**
- **Central Expressway**
- **Phase III of the Central Expressway**
- **Failure of the RDA to Take Over the Compensated Land Plots**
- **Failure to Utilize the Loan Funds**
- **Losses of Exchange**
- **Failure in Prompt Liquidation after Completion of Project Work Items**

Passenger Transport

Implementation, development and sustainable maintenance of higher standard transport infrastructure facilities with the use of futuristic technology strategies for the amelioration of living standard of the people had been the mission of this Sector. In order to accomplish that mission, the following functions had to be discharged by the Ministry of Transport and Civil Aviation, two Departments and 08 statutory 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.
- Introduction of an environmental friendly transport system.
- Regulation of private passenger transport services.
- All affairs relevant to the construction of new railway lines including acquisition of lands and infrastructure facility development.
- 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.
- Regulation of progress, charges and the quality of the services provided by air ports.
- Expansion of international air travels.
- Promotion and execution of regulatory functions in relation to use of airports in Sri Lanka by foreign countries.
- Promotion of domestic air travels.
- Supervision and regulation of private air services.
- Registration of aircrafts.
- Implementation of strategic programmes to minimize the greenhouse gas emission.

Even though provisions amounting to Rs.202,224.71 million had been made for this Sector by Parliament during the period from the year 2017 to 2019 in order to perform the aforesaid function, only a sum of Rs.164,446.48 had been utilized for the said 03 years. As such, 18.86 per cent or Rs.37,778.23 million out of the provision made by Parliament during those 03 years, had not been utilized. Details are given in Figure 31.

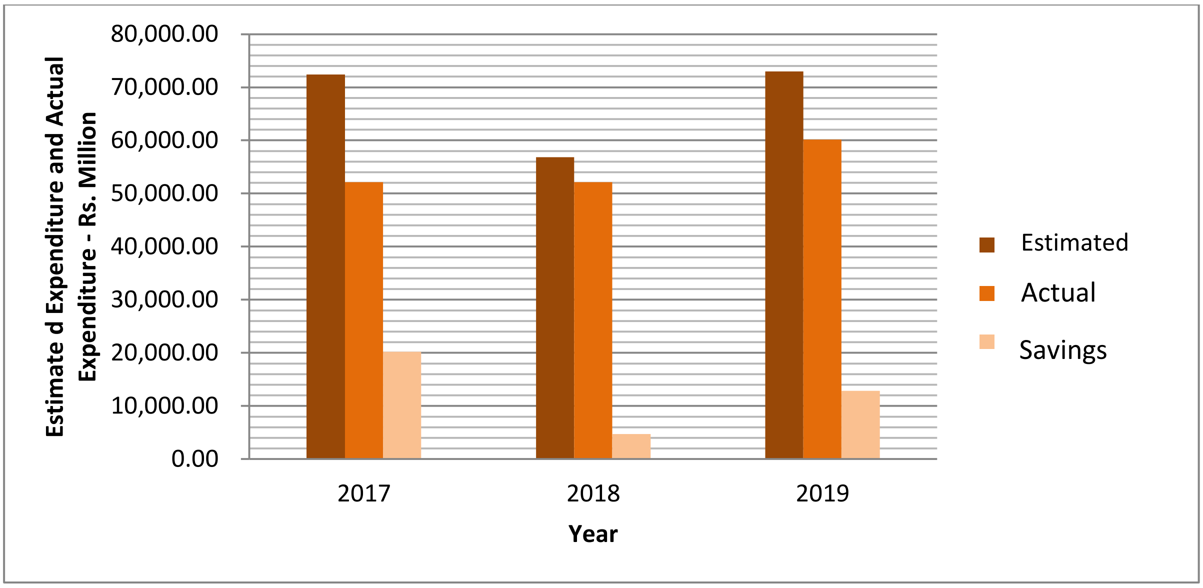


Figure 31- Provision made by Parliament and the Utilization
Source - Statement of Final accounts of the General Treasury

The audit observations revealed in performing the said function are summarized below.

Project of the Construction of Matara -Kataragama Railway Line

The Project of the Construction of Matara -Kataragama Railway Line had been commenced on 01 August 2013 at an estimated cost of Rs.36,166 million. Even though the project should have been completed by 31 July 2016, the said period had been extended up to 31 December 2018. The railway line had been opened in the year 2019 to run trains up to Beliatta and a sum of Rs.38,158 million had been spent therefor by the end of the year under review. The acquisition of lands required for this line should have been done based on the valuation of the Government Valuer with the intervention of Divisional Secretariats. On the contrary, acquisition of land had been done with the intervention of Project Officers in an irregular manner, thus the following deficiencies had occurred.

- The middlemen had acquired lands from the land owners at less rates and subsequently, those had been acquired from them by the General Manager of Railways at high rates as donations.
- In addition to the lands duly acquired, lands with 4 acres and 31.37 perches in extent valued at Rs.57.58 million had been acquired from the middlemen under 62 Deeds of Transfer and those lands had remained idle.
- The lands acquired were occupied by unauthorized occupants.

In terms of condition 1.3 of the loan agreement, the agreed loan should have been obtained during April 2017, when completed 04 years from the date of signing the agreement. Owing to the delays occurred in the construction of road, foreign exchange loss of Rs.5.35 million had sustained relating to the period from May 2017 to 31 December 2018.

Kelani Valley Railway Line

The feasibility study, design planning and consultation of the Kelani Valley railway line being carried out under the assistance of Asian Development Bank, had been commenced in January 2018 and it was scheduled to be completed in the year 2020. The contract for planning and preparation of bid documents in respect of granting loan pertaining to the project, had been awarded to a consulting firm appointed on 13 December 2017 at Euro 256,030 million, USD 6.48 million and Rs.379.21 million. According to that contract agreement, the relevant consulting firm had not submitted final feasibility study reports pertaining to the railway lines from Colombo to Kalutara, Colombo to Rambukkana and Ragama to Negombo, bid documents with detailed plans relating to the railway line from Maradana to Padukka and the detailed plans of main line as at 31 December 2019. Even though 60 per cent of plans and bid documents pertaining to the Kelani Valley railway line should have been completed by the end of the year under review, it had also not been done. Moreover, a sum of Rs.12.89 million had been paid as salaries to the project staff, contrary to the Management Services Circular No. 1/2019 of 15 March 2019. Even though payments should have been made after the submission of reports as per the time frame specified by the consulting firm in accordance with Annexure D of the agreement of consultation services, a payment of Rs.390.22 million had been paid monthly to the consulting firm during the year under review.

Train delays and Decrease in the Number of Train Turns

The delays of passenger trains and freight trains had been 69,716 and 5,160 respectively during the year under review. Out of that, delays over 30 minutes stood at 18,152 and 4,256 respectively. Even though 124,950 passenger train turns had been planned to operate during the year under review, the number of passenger train turns operated had been 115,232. The number of train turns cancelled stood at 5,710 and out of that, 59 per cent of cancellations had been due to the train strikes.

Failure to purchase the Sets of Locomotives

Provisions totaling Rs.1,700 million comprised of domestic funds amounting to Rs.1,600 million and foreign funds amounting to Rs.1,700 million, had been made for the purchase of locomotives during the year 2019. Since the locomotives had not been purchased during the year under review , the said provision could not be utilized for the relevant purposes.

Failure to Perform the Functions as Planned

According to the time tables and fleet of trains operated at present by the Department of Sri Lanka Railways, operating new trains on the existing railway lines had been difficult. As such, construction and rehabilitation work of railway lines should have been carried out. Moreover, provisions totaling Rs.5,174.86 million comprised of Rs.4,674.86 million under foreign loans and Rs.500 million under domestic funds related to foreign funds, had been made by Parliament during the year under review. Out of the said provisions, a sum of Rs.2,915.54 million had been utilized by the end of the year under review. Even though functions of widening the railway line from Mahawa to Omanthai, purchase of **160** passenger train compartments, installation of signal system from Mahawa to Omanthai, construction of double track railway line from Polgahawela to Kurunegala, development of Ratmalana workshop and purchase of **02** diesel power sets, had been identified and provisions made therefor, only an advance had been paid for calling quatations pertaning to the purchase of **160** passenger train compartments. Nevertheless, no action had been taken to purchase the relevant passenger train compartments even by **20** June **2020.**

Purchase of Train Engines and Power Sets

- The Department of Sri Lanka Railways and the *Cabinet Appointed Negotiating Committee* for the purchase of train engines with the assistance of Department of External Resources, had reconciled the net present values for the estimated price of the engine with 3000 horsepower under the American finance package and the price submitted by the M/S Rights Company under the loan facilities provided by India. Accordingly, subsequent to the proper study on net present values, the Department of External Resources had decided that the American engines are more economically viable than the Indian engines. Nevertheless, a loss of USD 10.5 million or Rs.1,905.23 million had sustained due to the purchase of train engines under Indian loan disregarding the American package.

- A provision of loan amounting to USD 136 million had been made by the Indian Exim Bank on 06 June 2017 for the rehabilitation work of railway lines under the Dollar Credit Line Agreement. The said purpose had net been given priority and the Department of Railways had a fleet of 150 train engines including 111 train engines usable as per the data of the year 2018.When considering therequirements of existing time tables and also the time tables planned in the future, it was difficult to improve the performance of running by purchasing new train engines and thereby increasing only the fleet of engines without developing the other requirements of train services.

- Six power sets of S 13 had been purchased from the provision of USD 177 million made for the purchase of rolling stocks (fleet of trains) to the Department of Railways under the Dollar Credit Line Agreement. The power sets had been purchased with an additional payment of Rs. 236.10 million exceeding the Engineer's estimate submitted by the Department.

Revenue Earned from Vehicle Insurance

The main source of revenue of the National Council for Road Safety had been the revenue collected as one per cent of the third party insurance of insurance companies. The Council had failed to ascertain the accuracy of revenue remitted by insurance companies.

Achievement of Sustainable Development Goals

A progress was observed in the year 2019 in achieving the Sustainable Development Goals that is, minimizing all road accidents and establishing a safe road system as per the Agenda 2030 on Sustainable Development. The number of traffic accidents occurred during the year 2017 stood at 37,596 and it was possible to decrease the accidents up to 30,433 by the year 2019. Details are given in Figure 32

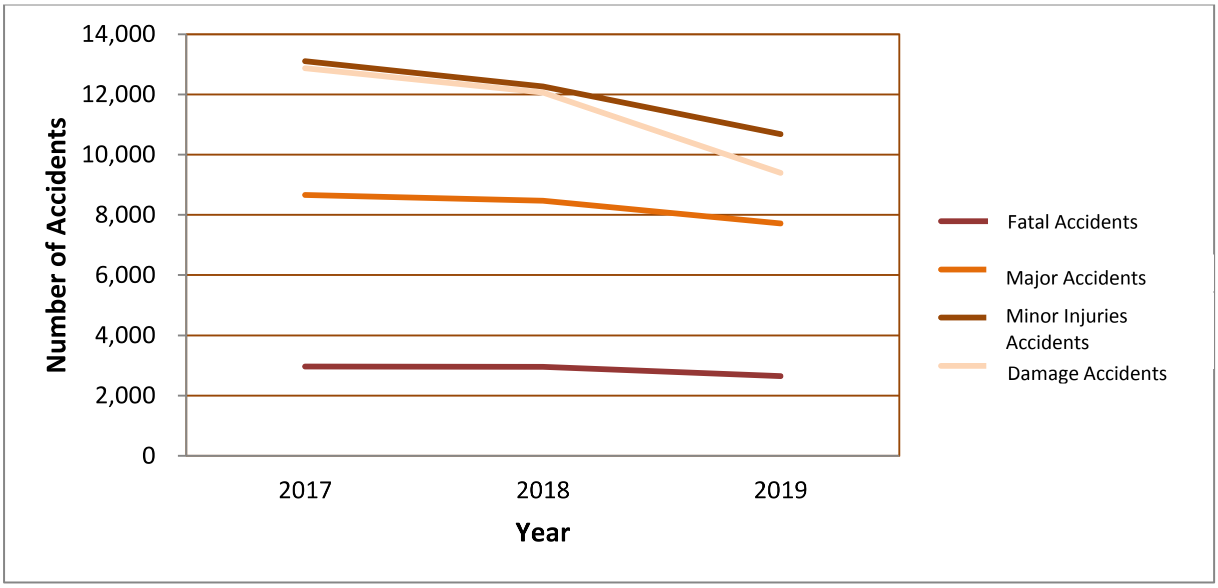


Figure 32- Number of Accidents occurred in the Country
Source – Report of Research and Development Division of Sri Lanka Police

Even though a progress in preventing the road accidents was observed as mentioned above, the National Council for Road Safety had not been converted into a Commission and necessary powers and authority had not been given despite a lapse of 22 years since the establishment of Council as at 31 December 2019**.** As such, certain functions could not be performedtowards the road safety. Even though **04** meetings had been held by the Council in terms of Section **05** of the Motor Traffic (Amendment) Act, No.**05** of **1988**, all **18** members had not met and discussed about the performance of Council.

Issue of Passenger Service Permits

- The National Transport Commission had issued 3103 passenger service permits as at 31 December 2019. Out of that, 223 permits had been issued as per the tender procedure. Further, 2880 permits had been issued before the tender procedure was in effect and those permits were being renewed annually on a payment of Rs.3,000 and Rs.15,000. Accordingly, the Commission had issued permits under various methods without following an approved procedure.

- The National Transport Commission had issued 61 passenger service permits on minimum technical value and 16 passenger service permits on the fee of Rs.2500 per day on the expressway. The bus owners had decided to charge a fee of Rs.2,500 per day due to a pending court case while the judgment had not been given even by January 2020.

- Even though new routes had been identified after conducting surveys on passengers in the year 2019, action had not been taken by the Commission to issue permanent passenger service permits. Nevertheless, in case of high demands of passengers, temporary passenger service permits had been issued at the rates of Rs.2,000, Rs.1,500 and Rs.1,000 on daily basis.

Construction of the Bus Stand in Kilinochchi

The National Transport Commission had entered into an agreement with a private company on 29 December 2016 for a contract valued at Rs.48.77 million in respect of the construction of Bus Stand in Kilinochchi and the contract was scheduled to be completed within 12 months. Since the completion of construction work as per the agreement was neglected, the agreement had been cancelled by the Commission. A sum of Rs.16.47 million had been paid to the contractor by the Commission in respect of the work completed. The Procurement Committee had certified that the contractor was technically and financially stable while action had been taken to terminate the contract on the consent of contractor due to his failure and to comply with the conditions of agreement as favourable to the contractor. As such, the construction work which should have been completed during the specified period on contractual value as per the agreement, had been abandoned halfway after completing 50 per cent of work, due to the failure of contractor. Consequently, the bus stand had remained idle and in a state of dilapidation. A financial loss of Rs.16.47 million had been sustained by the institution due to the failure in taking relevant action as per the contract agreement.

PAS (Process Automation System) Project

Purchase of Spare Parts

Spare parts valued at Rs.6.65 million had been purchased for the Stores of the Head Office of Sri Lanka Transport Board. Those spare parts had been rejected due to the non-compliance with relevant specifications after being inspected by the teams concerned. Nevertheless, such spare parts had not been returned to the relevant institutions and those had been retained in the Stores for a period of two years by June **2019.** The said parts were unserviceable and in a dilapidated condition and as such, the space of stores had also confined**.** Out of the spare parts purchased from a private company approved by the Department Procurement Commitee, spare parts valued at Rs.**5.83** million had not complied with the relevant specifications. The said spare parts had been returned to the relevant companies by **26** October **2018** while those spare parts had been accepted again on **26** Novemebr **2018.**

Failure to ascertain the Ownership of Lands

Number of 114 depots, 12 Regional Offices, 19 Drivers' Training Schools and 12 Regional Workshops belonging to the Ceylon Transport Board, had been established on the lands acquired or obtained on lease basis by the Board. However, information on the extent, value and also the ownership of lands, had not been obtained even by the end of the year under review. Moreover, according to the register on lands maintained by the Board at present, action had not been taken by the Board to ascertain the ownership of lands with approximately 160 acres in extent where the depots of Board were maintained.

Operating the Busses

There were 7,779 busses owned by the Sri Lanka Transport Board by the end of the year 2015 while it had decreased to 7,012 busses by the end of the year 2019. Out of those busses, 6,268 busses were in running condition during the year 2015 and it had decreased to 6,098 busses by the year 2019. Further, 1,511 busses were not in running condition by the end of the year 2015 and it had decreased to 914 busses by the end of the year 2019. Accordingly, 24 per cent of the busses existed during the year 2015 were not in running condition and it had decreased to 14.98 per cent by the end of the year 2019. The details are given in Figure 33

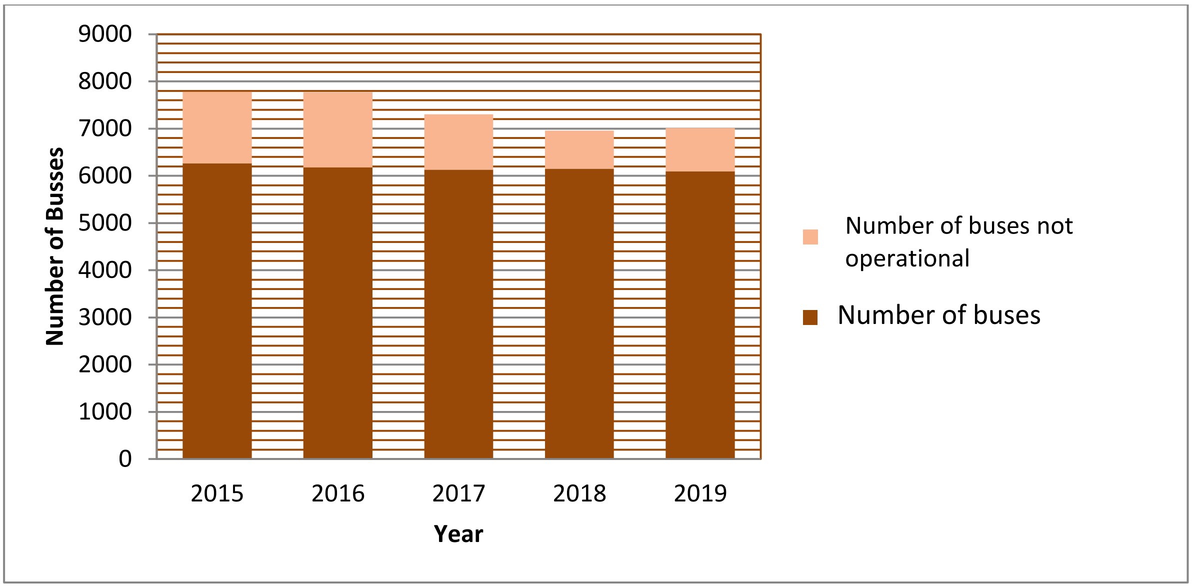


Figure 33 Number of Busses of the Sri Lanka Transport Board
Source – Website of the Ministry of Transport

Idle Assets

- According to **the** audit test check carried out on 24 August 2018,it was observed that spare parts valued at Rs.1.85 million existed in the Regional Stores of Gampaha of the Sri Lanka Transport Board, had remained idle without being used since the year 2005.Failure to make purchases according to requirements caused this situation.
- A Vertical Boring-Milling Machine purchased at a cost of Rs.**5.69** million on **12** January **2018** and a **Cylinder Line Boring Machine** purchased at a cost of Rs.**3.14** million on **16** August **2018** had remained idle in the Regional Workshop in Kurunegala of the Sri Lanka Transport Board from the date of purchase up to 10 September 2019 due to lack of tools and measurement defects occured in cutting engines.
- Set of tools with an estimated cost of Rs.89.84 million required for the construction of 09 Emission Centres in the nine Provinces by the Sri Lanka Transport Board, had been purchased for Rs.22.48 million on 26 April 2018 from the Emission Trust Fund of the Department of Motor Traffic. Construction work of these Centres had been commenced without carrying out feasibility studies, cost benefit analysis or any study on the constructions. Even though construction work of the centres in Kurunegala and Medawachchiya out of the said Emission Centres, had been completed and declared open, those had been closed without being functioned due to a legal matter.

Purchase of Bus Ticket Machines

According to the Procurement Plan of the Sri Lanka Transport Board for the year 2018, it had been planned to purchase 1,000 electronic bus ticket machines at a cost of Rs.35 million. Approval therefor had been granted at the meeting of Board of Directors held on 19 February 2018. Nevertheless, 2,000 ticket machines had been purchased by the Board at a cost of Rs.75.90 million on 22 October 2018. Contrary to the Government Procurement Guidelines, it has been stated in the specifications which were issued by the Board that the relevant machines should be complied with the applications of ticket machines being used at present, thus the former supplier had the opportunity to submit quotations. The contract had been awarded to the relevant former supplier without a technical evaluation or a price evaluation in making these purchases. In purchasing this machine, it had been agreed with the condition that 35 per cent of the value should be paid to the contractor before supplying goods while the supply of goods had been delayed for a period of 02 months. Only the supplier of machines had submitted the quotations while other institutions which obtained bid documents had not taken action to submit quotations. As such, the activities of procurement process had not been carried out in a transparent manner. All 55 new ticket machines received to 03 depots out of the 10 depots examined in audit, had not been used due to the reasons such as, lack of light in the key board, slowness in issuing tickets, short life time of batteries, lack of button for preparing ticket rolls in those machines.

Maintenance of Cameras and GPS Systems for Luxury Busses

- An agreement for Rs.33.63 million had been entered into with a private company for purchasing equipment required to maintain the cameras and GPS System for 125 luxury busses owned by the Board.
- The necessity of this project had been identified by the Manager of Information Communication and Technology of the Board and the frauds and irregularities occurred in luxury busses had been submitted as the reasons therefor. Nevertheless, a study on a preliminary feasibility study, cost benefit analysis and forecasting results, had not been carried out before the implementation of this project.
- Officers had not been employed either in the Head Office or the depots to monitor the said camera system and GPS system and action had not been taken to achieve the expected results of the project.
- Even though cameras and accessories for 125 luxury busses had been purchased on 25 October 2018, only 112 busses were owned by the Board. Twenty seven camera accessories valued at Rs.7.26 million had remained idle in the Stores by 27 April 2019, the date of audit.

- The relevant institution which entered into the agreement, had not taken action even by 10 May 2019 to supply and install the Computer Server, to examine the technical specifications and the entire system and also to legally hand over the entire system after providing training to the officers of the Board.

- Liquidated damages amounting to Rs.3.36 million recoverable in terms of Section 8 of the relevant procurement agreement had not been recovered in the installation of GPS software and accessories for 125 luxury busses.

Providing Medical Services

- In terms of Section 3(a) of the National Transport Medical Institute Act, No.25 of 1997, providing medical services and assistance to drivers and operators operating or driving all categories of motor vehicles including heavy duty vehicles, had been stated as the functions of the National Transport Medical Institute. It had been failed to legalize the functions of providing medical services and medicine to the employees in other Government or private institutions in terms the Act of establishing the institute. Nevertheless, the Medical Institute had taken action to provide medical services to the Government or private institutions on credit basis contrary to the Act. Accordingly, medical facilities and medicine valued at Rs.1.63 million and Rs.0.21 million respectively, had been provided to the employees of the Sri Lanka Transport Board and Ceylon-German Technical Training Institute up to November 2019.

- In terms of Section 11 of the Finance Act, No.38 of 1971 and paragraph 9.12 of the Public Enterprises Circular No. PED/12 of 02 June 2003, medicine had been provided to the entire staff of the institute subject to a limit of Rs.6,000 per year. The employees suffering from prolonged illnesses (blood pressure, diabetics, heart failures) were being provided with medicine subject to a limit of Rs.2,000 per month. Approval of only the Chairman had been obtained therefor and even though the approval from the General Treasury should be obtained for welfare projects, the institute had not obtained the approval. A sum of Rs.2.84 million had been spent by the institute for providing medicine to the employees during the year 2019 without obtaining an approval. According to the audit test check, 04 officers had obtained medicine exceeding the limit of Rs.6,000 per year.

Blood Grouping Kits

The National Transport Medical Institute had carried out procurement activities in the year 2017 and subsequently, entered into an agreement for the purchase of 21,600 Blood Grouping Kits at a cost of Rs.21.73 million(including tax) from 17 August 2017 to 16 August 2018. Moreover, the National Transport

Medical Institute had obtained a performance security of Rs.1.85 million therefor and its guarantee period had expired on 16 August 2018. Attention of the Management had not paid thereto and even after the runout of the quantity agreed, 10,800 Blood Grouping Kits had been purchased at a cost of Rs.10.87 million from the same institution up to October 2019. The reasons for purchasing from the same institution where the purchases were made in the year 2018 subsequent to the cancellation of procurement made for the year 2019, had not been explained to the Audit and even though approval of the Chairman had been obtained therefor, approval of the Department Procurement Committee had not been obtained.

Obtaining a Health Insurance Cover

A Health Insurance Cover was in operation in the institute since the year 2005 with the intention of improving the health condition of employees in the National Transport Medical Institute. However, approval of the General Treasury had not been obtained therefor. The institute had obtained this Insurance Cover from the Sri Lanka Insurance Corporation by creating competitiveness among the insurance companies in market and without comparing the values and further, it had been agreed in the year under review to pay a sum of Rs.8.82 million as insurance premiums for the years 2019/2020.

Project for the Expansion of Katunayaka International Airport

- The Airport and Aviation Services(Sri Lanka) Limited had planned to implement the Project for the Expansion of Katunayaka International Airport in order to fulfill the requirements of air passengers increased due to the favourable environment created in the country after the year 2009. Under this Project, two parts had been identified as Package A-"Terminal building and associated works" and Package B –"Remote Apron and Taxiways". This project had been commenced in the year 2012 and scheduled to be completed within 3 years that is, in the year 2015. However, award of contract had been delayed due to various reasons. Accordingly, the contract had been awarded for Package “B”at first and it was scheduled to be commenced on 25 April 2017 and completed by 29 February 2020. The progress of project as at 21 June 2020 had been only 78.82 per cent.
- The Airport and Aviation Services(Sri Lanka) Limited had entered in to an agreement with the contractor on 12 March 2020 in respect of Package “A” which includes the main constructions representing 92 per cent of the estimated cost of the said contract.

- The Airport and Aviation Services(Sri Lanka) Limited had entered in to two agreements on 28 March 2012 and 24 March 2016 to obtain a foreign loan of Japanese Yen 74,397 million from the Japan International Cooperation Agency (JICA) for carrying out terminal building and associated works under the Package "A" of the Project for the Expansion of Katunayaka International Airport. However, that project had not been implemented and commitment charges amounting to Rs.290.3 million had to be paid to the JICA by 20 April 2020 due to the underutilization of foreign loans.

Non-compliance with the Civil Aviation Services Act

In terms of Section 14 of the Civil Aviation Services Act, No. 14 of 2010, a master plan should have been prepared for the establishment and development of Aerodromes and the approval of the Sri Lanka Civil Aviation Services Authority should have been obtained by the Airport and Aviation Services(Sri Lanka) Limited. The said approval had not been obtained even by the end of the year under review.

Failure to value the Assets

According to the letter No.PE/COMC/**33/02** dated **28** April **2006** issued by the Deputy Secretary of Treasury, the Airport and Aviation Services (Sri Lanka) Limited had acquired only the liabilities without assessing the lands, buildings and other movable and immovable assets owned by the Government while no shares had been issued to the Government of Sri Lanka for transferring net assets.

Going Concern of the Sri Lankan Airlines

The loss of Sri Lankan Airlines amounted to Rs.44,022.67 million and the accumulated loss had been Rs.230,890.07 million for the year ended 31 March 2019. The current liabilities exceeding the current assets of the company amounted to Rs.186,339.26 million and the total liabilities exceeding the total assets had been Rs.177,725.40 million as at that date. Accordingly, even though a considerable uncertainty was observed regarding the going concern of the Sri Lankan Airlines, the financial statements had been prepared on the assumption of going concern as per the letter dated 16 September 2019 of the Secretary of Treasury, assuring the support of Government of Sri Lanka to the Sri Lankan Airlines on the approval of Cabinet of Ministers dated 24 August 2019.

Non-payment of Loan Installments

The Sri Lankan Airlines had obtained USD 200 million (approximately Rs. 31,115 million) and rupee loan facilities amounting to Rs.26,250 million from 02 State banks for short term financial requirements during the year 2016/2017 on the guarantee of General Treasury. No basic loan whatsoever pertaining to those loans had been paid even by the end of the year under review.

Purchase of 04 Aircrafts of Type A 350-900

Discussions held between Sri Lankan Airlines and Airbus Company for the purchase of 04 Aircrafts of type A 330-900 or 08 aircrafts of type A 321 Neo instead of 04 Aircrafts of type A 350-900 to be received in the years 2020 and 2021, had not been ended even by 31 March 2020. Further, a sum of Rs.2,528.12 million (USD 19.21 million) had been paid as pre payments therefor by 31 March 2019.

Underutilization of the Aircraft 4R-ALS of Type A 330-200

According to a Condition included in the Agreement entered into with the International Lease Finance Company for the decrease of compensation in terminating the agreements pertaining to 03 aircrafts of type A 350-900 entered into for obtaining operating lease in the year 2016, the Aircraft 4R-ALS of type A 330-200 had been obtained on operating lease basis for 10 years since the year 2017. It had been agreed to pay the monthly lease installment for first 72 months at USD 485,000 and a lease installment of USD 485,000 for the remaining period in respect of the said aircraft. Meanwhile, this aircraft had been given to the Hi fly Transporter Company under the sub lease of USD 490,000 per month up to September 2018. The air craft had been returned to the company in October 2018 after the end of sub lease period while the aircraft had not been used for air travels from October 2018 to January 2019. The number of hours spent on air travels from February to June 2019 had been only 169. (the average number of travel hours per day of such an aircraft stood at 12). According to the technical test carried out on the aircraft by the Engineer of aircraft maintenance on 02 October 2018 after the end of sub lease period, it had been informed that the lessee has not carried out the relevant maintenance work adequately, thus the aircraft could not be technically accepted.

Failure to update the Joint Agreements

The Sri Lankan Airlines had entered into agreements on 12 September 2014 for the implementation of 05 Joint Agreements with 05 Trade Unions for the period from 01 June 2014 to 31 May 2017. Approval of the Board of Directors had been granted therefor on 21 September 2015, after a lapse of one year since the date of agreement. Even though the validity period of these Joint Agreements had expired on 31 May 2017, no action had been taken to update those agreements even by 30 November 2019. Moreover, consent of the relevant Ministry and the Treasury had not been obtained for the said agreements even by 30 November 2019.

Ports and Shipping Affairs

The anticipated outcome of this sector was the creation of marine port facilities free from hindrances. In order to achieve the above expectation, the Ministry of Ports and Shipping and Southern Development and the four statutory bodies functioning under purview of the Ministry were required to discharge the following functions.

- To formulate, monitor and evaluate policies, programmes and projects related to the port and shipping sector
- Development and management of commercial ports
- Development and administration of ports, oil tanks, and lighthouses other than those belonging to the Admiralty
- Settlement of disputes between shipping service providers and the users.
- Imposition of competition rules for shipping services
- To establish and assist advisory coordination between shipping suppliers and users
- Acceptance of Bun Yachts and Marine Remains
- Administration of the Shipping Development Fund
- Shipping charges and shipping services
- Coastal passenger transport

For the discharge of above functions, Parliament had made provision of Rs. **8,869.39** million for the period from **2017** to **2019**, out of which only Rs. **4,033.96** million had been utilized for that purpose. Accordingly, Rs. **4,033.96** million or **54.52** per cent of the allocations made by Parliament during that period had not been utilized. Details appear in the Diagram 35.

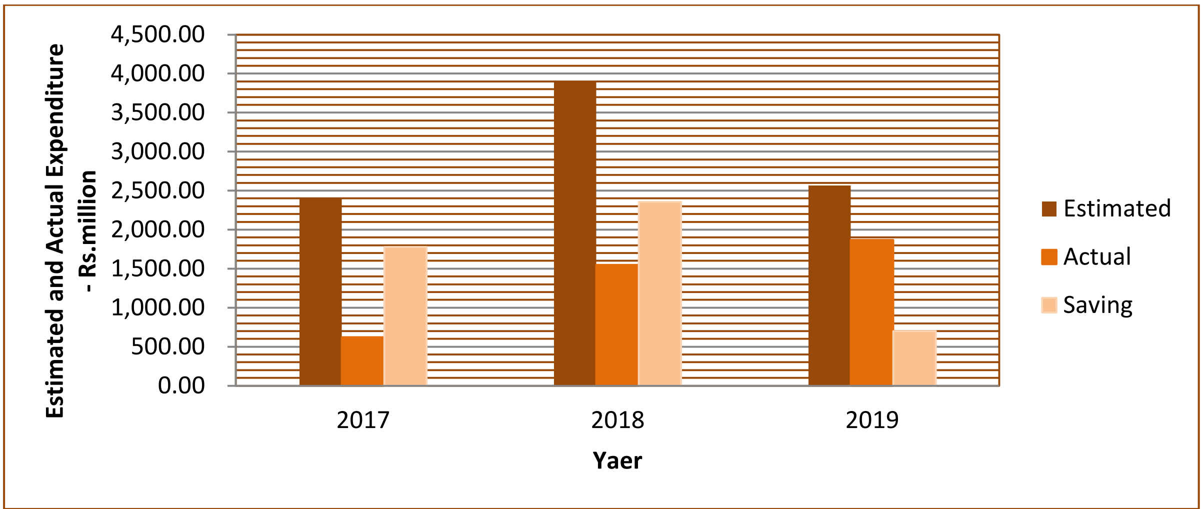


Diagram 35 - Provision and made by Parliament and utilization
Source: Final Account Statements of the General Treasury

Failure to reach the Sustainable Development Goals

Based on the main Sustainable Development Goal of achieving productive employment opportunities and better employment opportunities for women and men, including youth, plans had been drawn to issue an identity document to all Sri Lankan sailors in accordance with the ILO Convention by collecting biometric features of them. A sum of Rs. 50.46 million had been spent for this project from 2015 to the year under review, and it had been expected to issue biometric certificates for the year 2019. Nevertheless, it was not possible to issue a biometric features document even by 31st July 2020.

Transportation of Public Sector Shipping Cargo

The Cabinet of Ministers had decided on **21** December **2004** to give priority to the importation of public sector goods to the Ceylon Shipping Corporation, a state-owned company, so that it could be self-sufficient as a commercially and financially independent entity. Accordingly, the Public Finance Circular No. **415** of **06** May **2005** had been issued informing all government institutions in this connection. However, due to the failure of state institutions to take action accordingly, the above decision had been reaffirmed at the Cabinet meeting held on **13** January **2016.** Accordingly, Circular Letter No. 3 dated 18 February 2016 was issued by the Department of Public Finance reiterating that the above circular provisions should strictly be followed.

Among the companies engaged in the public sector import activities, 34 Government Institutions in the year 2018 and 24 Government Institutions as at 30 October 2019 had carried out their import services through the Ceylon Shipping Corporation Limited. However, large-scale import agencies had not taken steps to seek the company's services. The number of government institutions which had been provided most services by the company was **14.** Although those **14** state institutions had imported **9,461,406** metric tons of goods between 01 January **2018** and 30 October **2019**, service of the Shipping Corporation had been provided only for **45,331** metric tons or **0.48** per cent of those imports. Eighty-five per cent of the total institutions that were provided the import service by the corporation were made by five government agencies out of **14** government agencies. It was also revealed that some government agencies had requested other foreign shipping companies to carry out imports by citing various reasons. Such requests had been made 557 times in 2018 and 398 times up to 30 October 2019 and the company had issued waivers notices.

Accordingly, the Company had not implemented appropriate mechanisms to utilize the state sponsorship provided to expand the market share of the Company by making optimal use of the business opportunities related to the importation of goods.

International position in container operations and the market share of the Ports Authority

The Colombo Port had operated 03 main terminals for international shipping activities during the year under review, out of which only the Jaya Container Terminal was operational by the Sri Lanka Ports Authority. The South Asian Access Terminal and the Colombo International Container Terminal had been leased to two private companies on a long-term basis. Out of these terminals, the Colombo International Container Terminal is the only terminal with a Draft of **18**m where the current trend of large container vessels can arrive. Although the first phase of the **18** meter deep Eastern Container Terminal had been completed in **2016**, no action had been taken to start operations at the terminal even by 31 August 2020.

According to the Aalpha Lnine Report on Ports of the World issued by the Aalpha Lnine Organization for the year **2019**, the Port of Colombo had operated **7,228,337** units of Twenty Equivalent Units, ranking **22nd** position in the world in terms of container operations in **2019**, thus achieving a growth of 2.6 per cent compared to **2018.**

Shipping operations

The number of ships arrived at the main ports of Colombo, Galle, Hambantota and Trincomalee was **5,023** in **2016**, but it had dropped to **4,708** by the year **2019.** Nevertheless, the number of Twenty Equivalent Units (TEUs) handling increased from **4.9** million in **2014** to **7.2** million in **2019**. Further, the volume of traditional cargo shipped had decreased from **7.81** million metric tons in **2016** to **6.6** million metric tons by **2019.** Details appear in Table 18

Details	2014	2015	2016	2017	2018	2019
Number of ships arrived	4,298	4,760	5,023	4,942	4,933	4,708
Number of Twenty Equivalent Units (TUEs) handled (000 Units)	4,908	5,185	5,735	6,209	7,047	7,228
volume of traditional cargo shipping handled (000, M.Tons)	6,339	7,156	7,811	7,735	7,438	6,673

Table18 -.Number of container units and volume of traditional cargo shipping handled at the main ports.
Source: Performance Review Report of the Sri Lanka Ports Authority.

The number of container vessels arriving at the Colombo Prot during the year under review had decreased by **133** vessels or **3.1** per cent compared to the preceding year. Although the number of container vessels arriving at the Colombo Port had increased in **2016** as compared to the year 2015, there was a decrease in the number of container vessels arriving in **2019.**

Decline in Terminal Operations of the Sri Lanka Ports Authority.

The Sri Lanka Ports Authority 's contribution in container handling had fallen sharply from **81** percent to **32** percent as a percentage of total container handling during the **19** years from **2001** to the end of **2019**. Meanwhile, the company, which commenced operations in **2013** out of the two competing private companies in the Colombo Port, had contributed up to **40** percent by the end of **2019.** The other company had expanded its market share from **19** per cent in **2001** to **28** per cent by **2019.** The following diagram shows details of container handling over the past **19** years.

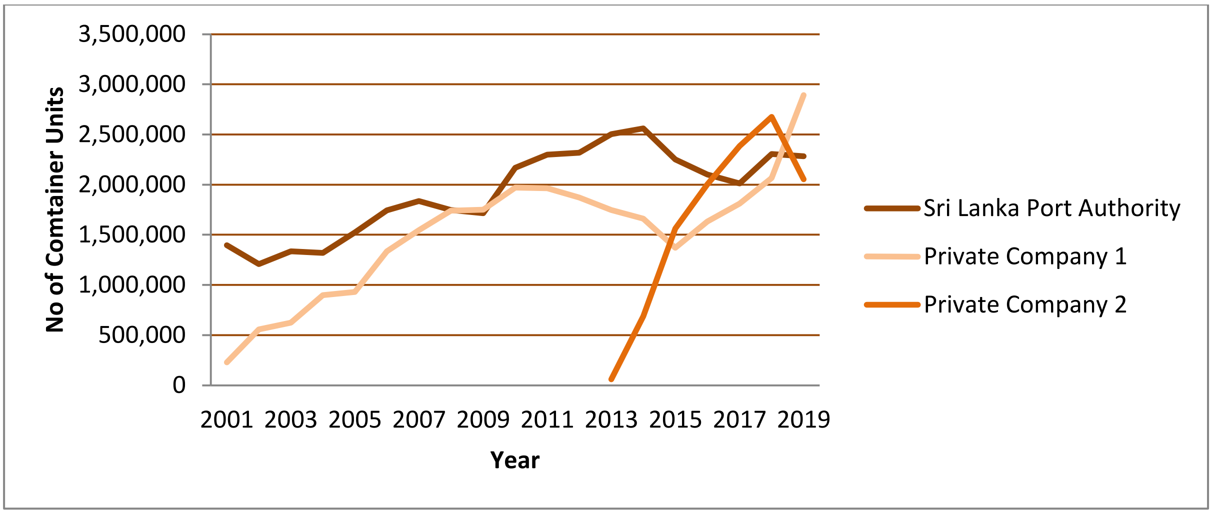


Diagram 36.- Terminal Operations of the Sri Lanka Ports Authority
Source: Performance Review Report,2019 of Sri Lanka Ports Authority

According to the above data, the market share of the Sri Lanka Ports Authority for handling containers has gradually declined and the Authority had not been able to reach its maximum terminal capacity.

Failure to commence operations of the Eastern Container Terminal

The Colombo International Container Terminal (C.I.C.T) is the only container terminal currently operating at the Colombo Port that can handle ships over **14.25**meter in depth (Dratf). The capacity thereof is **2.4** million of twenty equivalent units per year. A number of **374** ships with a draft of more than **14.25** meters had arrived at the terminal and a total of more than **2.6** million container units had been handled in **2019**. It was observed that the maximum capacity was also exceeded. Accordingly, the container handling of the terminal had increased by **8** per cent compared to **2018**. According to a study conducted by Scott & Wilson Company in **2011**, it had been pointed out that the existing terminal capacity of the Port of Colombo will reach its maximum by the year **2015** and the Eastern Terminal should be made functional to meet the demand at that time. However, the

Eastern Terminal had not been opened for operations even by the end of the year under review. Due to the lack of acceptable statistics on the demand for terminal service, the lost terminal demand and resultant lost of revenue could not be calculated.

However, with the funds supplied by the Bank of Ceylon relating to the Colombo Port Expansion Project , the construction of Phase I of the Eastern Container Terminal in **18** meters deep and **440** meters long with an annual capacity of **800,000** containers had been completed in April 2016 at a cost of Rs. Rs. **11,168** million

The Authority had not taken action to commence operations of this Terminal even up to 30 May 2020 by procuring the equipment required for the operation, including the Granite Cranes. However, on 28 May **2019**, Sri Lanka, India and Japan had entered into a Memorandum of Understanding (MoU) to commence operations of the terminal.

Foreign loans obtained for the construction of the Hambantota Port

Out of the foreign loans obtained for the construction of the Hambantota Port, the balance of Rs. **147,746** million remained in the accounts of the Authority as at 30 November **2017** had been eliminated from the financial statements of the Authority without the concurrence of the General Treasury or the approval of the Cabinet. As a result, the loans had not been included in any government account. However, by the Cabinet approval granted as per the Cabinet Memorandum entitled "Hambantota Port Relief Agreement" No. MPS / SEC / **2017/32** dated **20** July **2017**, the responsibility of repaying the above loan balance had been entrusted to the General Treasury. According to the documents of the External Resources Department of the General Treasury, the debt balance as at **31** December **2019** was Rs.**178,628** million.

Further, the cumulative foreign exchange conversion loss of Rs.**58,442** million as at **31** December **2019** in respect of the above loan amount had not been included in the accounts of the Treasury or the Authority. No agreement had been reached between the General Treasury and the Sri Lanka Ports Authority on the accounting of the debt balance including the above foreign exchange conversion loss, even as at the end of the year under review.

Likely, the Chairman of the Authority had been informed that according to the letter of the Secretary to the Ministry of Finance dated **06** July **2020**, the Minister of Finance had ordered to include the relevant assets and loans in the books of the Sri Lanka Ports Authority in terms of Section **12** of the Finance Act No. **38** of **1971** and accordingly, make the necessary adjustments to the financial statements for the year **2019.**

Being a Guarantor for loans obtained by a subsidiary company

Out of a loan of US $ **24** million received from a private bank in **2014** by the Magampura Port Management

Services (Pvt) Ltd., a subsidiary of the Authority, which had ceased operations in November **2017**, US $ 22.3 million had not been settled. The company did not have sufficient cash balance to repay the loan by the end of the year under review. Meanwhile, the relevant bank had referred a letter of demand to the Authority on 02 April **2019** to the effect that a case would be filed against the Sri Lanka Ports Authority as a guarantor and parent company to recover the arrears of the debt amounting to US $ 22.3 million. However, the Authority had not made provisions for contingent liabilities for this purpose.

Failure to install CCTV camera system in the port premises

In order to ensure the security of the port premises, which has been designated as High Security Zones, it had been planned to install a CCTV camera system for all gates and attached warehouses by spending Rs.**60** million and Rs. **150** million respectively from the Capital Budgets for the years **2017** and **2018**. A sum of Rs. **150** million had been allocated for that purpose in the year 2019 and the work had not been completed as expected even by the end of the year under review. Accordingly, there was a risk of inability to obtain the required information in the event of a security issue in this high security zone.

Appeal for relief of Customs penalty

Although an appeal could be made to the Minister of Finance on the decision of a Customs Inquiry under Section **165** of the Customs Ordinance in order to ease the Customs penalty of Rs.**1,580** million imposed by the Customs relating to the import of **27** cranes without informing the Sri Lanka Customs in **2011**, the Authority had not made such an appeal to the Minister. However, provision for contingent liability of Rs.**1,577.7** million had been made in the financial statements in this respect. The case filed by the Authority in the Court of Appeal in this connection had been dismissed and subsequently, an appeal had been filed against the order in the Supreme Court.

Receivables from the General Treasury

A sum of Rs.**5,149.9** million comprising Rs. **4,777** million paid by the Authority in **2017** as installments for loans obtained for the Hambantota Port Construction Project and Stamp Duty of Rs. **372** million had been stated as receivables from the General Treasury in the financial statements as at **31** December **2019**. That money had not been received by the Authority even as at the date of this report. Further, although the balance confirmation had been called for by the Authority in this regard, the General Treasury had not substantiated that the balance was not confirmed. This amount had also not been stated as a payable balance in the financial statements of the Government for the year **2019.**

Non-compliance with the Finance Act

In pursuance of Section **10 (5)** of the Finance Act No. **38** of **1971**, if there is a surplus in a public corporation for a certain year, the balance should be credited to the Consolidated Fund after making deductions specified in the Act. Nevertheless, out of the total net profit of Rs. **30,253** million received by the Authority from **2016** to **2019**, only Rs. **600** million had been credited to the Consolidated Fund. Further, the above profit included a total rent of Rs. **8,514** million relevant to the period from 2016 to 2019 received from the two companies engaged in the operations at South Asian Gateway Terminal (SAGT) and the Colombo International Container Terminal (CICT) given on long-term lease basis to the private sector and Rs. **11,250** million collected as royalty for that period. It was further revealed that the above revenue was not the direct operating revenue of the port.

Payment of the Pay As You Earn Tax of the Employees by the Authority

According to paragraph **02** of Public Enterprises Circular No .PED / **03/2016** dated **29** April **2016**, although the Pay As You Earn Tax was to be deducted and paid from the personal salary, the money for the officers of the Authority had been paid from the funds of the Authority. A total of Rs. **166.3** million including Rs. **384** million so paid for the year **2019** had been paid to the Inland Revenue Department from the Authority's funds during the assessment year **2012/2011** to December **2019**.

According to the circular No. SEC/**2015/05** dated 06 July **2015** issued by the Inland Revenue Department, when paying bonuses to employees of public institutions, the Pay As You Earn Tax on such earnings should be deducted. Nevertheless, without recovering such tax for the year 2019 from the officers, Rs.52 million had been paid from the funds of the Authority.

Failure to obtain approval for salary increase

In violation of the provisions of the Circular of the Ministry of Finance and Mass Media No.**03/2018** dated **18** June **2018**, the salaries of **560** executive officers of the Authority had been increased from Rs. **15,225** to Rs. **31,150** per month according to the posts from **2018** in addition to the salary increase made under the Collective Agreement. The approval of the Department of Management Services had not been obtained thereon even by the end of the year under review.

Underutilization of assets

Ten old fuel tanks of the Authority with a capacity of **6,400** metric tons located within the Colombo Port premises remained underutilized since **2015.**

Underutilization of land

According to the Deputy General Manager (Premises) Letter No. **1/1/156** dated **13** July **2020**, out of the lands owned by the Ports Authority and included in the Fixed Asset Register of Colombo Ports as at **31** December **2019**, lands of **36** Acres 2 Roods 26.43 Perches worth Rs. **2**,**284.42** million remained underutilized.

Leasing of lands

According to the information received from the Deputy General Manager (Premises) Letter No. **1/1/156** dated **13** July **2020**, the Authority had leased **236** Acres, **32.74** Perches and **375.44** Square meters of land without obtaining an assessed value from the Department of Valuation as at **31** December **2019**.

Highways

It is the objective of this sector to improve the socio-economic aspects and quality of life of the road users through a road network of high mobility and accessibility to minimize the travel time and cost thereby ensuring safe and comfortable mobility thus safeguarding environmental friendliness.

In order to fulfill the said objective, the Ministry of Highways & Road Development and Petroleum Resources Development , and the Road Development Authority had been entrusted with the following duties.

- Formulation of policies, programmes and projects under the scope of highways ensuring the achievement of national development targets.

- Implementation of projects relating to the road network thus contributing to the sustainable development.

- To improve the road network thereby paving way for a people-centric, and economic social development to ensure connectivity between rural, suburban, and urban areas; and, taking measures for the proper maintenance.

- Conducting and coordination of programmes and projects based on the national policies relating to roads belonging to Provincial Councils, and local authorities.

The road network is considered the most valuable and specific social asset of a country. It also plays a pivotal role in social welfare in terms of economic , social, cultural, as well as environmental aspects. Sri Lanka is an island nation with an area of 65,610 square kilometers and a population of 21 million people. The road density is 1.76 km per square kilometer. As for the road density, Sri Lanka is well ahead of many of the South Asian countries. The most preferred mode of transport in Sri Lanka is the transportation by road; 94 per cent of the passenger transportation and 98 per cent of the transportation of goods are done through highways.

The total length of the national road network of Sri Lanka was approximately 12,438 km by the end of the year 2019. That comprised 4,217 km of A-grade roads, 8,007 km of B-grade roads, and 272 km of expressways. As compared with the preceding year, only a length of 48 km on expressways had been added to the national road network in the year 2019. Furthermore, a length of 518.41 km was targeted to be improved within the year, but by the end of the year, only a length of 150.34 km had been improved therefrom.

In order to carry out those functions, provision totalling Rs.659,456 million had been made by Parliament under miscellaneous Heads during the year under review and the two preceding years. Of that a sum of Rs.515,416 million had been utilized whilst a sum of

Rs.144,040 million had been saved without being utilized. Particulars are given in Figure 34 below.

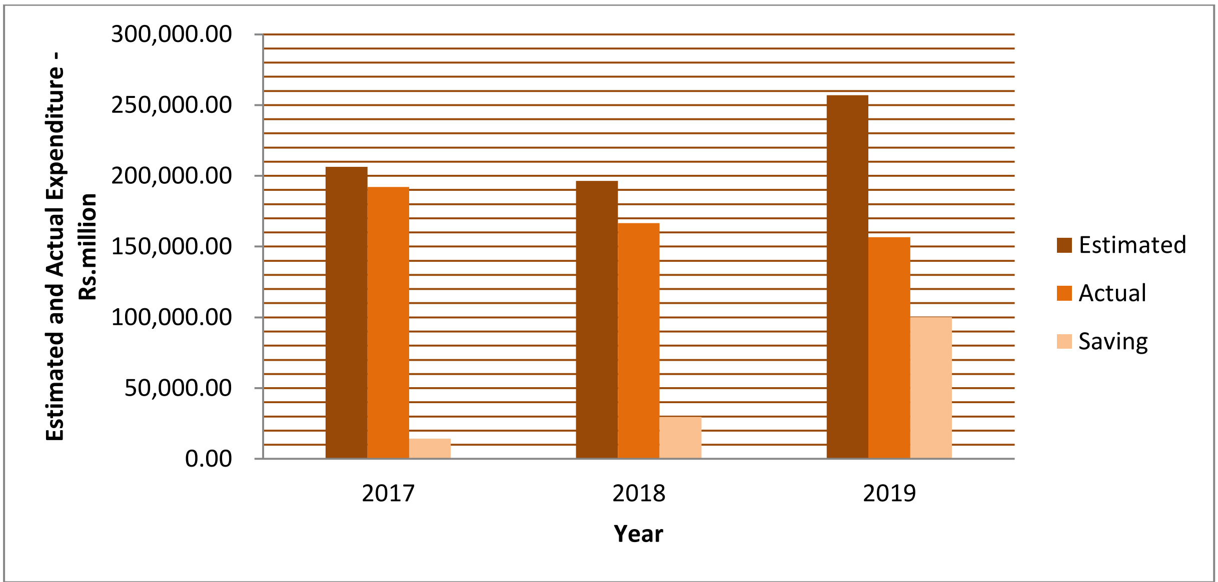


Figure 34: Estimated and Actual Expenditure.
Source : Final Treasury accounting statements.

A summary of audit observations made during the audit test checks conducted on the Ministry, Road Development Authority, and road construction projects with emphasis on carrying out the said functions, is given below.

Recruitments Exceeding the Approved Cadre

A sum totalling Rs. 11,866.02 million had been spent by the Road Development Authority on salaries and emoluments of the staff for the year under review. A sum of Rs. 6,500 million in that expenditure had been financed through Government grants. Salaries and emoluments had been paid to 1,298 employees in excess of the cadre approved by the Department of Management Services. A sum of Rs. 2,886.38 million had been spent in the year under review on direct laborers including 395 excessive direct laborers. Additionally, having obtained laborers for road maintenance from private suppliers, another sum of Rs. 482.963 million had been paid.

Engineers of the Staff being Released to Other Projects

There existed 82 vacancies in the engineering service and 116 vacancies in the technical service of the approved cadre of the Road Development Authority as at 31 December 2019. It is the main function of the Road Development Authority to construct and maintain the roads; as such , failure to fill those vacancies having a direct impact on that function, had caused a direct effect on rendering an effective and productive service to the public. Moreover, irrespective of this backdrop in which vacancies existed in the engineering staff , 213 engineers or 32 per cent of the engineering staff of the Authority, had been released to the other project management units.

Spending Revenue Generated from Expressways on External Activities

A revenue of Rs. 45,236 million had been generated through expressways as at 31 December 2019. Of that, a sum of Rs. 38,770 million had been spent and a sum of Rs. 6,466 million being invested whilst the balance remained at hand. However, the monies collected should be credited to the fund of the Road Development Authority in terms of Paragraph 10 of the Notice published in the Gazette Extraordinary dated 27 April 2015. Those monies should be utilized on the development and maintenance of toll roads. Nevertheless, a sum of Rs. 15,657 million so collected, had been remitted to the Treasury or used to make payments relating to general expenses, salaries, and projects without being spent on the operations and maintenance of expressways.

Facilitating the Officers of Sri Lanka Police

A sum of Rs. 492 million had been spent from the revenue generated from the expressways on fuel, purchasing assets, and facilitating the officers of Sri Lanka Police and the Special Task Force attached to the duties on the expressways. The Police should have taken measures to obtain provision from the Treasury on those expense, but without doing so, one state institution had incurred expenses on another state institution.

Failure to Implement Projects to Improve and Widen the Roads

According to the annual Action Plan prepared by the Planning Division of the Road Development Authority as at 31 December 2019, a number of 113 projects should have been implemented relating to widening and improvement of roads at an estimated cost of Rs. 5,941.01 million. As per the progress reports made available to the Audit, those projects had not been commenced even by 31 December 2019.

Failure to Complete the Targeted Works

There existed 40 projects with an estimated cost of Rs. 1,272.38 million under which a physical progress of less than 50 per cent of the works targeted to be completed as at 31 December 2019, was indicated. Twenty five of those projects with an estimated cost of Rs. 791.99 million were related to the roads that had not belonged to the Road Development Authority. Only a sum of Rs. 80.29 million representing 10 per cent of the cost estimated for those projects, had been spent in the year under review.

Extension of Southern Expressway Project

International Roughness Index of the Expressways

As mentioned under Clause 401.7.1 in the technical specification of the Extension of Southern Expressway Project, the international roughness index for the expressway should have been in the range of 1.5-2.3 meter per kilometer. As per the reports on technical tests, the contractors had satisfied the said index. However, as had been observed in the physical inspections, the roughness at certain stretches of the expressway had not been sufficient to ensure safe driving for the vehicles.

Construction of Service Centers

Although several service areas had been identified as mentioned under Clause 8.33 in the feasibility report on the Extension of Southern Expressway Project, there existed no plan relating to the construction of service areas, nor had provision been made through bills of quantity. Accordingly, the public using the expressway up to a distance of 173 km beyond the Velipenna service area located on the 46th kilometer on the Southern Expressway could not obtain service facilities.

Integrated Road Investment Programme and Integrated Road Investment programme - Tranche 2

Proper Evaluation of Bid Documents

The bid documents should have been properly evaluated by the Procurement Committee and the Technical Evaluation Committee in terms of Guidelines 2.4 and 2.6 of the Government Procurement Guidelines – 2006. The bid documents relating to 02 contract packages had not been properly evaluated as per the Guideline under the Integrated Road Investment Programme – Tramche 2. As such, due to differences in rates and misinterpretations of items of work between the engineering estimate, bid sheets, and bills of quantity, the project had sustained a loss of Rs. 28.73 million as at 31 December 2019.

Payment of *del crede commission* without being fruitful

Sums of Rs. 1,180.44 million and Rs. 206.03 million relating to the Integrated Road Investment Programme and Integrated Road Investment Programme – Tranche 2 respectively upon the source of loan not issued as at 31 December 2019, had been paid to the funding agency as *del crede commission*. As such, a fruitless expenditure totaling Rs. 1,386.47 had been incurred.

Central Expressway

A sum of Rs. 1,759 million had been paid to an Australian company to conduct the feasibility study of the central expressway comprising 04 stages. Without taking action to obtain feasibility reports from that company, agreements valued at Rs. 97 million had been entered into with several local institutions to further conduct the feasibility studies.

Phase III of the Central Expressway

A letter had been issued on 04 May 2018 awarding the contract for the constructions of expressway stretching from Pothuhera to Galagedara under Phase III. Cabinet approval had been received on 01 March 2020 for termination of the process agreed with the Japanese contractor and the agreement entered into with the Tokyo Mitsubishi UFJ Limited Bank relating to financing the project. Furthermore, the interaction with the consultancy firm had also been terminated through the Letter of the Project Director, dated 12 July 2019. As such, proceeding with the constructions of the project remained indecisive.

Failure of the RDA to Take Over the Compensated Land Plots

Once compensation is paid for the lands acquired for constructing roads, the ownership of such lands should be vested in the Road Development Authority in terms of Section 44 of the Land Ordinance, No. 13 of 1986. Compensation totaling Rs. 19,817.86 million had been paid by the Road Development Authority for the acquisition of 12,980 land plots relating to 05 road construction projects. Only 412 plots of land therefrom had been registered under the Road Development Authority as at 31 December 2019.

Failure to Utilize the Loan Funds

The foreign loan funds obtained on road construction projects should be utilized within the relevant period of loan agreement thus completing the planned constructions. As a sum of Rs. 28,829.53 million from the loan funds obtained with respect to 03 projects had not been utilized within the period of agreement, those funds had to be returned to the institution that had provided the loan. As such, part of the constructions planned could not be completed, and commitment charges too had to be paid on the unutilized loan funds.

Losses of Exchange

An exchange loss of Rs. 9,527 million had been sustained as at 31 December 2019 on Phase III of the Outer Circular Expressway. The loss represented 15 per cent of the sum that had been utilized being Rs. 62,702 million. This was attributable to the reasons such as, rapid devaluation of rupee against the dollar, unfavorable payment conditions in the contract agreements, delays in constructions, and 50 per cent of the entire loan had been utilized in the year

2019 – the year in which the loan agreement had become expired. The management had not brought their attention on those matters.

Failure in Prompt Liquidation after Completion of Project Work Items

The project management units executing the constructions through foreign funds, should have been promptly liquidated after completion of the relevant items of work. Although the relevant assets had been taken over by the Road Development Authority after completing the construction of 05 foreign funded projects implemented by the Road Development Authority, the responsibility of those projects, without being handed over to the Authority, was kept by the project management units over periods ranging from 2 to 5 years.

Power and Energy

Sectors

Electricity and Renewable Energy

Petroleum

Observations

- Pay As You Earn Tax
- Payment of Allowances to the Staff
- Accounts Receivable
- Payment of Interest on Consumers' Deposits
- Purchases contrary to the Electricity Act
- Purchases contrary to the Generation Plan
- Payment of Salaries contrary to Court Decision
- Construction of the Moragolla Hydro Power Station
- National Transmission and Distribution Network Development and Efficiency Improvement Project
- Broadlands Hydro Power Project
- Publishing Notices contrary to Regulations
- Failure to Execute the Activities as Planned
- Research Project for Collecting Island wide Marine Environmental Data
- Project for Exploring the East Coast of Sri Lanka
- Petroleum Exploration in M2 Block of the Mannar Basin
- Project for Exploring M2 Block in Mannar Basin and Implementing Promotional Programmes for Commercial Extraction of Natural Gasses
- Project for Collecting Gravity and Magnetic Data through Airborne Surveys Conducted on the Mannar Basin
- Poor Supervision of the Ministry on Filling Stations
- Delays in Implementing Projects
- Formulation of National Policy on Natural Gas
- Establishment of Oil Storage Facility in the Northern Province
- Preparedness for the Targets to be Achieved on Sustainable Development Goals
- Human Resource Management
- Local Oil Market
- Financial Results of the Ceylon Petroleum Corporation and the

Position of Net Assets

- Increase in the Debtor Balance
- Net Assets of the Corporation Becoming Minus Values
- Hedging Deals
- The Pipeline System Transporting Oil
- Development and Rehabilitation of Oil Tank Farm in Trincomalee
- Establishment of a new Oil Storage Facility in the Northern Province Inter-company Transaction Balances and Agreements

Electricity and Renewable Energy

The Ministry of Power and Renewable Energy and 08 Statutory Boards/Institutions should have performed the following functions with the expectation of assuring the energy security of the nation through increase of share of renewable energy sources.

- Formulation, monitoring and evaluation of policies, programs and projects in regard to the subjects of power and renewable energy
- Formulation of an appropriate power policy for the control, regulation and utilization of power resources
- Investigation, planning, monitoring and development of activities relating to generation of power from sources such as water, heat, coal and wind
- Rural Electrification
- Management of demand to ensure energy efficiency and development of renewable power
- Development of renewable energy

Provisions of Rs.11,894 million had been made by Parliament for the year under review and the period of two preceding years for performing the aforesaid functions and a sum of Rs.10,339 million out of that had been utilized. Accordingly, 13 per cent or provisions of Rs.1,555 million had not been utilized out of the provisions made by Parliament during the said period. Details are indicated in Figure 37.

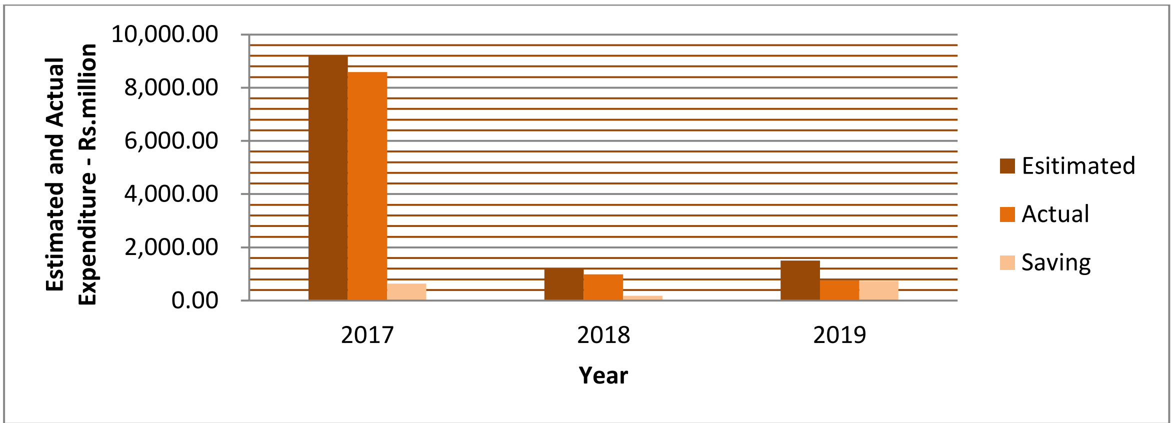


Figure ...... – Provisions made by Parliament and Utilization
Source – Final Treasury Accounting Statements

The audit observations revealed at the audit test checks carried out on the performance of the aforesaid functions are summarized below.

Pay As You Earn Tax

In terms of the Cabinet Decision of 13 December 2007, the Pay As You Earn Tax, recoverable from employees as per the salary revision in the year 2009, had been paid by the Ceylon Electricity Board itself without such recovery. As a result, the Ceylon Electricity Board had incurred an additional expenditure of Rs.4,919 million during the period from the year 2010 to the year 2019.

Payment of Allowances to the Staff

A sum of Rs.1,712 million had been paid by the Ceylon Electricity Board as sundry allowances to the staff in the year under review on the approval of the Board of Directors but contrary to the Cabinet Decision of 14 November 2007 and the Management Services Circular No.39 of 26 May 2009.

Accounts Receivable

The Ceylon Electricity Board had failed to take action in the recovery of trade debtors and other receivable balances amounting to Rs.3,322.20 million outstanding over a period of 05 years.

Payment of Interest on Consumers' Deposits

Interest amounting to Rs.1,592 million should have been paid in the year under review on deposits of consumers of the Ceylon Electricity Board in terms of Sub-section 28 (3) of the Ceylon Electricity Act, No.20 of 2009. Accordingly, necessary provisions had not been made in the financial statements for the interest totalling Rs.5,118 million relating to four preceding years.

Purchases contrary to the Electricity Act

The Ceylon Electricity Board had spent a sum of Rs.54 billion for urgent purchase of electricity of GW 2,165 hours from power stations without energy licenses during the period from April 2016 to December 2019 contrary to Section 43 of the Electricity (Amendment) Act, No.31 of 2013 and without adhering to the Government Procurement Guidelines.

Purchases contrary to the Generation Plan

According to the Long Term Generation Expansion Plan (2018-2037), electricity with capacities of 370 MW and 287 MW were due to be added to the system from heat and renewable sources respectively in the year 2019. A capacity of 25.2 MW had been added to the system during the year as renewable energy and 222 MW had been added contrary to the Generation Plan. As such, urgent purchases of GW 735

hours had been made to the value of Rs.22.2 billion.

Payment of Salaries contrary to Court Decision

Salaries of Rs.38,508 million had been paid in the year under review by the Ceylon Electricity Board to its employees contrary to Court Decision No.CA/WRIT/193/2015.

Construction of the Moragolla Hydro Power Station

It had been planned to commence the project relating to the construction of the Moragolla Hydro Power Station in the year 2014 implemented with the objective of adding a capacity of 31 MW to the National Power Grid. However, this project was commenced in the year 2017 after a delay of 3 years. The estimated cost of the project had been Rs.16,780 million and a sum of Rs.14,851million of that had been received from the Asian Development Bank. The physical progress thereof had been 31 per cent by the end of the year under review. The awarding of the contract on consultancy services of the project had delayed and as a result, the project could not be commenced on the due date. As such, a sum of approximately Rs.28 million or US$ 177,931 had to be paid as Commitment Charges for loans obtained.

National Transmission and Distribution Network Development and Efficiency Improvement Project

A sum of Rs.23,720 million had been received for this project and it had been scheduled to be commenced in January 2015 and completed in January 2018. The project could not completed as scheduled, due to reasons such as delay in coming to an agreement by holding discussions with the Japan International Cooperation Agency (JICA Institute) relating to the scope of consultancy, delay in obtaining approval of JICA for the pre- qualifications (PQ) of contractors and for procurement documents. As such, the physical progress thereof had been only 2 per cent by 31 December 2019.

Broadlands Hydro Power Project

The Broadlands Hydro Power Project with a capacity of 35MW, had been planned to be commenced in August 2013 and completed in August 2017. The delay in acquisition of land for the project and the rise in social issues had contributed to the delay in completion of the project. A sum of Rs.9,424 million had been received for this project and a sum of Rs.6,426 million out of that had been spent by 31 December 2019. The financial progress and the physical progress thereof had been

69 per cent and 74 per cent as at that date respectively. As such, no expenditure had been incurred for the project relating to the year 2019.

Energy

With the advent of petroleum and natural gasses produced locally, it was the objective of energy sector to make Sri Lanka self-sufficient in energy. In order to fulfill the said objective, the following functions should have been discharged by the Ministry of Highways & Road Development and Petroleum Resources Development together with 03 statutory boards/institutions.

- Formulation, following up and evaluation of policies, programmes and projects relating to petroleum resources development.
- Import, refining, storing, distribution and sale of petroleum related products.
- Affairs relating to production and refining of petroleum.
- Production and distribution of gas from the sources of producing petroleum.
- Improvement of infrastructure relating to supply and distribution of fuel.

Provision totalling Rs. 911.84 million had been allocated by Parliament in order to discharge the said functions with respect to the year under review and 02 preceding years, and a sum of Rs. 756.69 million therefrom had been utilized. As such, a sum of Rs. 155.15 million equivalent to 17.02 per cent of the provision made for the year under review and 02 preceding years had not been utilized. Particulars are given in Figure 38

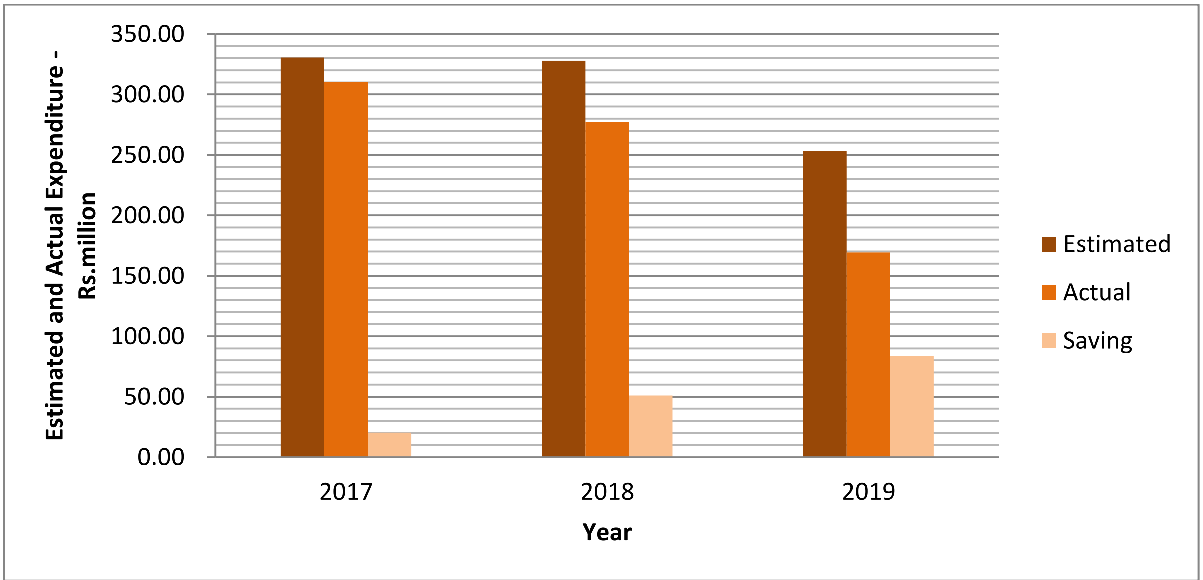


Figure 38 : Utilization of the provision made by Parliament .
Source : Final account statements of the Treasury.

A summary of observations made in the audit test checks carried out on the execution of the said functions, is given below.

Publishing Notices contrary to Regulations

The Circular, No. EC/EDR/01/2019 of the Chairman of the Election Commission, dated 20 August 2019 stated that advertisements on various projects or development activities for promoting politicians should not be published in print or electronic media by incurring public funds during the period of elections. Nevertheless, a sum of Rs. 5.55 million had been spent by the Secretariat of Petroleum Resources Development on newspaper advertisements (showing the signing of agreements on exploration of petroleum)

Failure to Execute the Activities as Planned

An Action Plan comprising 09 activities had been prepared by the Secretariat of the Petroleum Resources Development for the year 2019 by allocating provision totalling Rs. 60 million. Five of the activities mentioned in that Action Plan for which provision totalling Rs. 50 million had been made, were not commenced even by 31 December 2019. Although provision totalling Rs. 10 million had been made for two more activities, those activities could not be completed within the scheduled period.

Research Project for Collecting Island wide Marine Environmental Data

An agreement had been entered into between the Secretariat of Petroleum Resources Development and the National Aquatic Resources Research and Development Agency (NARA) on 30 September 2015 to launch a research project for collecting marine environmental data targeting the marine areas of Sri Lanka. The total contract value of this project amounting to Rs. 37.16 million had been paid to NARA by 28 September 2018. The said contract value included the sum of Rs. 1.20 million being the cost of the server computer hosting the website and the database created by using the data collected through the project. However, the server could not be installed at the Secretariat of Petroleum Resources Development even by the end of the year under review due to lack of trained staff and infrastructure facilities.Although NARA does the maintenance of the server computer at present, that responsibility had not been mentioned in the agreement entered into. No action had been taken to enter into a sub-agreement by including that activity.

Project for Exploring the East Coast of Sri Lanka

An agreement had been entered into between the Government of Sri Lanka and the Total Company of France on 18 February 2016 for collaborative exploration of plots, JS 5 and JS 6 located in the east coast of Sri Lanka. The agreement had expired on 18 February 2018 though, the project had progressed during the period of 1 ½ years until 27 August 2019 without a proper agreement. Due to negligence in considering the prerequisites that should have been met at the time of entering into agreement on 18 February 2016, a revised agreement had been entered into on 27 August 2019.

Project for Collecting Offshore 2D and 3D Seismic Data at the East and West Coasts of Sri Lanka

Cabinet approval had been given on 06 September 2016 for the project to collect offshore 2D and 3D seismic data at the East and West coasts in Sri Lanka. Due to the nature of the project, being economically-specific to the country, instructions had been given by the Cabinet Committee for economic management that the said project be given priority and implemented expeditiously. However, a delay of 1 ½ years had occurred before entering into agreement on 30 May 2018.

Petroleum Exploration in M2 Block of the Mannar Basin

Cairn Lanka (Pvt) Limited had been selected after an international bid round in the year 2007 for petroleum exploration in the M2 block in Mannar basin. Two natural gas deposits had been discovered during explorations carried out in the year 2011. The said Company had abandoned explorations in the Mannar basin and terminated the agreement on 15 October 2015. The explorations in that block had not acquired any progress for about 04 years since then and come to a halt. As the investors had abandoned explorations halfway, bid rounds had to be carried out repeatedly, thus incurring heavy promotional expenses.

Project for Exploring M2 Block in Mannar Basin and Implementing Promotional Programmes for Commercial Extraction of Natural Gasses

The Company, named I. H. S. Global had been selected in the year 2016 through international bidding for implementing promotional programs relating to commercial extraction of natural gasses and the exploration of M2 Block in the Mannar basin. A sum of US $ 300,000 equivalent to Rs. 46.61 million had been spent for launching a marketing campaign in that connection during the period from December 2016 to August 2018. However, that marketing campaign had become unsuccessful.

Project for Collecting Gravity and Magnetic Data through Airborne Surveys Conducted on the Mannar Basin

Preliminary activities of the project for collecting gravity and magnetic data through airborne surveys conducted on the Mannar basin, had been commenced in the year 2012. Except for the activities such as, calling for bids, and selection of bidders, the said project had not acquired any progress whatsoever through a period of 07 years.

Poor Supervision of the Ministry on Filling Stations

It is one of the objectives of the Ministry of Petroleum Resources Development to enhance the quality and reliability in the supply of fuel. The Ministry is responsible for the formulation of policies, programmes & projects , taking follow up action, and evaluation in that connection. There existed 1461 filling stations Island wide as at 31 December 2019 for the sale of fuel, and of that, 1254 filling stations functioned under the Ceylon Petroleum Corporation whilst the rest of the 207 filling stations belonged to the Lanka Indian Oil Company. The Ministry had been recommended at the meeting of the COPE held on 25 January 2017 that a special team of investigators be deployed to look into the activities of the regional supervisors. Following that recommendation, 73 of the 1461 filling stations owned by the Ceylon Petroleum Corporation had been examined in the year 2018 by a special supervisory team of the Petroleum Resources Development unit in order to look into the accuracy of fuel dispensers and activities of the regional supervisors, and 28 filling stations therefrom equivalent to 38 per cent indicated poor performance. Furthermore, only 03 of the 207 filling stations owned by the Lanka Indian Oil Company had been physically examined in the year 2018, and 02 of those filling stations remained in average and poor conditions. The audit test checks conducted by the Audit on 24 filling stations in the districts of Gampaha, and Galle revealed quantitative deficiencies in the supply of fuel with respect to 24 filling stations. As such, irrespective of the strongly-felt need to enhance the supervision carried out by the Petroleum Resources Development unit on the filling stations, no filling station whatsoever had been examined by the Petroleum Resources Development unit in the year 2019.

Delays in Implementing Projects

Amendments to the Petroleum Products (Special Provisions) Act, No. 33 of 2002 and Ceylon Petroleum Corporation Act, No. 28 of 1961

Due to non-availability of a regulatory authority for petroleum industry since the year 2004, a proposal had been passed in Parliament in the year 2006 to include the petroleum industry under the industries being regulated through the Public Utilities Commission of Sri Lanka Act,No. 35 of 2002. Accordingly, in order to provide the Public Utilities Commission with the tools required for regulating the petroleum industry, the preliminary activities had begun in the year 20016 to introduce amendments to the Petroleum Products (Special

Provisions) Act, No. 33 of 2002 and Ceylon Petroleum Corporation Act, No. 28 of 1961, but those activities had not been concluded even by 31 December 2019.

Formulation of National Policy on Natural Gas

The Ministry of Petroleum Resources Development had been vested with authority to formulate a national policy on natural gas through a notice published in the Gazette Extraordinary on 21 September 2015. The formulation of national policy on natural gas scheduled to be completed by June 2018, had not been completed even by 21 December 2019.

Establishment of Oil Storage Facility in the Northern Province

The Ceylon Petroleum Storage Terminals Limited had been informed by the Cement Corporation in the year 2011 that the oil storage facility established at the premises of the Cement Corporation, Kankasanthurai be removed from that location. Due to failure in obtaining a land suitable for establishing an oil storage facility anew, approval had been granted through the Cabinet Decision, dated 19 October 2019 to maintain the existing oil storage facility after being renovated and improved. However, this project could not be implemented even by 31 December 2019 as the Ceylon Petroleum Storage Terminals Limited had defaulted on paying the sum of 142.98 million to the Cement Corporation.

Preparedness for the Targets to be Achieved on Sustainable Development Goals

- As per the National Budget Circular, No. BD/CBP/4/1/2-2018, dated 31 July 2017, the sustainable development goal – "Affordable and Clean Energy" had been identified to be directly relevant to the Ministry of Petroleum Resources Development for achieving the sustainable development targets. However, no project whatsoever had either been planned or implemented in the year 2019 in order to achieve the said sustainable development goal.

- No any internal Circular or guidance had been provided by the Ministry even as at 31 December 2019 relating to guiding the staff to achieve the sustainable development goals. An awareness programme had not been conducted for the parties interest therein as well.

- The milestones and indicators required for regulating the achievement of sustainable development targets had not been specifically identified by the Ministry. Furthermore, a methodology had not been established to collect data in that connection, nor had an officer been attached to that activity.

- The Ministry of Petroleum Resources Development had not identified the financial provision required for achieving the sustainable development targets. A methodology had not been identified to make use of the existing physical resources and staff of the Ministry in that connection, and no mechanism had been identified to regulate the activities relating to the achievement of sustainable development targets.

Human Resource Management

Considerable Number of Vacancies in the Essential Posts

Due to failure in maintaining a realistic level of service and carry out a timely review on the cadre, 32 vacancies existed in the Petroleum Resources Development unit of the Ministry as at 31 December 2019 including 04 vacancies in the senior staff grades, 02 vacancies in the tertiary level, 18 vacancies in the secondary level, and 08 vacancies in the primary level. As such, the number of vacancies as at 31 December 2019 was observed to be 33 per cent of the approved number of employees.

Failure to Properly Plan the Human Resource Management

The following activities relating to human resources development had not been executed as per the relevant plans by the Petroleum Resources Development unit of the Ministry in view of fulfilling the provisions set out in Public Administration Circular, No. 02/2018, dated 24 January 2018.

- Failure to sign the annual performance agreements with respect to the entire staff.
- Failure to prepare plans on the deployment of staff in order to achieve the objectives expected through the annual Action Plan.
- Skills of each employee had not been separately identified, and a methodology suitable therefor had not been prepared.
- Only 14 of the 22 training programmes had been conducted during the year 2019.
- Failure to utilize 79 per cent of the provision allocated on human resource development for the year 2019.

Local Oil Market

The Ceylon Petroleum Corporation had fulfilled 87 per cent of the demand for oil at the local market in the year 219. A sum of US $ 3,677 million had been spent on the overall import of petroleum oils in the year under review. As a result of fluctuations in the oil market, the average price per barrel of oil had decreased to US $ 68.80 by 9.8 per cent in the year 2019 as against the price for the preceding year amounting to US $ 76.25. The average price per metric ton of oil imported after being refined had decreased to US $ 571 by 3.6 per cent in the year

2019 as compared with the price in the year 2018 being US $ 592.

Financial Results of the Ceylon Petroleum Corporation and the Position of Net Assets

According to the financial statements presented to the Audit, the Corporation had earned a gross profit of Rs. 4,260.66 million in the year under review. The said profit, as compared with the loss of Rs. 4124.21 million resulted in the preceding year, was an improvement of Rs. 8,384.87 million. Furthermore, a pre-tax net loss of Rs. 11,835.6 million had been sustained in the year under review whilst a loss of Rs. 106,140.4 million had been sustained in the preceding year. Owing to the price formula implemented under approval of the Cabinet until mid 2019 on the petroleum products of the Corporation, a gross profit had been generated; however, prices of the main petroleum products such as petrol (92 octane), diesel, and kerosene had been revised in a manner less than the production cost contrary to the said price formula, thus causing the financial position of the Corporation to become further weak in the year under review. As such, the unfavorable situation caused by the fluctuations in the exchange rates during the preceding year being Rs. 82,717.29 million becoming a favorable situation of Rs. 8,397.55 million, had mainly attributed to the decrease in the pre – tax loss of the Corporation by Rs. 94,304.8 million as compared with the preceding year. The changes in the financial results of the year under review and 05 preceding years, are shown in Figure 39

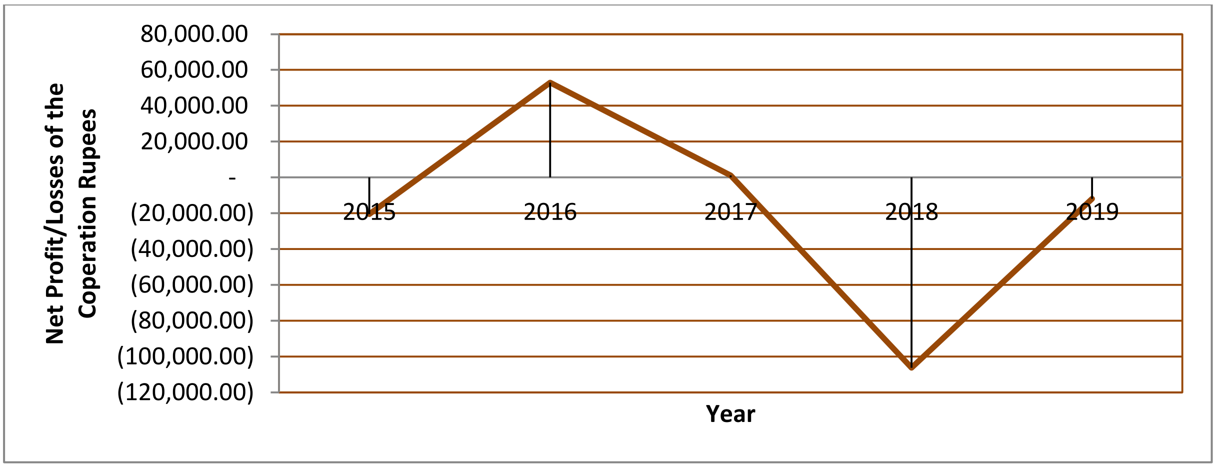


Figure 39 : Profit /(Loss) of the Corporation
Source : Financial statements of the Ceylon Petroleum Corporation.

Increase in the Debtor Balance

According to the financial statements of the year under review presented to the Audit, the value of trade debtors totaled Rs. 153,221.9 million as at 31 December 2019 indicating an increase of 76.82 per cent as compared with the value of trade debtors for the preceding year amounting to Rs. 86,652.1 million. This debtor balance comprised public sector debtors totaling Rs. 135,335.8 million and debtors from the private sector totaling Rs. 17,886.1 million. Of that, the sums recoverable to the Corporation from the Ceylon Electricity Board and Sri Lanka Airlines, amounted to Rs. 85,911.5 million and Rs. 48,385.3 million respectively.

Net Assets of the Corporation Becoming Minus Values

The minus net assets of the Corporation that amounted to Rs. 281,462.4 million in the preceding year, further increased by Rs. 11,751.1 million reaching a sum of Rs. 293,213.5 million by the end of the year under review. The increase in the expenses of sales and distribution, and financial expenses had mainly attributed to the said cumulative loss. As such, the going concern of the Company without being financially assisted by the Government, remained questionable.

Hedging Deals

The Corporation had been summoned as a party in the arbitration process with respect to Hedging agreements entered into by the CPC with several commercial banks. As per the arbitration deeds agreed upon by the parties, a sum of US $ 60 million (Rs. 7,613 million) had been paid to the Standard Charted Bank (SCB) on 03 June 2013 whilst a sum of 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 by the year 2019 due to those transactions. The Central Bank of Sri Lanka had spent a sum of Rs. 941.2 million as legal fees relating to Hedging Deals of the Corporation, and Rs. 370.6 million therefrom had been incurred by the Central Bank of Sri Lanka whereas a sum of Rs. 567 million had not been reimbursed by the Corporation to the Central Bank of Sri Lanka during the period 2011-2014. However, even by the end of the year under review, a sum of Rs. 3.1 million had not been reimbursed by the Corporation. Furthermore, a case had been filed by the Commercial Bank at the Commercial High Court of Colombo against the Ceylon Petroleum Corporation with respect to a right of US $ 8.6 million. That case was still progressing even by the end of the year 2019.

The Pipeline System Transporting Oil

Petroleum products are transported from Colombo harbor to Kolonnawa terminal through pipelines laid decades ago, and those pipelines needed repairs. Some of the pipelines were beyond repairs and already abandoned as such. Leakages were reported several times with respect to 10 inch and 14 inch pipelines currently in use. Hence, repairing or renovation of those pipelines had become an urgent requirement.

There is no interconnection between the Muthurajawela terminal and the Kolonnawa terminal – a situation that hampered the optimum utilization of the said terminals. Furthermore, Cabinet approval had been given on 13 September 2012 to implement the "Pipelines across the country project ". However, that project had not been implemented.

The pipeline laid 05 decades ago to transport fuel between the Colombo harbour (south jetty) and Kolonnawa, remained non-functional over a period of a decade. A length of 300 meters in this pipeline had been renovated in the year 2011 at the Mahawatta area, but the pipeline 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 at an expenditure of Rs. 153 million whilst a sum of Rs. 153 million had been spent in the year 2016 to renovate a length of 2,573 meters. Nevertheless, a length of less than 1000 meters still remained to be renovated so as for the pipeline to become fully-functional. But, no action was taken to expeditiously complete the renovation of the pipeline even by the end of the year under review thus failing to avoid the risk of crippling the fuel supply in the country.

Development and Rehabilitation of Oil Tank Farm in Trincomalee

The oil tank farm established in the 1930s at the Trincomalee harbour, the second deepest natural harbor in the world on which the entire world focuses due to its geological location, comprises 102 tanks with a capacity of 12,500 cubic meters along with other facilities. In order to enhance the profitable and alternative business opportunities and trades such as, tar, lubricants, and liquid gas, by providing the main operator in the petroleum industry of the country, the Ceylon Petroleum Corporation with enough infrastructure facilities like, storages, efficient unloading facilities, transportation pipelines, and other necessary requirements, it is highly useful to develop and rehabilitate those tanks. Of the 99 tanks currently in existence, 14 tanks are used by the Lanka Indian Oil Company. The preliminary activities for taking decisions to renovate the rest of the tanks were commenced on 29 April

2015. However, as no final decision was reached in that connection, the renovation project could not be implemented even by the end of the year under review.

Establishment of a new Oil Storage Facility in the Northern Province

The fuel requirement of the security forces and the people in the North that underwent a rapid development phase in the post war era, was fulfilled by the storage facility maintained by the Ceylon Petroleum Storage Terminals Limited. The said oil storage facility was established at the premises of the Cement Corporation in Kankasanthurai. The Ceylon Petroleum Storage Terminals Limited was informed by the Cement Corporation in the year 2011 that the oil storage facility be shifted from that location.

At the present day, the oil storage facility is maintained at the same location after being renovated and enhanced. It had been decided as per the Cabinet Decision taken on 19 October 2016 that the storage facility be maintained after entering into a formal lease agreement by settling the ownership of the land and pay the outstanding lease rents , if any, to the Cement Corporation. However, no action was taken in accordance with that decision even by the end of the year under review.

Inter-company Transaction Balances and Agreements

It was essentially necessary for a Government Corporation to guide and properly supervise the sub-companies established for a specific purpose. However, the Ceylon Petroleum Corporation had not properly reviewed the activities of its subsidy company-the Ceylon Petroleum Storage Terminals Limited. According to Section 4.2.3 (b) of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, the Board of Directors of the parent company should review the performance of sub-companies at least half yearly, prepare a performance report, and present that report to the Department of Public Enterprises. However, it had not been so done. Furthermore, the Corporation was not properly aware of the decisions taken by the Board of Directors of the said Company. For example, supplying fuel to the vessels , a main business activity of the Corporation, had been executed in accordance with a decision taken by the Board of Directors of the said sub-company, but the Corporation was not aware of that. Moreover, due to lack of proper coordination between the two institutions relating to inter-company transactions, considerable differences existed in the current accounts of the two parties over extensive periods. The said difference amounted to Rs. 1,623.13 million as at the end of the year under review.

Irrigation

Observations

- **Achieving the Sustainable Development Goals**
- **Spread of Invasive Plants**
- **Failure to Achieve the Desired Output Level**
- **Payment of Compensation of an Officer by the Department**
- **Idle Assets**

Irrigation and Water Resources

The expected outcome of this sector was to ensure the existence and availability of irrigation water required for active agricultural purposes as per provisions of the Act in terms of Section 3 of Part 1 of the Plant Protection Act No. 35 of 1999. The following functions had to be performed by the Ministry of Agriculture, Rural Economic Affairs, Livestock Development, Irrigation and Fisheries and Aquatic Resources Development and a Department and a Statutory Body to achieve the result.

- Development of irrigation industry in Sri Lanka in accordance with the National Policy.
- Construction of Irrigation and Drainage Systems and obtaining of water supply required systematically for agriculture through systematic maintenance.
- Precisely determine the water catchment areas and river basins and take necessary steps for the sustainable conservation and development of them.
- Control the water pollution and formulate strategies to protect quality of water.
- Implementation of irrigation development programmes.
- Compilation of programmes and projects for the conservation of ground water sources.

A sum of Rs. 173,732.76 million had been made available by Parliament for the period from the year 2017 to 2019 to execute the above mentioned functions and a sum of Rs.117,341.42 million had been utilized thereof. Accordingly, a provision of Rs.56,991.34 million or 32.46 per cent out of the provisions made available by the parliament had not been utilized. Details are shown in Diagram 40

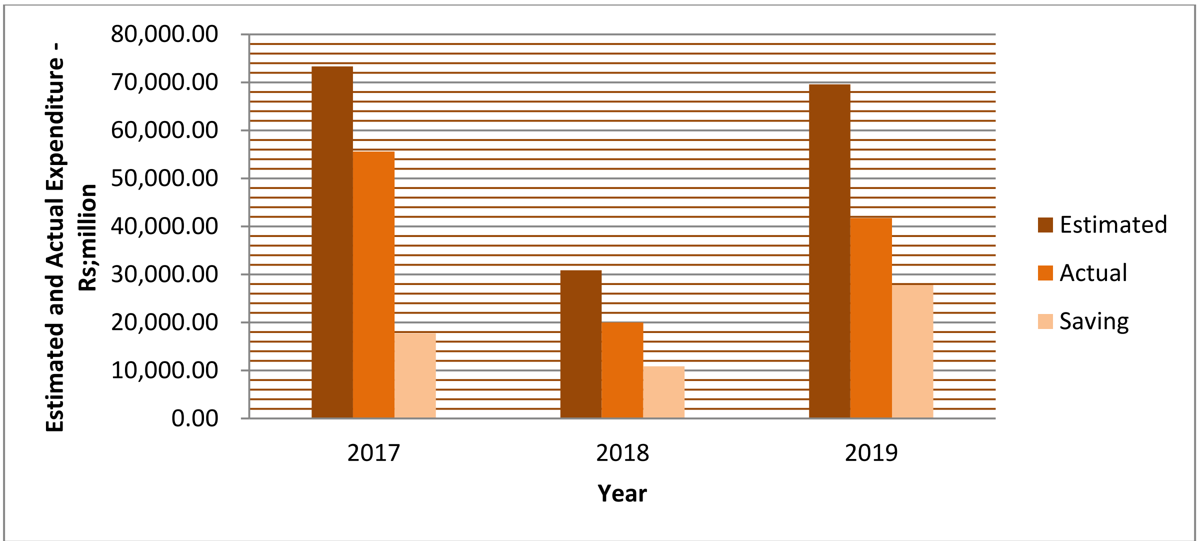


Diagram 40- Provision made available by Parliament and utilization
Source – Treasury Final Account Statement

Achieving the Sustainable Development Goals

The Department of Irrigation had appointed 24 “Authorized Officers” on 30 March 2017 for the enforcement activities. A survey had not been conducted on the distribution of invasive plants in the irrigation system after the year 2015. However, its distribution had increased at present compared to the year 2015. Accordingly, the desired objectives had not been adequately achieved by the authorized officers appointed to act in accordance with the provisions of Act

Spread of Invasive Plants

Biological control insects had been introduced by the Plant Conservation Service in order to control the spread of Salvinia and Water Hyacinth in island wide large Irrigation Zones under the Department of Irrigation. The institution had stated that this method was not working successfully for the Water Hyacinth plant.

Although the insect had been introduced nearly 30 years ago to control the spread of Water Hyacinth plant, it had not been successful. The relevant responsible institutions had failed to submit an economical and successful method to control the spread of Water Hyacinth through or other methods instead, by the end of the year under review.

Failure to Achieve the Desired Output Level

Activities of 6 projects commenced with a provision of Rs. 196.88 million made for the Wellassa Navodaya Project had not been completed even by the end of the year under review. Although a long time period had elapsed since the Project was commenced, it had delayed to receive the expected results to the farmers in the area. Further, the contract had been awarded based on a cost estimate of Rs. 28.99 million by considering as a minor contract for the improvement of the Pothupitiya tank bund. The improvements to those tanks had not yet been completed and the value of the unfinished work was Rs. 15.55 million.

Payment of Compensation of an Officer by the Department

An engineer who is working in the Department of Irrigation had driven a vehicle owned by the Department without obtaining a proper approval and met with an accident on 15 September 2003 and a motorcyclist had dead. The engineer was convicted and sentenced to two years imprisonment and it was suspended for three years. According to the order of the case in which the aggrieved party has sought compensation for the accident which happened; the court had charged Rs. 3.91 million from a current account maintained by the Department in a commercial bank on two occasions and out of which Rs.90,000 had been recovered from the relevant engineer. The value of Rs. 3.82 million paid by the Bank have been bringing forward as an unsettled imprest balance of the Department. Actions had not been taken to settle that balance by the end of the year under review.

Idle Assets

- Despite there was a decline in construction of tube wells compared to the year 2016, without considering this situation and the Water Resources Board had purchased a new drilling machine and equipment by incurring Rs.280 million from the provisions of the Ministry. This drilling machine had been purchased despite the Board had stored several usable drilling machines that were in idle. The aforesaid drilling machine was in idle for about 08 months from the date of purchase.

- A number of 50 half inch water pumps received from the Department of Social Services in 2009 had been retained in the stores in idle even by the end of the year under review **without use and without checking the functionality or inactivity of those machines.**

Water Supply and Sanitation

Observations

- Coverage of Facilities for Pipe borne Water and Sewerage
- Production and Consumption of Water
- Delay in Completion of Projects
- Greater Colombo Water and Wastewater Management Improvement Investment Program (Projects I and II)
- Greater Colombo Rehabilitation Water Project
- Town East of Colombo District Water Supply Project-
- Package 01 and 03
- Giridara Water Supply Project

Water Supply

Providing people with safe drinking water and improved sanitation facilities had been the objective expected by **this Sector.** The following functions should have been performed for achieving those objectives.

- Formulating of policies, programmes and projects on the subject of city planning and water supply and monitoring and evaluation of the matters coming under the scope of the relevant Departments and Statutory Institutions.
- Planning and development of special cities
- Direction and implementation of all construction works based on the National Physical Plans for the performance 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, drainage systems and sanitation facilities
- Taking necessary steps for the efficient and proper execution of the Community Water Supply and Sanitation Projects.

Provision of Rs. **124,896.30** million had been made to this Sector by Parliament for performing aforesaid functions relating to the year under review and 02 preceding years and out of that, a sum of Rs. **109,274.15** million had been utilized. Accordingly, out of the provision made by Parliament for the said period, a sum of Rs **15,622.15** million representing **12.51** per cent had not been utilized. Details are given in Figure 41

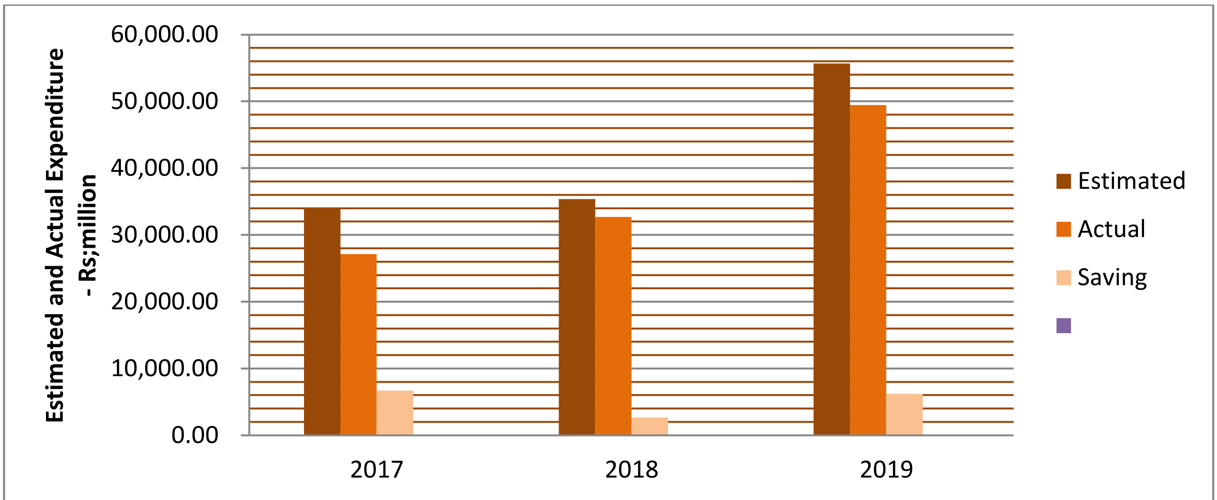


Figure 41– Provision made by Parliament and Utilization
Source - Final Treasury Accounting Statements

The audit observations revealed in the discharge of the said functions by the Ministry, a Department and a Statutory Institution, are summarized below.

Coverage of Facilities for Pipe borne Water and Sewerage

The National Water Supply and Drainage Board had implemented 22 large scale foreign aid projects on water supply, 03 large scale foreign aid projects on sewerage, 17 domestic funded water supply projects, 03 small and medium scale projects and 06 schemes for water sectorial community facilities in the year under review under the supervision of the Ministry, with the objective of water supply and sanitation. Further, action is being taken to achieve objectives of the Ministry through the Water Supply and Sanitation Improvement Project implemented in Districts such as Ratnapura, Kegalle, Badulla, Moneragala, Nuwara Eliya, Kilinochchi and Mullaitivu funded by the World Bank under direct supervision of the Ministry.

According to the Annual Action Plan of the National Water Supply Board, it had been expected to achieve 53.2 per cent and 2.24 per cent relating to pipe borne water and sewerage facilities respectively by the end of the year under review. However, the actual progress achieved as at the end of the year under review had been only 51.8 per cent and 2.07 per cent respectively. A Corporate Plan of the Board had been prepared so as to cover the years from 2016 to 2020. Even though it had been planned to increase the total pipe borne water coverage up to 60 per cent in the year 2020, the total pipe borne water coverage reached by the end of the year under review had been only 51.8 per cent. There is a considerable uncertainty about the possibility of achieving the expected target of the year 2020. Despite having implemented three large scale projects on sewerage in the year under review, the Board was able to provide only 2.07 per cent of the total population alone with coverage of facilities for pipe born sewerage.

Moreover, the number of new water connections supplied in the year under review stood at **108,850** and as compared with the number of water connections of 109,482 supplied in the preceding year, it had decreased by 0.6 per cent. As such, the total number of water connections supplied by the end of the year under review had been **2,437,504**. Accordingly, details on coverage of water supply of the Board during 07 preceding years are given in Figure 42.

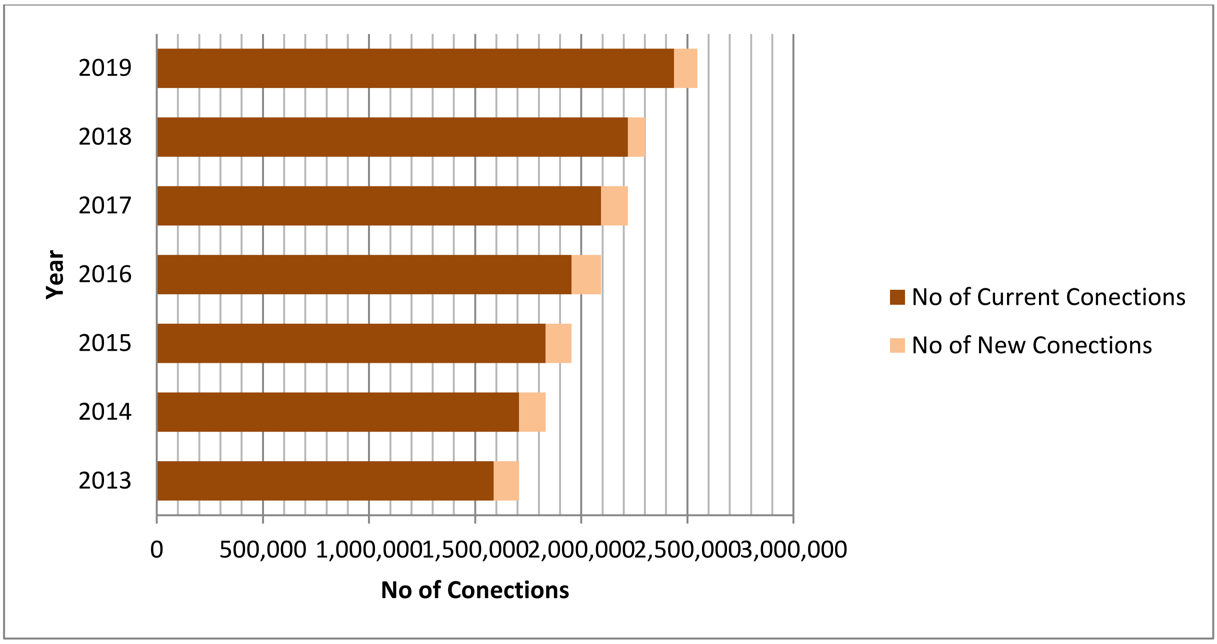


Figure42 - Number of current and new connections
Source -Performance Report - 2019

Production and Consumption of Water

Data on purified water production, consumption and non-revenue water of the National Water Supply and Drainage Board for the period of 05 preceding years, are given in Figure 43

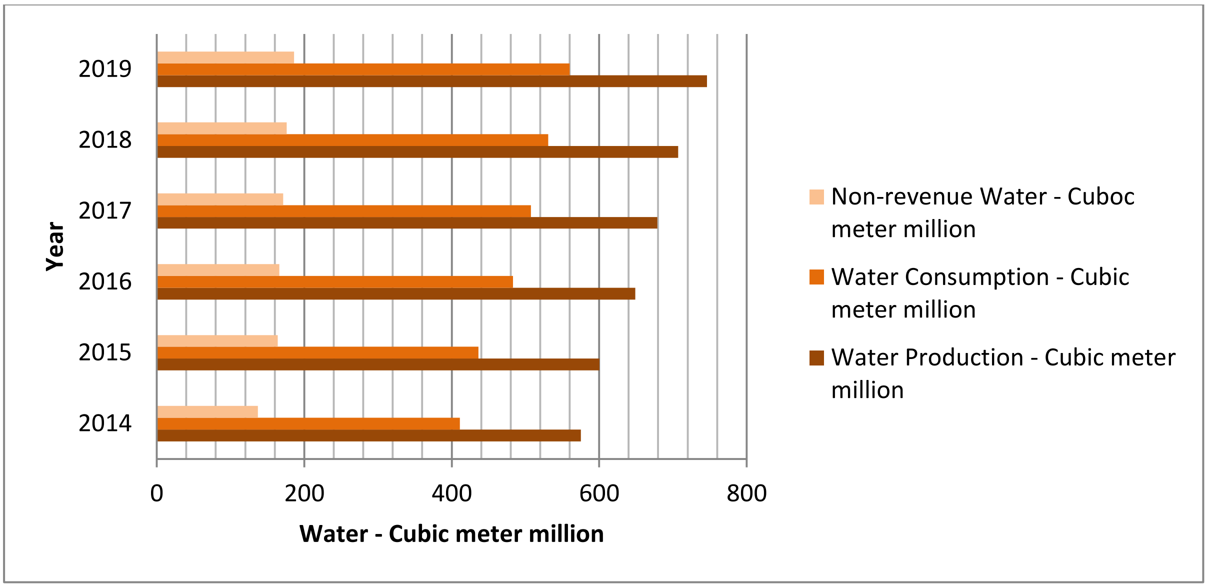


Figure 43 – Production and consumption of purified pipe born water and non-revenue water
Source – Performance Report - 2019

The total non-revenue water ratio throughout the country which was 24.93 per cent in the preceding year, had increased up to 24.95 per cent in the year under review. The non-revenue water ratio in the city of Colombo which was

41.65 per cent in the preceding year as well, was approximately 41 per cent in the year under review. The Greater Colombo Water and Sewerage Management Investment Promotion Programme I and II had failed to be completed within the due period, implemented with a view to minimizing non-revenue water percentage in the city of Colombo, due to weak performance of the contractor and as such, the contract period as well had been further extended therefor. Percentage of non-revenue water above 25 per cent had been reported in the year under review in regions such as Galle, Kegalle, Ratnapura, Hambantota, Bandarawela, Kandy and Trincomalee except for the Colombo city. Illegal water connections, failure in taking action to replace water pipes older than 70 years, acts of misconduct committed by Meter-readers and failure to pay attention on public complaints directly affecting the non-revenue water, had been the main reasons therefor.

Delay in Completion of Projects

Activities of 08 large scale foreign funded water supply projects implemented by the National Water Supply and Drainage Board had been delayed from 184 days to 1,825 days by the end of the year under review due to reasons such as weak performance of contractors, delay in land settlements, environmental and resettlement issues, delay in awarding of contracts and supply of substandard pipes by contractors.

Rural Water Supply Projects, Rehabilitation Projects and Urban Sanitation Projects carried out under the Water Supply and Sanitation Improvement Project implemented under the direct intervention of the Ministry, had not been completed on targeted dates due to weaknesses in determination of the project period accurately before commencing the project, weak performance of contractors, environmental and resettlement issues etc. Accordingly, 04 Urban Water Supply Projects costing Rs. **3,630.41 million awarded in the years 2017 and 2018 had been delayed for a period from 150 days to 481 days as at 31 May 2020. Further, 06 Rehabilitation Water Supply Projects and 07 Rural Water Supply Projects at the value of Rs.776.6 million awarded in districts such as Kegalle, Badulla, Nuwara Eliya, Ratnapura, and Moneragala from the year 2017 to the year 2019 had been delayed for a period from 83 days to 320 days by 30 March 2020. However, the contract period of such delayed projects had been extended from time to time and according to the audit test checks, the contract periods for 10 Water Supply Projects had been extended at stages from 01 to 06. Even though it had been planned to construct 25,420 toilets under the rural sanitation by the end of the year under review, only 13,098 toilets had been constructed and 31 projects for construction of institutional**

sanitation facilities and 491 sanitation units for persons with special needs had been planned to be carried out. Nevertheless, no units whatsoever had been constructed by the end of the year under review.

Greater Colombo Water and Wastewater Management Improvement Investment Program (Projects I and II)

Activities of Project No. I commenced on 25 September 2013 had been planned to be completed by 31 December 2016. As such, contract period had been extended at two stages up to 31 December 2020 due to weak performance of the contractor. However, the physical progress thereof by the end of the year under review had been only 75.22 per cent. Even though constructions of the Project No.II as well were scheduled to be completed by 30 June 2019, its contract period had been extended up to 15 October 2022. However, the physical progress thereof by the end of the year under review had been only 46.65 per cent.

Greater Colombo Rehabilitation Water Project

Project activities scheduled to be completed in January 2012 had been extended up to the year 2017 due to weak performance of the contractor. However, the loan agreement relating to the project had expired by 20 June 2015. As such, a sum of Rs.346.59 million had been transferred to a account of the contractor without prior approval of the Department of External Resources in the year 2015 to complete the remaining works.

Two office buildings not included in the original work plan had been constructed in Kolonnawa and Maligakanda by spending Rs. 180.41 million. A sum of Rs.5.17 million had been paid to the District Secretary, Kolonnawa as lease rentals for lands up to 31 December 2018 without entering into a lease agreement. However, those buildings had been allocated for the staff of the Colombo Municipal Council since the year 2015.

Even though it had been planned to construct a pump house in Ambatale and an underground reservoir in Gotatuwa by spending a sum of Rs. 258.1 million to improve the water supply in areas such as Kotikawatta and Mulleriyawa, it had not been constructed even by the end of the year under review.

Town East of Colombo District Water Supply Project- Package 01 and 03

According to Bill of Quantities, payments could be made under temporary reinstatements only for road damages carried out in the traffic section. In inspecting a sample of the road owned by Pradeshiya Sabha, where water pipes were laid by damaging the road outside the traffic section, the damaged place was refilled by using excavated soil without bringing soil from outside. However, payments had been made therefor under temporary reinstatements. Accordingly, a total sum of Rs. **732.1**million comprising sums of Rs.225.7 million for 82,448 metres and Rs.506.4 million for 184,740 metres under temporary reinstatements of the Package 01 and 03 of the Town East of Colombo District Water Supply Project, had been overpaid respectively.

A number of 10,000 water metres manufactured in China had been purchased in the year 2018 for the package 3 and when comparing the average market price of water metres with the annual schedule of rates of the Water Supply and Drainage Board, purchases had been made by making overpayment of Rs.79.78 million.

Brass unions are supplied with the water metre container as an accessory and sums of Rs.2.61 million and Rs.22.70 million had been paid separately due to purchase of brass unions for the Package 1 by recording in a separate Bill of Quantity and due to purchase of 20,000 brass unions for lots A and B of the Package 3 respectively.

Giridara Water Supply Project

Even though project activities were scheduled to be completed on 14 February 2020, the project period had been extended up to 04 November 2020 due to weak performance of the contractor and failure to utilize adequate labour and equipment. However, the physical progress of the Project as at 31 July 2020 had been only 31 per cent.

Even though the contract had been awarded at a value less than 29.71 per cent of the Engineering Estimate, in terms of the Guideline 7.9.11(a) of the Government Procurement Guidelines, rate analysis had not been submitted by the contractor. Even though the Hanwella Bridge had been identified as a rescue point in obtaining water from Kalatuwawa water supply scheme, the approval of the Road Development Authority had not been obtained even by 16 January 2020 for laying water pipes across the bridge.

At the time of awarding the contract to the relevant contractor, he had not completed 02 contracts carried out in the District of Polonnaruwa and one contract in the District of Medirigiriya within the due period. However, this contract had also been awarded to him without paying attention thereon.

Housing and Urban Development

Sectors

Housing and Constraction
Urban Facility

Observation

- **Housing Construction Project for Low Income Families**
- **Housing Project for completing Semi-constructed Houses**
- **Project of Renovation of Old Housing Schemes**
- **Rural Areas Infrastructure Development Project**
- **Compensation for Lands acquired**
- **Western Region Light Rail Transit System Project**
- **Greater Colombo Urban Transport Development Project - Urban Development Component (3K Project)**
- **Greater Colombo Solid Waste Management Project**
- **Phase A - Construction of Kelaniya and Aruwakkalu Waste Exchange Centre**
- **Phase B - Construction of Aruwakkalu Sanitary Landfill**
- **Phase C - Improving Rail Connectivity**
- **Phase D - Purchase of 4 locomotive units, 34 waste container wagons and 94 container boxes**
- **Port City Development Project**
- **Metro Colombo Urban Development Project**
- **Non-accomplishment of the targeted objectives by the Urban Development Authority**
- **Restoration of Manning Market in Peliyagoda**
- **Improvement of bus service for the promotion of public transport services**
- **The Tech City Development Project**
- **Western Region Megapolis Planning Project**
- **Western Region Maritime Cities Development Project**
- **Western Regio Aero City Development Project and Weatern Region Adminstrative Project**

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 objective expected from this sector. The following functions should have been performed by the Ministry of Housing and Constructions, 02 Departments and 08 Statutory Institutions under its purview in achieving those objectives.

- 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.

Provision of Rs.34,497.74 million had been made by Parliament for performing aforesaid functions for the period from the year 2017 to the year 2019 and out of that, a sum of Rs.31,815.95 million had been utilized. Accordingly, out of the provision made by Parliament for the said period, a sum of Rs.2,681.79 million representing 0.78 per cent had not been utilized.

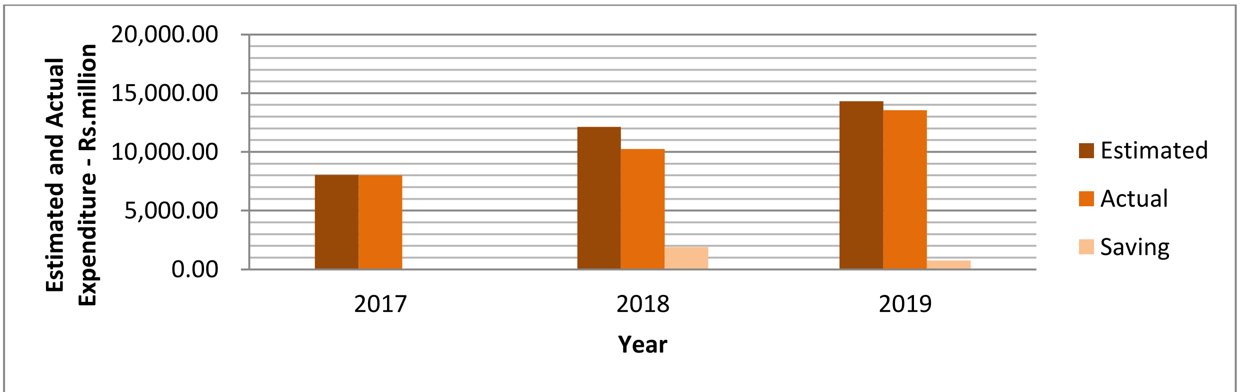


Figure 44- Provision made by the Parliament and Utilization

Source - Final Treasury Accounting Statements

The audit observations revealed at the audit test checks carried out in the discharge of the said functions, are summarized below.

Housing Construction Project for Low Income Families

This programme had been implemented by the National Housing Development Authority under 10 housing schemes. Even though provision of Rs.7,500 million had been made for the Project in the year under review, only a sum of Rs.5,530 million out of that had been utilized. Accordingly, the financial progress of the Project was 74 per cent and a number of 25,050 houses had been expected to be constructed in the year under review. However, only 8,908 houses out of that target representing 35 per cent had been constructed by the end of the year. Accordingly, the physical performance of the Project had been at a weak level.

Housing Project for completing Semi-constructed Houses

This housing project had been implemented by the National Housing Development Authority under 03 housing schemes. Even though provision of Rs.1,000 million had been made for constructing houses in the year under review, out of that, only a sum of Rs.839 million representing 84 per cent had been utilized. Even though a number of 17,367 houses had been expected to be constructed in the year under review, only 11,973 houses out of that target representing 69 per cent had been completed by the end of the year.

Project of Renovation of Old Housing Schemes

This housing programme had been implemented by the National Housing Development Authority under 23 housing schemes. Even though provision of Rs.200 million had been made for the project in the year under review, only a sum of Rs.9 million out of that had been utilized. Accordingly, the financial progress of the Project was 4.5 per cent and a number of 4,992 houses had been expected to be renovated in the year under review. However, the physical progress achieved out of that target had been 33 per cent by the end of the year under review.

Rural Areas Infrastructure Development Project

This Project had been implemented by the national Housing Development Authority and provision of Rs.1,250 million had been made therefor in the year under review. Out of that, a sum of Rs.670 million representing 54 per cent had been utilized. The physical progress thereof had been 59 per cent.

Compensation for Lands acquired

Houses had been constructed by housing schemes implemented under the Ministry on 64 private lands at the beginning of the year 2019. This land should be acquired by paying compensation in terms of the Land Acquisition Act. Even though provision of Rs.100 million had been made to acquire the said land in the year under review, only Rs.27 million out of that had been utilized. Out of 26 lands targeted to be acquired in the year under review, only 08 lands had been acquired by paying compensation. Accordingly, the physical progress achieved in the year under review had been 31 per cent.

Urban Development

The planning of the Western Region and other metropolitan areas as state-of-the-art architectural cities with economically, socially and culturally advanced community was the desired outcome of this field. The following roles had to be accomplished by the Ministry of Megapolis and Western Development and two Departments under the purview of it and the two statutory bodies, the Ministry of Ports and Shipping and Southern Development, the Non Cabinet Ministry of Special Areas Development and the Ministry of Buddhasasana and Wayamba Development.

- Formulation, implementation, follow up and evaluation of policies, programmes relevant to the subjects of statutory bodies applicable to megapolis and western development subjects.
- Integrated and formal promotion and regulation of economic, social and physical development in urban areas.
- Technological city development projects and related activities.
- Implementation of Western Province Megapolis Plan and related activities
- Urban Solid Waste Management
- Activities related to lowland reclamation and development
- Guidance required for the development of areas with limited services and facilities in urban areas and wetlands in accordance with a common plan
- Preparation of National Physical Plans and Regional Physical Plans
- Directing and regulating all construction activities based on National Physical Plans to ensure integrated urban development
- Coordinating economic and social development programmes and projects to strengthen the Southern Economic Zone, including industrial promotion.
- Implementation of infrastructure development programmes in the Southern Province including Hambantota Economic Zone, Southern Tourism Development Zone, Hambantota Air and Naval Power Supply Centre.
- Establishment of Hambantota Southern Development Authority and related activities.
- Formulation of policies and implementation of development projects and programmes related to the development of social and infrastructure facilities in the upcountry special areas identified by the Cabinet of Ministers.
- Establishment of a Secretariat for Economic and Infrastructure Development Project Coordination, Policy Coordination within the North Western Province and related activities.

Parliament had allocated provisions amounting to Rs. 168,038.10 million for the period of 2017 to 2019 for the accomplishment of the aforesaid role and provisions amounting to Rs.111,547.07 million out of the allocated provision had been utilized. Accordingly, 33.62 per cent or Rs. 56,491.03 million of the allocation made by Parliament for the relevant period had not been utilized. Details are shown in figure 45.

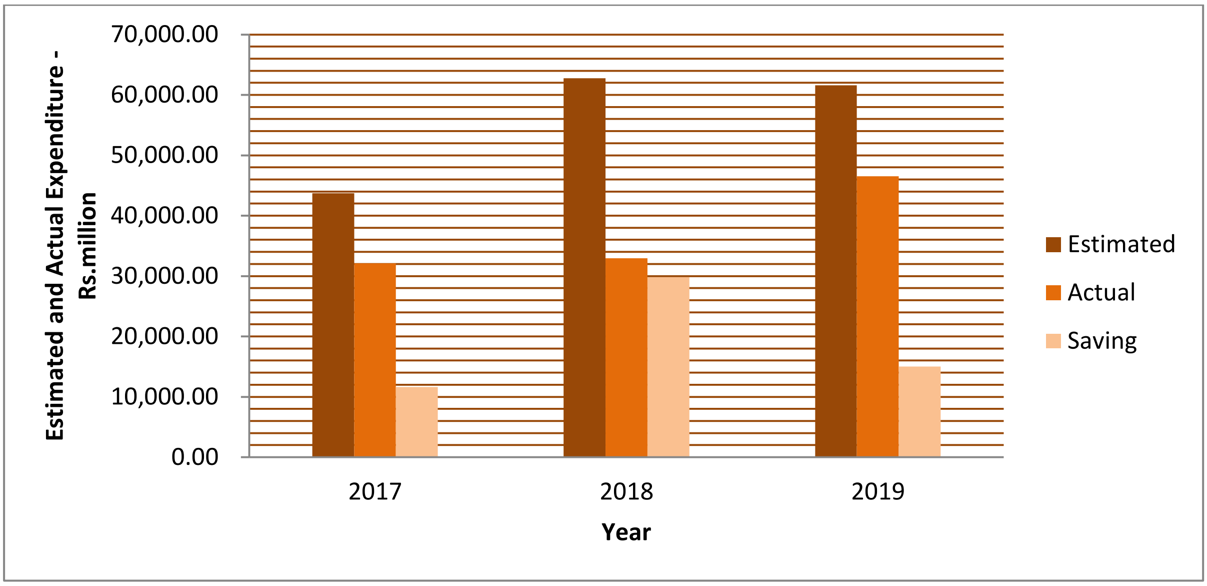


Figure 45 - Provision made by the Parliament and Utilization
Source - Final Treasury Accounting Statements

The audit observations revealed in the performance of the aforementioned role are summarized and indicated below.

Western Region Light Rail Transit System Project

The project aims to establish a network of light rail transit systems running over towers as a long-term solution to the heavy traffic congestion on the main roads of Colombo and as an express public transport system considering the need for an efficient public transport model and Japanese donations had been utilized for this purpose. Roles such as the acquisition of lands, environmental activities, utility variability and passing of an Act of Parliament, establishment of an institution for implementation and maintenance of social activities, operating the project management unit, planning the project, obtaining procurement assistance for supervision of construction had been targeted by the project for the year 2019. A total of Rs. **2,364** million, comprised of Rs. **1,791** million by the JICA funds and Rs. **573** million from the Treasury provisions had been incurred for this project by the end of the year 2019. Since it was decided to terminate the project by the end of the year under review, the expenses incurred were unproductive.

Greater Colombo Urban Transport Development Project - Urban Development Component (3K Project)

The project is implemented with the objective of providing a solution to the heavy traffic congestion in the City of Colombo and this project was being funded according to a full term loan agreement entered in to between the Japan International Cooperation Agency (JICA) and the Government of Sri Lanka in **2007**. It had been scheduled to complete this project in May **2015.** The total amount that the JICA had agreed to provide had been utilized by that time. Accordingly, this project had been implemented entirely on the provision of the Treasury after May **2015.** The project had been extended up to the end of the year under review by extending its period of completion further due to the poor performance of the project. During that period, approximately over Rs. 2 million per month had been spent on administrative and operating expenses. Accordingly, over Rs. 110 million had been spent from the provision allocated by the General Treasury for the administrative and operational activities of the project during the previous 4 ½ years since the project had not been completed within the due period. A sum of Rs. 596.7 million out of the provision amounting to Rs. 700 million allocated for the year 2019 had been incurred and its financial progress had been 81 percent. It was scheduled to accomplish only a limited roles such as targeted additional work of Makumbura Multimodal Transport Centre, provision of facilities for multimodal centre, improvement of infrastructure of the MMC, installation of the solar power system, construction of O&M building, procurement of equipment, the provision of local and foreign consultation services and the maintenance of the regulatory running development and transport system for the implementation of maintenance plans for MMC for the year 2019 of this project. The physical progress in the accomplishment of the limited roles during the year under review was 9% only.

Strategic Cities Development Project

Anuradhapura

This project had been initiated with the objective of maintaining a balanced development between the sacred areas and the developed areas of the city of Anuradhapura and safeguarding the attractions of the City while preserving its cultural and natural heritage. The progress in the accomplishment of the land survey and site clearing target in the **2019** of the project was **1** per cent**.** Provision amounting to Rs. **600** million had been made for the year **2019** and **9.8** percent or Rs. **58.80** million out of the provision allocated had been utilized.

Jaffna

This project was initiated with the objective of developing public utilities in the Jaffna Municipal Council area. The progress of the targeted AB 31 road rehabilitation work of the project for the year 2019 was 62 per cent. Provision amounting to Rs. 970 million had been allocated for the year 2019 and 97 per cent or Rs. 940.45 million out of the provision made had been utilized.

A total of Rs. 11,812 comprised of Rs. 9,013 million from the World Bank funds and Rs.**2,799** million from the

Treasury funds had been utilized for the Strategic Cities Development Project by the end of the year under review.

Greater Colombo Solid Waste Management Project

Following the landslide at Meethotamulla Garbage Dump, the Government of Sri Lanka had declared sustainable waste management as a priority at the national level. The government had sought the assistance of the World Bank for this purpose. Accordingly, the World Bank and the Asian Infrastructure Development Investment Bank (AIIB) had agreed to assist the Government in this emergency. A project management unit was to be set up at the Ministry of Megapolis and Western Development and AIIB had agreed to provide USD 700,000 as a financial assistance for the initial planning activities for the establishment of the Waste Management Unit. A sum of USD 200,000 had been provided out of the amount agreed. However, Government of Sri Lanka could not perform activities that should be followed as per the World Bank recommendations prior to the construction of the Aruwakkalu sanitary garbage dump and as a result, granting World Bank donations to the Government of Sri Lanka had been rejected. Accordingly, all the remaining expenses of the project had to be borne by the Government of Sri Lanka.

Provision amounting to Rs. 10,568 million had been allocated from the Expenditure Head of the Ministry for the Greater Colombo Solid Waste Management Project for the year under review and an amount of Rs. 8,585.75 million out of the allocated provision had been utilized. Accordingly, the financial progress of the project was 81 percent. Accordingly, the total expenditure as at 31 December 2019 was Rs. 12,228.75 million. It had been planned to implement this project in 4 phases and the progress of each phase was as follows.

Phase A - Construction of Kelaniya and Aruwakkalu Waste Exchange Centre

The construction work of the Kelaniya Waste Exchange Centre was scheduled to be completed in 2019. About 29 percent of the project had been completed by the end of the year under review. Thirty (30) per cent of the construction activities of Aruwakkalu Waste Exchange Centre had been finalized.

Phase B - Construction of Aruwakkalu Sanitary Landfill

The Ministry had entered into an agreement with a Chinese company to carry out this task. About 80 percent of the planned work had been completed by 31 December 2019. Garbage was disposed to a section of the landfill, where work had been completed. Garbage disposal had been suspended temporarily by the end of the year under review.

Phase C - Improving Rail Connectivity

Even though preparation of plans to improve the rail connectivity from Palavi to Aruwakkalu had been scheduled to complete in 2019, only the consultancy work had been completed.

Phase D - Purchase of 4 locomotive units, 34 waste container wagons and 94 container boxes

Four (4) locomotive units worth USD 8,271,224 had been imported by 31 December 2019. However, the payment of the final bill of it was delayed as the Railway Department had not made necessary recommendations for its final payment. Entering in to the contract for the procurement of 34 waste container wagons worth USD 2,373,200 was delayed and it was signed on 21 October 2019 and as a result, any progress had not been reported by the end of the year under review. Agreements had been signed on 23 August 2019 to procure 94 container boxes at a contract value of USD 844,854.23. Any progress of the task had not been achieved even by 31 December 2019.

Even though eighty two (82) per cent of the overall progress in the project was expected by 31 December 2019, its physical progress was 75 per cent.

The major sustainable development goal of this project was to reduce the adverse per capita environmental impact of cities by paying special attention to urban and other waste management activities. However, the target could not be accomplished due to the slow performance of the project.

Port City Development Project

Plans had been made to construct the Colombo Port City by reclaiming the land from the ocean in an extent of 269 hectares with the aim of making Colombo the most attractive city in the South Asian region with an environment conducive to living, working and functioning. The sand filling work up to the port city limits was targeted to be completed by 2019. About 43 per cent of that work had been completed by 31 December 2019. Even though it had been targeted to complete work to achieve 75% of the overall progress in the project, its progress was 67 percent. Provision amounting to Rs. 400 million had been allocated for the year 2019 and a financial progress of 52 percent or Rs. 229 million out of the allocated provision had been achieved.

Metro Colombo Urban Development Project

This project was initiated with the objective of reducing floods in the catchment area of the Colombo Water Basin, strengthening the capacity of local government bodies in the Metro Colombo area and beautifying the city of Colombo. Although provisions amounting to Rs. 9,197 million had been allocated in the year 2019 to accomplish the targeted role, Rs. 8,676 million or 94 per cent of the allocated provision had been utilized by the end of the year under review. The progress made in that regard is shown in Table 46

Role that is being Accomplished	Actual Progress as a Percentage of Targeted Progress
Improvement of drainage system near Devi Balika Vidyalaya Junction	**7**
Improvement of Norris Canal	**49**
Designing and Construction of Muthurajawela and Torrington water flowing tunnels	**0**
Improvement of Ambatale pumping station	**50**
Improvement of St. Sathasthiyan Pumping Station	**38**
Designing and Construction of the North Lock Gate of St. Sebastian's Pumping Station	**60**
Development of Kotte Kotubemma Wetland Park	**36**
Establishment of Real Time Control System	**38**
Construction of culvert with Thalangama tank outlet and Bauddhaloka Mawatha outlet	**56**

Table 46 - Targeted Progress of the Metro Colombo Urban Development Project
Source - Progress Report of the Ministry of Megapolis and Western Development 2019

Although targeted progress had been expected from 04 sub-projects under that project, no progress was achieved during the year under review as sub-projects had not been implemented during the year under review.

Non-accomplishment of the targeted objectives by the Urban Development Authority

The main objective of the Urban Development Authority is to jointly plan, implement, promote and to provide for matters incidental thereto for the economic, social and physical development of the areas declared as Urban Development Areas by the Urban Development Authority. Provisions amounting to Rs. **1,584.54** million had been allocated for the accomplishment of the targeted roles that had been planned in the year 2019 to achieve those objectives. Sixty one (61) percent or Rs. 1,009 million out of the provision allocated had been utilized by the end of the year under review. The progress in relation to the accomplishment of the targeted roles by the end of the year under review is mentioned below.

- Although provision amounting to Rs. 40 billion has been allocated for Phase IV of the Development of Boralesgamuwa Lake Area, the project had not been implemented. Likely, progress had not been achieved in the functions such as Mullaitivu Town Centre – Improvement of Infrastructure facilities, Parliament Grounds – Improvement of Infrastructure facilities and Implementation of Calido Beach Development Project.

- A low level of progress was revealed such as 45% progress in the completion of the Nawala Urban Square and construction of communication hall and 20% progress in the accomplishment of Phase II of the Development of Boralesgamuwa Lake Area and 20% progress in the accomplishment of Phase of the Salawa - Kosgama Township Development Project.

Restoration of Manning Market in Peliyagoda

Although provision amounting to Rs. 1,500 million had been allocated for the targeted role of construction of the super structure of the Manning Market Building in Peliyagods for the year 2019 and Rs. 1,263.87 million or 84 per cent of the allocated provision had been utilized. However, it was not possible to finalize the targeted role (Work in Progress).

Improvement of bus service for the promotion of public transport services

This project had been initiated with the aim of expanding public transport to give everyone access to a safe, affordable, easily accessible and sustainable transport system and to improve road safety. Performance of the project in the year 2019 was as follows.

- Provision amounting to Rs. 800 million had been allocated for the implementation bus lanes for the year 2019 and a financial performance of Rs. 571.14 million or 71 per cent out of the provisions allocated had been accomplished.

- **Even though** it had been targeted to activate the bus lane system within Colombo and its suburbs in the year 2019 as a component of the programme, which was implemented with the aim of reducing the running time of public transport, it could be operated only for lanes in length of 40 km by the end of the year under review.

- Construction of Kadawatha Multimodal Transport Centre – Provision amounting to Rs. 172.77 million had been allocated for the completion of the Phase 2 and activities of awarding the relevant construction contract to an institution had only been carried out.

- Provision amounting to Rs. 445.72 million had been allocated for the

Phase III of the construction of Polduwa by road and the project activities could not be completed.

The Tech City Development Project

It had been proposed to develop the cities of Malabe, Homagama, Kaduwela and Athurugiriya under the Tech City Development Project and it had been intended to divide the Zone in to 05 clusters such as the tertiary education cluster, the scientific research and development cluster, the technological enterprise Cluster, the nanotechnology and the biotechnology cluster and to develop the Zone of the project. The project was initiated on 01 March 2017 and was scheduled to be completed on 01 March 2023. A Memorandum of Understanding (MoU) had been signed with the Ministry of Land, Infrastructure and Transport of the Government of Korea on 24 May 2016 to implement the project and that institution had initiated a feasibility study. However, the project management unit set up for the Tech City Development Project had incurred a total of Rs. 66.21 million on staff salaries and allowances and other operating expenses in 2017 and 2018 and another Rs. **48.2** had been incurred on staff salaries and allowances and other operating expenses in the year 2019. The primary objective of this project was to develop public utilities of the Tech City and it had been decided to complete the Tech City Development Project by the end of the year under review.

Western Region Megapolis Planning Project

The Western Region Megapolis Planning Project was initiated in May 2015. The project had been in operation for more than two years by the end of September 2017 and a sum of Rs. 330.23 million had been incurred for the project. However, Rs. 10.22 million had been spent in 2018 and Rs. 19.45 million had been spent in 2019 on salaries and allowances and operating expenses for the staff of the project. The same project had been initiated as a new project called the Western Region Megapolis Planning Project and the old project had been continuing further. Time frame for the completion of the new project or the specific tasks to be performed by the project had not been indicated.

Western Region Maritime Cities Development Project

A special project had been initiated in the year 2017 with the objective of dividing the beach starting from Negombo beach to Calido beach in Kalutara into 03 parts and to develop the beach from Kollupitiya to Dehiwala as a recreational beach and to develop Blumenthal Crocodile Canal area for the development of activities related to the Colombo harbour and to develop Welisara Naval Headquarters area as a supply and service network. Although a total of Rs. 47.2 million had been spent for this project in 2017 and 2018, the project had been implemented without obtaining a report on the Feasibility Study for the implementation of the project or an Environmental Impact Assessment Report to assess the impact of the project on the environment. A sum of Rs. 30.01 million had been spent during the year 2019 for the salaries of the project staff and for the other operating expenses of the project office.

Western Region Aero City Development Project and Western Region Administrative Cities Development Project

Amounts of Rs. **80.7** million and Rs. 29.13 million had been incurred in the years 2018 and 2019 respectively for staff salaries and other recurrent expenditure of the two projects, namely, Western Region Aero City Development Project and Western Region Administrative Cities Development Project implemented under the Ministry of Megapolis and Western Development. A formal Feasibility Study for the implementation of the project or an Environmental Impact Assessment Report to assess the impact of the project on the environment had not been obtained prior to the imitation of the two projects. Since it was not possible to find investors to carry out the planned activities of the two projects, these projects were completely dependent on the funds of the Treasury. The project was progressing very slowly without any definite plans.

Human Resource Development

Sectors

Cultural and Art
Education
Higher Education
Skill Development
Labour
Health
Sports

Observations

- Recovery of Lease Rentals
- Non-formulation of Rules
- Payment of Official Vehicle Allowances
- Recalling of Investments
- Non-commencement of Excavation Conservation Activities
- Construction and Donation of 332 Dhamma Schools
- Maintenance and Management of Archaeological Sites
- National Education Policy
- Programme of producing Talented Sportsmen/Sportswomen
- Sri Lanka National Commission for UNESCO
- Commencement of Sports Schools
- Ensure equitable Access to Education
- Admission of Students to Intermediate Grades
- Appointment of Officers for Covering up Duties
- Balancing, Transferring and Assignment of Duties of Teachers
- Results of Subjects of the G.C.E. Advanced Level and Teachers Feasibility
- Distribution of Teachers' Guides
- Discipline and Inquiries
- Human Resource Management
- Payment of Salaries for Teachers
- Procurement
- Sustainable Development Goals
- Purchase of a Turnkey Machine for Printing Examination Papers
- Designing a creative Website

- Organization and Evaluation of Institutional Examinations and Issuance of Results
- Not being utilized for deposit purposes.
- Low level of project progress
- Establishment of a unit for Naval Studies and Maritime Affairs at the University of Ruhuna
- Establishment of a unit for Naval Studies and Maritime Affairs at the University of Ruhuna
- Project to construct a Professorial Unit at the Ratnapura hospital
- Establishment of an E-Learning Resource Center
- Construction project of Medical Faculty building
- Performance of foreign aid projects
- Policy on enrollment of students to universities
- Minimize new harassment
- Admission of university students and introduction of new courses
- Not utilizing the building of the Institute of Advanced Technical Education, Dehiwala
- Abandoned Projects
- Payment of lecture fees
- Jiun Buddhist Research and Publication Fund
- Granting study leave
- Payment of vehicle and fuel allowances
- Underutilized funds
- Funds received for research implementation
- University lecturers going abroad
- Failure to complete the post graduate qualification
- Expansion of the administration building
- Construction of a Sports Complex
- Failure to complete the post graduate qualification
- Expansion of the administration building
- Construction of a Sports Complex
- World University Rankings
- Underutilization of scholarship funds
- Conducting "BIT" Course
- Gardening
- Gifts and Donations
- Cinnamon Research Project
- Unpaid Scholarships
- Awareness on the Courses
- Development of Courses

- **Not Improving the Quality of Vocational Training Courses**
- **Not Developing the Training Opportunities**
- **Minimizing Academic Staff Vacancies and Training of Instructors**
- **Identification of Global Employment Needs and Development of Courses Accordingly**
- **Following up activities in relation to students who have completed vocational training courses**
- **Performance of Skills Development Assistants**
- **Phase II of the Self Employment Promotion Initiative (SEPI) Sub Loan Scheme**
- **World Youth Skills Day**
- **Construction of a University College in Kinniya**
- **Construction of a Student Hostel at the Sri Lanka German Training Institute**
- **Establishment of the Ocean University in spacious premises**
- **Obtaining a Vehicle for the Secretary of the Ministry under the Operating Lease Scheme**
- **Delay in Execution of Projects**
- **Delay in the Appraisal of Apprentices**
- **Not Updating the National Skills Standards**
- **Student Registration for Degree Courses**
- **Building Rent**
- **Idled Assets**
- **Idling of Ahangama Tourist Hotel**
- **Idling of the Hotel School Premises in Karainagar**
- **Idling of the Kuchchaveli and Ahangama hostels**
- **Composition of the Sri Lankan Labor Force**
- **Efficiency of Employee Benefit Settlements**
- **Non-settling of Withheld Employee Provident Funds to Employees**
- **Failure to Settle Employee Compensation**
- **Public Employment Service Centers**
- **Failure to Find Dependents**
- **Failure to Release Benefits When Minors Reach Adulthood**
- **Motivation Programmes for Self-employment**
- **Ratnapura District Labour Office**
- **Vehicle Control**
- **Failure to Identify Members and Settle Benefits**
- **Uneconomic Expenses**
- **Unresolved Contributions and Benefits by the Employees Provident Fund**

- **Function of Member Balance Checking Machines (Kiosk)**
- **Fraudulent Release of benefits**
- **Field of Foreign Employment**
- **Decline in Imigration for Foreign Employment**
- **Decrease in Focusing on Foreign Employment though Registered with Bureau.**
- **Migration for Employment as per Labour Categories**
- **Lack of Formal Administration in Labour Welfare Divisions of Foreign Missions**
- **Lack of Formal Administration in Labour Welfare Divisions of Foreign Missions**
- **Achieving the Sustainable Development Goals**
- **Slowing down the Implementation of Recommendations on Labour Migration**
- **Achievement of Sustainable Development Goals**
- **Competitive Examination for Recruiting to the Government Health Management Assistant Service**
- **Progress in the Implementation of Development Projects**
- **Funds Receivable to the Government from the Medical Officers and the Nursing Students**
- **Contract Administration**
- **Non-compliance with Tax Requirements**
- **Recruitments Exceeding the Approved Cadre**
- **Incurring Expenses by Exceeding the Approved Provision**
- **Project for the Management of Clinical Waste of the Government Hospitals**
- **Purchase of Medical Supplies.**
- **The Expired Coronary Stent Bare Metals**
- **Quality Failed and Expired Drug - Depogestin I**
- **Manufacture of Thriposha**
- **Failure to Credit Revenue to the Consolidated Fund**
- **Payments Made on Milk powder**
- **Failure to Make Procurements in accordance with a Plan**
- **Failure to Follow the Cabinet Decision**
- **Assignment of Duties relating to the Prevention of Kidney Disease Hindrances to the Patient Care Services**
- **Treatment Management System for the Non-communicable Diseases**
- **Conservation of Traditional Knowledge and Promoting Indigenous Medicine**
- **Construction of New Building at the Ayurveda Hospital, Borella**

- **Installation of a Document Management Software**
- **Purchasing Equipment for the Orthopedic Theatre**
- **Purchasing Machines for the Cardiac Surgery Intensive Care Unit**
- **Purchasing Drugs**
- **Enterprise Resource Plan**
- **Manufacturing Drugs**
- **Joint Ventures Establishment of a General Laboratory and a Training School**
- **Renovation of the Cephalexin Manufacturing Plant**
- **The State-of-the-art Tertiary Health Care Center for Patients Having Problems with Head and Spine**
- **Laboratory for Testing Tissue Samples**
- **The Electric Laundry**
- **Scarcity of Essential Drugs and Vaccines**
- **Purchase of a Cold Storage for Storing Drugs**
- **Construction of a Blood Dialysis Unit at the Base Hospital, Kantale**
- **International Achievements made by Sri Lankan Athletes**
- **Achieving Sustainable Development Goals**
- **Delays in Execution Projects**
- **Abandoned Projects**
- **Utilization of Infrastructure**
- **Construction of National Cricket Ground and Multi-sports Complex**
- **Income Due for Sponsorship Rights**
- **Establishment of a Cricket Institute**
- **PAYE Tax**
- **Failure to follow Government Procurement Guidelines**
- **National Sports Fund**
- **Cash Fraud**
- **Enrolment of Apprentices**
- **Non-identification of New Courses**
- **Expenditure deviating from Objectives**
- **Transactions of Contentions Nature**

Culture and Arts

Establishment of socio-economic development through improvement of cultural features in the country has been the expected outcome of this sector. Four departments and eight statutory boards under the purview of the Ministry of Housing Construction and Cultural Affairs should have performed the following functions to achieve the said result.

- **Advancement of all features including national culture, drama, dancing, traditional arts and artists of Sri Lanka**
- **Preservation of historic, archaeological and cultural heritage**
- **Maintaining cultural relations with foreign countries**
- **Creating unity among communities**
- **Proper management and preservation of public records**

Provisions of Rs.22,681.88 million had been made by Parliament during the year under review and two preceding years for performing the aforesaid functions and out of that, a sum of Rs.18,046.58 million had been utilized. As such, out of provisions made by Parliament, 20.44 per cent or Rs.4,635.30 million had not been utilized. Details appear in Figure 47

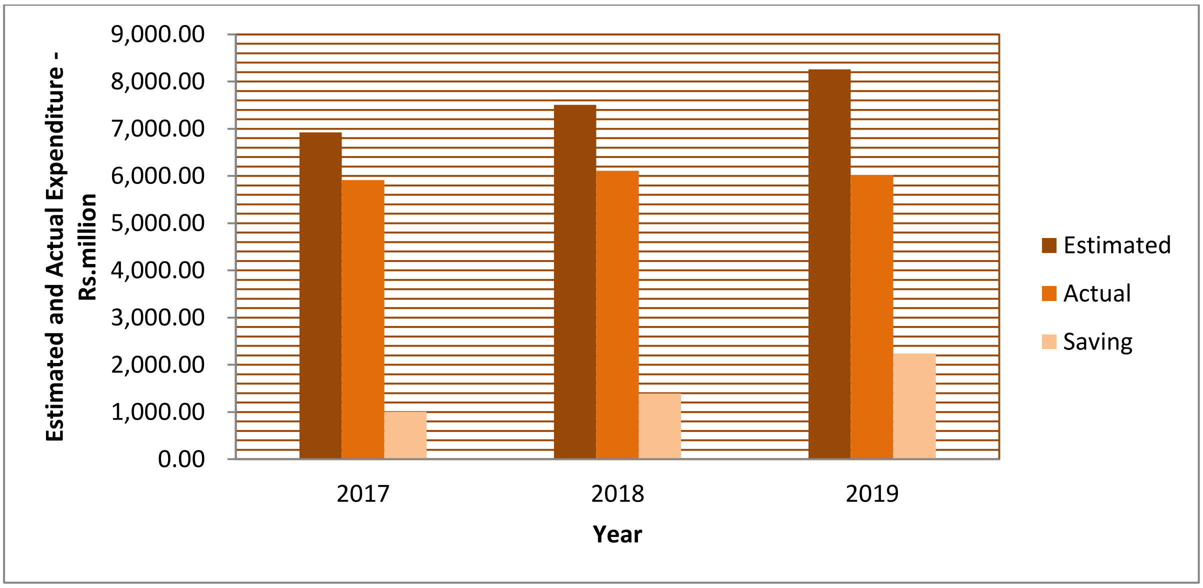


Figure 47 Estimated expenditure and actual expenditure
Source – Final General Treasury Accounting Statements

The audit observations revealed on the performance of the aforesaid functions by the departments and statutory institutions under the purview of the Ministry are summarized below.

Recovery of Lease Rentals

In terms of conditions of the Special Grant of 08 October 1980, the Sausiripaya building and the land on which it is located, owned by the Tower Hall Theatre Foundation should not have been utilized for other purposes. However, agreements had been entered into for leasing out the said assets without a Government valuation to the Construction Industry Development Authority for Rs.06 million which was the lease rental charged thirty years before. Even though the lease agreement had expired on 15 May 2016, entering into agreements in a manner effective to the past, had delayed up to 19 May 2019. As such, no lease rental had been recovered for the said period of delay.

Non-formulation of Rules

The Central Cultural Fund had been established in terms of Central Cultural Fund Act, No.57 of 1980. In accordance with Sub-section 04(c) of the said Act, the Board of Governors shall, have power to make rules in relation to matters connected with the working of the fund. Moreover, rules including the procedure to be followed by the Fund had not been formulated from the commencement of the Fund up to the end of the year under review.

Payment of Official Vehicle Allowances

A payment of Rs.2.79 million had been made as fuel and transport allowances to 05 officers of the Central Cultural Fund who are not entitled to fuel and transport allowances in terms of provisions cited in paragraph 3.1 of the Public Enterprises Circular No.PED1/2015 of 25 May 2015.

Recalling of Investments

In terms of Sub-section 4(f) of the Central Cultural Fund Act, the Board shall at its discretion

invest moneys belonging to the Fund, and to recall, re-invest and vary such investments, and to collect income accruing from such investments. However, the discretion of the Board should be obtained before recalling investments by the Fund. A sum of Rs.2,058.4 million had been recalled out of investments of the Fund by 31 December 2019 without such discretion of the Board.

Non-commencement of Excavation Conservation Activities

Action had not been taken even by 31 December 2019 to commence 53 excavation conservation activities estimated at a value of Rs.340.8 million relating to the year 2019.

Construction and Donation of 332 Dhamma Schools

The Central Cultural Fund had planned to construct and donate 332 dhamma school buildings under the programme, “Sisu Daham Sevana” in the year 2019. The approval of the Governing Board had been granted for constructing the said dhamma school buildings by institutions under the purview of the Department of Buildings. Even though the procurement activities thereof should have been carried out by a procurement committee appointed by the Cabinet in terms of Guidelines of the Government Procurement Guidelines, action had not been so taken.

This project had been implemented by the Fund without a proper study on the requirement due to reasons such as;

- Failure in handing over of constructed buildings
- Utilization of constructed buildings for other purposes
- Non-utilization of certain buildings for any purpose
- Construction of buildings despite requests not made to the Fund by recipients
- Construction of buildings contrary to lists of requests sent by Divisional Secretaries

Maintenance and Management of Archaeological Sites

According to Cabinet Decision No.CP/11/0169/555/004 of 10 February 2011, the Central Cultural Fund should have provided 25 per cent of its income to the Ministry of National Heritage for maintenance and management of archaeological sites. The income (entrance tickets) of the Fund in the year 2019 had been Rs.3,330.9 million of which 25 per cent or Rs.832.7 million should have been provided to the Ministry of National Heritage. However, only a sum of Rs.658.9 million had been provided therefor.

Education

Ministry of Education, 02 Departments and 04 Statutory Institutions should have performed the following functions as the pioneer of providing education effectively through reconstructing it to befit the changing world in order to accomplish the national general objectives pertaining to the general education field within the national education policy framework.

- Creation of a National Educational System which enables to access the global competition with self-confidence and thereby reach success with self- assurance on behalf of Sri Lankan young generation.
- Supervision of all Schools in Sri Lanka including international schools in compliance with the National Educational Policies.
- 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 student welfare services such as 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, Principals' Service, Sri Lanka Teacher Educators' Service and Sri Lanka Teachers' Service.
- Promoting Buddhism and Pali Education and upgrading Piriven Education.
- Promotion and Development of school libraries to encourage students for reading.
- Proper management and preservation of Government documents.
- Ensuring the opportunities for education of students with special needs.

Provision of Rs.325,397.60 million had been made by Parliament for performing aforesaid functions relating to the year under review and 02 preceding years and out of that, a sum of Rs. 235,097.00 million had been utilized. Accordingly, the savings out of the total provision made by Parliament for the said period amounted to Rs.90,303.60 million representing 27.75 per cent without being utilized. Details are given in Figure 48.

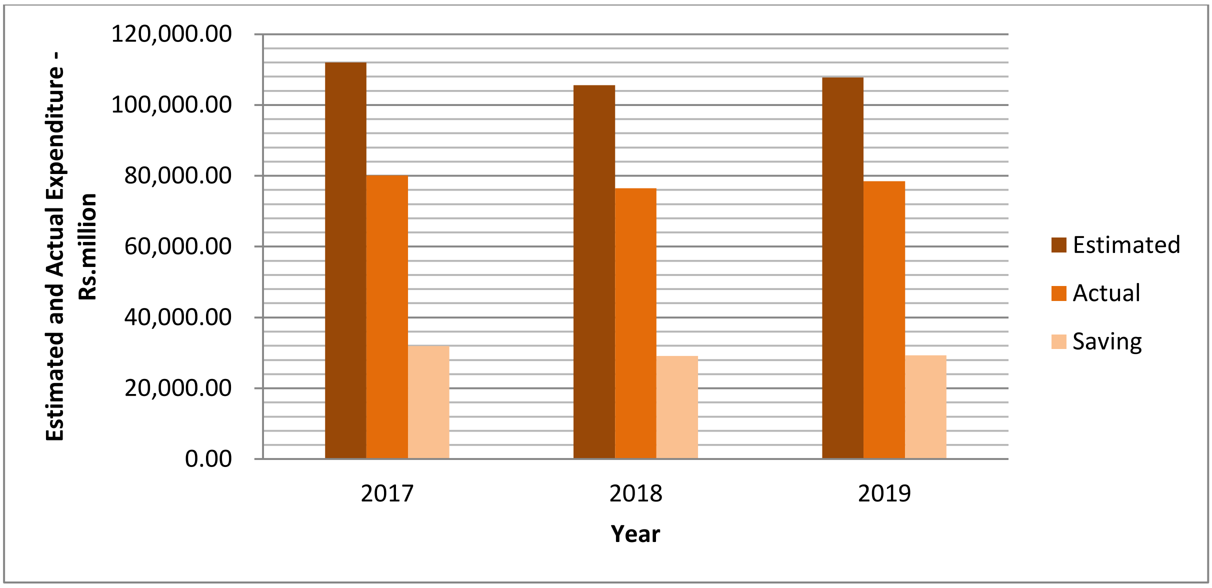


Figure 48 – Provision made by the Parliament and its Utilization
Source – Final Treasury Accounting Statements

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

National Education Policy

The National Education Commission had made recommendations in the years 2003 and 2016 in terms of provisions of the National Education Commission Act, No.19 of 1991 for creation of a National Education System which enables the access to the global competition with self-confidence and thereby to reach success with self – assurance according to the role of the Ministry of Education. However, a specific and sustainable national education policy had not been formulated by the end of the year 2019.

Moreover, a national policy had not been formulated for supervision and management of pre-schools, identified as a key function of the Ministry of Education as per the Article 2 relating to education of Appendix III of 13th Amendment to the Constitution.

Supervision of international schools in compliance with the National Education Policy was one of the main objectives of the Ministry. 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 five years and the age of fourteen years. However, international and private schools had been commenced contrary to the Act and they were not under the supervision of the Ministry.

Programme of producing Talented Sportsmen/Sportswomen

The approval of the Department of National Planning and the Cabinet of Ministers had been received to the project proposal of the Ministry of Education for endowing a healthy generation, physically and mentally balanced with the country and producing skilled sportsmen/sportswomen. A sum of Rs.18,394.5 million had been estimated for the implementation of the said programme from the year 2016 to 05 ensuing years based on 07 objectives for enhancing the physical fitness of students. The said programme had not been implemented in the year 2016 and provision of Rs.250 million, Rs.300 million and Rs.150 million had been made in the years 2017, 2018 and 2019 respectively. However, a total sum of Rs. **237.74** million had been spent in those years. Even though 04 years out of 05 year –planned period, had lapsed, the programme had not been duly implemented.

Sri Lanka National Commission for UNESCO

The Sri Lanka National Commission for UNESCO had been established by the Cabinet Paper No. CP**/08/1742/316/086** of 24 September and a draft Bill had been presented to the Legal Draftsman's Department on 29 October 2008 to provide for matters connected therewith or incidental thereto. However, the formulation of the Act had not been completed even by the end of the year under review. Even though making appointments and payments for the staff of the Commission should be carried out by a Parliament Act, payments had been made only on the Cabinet approval without approving the Act. The Ministry of Education had released provision totalling Rs. **45.85** million to the Ministry of External Affairs from the year 2007 to the year under review only as remuneration of the Coordinating Officer who had been attached to the UNESCO Agency located in Paris, France. Even though a sum more than Rs. **42** million had been spent annually for the said Commission, information on achievement of objectives by the United Nations Educational, Scientific and Cultural Organization had not been made available to Audit.

Commencement of Sports Schools

Twenty two sports schools commenced in the year 1989 with a view to producing talented sportsmen/sportswomen at the national and international level providing them with all facilities and awarding scholarships for residential practising, were inoperative. As such, hostels, sports instruments, physical fitness equipment etc. of students of sports schools had remained underutilized.

Ensure equitable Access to Education

The Educational Publications Department, which performs a pioneering role in ensuring equitable access to education through the provision of learning materials of distinctive pedagogical standards, had not published text books for main subjects of the Advanced Level stream except for the General English. However, a number of **393,500** supplementary books relating to subjects had been published from the year 2016 to the year 2019 and sold only through sales promotion centres belonging to the Educational Publications Department without distributing those books directly to schools. As such, all Advanced Level students had been deprived of opportunity for utilization of those books.

Admission of Students to Intermediate Grades

In terms of paragraph 3.1 of Circular No.17/2016 of 16 May 2016 of the Ministry of Education, it had been stipulated that the maximum number of students selected per class in the admission to Grade One as 39. However, 6,337, 3,339 and 6,366 students had been admitted by 109, 73 and 81 National Schools beyond those limits in the years 2017, 2018 and 2019 respectively.

Newspaper advertisements had been published on 03 July 2019 by the Ministry of Education calling for applications for admission of students to intermediate grades in national schools and the number of vacancies existed as at 19 May 2019 in each school and the procedure for admission of students as well had been stipulated in the said advertisement.

However, students had been admitted to national schools indicated in Table 19 .without vacancies therein.

School	Number of Students
Girls' High School, Kandy	39
Rahula College, Matara	33
Anula Vidyalaya, Nugegoda	30
Dharmaraja College, Kandy	39
Maliyadewa College, Kurunegala	69
Nalanda College, Colombo	**52**
Visakha Vidyalaya, Colombo	**28**
Royal College, Colombo	**54**
Sujatha Vidyalaya, Matara	**31**
Ananda College, Colombo	**63**

Table 19– Admission of students to schools without vacancies

Moreover, a large number of vacancies exists in following national schools around Colombo. However, there was no competition among students for those schools.

- A number of 466 vacancies existed in the Sri Subhuthi National School Battaramulla and out of that, 243 and 96 vacancies existed in Grades 9 and 10 respectively. However, 24 students had been admitted by calling for applications.
- A number of 76 vacancies existed in the Kolonnawa Balika Vidyalaya and 23 students had been admitted by calling for applications.
- A number of **308** vacancies existed in the Ananda Sastralaya, Kotte and applications had been submitted for 25 out of those vacancies.

- A number of 163 vacancies existed in the Kotikawatta Sri Rajasinghe Central College and only 09 students could be admitted.
- A number of 109 vacancies existed in the Kotahena Madya Maha Vidyalaya, Colombo and only 08 students could be admitted.

Appointment of Officers for Covering up Duties

According to the Establishments Code of the Democratic Socialist Republic of Sri Lanka, an acting officer can be appointed on temporary basis until a substantive appointment is made. However, principals had been appointed on acting basis to 278 out of 373 National Schools since many years. As a remedy, only 153 principals comprising 102 in the Sri Lanka Principals' Service Grade 1, fourteen (14) in the Sri Lanka Education Administrative Service, Grade 1, twenty eight (28) in the Sri Lanka Education Administrative Service, Grade II/III and 9 persons in Special Grade II had been appointed on permanent basis to national schools from 27 February 2020.

Balancing, Transferring and Assignment of Duties of Teachers

It was unable to minimize **1,859** teacher vacancies and 1,202 excess existed for 1,490 subjects and for **787** subjects respectively in 143 National Schools due to failure in balancing teachers by the year **2019**. Even though the implementation of the annual transfer scheme had been commenced, there are 2,790 teachers who are still engaged in the teaching in 146 National Schools for over a period between 08 and 35 years whilst, a number of 602 Teachers of 128 National Schools had been attached for teaching subjects extraneous to the subjects, for which they were appointed. Moreover, a number of 1,220 students are studying in special education units of 107 national schools. Even though there should be 305 teachers in those units, the actual number of teachers attached to those units was only 224, thus resulting in 81 teacher vacancies

According to the Service Minute of the Sri Lanka Education Administrative Service published in the Gazette Extraordinary No.1928/28 of 21 August 2015, officers in Grade 1 of the Sri Lanka Education Administrative Service should be appointed to 64 listed national schools. Nevertheless, those appointments had not been so made. Even though the Deputy and Assistant Principals and Teachers of National Schools should be assigned 10, 12 and 35 periods per week respectively, the number of Deputy and Assistant Principals and Teachers of 71, 26 and 125 National Schools, who had not been assigned even a single period of teaching activities stood at 148, 52 and 389 in the year 2019.

Results of Subjects of the G.C.E. Advanced Level and Teachers Feasibility

According to statistical data of the Department of Examination, out of students who had followed Advanced Level subjects such as Physics, Chemistry, Biology, Combined

Mathematics, Logic and Science Subject for Technology, Agriculture Science, Economics, Geography, Political Science, Information and Communication Technology, English and General English in the year 2019, approximately 30 per cent students had failed the examination. A proper procedure had not been implemented to identify the reasons for a decline in the results since past years and to make remedies therefor and the number of students failed three subjects of all streams in the year 2019 stood at **23,404**.

Distribution of Teachers' Guides

Out of **388,990** Teachers' Guides printed for Advanced Level in the years **2017**, **2018** and **2019**, a number of **232,924** Teachers' Guides had been distributed and even though those had been printed as a guide for teachers to teach advanced level subjects, intended objectives had not been achieved due to lack of a methodology for distribution of them within due periods.

Discipline and Inquiries

There were 479 unresolved disciplinary matters by the end of the year under review and among those, there were **19**, **72** and 48 matters relating to Colleges of Education, Ministries and schools in Colombo District respectively.

Human Resource Management

Existing vacancies of 2,276 officers at the secondary and tertiary levels and 3,235 other officers had been a hindrance in taking management decisions and carrying out duties of the Ministry.

A number of 242 officers belonging to various services were engaged in the service of the Ministry itself without being transferred for a period from 6 years to 20 years and 190 officers in the academic staff of 14 Colleges of Education and 240 in the non-academic staff of 15 Colleges of Education were employed in the same place without transferring over a period of 08 years. Moreover, 376 vacancies in the academic and non-academic staff of 19 Colleges of Education existed.

Payment of Salaries for Teachers

According to information of the Ministry of Education, the arrears of salaries payable to teachers of national schools and pirivenas of 09 provinces as at 31 December 2019 totalled Rs. **411.38** million, whilst according to information of provincial offices, the arrears of salaries payable to all teachers in 09 provinces as at 31 December 2019 totalled Rs. **828.70** million. Moreover, 08 principals and **6,695** teachers of 08 zones in the island had not been placed on the present salary step from the year 2004 to 31 December 2019.

Procurement

According to the Procurement Plan prepared for the year **2019**, the Ministry had planned to make 59 purchases at a cost of Rs. **10,031.48** million. Out of that, procurements valued at Rs. **25.5** million representing 0.25 per cent had been made by the end of the year under review.

Even though it had been planned to carry out 19 procurement activities for goods at a cost of Rs. **144.12** million relating to the General Education Modernization Project, only 02 procurement activities valued at Rs. **0.71** million had been carried out by the end of the year.

Sustainable Development Goals

According to information made available to Audit, envisaged targets had been decided by implementing four programmes by the Ministry of Education with a view to completing equitable and quality education for achieving effective learning outcomes by 2030 under 4.1 of Sustainable Development Goals and out of the said targets, more than 20 per cent had been reached by the end of the year under review.

Purchase of a Turnkey Machine for Printing Examination Papers

A turnkey machine had been purchased for printing question papers by spending Rs. **546.26** million in the year **2018**. The warranty period of the said machine was a short period as one year. Only 08 per cent of the General Certificate of Education (Ordinary Level) examination papers for the year 2019, had been printed by the said machine. However, 100 per cent of the General Certificate of Education (Advanced Level) and Grade Five Scholarship examination papers and 92 per cent of the General Certificate of Education (Ordinary Level) examination papers had been printed by 08 old machines of the Department. Accordingly, raw materials valued at Rs. 22.22 million out of raw materials valued at Rs. **26.21** million purchased for the new machine in the year 2019, had not been utilized.

According to the report submitted after the physical inspection carried out abroad by officers of the Technical Evaluation Committee, the wrapping solution part of the turnkey machine had been recommend as an essential part to the Department to keep confidentiality of question papers. However, the said part valued at Rs. 8**.43** million had remained idle from the date of purchase.

Designing a creative Website

The Cabinet approval had been received on 16 December 2009 for the e-Government Policy and it had been informed by the Circular No. SP/SB/03/10 dated 31 May 2010 of the Secretary to the President that this e-Government Policy should be adhered to by all Government institutions including all Ministries and Departments. In carrying out e-services such as designing the website, issuance of certificates online and confirmation of results by the Department of Examination, prior to accessing the information system, entering into non-disclosure agreements, providing trainings for all staff, formulation of policies on the use of information technology and revision of the prescribed web addresses were not made in accordance with e-Government policies.

Organization and Evaluation of Institutional Examinations and Issuance of Results

The Department had not prepared specific criteria in writing so as to ensure its consistency with time illustrating matters such as basis of selecting officers for preparation of institutional examination papers and for paper marking and educational qualifications, age, professional level and experience to be possessed by officers.

Provisions for organization and conducting local and foreign examinations held on behalf of private institutions had not been made in terms of Public Examination Act, No.25 of 1968 as amended by the Act No.17 of **1976**. Even though the Department had conducted examinations annually adhering to the precedent for conducting private and foreign examinations since inception of the Department, action had not been taken to make necessary legal provisions thereon.

Higher Eduaction

The desired outcome of this field was to enhance the quality of education and to create higher education opportunities that would lead to knowledge based economy by bringing local universities and institutions of higher education to the international level with a view to enhancing the efficiency and productivity of the higher education system. In order to achieve that result, the Ministry of Urban planning, community water supply and Higher Education, a department, 17 universities and 20 statutory bodies had to play the following role.

- Managing and developing public universities under the administration of the University Grants Commission.
- Integrating and collaborating with international institutions to enhance the quality of higher education.
- Expanding access ways for higher education.
- Implementing scholarship programs to enable eligible students to enter international universities.
- Strengthen the university system to produce employable graduates.
- Securing international recognition for degree courses offered by universities.
- Regulation of private and international universities and institutions of higher education.
- Facilitate higher education for the youth community.

The parliament had allocated Rs. 196,928.54 million from 2017 to 2019 out of which Rs. 173,471.87 million had been utilized to fulfill the above role. Accordingly, 11.91 percent or Rs. 23,456.67 million of the total allocation made by parliament for that period had not been utilized. Detailed diagram is shown in 49.

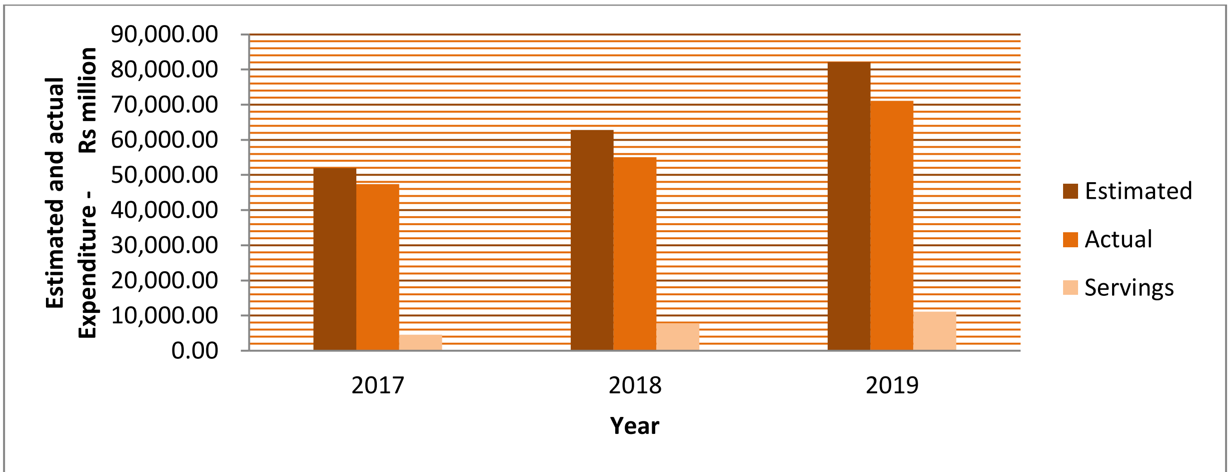


Diagram 49 – Provision and utilization provided by parliament
Source – Final Financial Statements of the treasury

Summary of the audit observations made during the sample audit tests performed on the above role is given below.

Not being utilized for deposit purposes.

When non-governmental higher education institutions apply for registration with the ministry, the money deposited in the ministry for institutional and course reviews of those institutions should have been utilized for the relevant review activities of those institutions of higher education. The total collection of Rs. 24.1 million collected during the period from 2013 to 2018 for 51 non-governmental higher education institutions had not been utilized for the relevant purpose by the end of the year under review.

Low level of project progress

By end of the year under review, only the initial procurement of the construction contractor for the Rs. 1,300 million project to set up a Professorial Unit at Karapitiya hospital, which was to be completed in 36 months from 11 April 2018, had been completed.

Establishment of a unit for Naval Studies and Maritime Affairs at the University of Ruhuna

Preliminary procurement for the project to establish a Naval Studies and Maritime Unit at the University of Ruhuna, which is being implemented at ban estimated cost of Rs. 943 million on the 2018 annual budget proposals, has been postponed until 28 May 2019. Although, Rs. 50.1 million had been paid to the contractor for the commencement of work, the progress of the project was in very low level at the end of the year under review.

Project to construct a Professorial Unit at the Ratnapura hospital

Construction work on the project to build the Professorial Unit at the Ratnapura Hospital was scheduled to commence in 2019 and be completed within 48 months. The project cost was Rs. 2,655 million and no preliminary work had been commenced by the end of the year under review.

Establishment of an E-Learning Resource Center

It was decided to establish an E-Learning Resource Center at the University of Kelaniya in the years of 2017 and 2018 at an estimated cost of Rs. 250 million. At the end of the year under review, only Rs. 39 million had been utilized. By that time, its physical progress was in very low level.

Construction project of Medical Faculty building

The project to construct a 12-storey medical faculty building at the University of Ruhuna at an estimated cost of Rs. 1,180 million had been implemented. An advance of Rs. 200 million had been paid on 17 January 2018. The construction was supposed to be completed by 30 September 2019, but not enough work had been completed to cover the advance paid at the end of the year under review.

Performance of foreign aid projects

- There was still a balance of 231,626 Kuwait Dinars left over from the project of renovating and rebuilding universities in the tsunami affected provinces. Although the third phase of work on the balance sheet was scheduled to be completed by the end of the year under review, the physical progress of the project was as low as 47 percent.

- The North Western University urban development project, which is being implemented with the assistance of the Government of Sri Lanka and Government of Saudi Arabia at an estimated cost of Rs. 4,077 million, was scheduled to commence in 2017 and be completed by December 2020. Preliminary procurement had not been completed by the end of the year under review.

- The Eastern University Faculty of Health Care project, which is being implemented with the assistance of the government of Sri Lanka and the government of Kuwait at an estimated cost of Rs. 6,617.5 million, was scheduled to commence in 2016. The commencement of project activities was delayed till 01 June 2019 and by the end of the year under review, the progress of the project was as low as 25 percent.

- The Science and Technology Human Resource Development Project with the assistance of the Government of Sri Lanka and the Asian Development Bank was scheduled to commence in 2018 and be completed in 2023 on a revised cost estimate of Rs. 26,400 million. During the year under review, only Rs. 212.5 million had been spent on this project and the physical progress of the project was as low as 16 percent.

Policy on enrollment of students to universities

Although the candidates who sat For the G.C.E.(advanced Level) Examination conducted island wide had a high Z score, due to the failure of aptitude test conducted for admission to the university, there was a situation where the opportunity to enter the preferred courses or to enter the university was lost. However, the University Grants Commission had not taken any further action to amend or suspend this system and to continue the process of conducting aptitude tests when admitting students to the university for the academic year of 2019/2020.

Minimize new harassment

The Center for Gender Equity and Equality, set up by the University Grants Commission to reduce harassment, spent only Rs. 27 million from 2017 to the end of the year under review, but its performance remained poor.

Admission of university students and introduction of new courses

- According to the University Grants Commission data about admissions to government universities, the number of students enrolled in 2018 had increased by 52 percent compared to 2008. Although the total amount of treasury allocations and funds raised for universities during the last 05 years was Rs. 519,326 million, the performance of enrolling students for courses conducted at each universities and introducing new courses at universities was relatively low.

- According to section 4 (XV) of the Buddhist and Pali University Act of Sri Lanka, hostel facilities could be provided on rent and lease basis. 1,752 students who had applied for university admission in the past 5 years, only 37 percent or 652 students had been admitted, citing inadequate space in university dormitories. The university also has 32 lecture halls and adequate facilities for a capacity of over 2,000 students, but the number of students enrolled per year ranged from 110 to 140.

Not utilizing the building of the Institute of Advanced Technical Education, Dehiwala

Under the HETC project, it was planned to construct a five storied building at the Institute of Advanced Technology, Dehiwala at an estimated cost of Rs. 512 million. The building was completed on 03 floors and handed over to the company on 21 February 2017. Leadership Development Centers are maintained on the remaining 03 floors. The building remained underutilized at the end of the year under review due to non-completion of the remaining two floors. Although, at the end of the year under review Rs. 113.7 million had been spent on the contract for the construction, but many of the equipment had not been used for nearly four years and the warranty period had expired.

Abandoned Projects

An external toilet system was installed at the Institute of Advanced Technology, Dehiwala for the use of students. In addition, Rs. 2.48 million was paid to a contractor in 2018 for the construction of another toilet system. Its construction was halted at the foundation level. Also, a large number of wires brought for the construction were decaying in the premises of the institution.

Payment of lecture fees

According to the University Grants Commission and the Establishment Code for higher education institutions, new courses should not be started when there is not enough teaching staff for the courses. There are 12 approved lecturer vacancies in the Buddhist and Pali University of Sri Lanka. During the year under review, 24 external lecturers were recruited and lecture fees of Rs. 4.6 million were paid for them without filling the vacancies.

Jiun Buddhist Research and Publication Fund

A Jiun Buddhist Research and Publication fund was established at the

Buddhist and Pali University of Sri Lanka to support Buddhist studies and research limited to the Pali language. At the end of the year under review, the fund had a balance of Rs. 1.3 million but had not been utilized for the relevant purposes since 2017.

Granting study leave

03 lecturers were recruited in the year 2016 for the Department of Language Sills Development, Buddhist and Pail University of Sri Lanka. The lecturers had been given study leave for a period of up to 05 years before the lapse of 03 years. As a result, action had been taken to obtain the services of external lecturers to fill the vacancies. A lecturer who had taken such study leave had changed the criteria of the Master's fund to study for a postgraduate degree in France and had been approved a scholarship and paid Rs. 500,000. That lecturer had not gone abroad and had applied for a degree in philosophy in the external department of the same university. The university had not taken any action in this regard.

Payment of vehicle and fuel allowances

During the period from year 2015 to 2018, Rs. 1.74 million was paid as vehicle allowance and Rs. 710,360 as fuel allowance for the tenure of acting treasurer of the University of Jaffna, contrary to the institutional Circulars No. 13/2015 dated 18 September 2015 and No. 13/2015 (i) dated 09 January 2016.

Underutilized funds

As at 31 December 2019, a total of Rs. 1.63 million was received from 04 fund accounts under the University of Kelaniya, Rs. 6.45 million was received for the construction of a hostel for foreign students in the field of Buddhist and Pali Studies, Rs. 4.15 million from the University Grants Commission and Rs. 6.91 million left over from international conferences and workshops were underutilized.

As at 31 December 2019, a total of Rs. 13.14 million in development fund accounts of 35 courses and departments of the University of Moratuwa remained idle during the year under review. The total of 27 fund accounts is Rs. 50.47 million was underutilized.

The University of Moratuwa had a total of 26 scholarship funds worth Rs. 4.55 million as at 31 December 2019 which had been underutilized for more than 10 years. This was due to problems with the criteria for awarding scholorships.

Funds received for research implementation

Although all the lecturers were required to carry out research on a regular basis, Rs. 8.10 million was received from 29 funds for the implementation of such research. The University of Kelaniya had withheld Rs. 8.10 million for more than a year.

The total research aid balance of the University of Ruhuna as at 31 December

2019 was Rs. 31.06 million and during the period from year 2014 to 2019 Rs. 2.13 million had not been utilized. Management had not focused on the effective utilization of that aid money.

University lecturers going abroad

- 22 lecturers had gone abroad for postgraduate and doctoral degrees from the University of Kelaniya in 2011 and had not reported for duty on time. Due to the breach of the bond agreements reached by those lecturers, Rs. 97.26 million had to be recovered by 31 December 2019. Also, due to the non-return of experienced and qualified lecturers abroad, the opportunity to obtain that knowledge was lost to the university.

- 42 lecturers of the University of Sri Jayawardenapura went abroad to obtain postgraduate degrees and failed to return to work, resulting in a breach of contract and a bond value of Rs. 113.71 million due on 30 June 2020.

- As at 31 December 2019, the total amount due from 37 lecturers who went abroad on study leave from the University of Moratuwa was Rs. 76.86 million. Rs. 5.83 million out of 09 lecturers was in arrears for 20 years.

Failure to complete the post graduate qualification

05 lecturers who had gone abroad on study leave and capital grants with full salaries and allowances to complete their postgraduate qualifications at the University of Kelaniya had returned to work without fulfilling those qualifications. For this reason, the primary objectives of improving the quality of education through the knowledge of lecturers had not been achieved.

Expansion of the administration building

In March 2016, the cabinet approved VAT free cost estimate of Rs. 49.14 million for the expansion of administrative building of the University of Sri Jayawardenapura and the total construction work was to be completed within 10 months.

Construction of a Sports Complex

On the occasion of 50th anniversary of the University of Sri Jayawardenapura, cabinet approval was granted on 13 February 2014 to carry out Rs. 618 million estimated project under the urban development project for the construction of an international standard conference hall, gymnasium and sports complex with a swimming pool. Preliminary procurement was completed and the contract was not awarded by the end of the year under review.

World University Rankings

According to world university rankings, the University of Sri Jayawardenapura was ranked 2758th in 2012, but by the end of the 7th year, it had dropped to 2960th. This was due to the fact that the university did not improve its research progress as it gave 60 percent marks for research and excerpts in the world university rankings.

Underutilization of scholarship funds

At the end of the year under review, the University of Sri Jayawardenapura had a Rs. 32 million under the 101 prize and scholarship funds. Only Rs. 5 million had been utilized from that fund. Rs. 20.39 million under 30 funds remained inactive without being utilized to achieve the relevant objectives. Also, as at 31 December 2019, 36 accounts of research fund amounting to Rs. 40.07 million had not been utilized for more than 04 years. A total of 08 research funds amounting to Rs. 4.70 million and Rs. 73.07 million rupees under 15 special fund accounts remained idle during the year under review.

Conducting “BIT” Course

According to the agreements into with private institutions for the course of “BIT” coordinated by the Center for Open and Distance Education, University of Moratuwa, each institution was required to enroll a minimum of 60 students per year. Due to the non-enrollment of 14 to 40 students during the period, the institution had to pay Rs. 8.255 million from those two private institutions. As at 10 August 2020, no action had been taken to recover the arrears.

University of Moratuwa had paid Rs. 13.02 million as administrative fees to a company which was not a party to the agreement from the income earned from the course during the period from the course of “BIT” from year 2016 to 2018.

Gardening

The landscaping at the University of Moratuwa had not been carried out in a planned manner, resulting in a non-economic cost of Rs. 3.09 million paid to a private contractor.

Gifts and Donations

According to the financial statements of the University of Ruhuna, there was a balance of Rs. 612.91 million in the prize and donation account as at 31 December 2019. Out of those accounts, 22 accounts with atotal value of Rs. 12.92 million were inactive for a period of 03 to 05 years.

Cinnamon Research Project

The cinnamon research project implemented by the University of Ruhuna had purchased the GC device on 26 April 2018 at a cost of Rs. 3.95 million. At the end of the year under review, the equipment had not been used for any research and was no longer in use.

Unpaid Scholarships

Financial statements of the University of Ruhuna in the year of under review, unpaid scholarship was Rs. 9.73 million. In that balance there was an unpaid scholarship balance of Rs. 9.54 million from the year of 2011 to year of 2015. The governing authority had not paid attention to the payment of such scholarships.

Skills Development

It is imperative that the present and future workforce be equipped with a well-rounded education and skills to adapt to a more complex economic pattern. To this end, higher and tertiary education opportunities in the economy need to be enhanced to bridge the gap between skills and knowledge. In order to achieve that prospect, 01 Department and 10 statutory bodies under the purview of the Ministry of National Policies, Economic Affairs, Resettlement and Rehabilitation, Northern Province Development, Vocational Training and Skills Development and Youth Affairs should have been accomplished the following role.

- To formulate policies and provide facilities to expand vocational education requirements of students who do not qualify for university education.
- Modernization of technical and tertiary education to produce a workforce suitable for the job market.
- Taking steps to promote apprenticeship training opportunities.
- Formulation and implementation of strategies to enhance the inclination towards vocational education.

Parliament had made provision amounting to Rs. 33,702.53 million for the year under review and for the previous two years for the accomplishment of the above role and Rs.28,132.01 million out of the provision made had been utilized. Accordingly, 16.53 per cent or Rs. 5,570.52 million of the provision made by the Parliament during that period had not been utilized. Details are shown in figure 50

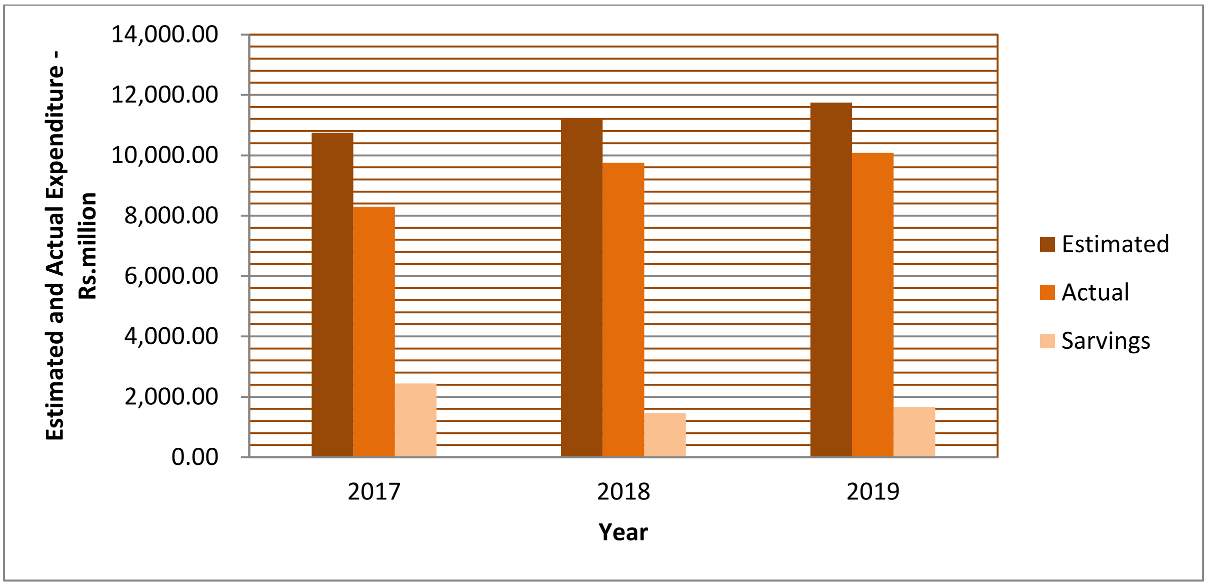


Figure 50- Provision made by Parliament and the utilization of provision
Source - Final Account Statements of the General Treasury

Awareness on the Courses

Even though formulation and implementation of strategies to enhance the inclination towards the vocational education was one of the functions assigned to the Ministry, participation of students remained low due to the non-availability of a formal programme to attract students to certain courses implemented in the vocational training centres, which were under the purview of the Ministry. Accordingly, it was not possible to enrol the maximum number of students required to utilize those resources effectively and efficiently despite having adequate capacity and all the necessary facilities to enrol more students. According to the information presented to the audit, the number of students enrolled to the training institutions, which are under the purview of the Ministry during the year under review was 111,642, even though the capacity for students in the training institutions was 136,920.

The inclination of students to the fields, where there is a good demand in the job market was in a minimum level since students are reluctant to follow certain courses, dropping courses by a significant percentage of students enrolled for the courses, students are more inclined to enrol for more popular courses.

Development of Courses

Establishment of training standards and development of curriculum were the most important factors in the vocational education. Establishment of training standards in relation to training areas based on global needs and needs of the industry and curriculum development is essential for modernization of courses in line with technological development. Attention in this regard was minimal and the Tertiary and Vocational Education Commission had developed curricula for 317 job opportunities on the requirement and demand of the industry during the period from January 2017 to September 2019 and issued certificates for National Vocational Qualifications for 170 job opportunities. Twenty one (21) per cent out of those certificates issued or the highest number of certificates was from computer and computer related employment opportunities. However, the Commission had developed curricula at the request of the institutions and the needs of the industry. Nevertheless, there was no tendency of getting employment opportunities that suit the modern world since the Commission had failed to identify and implement a proper methodology. Only 50 courses had been developed for the last 3 years.

Not Improving the Quality of Vocational Training Courses

According to the Tertiary and Vocational Education Act No. 20 of 1990, training courses are required to be registered for conducting National Vocational Qualification (NVQ) courses and although those courses are required to be accredited to provide quality courses, certain training courses operating under the purview of the Ministry had not been accredited. Accreditation of courses is essential to provide locally and internationally recognized high quality education and training. According to the information presented to the audit, 683 courses out of 2566 courses conducted in 06 institution including 06 university colleges operating under the Ministry, had not been accredited as per the Provisions stipulated in the Act.

In the current job market, there is a high demand for the National Vocational Qualification Courses (NVQs) and a skilled workforce is expected to emerge from such courses. Since a significant number of non-accredited courses are being conducted by both the public and the private sector institutions, due attention should have been paid to the accreditation of the courses to ensure the quality of the courses conducted by the private sector institutions. According to the information released by the Tertiary and Vocational Education Commission, there were only 729 private sector institutions by the year 2019 with valid registration for conducting vocational training courses. Although there were 2788 privately registered courses, only 613 courses out of the privately registered courses had been accredited.

It had been made compulsory for all the institutions conducting vocational training courses and registered with the Tertiary and Vocational Education Commission to establish a quality management system from 2017 and to obtain a certificate from the Commission regarding its quality by the Circular of the Ministry of Skills Development and Vocational Training bearing No.MSDVT/SSDP/2016-1 of 26 February 2016. Even though there were 2740 private and public sector registered institutions conducting vocational training courses island wide, only 224 of such institutions had obtained the Quality Management Certificate by 19 November 2019.

Not Developing the Training Opportunities

The total capacity of students that can be admitted to 1,368 training centres operating under the purview of the Ministry of Skills Development and Vocational Training by the year 2019 had been 136,920.

The Vocational Technical University was the only public sector university to offer degree level courses in the field of vocational training to enable students pursuing National Vocational Qualification Levels 5 and 6 courses to reach the degree level with National Vocational Qualification Level 7. Only 1,920 students were enrolled out of a total of 7099 students, who had completed the NVQ Level 5 and 6 courses and left the training institutions and were looking to pursue degree level courses from the year 2017 to 2019 to suit the capacity of the university. As a result, students pursuing National Vocational Qualification Courses 5 and 6 and who are anticipated to obtain the Degree had lost the opportunity to pursue university education.

Twenty two (22) National Vocational Qualification Level 5 and 6 Courses are currently being conducted in 6 University

Colleges. The University of Vocational Technology, which conducts degree level courses, offers only seven degree courses in Building Service Technology, Food Processing Technology, Film and Television Production Technology, Quantity Surveying, Construction Technology, Hotel Management and Mechatronics in concurrence with the above courses. Since there were no parallel courses offered by the University Colleges for the other 15 courses, the students were not able to pursue education up to the degree level from the subject stream, which they were studying.

Minimizing Academic Staff Vacancies and Training of Instructors

The academic staff must be adequately knowledgeable in order to provide quality vocational training. Likewise, academic staff should be sufficiently recruited to enhance the quality of vocational training programmes and opportunities should be provided to participate in suitable training programmes relevant to the subject area being taught to enhance the quality of their teaching. However, there was a shortage in experienced instructors and adequate training programmes were also not available.

Identification of Global Employment Needs and Development of Courses Accordingly

High unemployment that prevails among the youth, women and persons who have obtained higher educational qualifications has become a consistent problem in the economy. It was difficult to create a suitable workforce for the job market due to the incompatibility between jobs in the labour market and skills and the incompatibility of skills and lack of job-oriented training courses since professionals produced by vocational training institutions do not match the industry requirements of the local and foreign employment, the training methodologies followed for the courses introduced by various vocational education and training institutions are not adequate to meet those requirements, courses have not been developed by targeting leading industries, the job oriented courses are minimal as well as technical and technological education were not modernized.

The attention focussed on the identification of the needs of the local and foreign job markets and on the development of new courses and curricula based on the needs of the local and foreign job market was in a very low level. Accordingly, only 4 institutions out of 12 institutions including University Colleges had introduced 16 new courses in the year 2017 and only 03 institutions had introduced 21 courses during the year 2018.

Following up activities in relation to students who have completed vocational training courses

Many of the Centres operating under the Ministry had not implemented following up programmes regarding the employability of the trainees, who had completed their vocational training. Likely, the opportunity of evaluating the extent to which the existing courses were adapted to the work environment and the need for modification of such courses was lost due to the non-availability of a database on the employability of trainees. There was a need for implementing a systematic following up programme for coordinating vocational training institutions and foreign employment agencies at the state level, employing students by identifying public and private partnership opportunities and for giving contribution for self-employments.

Performance of Skills Development Assistants

Vocational training courses are conducted to produce skilled youth in **11** institutions in the field of industrial and vocational training that are operated under the purview of the Ministry and within the network of vocational training centres located island wide under the purview of the 11 institutions. Accordingly, it had been anticipated to obtain a strong contribution from the Skills Development Assistants to accomplish the role of the Ministry in producing a skilled workforce. Accordingly, **258** Skills Development Assistants were attached to **264** Divisional Secretariats. The primary function of the Skills Development Assistants is career guidance and counselling. This included the identification of the target group for technical and vocational education and training, implementation of career guidance and counselling programmes, directing students for training, coordinating job opportunities for trainees, and coordinating self-employment opportunities. The following poor performances were revealed in the performance of the role by those officers.

- According to the approved annual performance plan, 3,167 career guidance programmes had to be conducted for the GCE (O/L) students in 25 districts in the year 2018. However, only 50 per cent or 1,575 programmes had been conducted. Likely, only 1,617 programmes had been conducted out of 2,175 programmes that had to be conducted for GCE (Advanced Level) students and only 1,731 programmes had been conducted out of 2,578 awareness programmes to be conducted on vocational training for the youth who had left schools.

- The identification of beneficiaries anticipated to be identified under each sector was in a minimal level. Progress in identifying prospective beneficiaries from the youth, who had left schools in order to direct them to have vocational training was 10 per cent and identification of the beneficiaries expected to be identified under the Coordinating Programmes on Industrial Job Opportunities was at the level of 5 per cent and identification of the youth seeking self-employments was at a level of 1 per cent. Any prospective beneficiaries were not identified for employing in the industrial sector.

Phase II of the Self Employment Promotion Initiative (SEPI) Sub Loan Scheme

The Ministry of Finance, the Ministry of Skills Development and Vocational Training and the Central Bank of Sri Lanka have jointly launched the Self Employment Promotion Initiative (SEPI) Sub Loan Scheme with the objective of assisting students, who have completed vocational training, to initiate self-employments. The first phase of the Scheme had been launched in the year 2010. Loans amounting to Rs. 225 million had been granted to 1,088 borrowers. The above parties had entered into a Memorandum of Understanding to implement Phase II of the Loan Scheme from 29 March 2016 to 31 December 2019. The main objective of the loan scheme was to empower the skilled workforce through self-employment. Loan amounting to Rs. 500,000 was expected to be granted to the beneficiaries under this loan scheme on a repayment basis at an interest rate of 7 per cent. The following shortcomings were revealed in this regard.

- As per the Memorandum of Understanding (MoU), it had been agreed to provide loans amounting to Rs. **375** million under the Self Employment Promotion Initiative (SEPI) Sub Loan Scheme within the period of 2016 to 2019. With the increase in the number of applications submitted for getting the loan, additional allocations of Rs. 50 million in 2017 and Rs. 60 million in 2018 as per the requirement had been secured to the Skills Sector Development Project implemented through the Ministry by the Asian Development Bank (ADB). A sum of Rs. 409.67 million had been spent on granting loans during the year 2016 to 2019.

- It is required to have followed a Course with the National Vocational Qualifications to obtain loans under this programme, which had been started with the objective of directing the youth with National Vocational Qualifications to get a Livelihood and loans amounting to Rs. 352.22 million had been granted to 790 persons from the year 2016 to 31 December 2018. Even though the Ministry was responsible for selecting loan applicants under this loan scheme according to the loan agreement, the banks, which had been approved to provide the loan had selected borrowers and provided loans without the intervention of the Ministry. Accordingly, it was found at the audit test checks carried out by randomly selecting 50 borrowers out of the 618 borrowers that three persons who had not completed the national vocational qualifications had been granted loans amounting to Rs. 1.50 million in contrary to the loan agreement, Likely, even though loans could be provided to purchase the basic equipment and raw materials required to start a self-employment business according to the loan agreement, it was found through the audit test checks carried out that nearly 38 per cent had obtained loans to expand their businesses. Accordingly, the intended purposes had not been achieved through the loan scheme.

- Although 264 Skills Development Assistants of the Ministry had been attached to the Divisional Secretariats island wide, the task of conducting following up survey on the borrowers had been assigned to a private institution in the year 2006 for a sum of Rs. 1.73 million without adhering to the government procurement guidelines and without assigning that task to the Skills Development Assistants. However, it was found during the audit examination carried out on the selected borrowers that the progress of the borrowers had not been adequately monitored.

- Various unsatisfactory conditions in the loan scheme were identified and shortcomings such as lengthy delays in lending, the Bank had paid low attention to the SEPI loans, lack of awareness of the Bank on SEPI loan scheme and lending under an interest rate higher than the interest rate of the SEPI loan scheme were revealed at the aforementioned survey carried out on the borrowers. According to the sample test carried out by the private institution, which had conducted the survey, nearly 14 per cent of the borrowers had not started any business with the relevant loan or had not operated the business continuously. The minimum level of intervention made by the Ministry was the reason for that.

World Youth Skills Day

Community care programmes had been implemented at district level throughout the country with the assistance of students in the Technical Colleges / Vocational Training Institutions under the purview of the Ministry to mark the World Youth Skills Day 2019. An amount of Rs. 4.91 million had been spent for 25 districts without identifying the community care that should be provided. Although Skills Day Celebrations were held by incurring a sum of Rs. 2.08 million in concurrence with the World Youth Skills Day under the theme of 'Successful Life through Skills', the vocational skills of students, who were following vocational education at the time had not been assessed. Seventy (70) per cent or Rs. 1.42 million out of the total expenditure had been spent on the organization of the festival, charges for function hall, uniforms, lunch and tea party.

Construction of a University College in Kinniya

The approval has been granted by the Cabinet decision of 20 June 2017 to establish a University College in Kinniya in the Trincomalee District on a cost estimate of Rs. 434 million under the Medium Term Budget framework of 2017-2019. Provision of Rs. 50 million had been allocated in 2018 for this project and a sum of Rs.5.90 million out of the provision had been spent on a number of expenses, including the construction of a wall around the university and the selection of a suitable institution to obtain consultation services for the construction of the university. Although the project was scheduled to be completed by 2020 in order to start National Vocational Qualification Levels 5 and 6, construction had not been started even by the end of the year under review. However, provision amounting to Rs. 20 million had been allocated for this project for the year under review and Rs. 3.03 million had been spent from that provision by 15 October 2019 for the construction of a hostel for the staff on the land of the University College and for the provision of consultancy services.

According to the Needs Assessment Report of the National Planning Department, it had been indicated that if additional expenditure is required in addition to the provision made for this project, it should be financed by the Sector Skills Development Project. However, the Sector Skills Development Project would be finalized by the year 2020. Accordingly, there was a risk in obtaining the necessary additional funds by the above project in a situation where construction work had not been carried out even by the end of the year under review.

Construction of a Student Hostel at the Sri Lanka German Training Institute

The approval had been granted to construct a hostel for 400 students in the Sri Lanka German Training Institute, Kilinochchi under a total cost of Rs. 300 million. Rs. 6.03 million had been spent out of the provisions made in 2018 for the payment of consultancy service fees and provision amounting to Rs. 100 million had been made for the year 2019. A suitable contractor had only been selected for the construction of the hostel by the end of the year under review. Even though it was expected to incur the expenses, in addition to the Rs. 200 million allocated from the budget proposals, under the provisions of the Sector Skills Development Project, the project was scheduled to be completed in the year 2020.

Establishment of the Ocean University in spacious premises

The Korea International Cooperation Agency (KOICA) had offered to provide credit facilities to facilitate the development of a new university premises with the aim of creating a more spacious premises for the implementation of quality degree courses at the Ocean University. The project had not been implemented even by the end of the year under review due to the failure in acquiring a suitable land for the purpose from the year 2017 onwards. According to a letter of the Sri Lanka Ocean University Students' Union of 5 September 2019, the project officials had informed the university administration that the project would be lost if the project could not be implemented by the second half of the year 2019.

Obtaining a Vehicle for the Secretary of the Ministry under the Operating Lease Scheme

A vehicle had been obtained for the former Secretary of the Ministry of Skills Development and Vocational Training under the operating lease scheme for a period of 60 months with effect from 21 October 2016 at the rate of Rs. **345,230** (excluding taxes) per month by entering into an agreement in contrary to the instructions in paragraph 06 of the National Budget Circular No. 01/2016 of 17 March 2016, which had been amended by Circular No. 01/2016 (i) of 19 September 2016. The vehicle remained idle from November 2018 until the end of the year under review due to the retirement of the former Secretary of the Ministry. Accordingly, a sum of Rs. **5.62**, which had been incurred for 14 months at the rate of Rs. **345,230** (excluding taxes) per month had become an uneconomical expenditure.

Delay in Execution of Projects

- The approval was given by the Cabinet Decision No. CP/11/2152/539/017-1 of 27 April 2011 to construct a building with a multi-purpose studio complex and lecture hall complex at the University of Vocational Technology. Provision amounting to Rs. 434.9 million had been made from the General Treasury and the Sector Skills Development Project from that year to the end of the year under review. However, Rs. 304.50 million had been spent out of the provision made by the end of the year under review and the studio could not be completed up to usable level even by the end of the financial year.

- The approval had been granted to construct a workshop, hostel and restaurant for the University of Vocational Technology as per the Cabinet Decision No. CP/16/2673/720/030 of 03 January 2017. A sum of Rs. 927.34 million had been allocated for that purpose. Although provisions totalling to Rs. 268 million had been allocated from the annual budget estimate for the years 2018 and 2019, only a sum of Rs. 23.60 million had been paid as consultancy fees and the project had not been commenced even by the end of the year under review.

Delay in the Appraisal of Apprentices

Appraisals of the apprentices of 28 training courses related to the tourist hotel sector, which had been conducted by the Tertiary and Vocational Education Commission in the year 2018 at 13 training centres had not been completed even by 03 December 2019, the date of the audit.

Not Updating the National Skills Standards

A sum of Rs. 2.03 million had been spent by the Sector Skills Development Project in the year 2018 to set the National Skills Standards for the Tourism Industry Skills Council (TISC) established under the

Tertiary and Vocational Education Commission. However, the National Skills Standards for Chef and Bakery courses had not been updated.

Student Registration for Degree Courses

The Sri Lanka Ocean University had been established with the objective of developing the technical and management skills of persons, who have already engaged in the fish industry or persons, who intend to engage in the fish industry. Eighty seven (87) students had enrolled under 04 degree courses in the year 2015. Even though, the number of students had grown to 156 by the year 2016, there had been no sufficient growth in the number of students since then. Two hundred and seven (207) students were registered under 05 courses by the year 2019. There were 466 students following courses under 12 National Vocational Qualifications (NVQs) Courses in the year 2015 and there had been no sufficient growth in the number of students since then. Six hundred and four (604) students were enrolled under 14 such courses during the year under review. Accordingly, the Management had not focused enough attention on the enrolment of more students for the degree courses and the vocational courses.

Building rent

A new building of 16,800 sq. Ft. has been obtained to the Ocean University of Sri Lanka on rental basis at a monthly rental of Rs. 2.3 million from December 2017 for the purpose of using it for the administrative and academic staffs of the Sri Lanka Ocean University, classrooms and libraries. In addition to paying the monthly rent, a sum of Rs. 22 million had been spent for the preparations of the interior of the building. However, enough evidences had not been submitted to substantiate that there was a growth in the number of students enrolled to the university or that there was a growth in the number of degree courses conducted. An extent of 11,778 square feet of the building complex, used by the university up to that time, is idling or underutilized at present.

Idled Assets

The Sea Training Vessel Maintenance Unit, required to be established under Section 5.1 (25) of the Ocean University of Sri Lanka Act No. 13 of 2014, had not been established even by the end of the year under review. Thirteen (13) vessels, including inboard, outboard and high speed boats, received during the period of 1994 to 2015, which could have been utilized for this Unit, had remained idle and underutilized in the regional colleges.

Idling of Ahangama Tourist Hotel

An amount of Rs. 148.92 million had been spent from 2016 to 2019 to modernize it as a tourist hotel and to purchase equipment as per the decision of the Board Paper No. 186/4 of 11 March 2016 in contradictory to the objectives of the Establishment of the Vocational Training Authority of Sri

Lanka Act No. 12 of 1995 and the Memorandum of Understanding to Convey Land. However, Ahangama Tourist Hotel, which was built without prior planning, remained idle from 8 March 2018, without being utilized for giving accommodation facilities to tourists and for the practical training needs of apprentices, who follow training courses. Apprentices were not recruited for the training courses from 2015 up to the first half of 2019 due to the renovation activities and the work of the new hotel school constructed at a cost of Rs. 183.75 million to conduct training courses during 2015 up to the first half of 2019 was finalized on 10 July 2019.

Idling of the Hotel School Premises in Karainagar

Fully equipped 12 air-conditioned rooms and 10 non-air-conditioned rooms were constructed at Pottuvil in the Ampara District and the Karainagar Hotel School premises in the Jaffna District at a cost of Rs. 33.89 million and Rs. 57.13 million respectively with the aim of providing the rooms for tourists. The premises of the hotel school remained idle without utilizing for the relevant objectives from the year 2017 since prior plans had not been designed to attract tourists and to recruit the cadre for the maintenance and management of the hotel rooms.

Idling of the Kuchchaveli and Ahangama hostels

The Vocational Training Authority of Sri Lanka has constructed Male and Female hostels with 12 rooms in two floors of the new hotel school at Ahangama and 02 two-storied buildings at Kuchchaveli Hotel School. The Kuchchaveli Hostel had remained idle since 2017 and Ahangama Hostel had remained idle since 2019 as plans had not been made to recruit for the posts of male and female Wardens.

Labour and Trade Union Relations

The following functions should have been performed by the Ministry of Labour and Trade Union Relations and the Ministry which is not a member of the Cabinet and two Departments and 07 Statutory Boards/Institutions under its purview with the itention of developing effective industrial relations, free of industrial disputes.

- Formulation of policies, programmes and projects pertaining to the subjects of Labour and Trade Union Relations
- Administration of the Employees' Provident Fund, the Private Provident Fund and the Private Retirement Schemes
- Formuation and implementation of policies related to the International Labour Standards, Labour Administration and Welfare
- Maintenance of inter co-operation with the International Labour Organisation and the Inernational Social Security Organization
- Registration of Trade Unions and the introduction and implementation of positive steps required for the activities of all Trade Unions in the State and Private Sectors for the developmenet of the country
- Implementation of National Manpower and Employment Policies
- Implementation of Vocational and Job Guidance Programmes
- Industrial Relations and Settlement of Industrial Disputes
- Formulation of Laws and Rules related to Labour Relations and Perform Activities related to Regulation

A sum of Rs. 17,618.78 million had been made available by Parliament in the year under review and two preceding years to execute the above mentioned functions and a sum of Rs.14,308.54 million had been utilized thereof. Accordingly, a provision of Rs.**3,310.24** million or 18.79 per cent out of the provisions made available by the Parliament, had not been utilized. Details are shown in Diagram 51

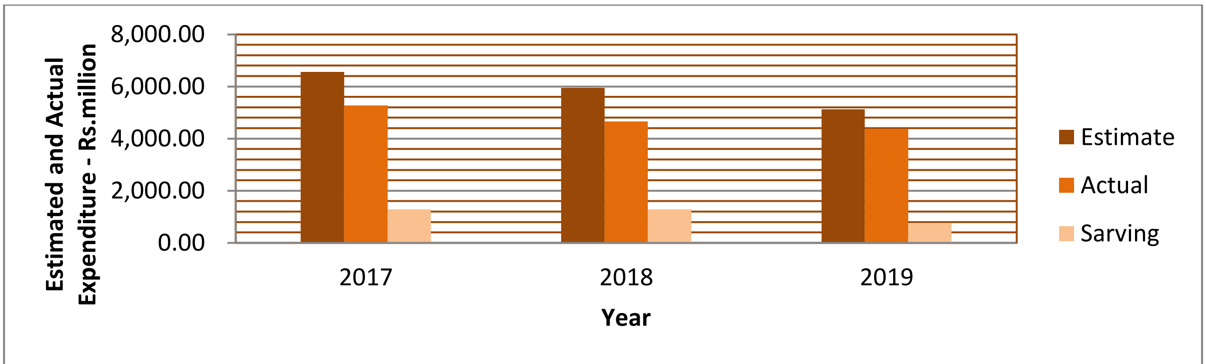


Diagram 51 - Provision mad by Parliament and Utilization
Source – Treasury Final Account Statements

The observations revealed in the audit test checks carried out in respect of the execution of the above functions by the Non-cabinet Ministry and the Departments and Statutory Bodies under it are summarized below.

Composition of the Sri Lankan Labor Force

The total workforce of Sri Lanka for the year under review had been 8.59 million and of which a number of 8.18 million employees had been reported. Therefore, 0.41 million or 4.77 per cent unemployment had been reported. The details are shown in the diagram 52.

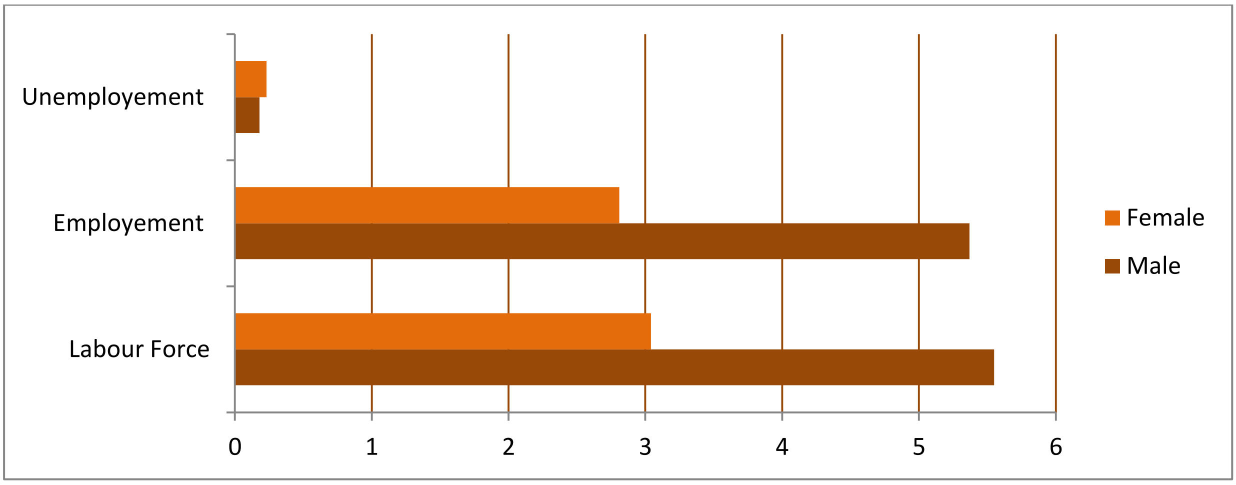


Diagram 52 - Sri Lanka Labor Force
Source - Annual Statistical Reports - Department of Census and Statistics

Efficiency of Employee Benefit Settlements

The Department of Labour had not settled an Employee Provident Balance of Rs. 394.4 million which had been collected through the courts and labour offices to the employees even by 31 December 2019. It had failed to settle a balance of Rs. 332.43 million by 24 June 2020.

Non-settling of Withheld Employee Provident Funds to Employees

It had been planned to settle a sum of Rs. 600 million of the Employees Provident Fund balance held in the General Deposit Account of the Department of Labour by 30 June 2019. Of which, only Rs. 189 million had been settled.

Failure to Settle Employee Compensation

Out of the compensations collected by the Commissioner of Compensation from employer agencies due to fatal and non-fatal accidents to employees met with while being employed, the Department of Labor had retained a total balance of Rs. 8,451.3 million* unpaid to the relevant employees by October 2019. The compensation could not be paid due to lack of accurate information of the employees and their dependents, deficiencies in the documents related to the payment of compensation to the beneficiaries and non-submission of them to the office. The Department had failed to settle the compensation, which had been remaining for the period ranging 02 months to 03 years by the end of the year under review.

Failure to Find Dependents

The compensations collected amounting to Rs. 1.89 million by the Office of the Commissioner of Compensation from employer institutions due to fatal and non-fatal accidents employees met with while being employed, had been withheld in 06 National Savings Bank accounts in the name of the Commissioner of labours' Compensation, due to failure to find real dependents .

Failure to Release Benefits When Minors Reach Adulthood

The Compensations owned by for minors of died officers in fatal accidents while on the job had to be paid to them upon reaching the age of maturity. The Department had failed to release the benefits of Rs. 10.3 million held in 392 accounts of matured to the relevant parties even by the end of the year under review.

Public Employment Service Centers

Although there had been an adjustment on the qualifications of job seekers for job vacancies, due to the lack of on-the-job training to job seekers, selection for jobs had remained at a minimum level. Providing facilities for on-the-job training for job seekers are conducted by Public Employment Service Centers. However, the number of persons directed by the Department for on-the-job training during the year under review had remained low. Out of 25,864 registered job seekers during the year under review, only 921 had been given on-the-job training by these centers. On-the-job training had not been carried out in Badulla, Batticaloa, Colombo, Gampaha, Hambantota, Jaffna, Kegalle, Kilinochchi, Matara, Nuwara Eliya and Trincomalee Districts.

Motivation Programmes for Self-employment

The Job Creation Promotion and Career Guidance Division had conducted 362 programmes in 25 Districts as at 31 August 2019. For this, 12,774 beneficiaries had participated and 7 per cent or 911 of them had started self-employment. Accordingly, fewer

*Should be amended as Rs. 8.4513 million.

number of participants in self-employment programmes had occupied in self-employment. The same situation had occurred in previous years as well. The Department had not drawn attention on planning programmes to find out the reasons and make progress in this regard.

Ratnapura District Labour Office

The Ratnapura District Labor Office was planned to be built on land owned by the Urban Development Authority. The foundation stone for the building had been laid on 07 April 2017 before the acquisition of land was completed. A sum of Rs. 81,400 had been spent on clearing the land on 09 March 2017. Further, the Ratnapura Labour Office had submitted an estimate of Rs. 274,400 for the function. A sum Rs. 24.98 million had been paid to the Building Department on 14 December 2017 for the construction work. The construction works had not been commenced even by 31 December 2019 . The Ratnapura District Labour Office was being operated in a private building on a rent basis even by 15 June 2020 and the old building complex had been abandoned.

Vehicle Control

In comparing List of vehicles registered in the name of the Commissioner General of Labour of the Department of Motor Traffic and the existing vehicles of the Department, 22 vehicles were not physically in the possession of the Department. Further, the Department also did not have the documents related to those vehicles. Revenue licenses had been obtained for two vehicles for the years 2016 and 2017 that were not physically available.

Although, 09 vehicles were registered in the name of the Secretary to the Ministry of Labour, in comparing the list of vehicles registered in the name of the Secretary to the Ministry of Labour in the Department of Motor Traffic and the List of Vehicles in the Ministry of Skills Development, Employment and Labor Relations as at 31 December 2019, the vehicles were not physically in the possession of the Ministry. The evidences had not been submitted regarding the existence of those vehicles to audit.

Failure to Identify Members and Settle Benefits

The Employees' Trust Fund Board had not taken actions to identify the relevant members and settle a total of Rs. 891.66 as the contributions collected from 7,946 members amounted to Rs. 862.34 million during the period from 1981 to 2018, unclaimed death benefits inherited from 1995amounting to Rs. 14.45 million, retained benefits descended from the year 2001 amounted to Rs. 14.86 million even by 31 December 2019.

Uneconomic Expenses

An official of an institution cannot be released to a Ministry or any other institution without the approval of the Cabinet of Ministers and the salary should not have been paid by the relevant institution for the period of such release. The Employees' Trust Fund Board had released 13 officers to government institutions including local government bodies during the period from 2006 to 2015 and a total of Rs. 23.86 million had been paid as Rs. 22.68 million for salaries Rs. 1.03 for overtime and holiday pay and Rs. 0.15 million for acting allowances and it had become an uneconomic expense to the Board.

Unresolved Contributions and Benefits by the Employees Provident Fund

There was an account called Commissioner of Labour in the Employees Provident Fund for a long time. The money recovered from lawsuits against employers had been consisted of the account and there was a balance of Rs. 10,711 million as at 31 December 2019. A sum of Rs. 398 million recovered from the lawsuit had retained in the general deposit account until it would be settled with the relevant parties. It had failed to identify the accounts of the members to whom the money had to be credited even at the end of the year under review. Further, Even though a sum of Rs. 30,435 million which had been kept in the "Current Year Contribution No. 01" account, Rs. 860 million as retained benefits and unclaimed benefits and retained in deficit/excess contribution account amounted to Rs. 1,843 million had been shown under the Members' Fund as at 31 December 2019, actions had not been taken to identify and settle those balances.

Function of Member Balance Checking Machines (Kiosk)

The Employees Provident Fund (EPF) had set up 30 KIOSK machines at District Labor Offices all over Sri Lanka under the second phase of the project to install KIOSK machines for members to check their account balances. In the physical examination conducted in 2019 in this regard,27 KIOSK machines were inactive and of which 5 were inactive for various reasons from the very beginning when they were installed.

This project had completely unsuccessful due to the fact that the purchasing of machines without proper evaluation process, lack of guidance on the operation of the machine, lack of proper training, failure to evaluate the progress continuously, custody of the machine and the not delegating the responsibility to a competent authority and the not installing the machinery in the right places. Likewise, the cost made of the Project had been useless due to the machines had turned into unusable before elapsing 5 years from the date of installation.

Fraudulent Release of benefits

It had been revealed that before their legal heirs came forward to avail the benefits, another person had pretended to be a genuine member and had forwarded forged documents and fraudulently released the benefits when the beneficiary member of the Employees Provident Fund dies. A sum of Rs. 52.32 million had been paid being a cost to the Fund on 61 such occasions from 4 November 2004 to 20 February 2020. A sum of Rs. 3.39 million remained to be paid in relation to 3 cases. The Fund had not taken steps to conduct a formal internal investigation and take disciplinary action against internal officials if any allegations of misconduct would be found in accordance with the procedure to be followed in cases of fraudulent withdrawals.

Field of Foreign Employment

The foreign employment sector makes a significant contribution to the national income of Sri Lanka and according to the statistics of the Central Bank of Sri Lanka, this sector had earned Rs. 1,138,124 million in 2018. It represents 7.55 per cent of Gross Domestic Production and also represented 96 per cent of foreign exchange earnings. Likewise, it had contributed to reduce the unemployment rate in Sri Lanka to 4.41 per cent.

Decline in Imigration for Foreign Employment

Although the promotion of the foreign employment market had been mentioned as a Trust Area in the activities of the Ministry, the number of immigrations for employment had steadily declined during last few years. The number of people going abroad for employment was 262,961 in 2011. It had declined to 203,186 by 22.73 per cent by the year 2019 . The same decline had occurred in both men and women. Details are shown in diagram 52

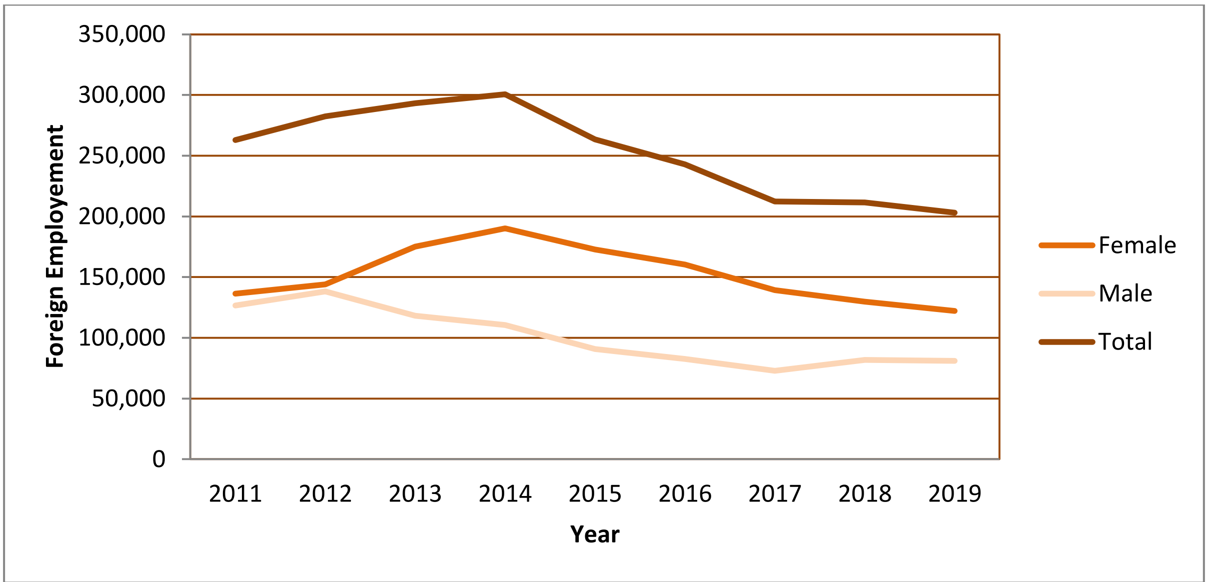


Diagram 52 - Foreign Employment in Sri Lanka
Source - Annual Reports of the Central Bank of Sri Lanka

Decrease in Focusing on Foreign Employment though Registered with Bureau.

A number of 262,961 persons had migrated for employment in 2011. Out of which **55.63** per cent or **146,293** had registered with the Bureau and migrated. Out of the migrants for employment , 44.36 per cent had migrated by other means by other ways. A number of 69,379 or 34.15 per cent of those who had migrated for employment had registered with the Bureau by 2019 and a 65.85 per cent had migrated in some other way. Accordingly, it was observed that the immigrants for foreign employment had drawn less attention upon registration with the Bureau . Details are shown in diagram 53.

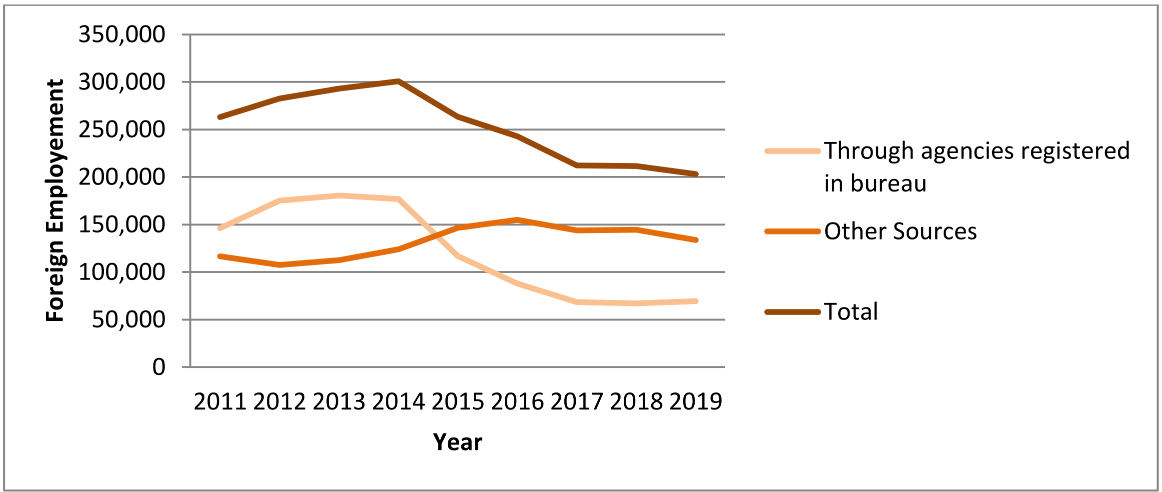


Diagram 53. - Focusing on foreign employment
Source - Sri Lanka Foreign Employment Bureau

Migration for Employment as per Labour Categories

The number of people who had migrated for employment under the categories of housemaids and unskilled labor was 107,500 and 63,642 respectively in 2011. It had dropped from 42.73 per cent to 61,569 and 19.55 per cent to 51,200 respectively by 2019. Although the number of migrations for employment under the housemaids and unskilled labor categories was declining annually, an increase in the number of migrations for employment under the occupational labor category was observed. The number of migrants for employment under the professional labor category were 3,848 in 2011. Nevertheless, that number had grown up to 9,800 by 60.73 per cent by 2019. Details are shown in diagram 54

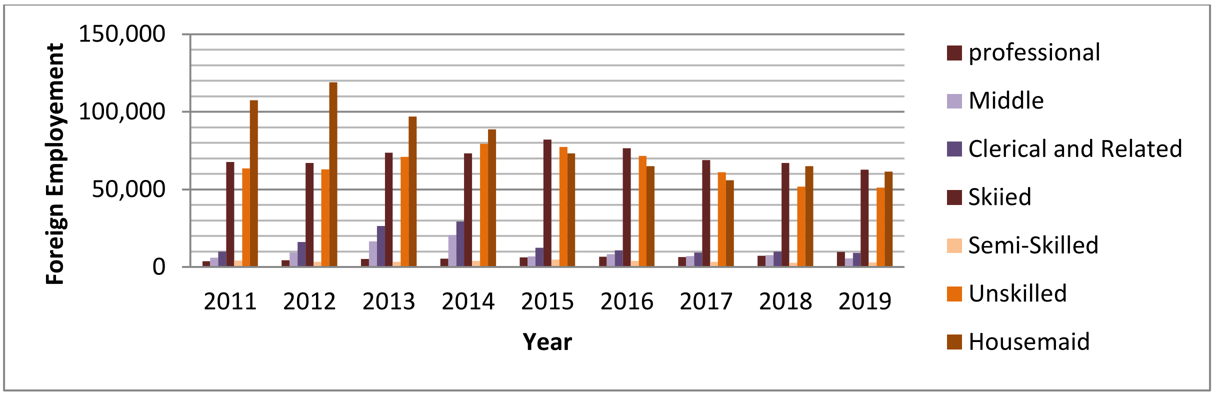


Diagram 54- Number of workers migrated by labor category
Source - Sri Lanka Bureau of Foreign Employment

Lack of Formal Administration in Labour Welfare Divisions of Foreign Missions.

The Labour Welfare Divisions in 16 Missions and 12 detention centres operating under them had been established to temporarily detain migrants who have faced various problems after leaving for foreign employment. The Foreign Employment Bureau had spent a total of Rs. 914.92 million as Rs. 693.47 million for the salary allowances of the officers attached to those divisions and detention centers and a sum Rs. 221.45 on the maintenance of detention centers and other infrastructure facilities during the year under review.
A Scheme of Recruitment had not been prepared and approved in relation with the recruitment of employees for these sectors even by the end of the year 2019. Likewise, due to the failure of the Bureau to maintain the financial administration of these sectors under proper internal control, various financial irregularities had taken place in those sectors. It was revealed at the audit test checks carried out about a total of Rs. 3.27 million financial frauds had occurred at three occasions.

Achieving the Sustainable Development Goals

According to the Sustainable Development Goals 8.8 , "protection of labor rights, especially the promotion of a safe and secure workplace environment for all working people, including migrant women and those engaged in risky occupations" should have been carried out. There should be a direct link between the plans of the Ministry of Foreign Employment and the Sri Lanka Foreign Employment Bureau to achieve that goal. Nevertheless, there was no such connection in the Action Plans pertaining to the past periods. Especially, there should be a change in the direction of overseas employment to achieve the Sustainable Development Goals, that is to gradually reduce the number of people seeking employment abroad under the category of unskilled, semi-skilled and domestic workers and the plans should have been made to direct skilled workers to more lucrative employment opportunities. Nevertheless, the main task or sub-tasks in the Action Plan prepared by the Bureau to achieve the Sustainable Development Goals had not aimed at directing skilled workers for employment abroad.

Slowing down the Implementation of Recommendations on Labour Migration

A Corporate Plan with a long-term vision or a organizational results frame work formal mechanism should have been formulate with intervention of Line Ministry to set up a formal mechanism involving all the relevant institutions and achieve their end result to implement the recommendations contained in the National Policy and Action Plans on Labour Migration. Likewise, Annual Action Plans, including performance indicators, had to be developed to monitor the short-term performance pertaining to that. The Ministry in charge of the subject had not designed the plans in order to be able to qualitatively evaluate the output and long-term benefits of the above national plans and policies based on the fact that the exemptions made for Ministries and Departments from the need to prepare corperate plans in accordance with the Public Finance Circular No. 01/2014 dated 17 February 2017. Similarly, a programme to obtain the active participation of the Sri Lanka Foreign Employment Bureau , which implements the recommendations contained in the above policies at the grassroots level had not been implemented even by the end of 2019.

Direction of Workers for Job Orders

Job opportunities totalled to 1,376,465 had been received to the country under 07 service classifications during the period from 2015 to 2018. Out of which, 473,856 were for housemaids and 280,261 jobs were received under the unskilled service classification. Likewise, although 542,893 job opportunities had been received for skilled workers, only 79,785, or 15 per cent, had been sent abroad. As compared to that, it was able to direct workers for 32 per cent of employment opportunities received for housemaids and unskilled workers. Although the foreign employment sector has been a source of strength for the local economy through foreign exchange earnings, the existence of the sector has been determined by the number of women workers currently employed in the Middle East, and alternative measures should have been considered in the sector in view of the various social issues that have arisen as a result.

Analysis and Study on Foreign Employment Market

The Ministry of Foreign Employment had identified Foreign Employment Promotion as a priority area to achieve its objectives and goals and conducting research in this regard had been included in the Action Plans in 2017 and 2018 as an activity. Nevertheless, any research had not been carried out in the field in those years. Likewise, this activity had not been included in the Action Plan 2019 . Accordingly, an important task to achieve the goals and objectives of the Ministry had been deviated from of the Plans of the Ministry. The research and study on foreign employment opportunities for Sri Lankans should be carried out in accordance with the provisions of the Sri Lanka Foreign Employment Bureau Act.

Accordingly, even though the Research Division which had been established by the Bureau had conducted 17 researches from 2013 to 2019, the researches on the behavior of the foreign labour market and the identification of employment opportunities that are beneficial to the country had not been carried out.

Health Sector

It is the vision of the Health Sector to ensure a healthier nation that contributes to its economic, social, mental and spiritual development. It is the mission of the Health Sector to achieve the highest attainable health status by providing the people of Sri Lanka with a complete, highest quality, equally productive, and sustainable health service by responding to the people's needs through cooperation.

The main functions to be executed for the fulfillment of that objective, were stated in the annual budget estimate.

- Policy formulation, implementation of programmes and projects for the Health Sector.
- Setting up Standards and Guidelines for the delivery of health care.
- Human resources development.
- Management, planning and systems development.
- Resource allocation, monitoring and evaluation of programmes and projects.
- Administration of main hospitals.
- Regulation and supervision of private health care institutions.
- Matters relating to National Health Insurance Programmes.
- Formulation and implementation of programmes to improve public health and nutrition.
- Expansion of research opportunities in Health Sector.
- Taking measures to control, prevent and cure the spread of epidemics, communicable and non-communicable diseases.
- Implementation of international laws and regulations relating to the quarantine and sanitation; activities relating to manufacture, import and distribution of drugs.
- Health affairs in the estate sector.
- Taking measures to improve and conserve traditional medicine.
- To improve and regulate Ayurveda, Siddha, Unani, and Homeopathic medicine.

Those functions were expected to be executed through institutions comprising a Department, 04 Statutory Boards/Institutions, and 04 Public Enterprises functioning under purview of the Ministry of Health, Nutrition and Indigenous Medicine.

Information on the hospitals and institutions that functioned under the Government and Provincial Councils by the end of the year under review providing health care facilities for the people, is given in Table 20.

Hospital / Institution	Functioning under the Ministry	Functioning Under the Provincial Councils	Total
National Hospitals	2	0	2
Teaching Hospitals	23	1	24
Provincial General Hospitals	2	0	2
District General Hospitals	10	9	19
Base Hospitals A & B	7	74	81
District Hospitals A, B, and C	3	471	474
Primary Medical Care Units with Maternal Homes	-	499	499
Other Institutions	73	226	299
Offices of the Medical Officers of Health	-	350	350
Total	**120**	**1,630**	**1,750**

Table 20- Hospitals and institutions functioning under the Ministry and Provincial Councils as at 31 December 2019.
Source : Information provided by the Ministry of Health.

A hospital staff of 139,487 had been appointed by the end of the year under review in order to fulfill the healthcare requirements of the public through the said hospitals and institutions. Particulars are given in Table 21

Medical Staff	No. of Employees under the Line Ministry	No. of Employees Under the Provincial Councils	Total
Consultants	1,774	737	2,511
Medical Officers	12,332	7,516	19,848
Nursing Officers	25,198	13,330	38,528
Medical Laboratory Technicians	1,272	613	1,885
Pharmacists	1,140	713	1,853
Public Health Inspectors	173	1,676	1,849
Midwives	1,113	7,274	8,387
Attendants	4,181	4,352	8,533
Other	29,520	26,573	56,093
Total Employees	**76,703**	**62,784**	**139,487**

Table 21 - Staff attached to the Health Sector by the Government and Provincial Councils.
Source : Information provided by the Ministry of Health.

In order to meet the people's health requirements, provision totalling Rs. 556.54 billion had been allocated by Parliament through annual budget estimates for this Sector relating to the year 2019 and 02 preceding years, and provision amounting to Rs. 499.21 billion had been utilized therefrom. Accordingly, 10.30 per cent, equivalent to a sum of Rs. 57.33 billion had been saved without being utilized out of the provision allocated by Parliament during the 03 preceding years. Particulars are given in Figure 55 below.

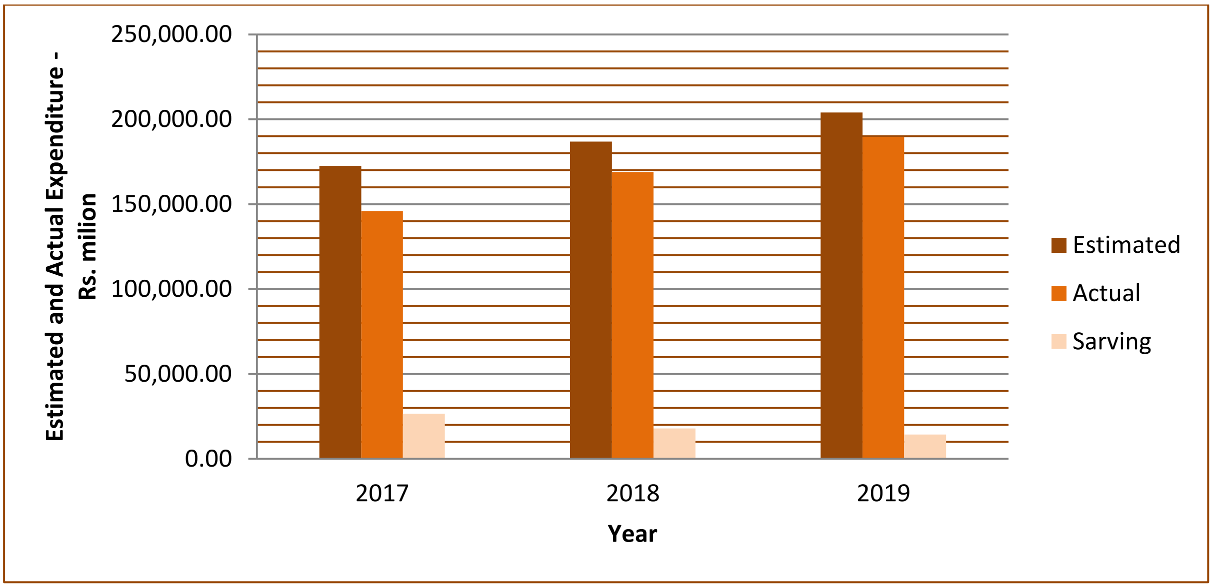
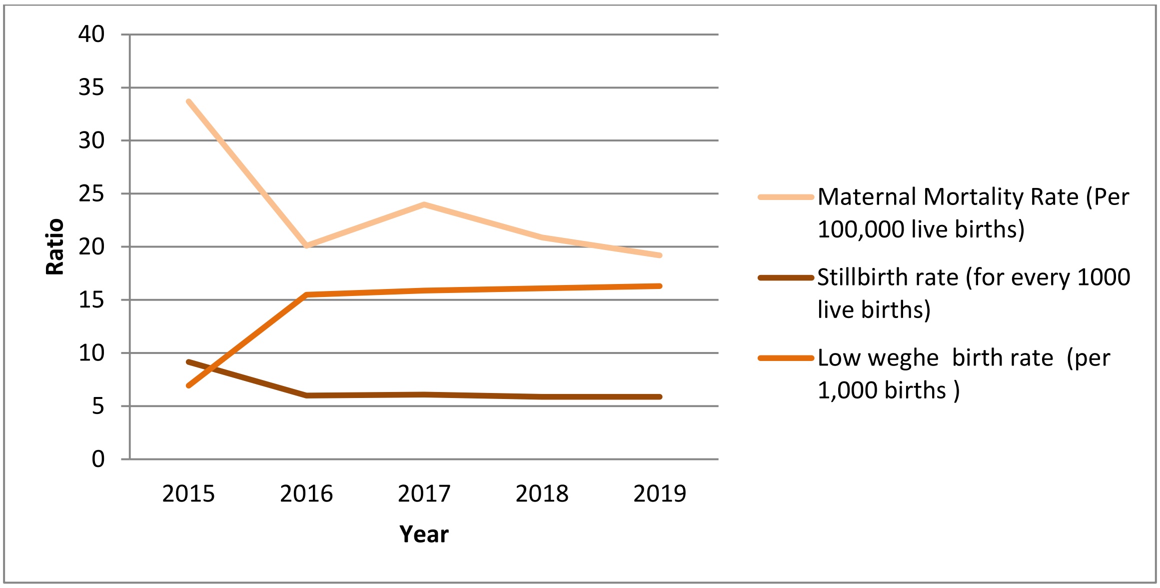


Figure 55 : Utilization and saving of the provision made.
Source :Final Accounts statements of the Treasury.

Achievement of Sustainable Development Goals

It is necessitated under 3.1 of the Sustainable Development Goals to reduce the global maternal mortality ratio to less than 70 per 100 000 live births by the year 2030. As for Sri Lanka during the period from 2015 up to the end of the year 2019, the said ratio had declined from 33.7 to 19.2. In order to be in line with 3.2 of the Sustainable Development Goals targeting to end preventable deaths of newborns and children under 5 years of age, with all countries aiming to reduce neonatal mortality to at least as low as 12 per 1000 live births and under-5 mortality to at least as low as 25 per 1000 live births, it was the objective to end the preventable deaths of newborns and children under 5 years of age by the year 2030. The ratio of stillbirths in Sri Lanka had decreased from 9.16 in 2015 to 5.9 by the end of the year 2019. As such, Sri Lanka had achieved those goals by the end of the year under review. The ratio of births with low birth weights had been 6.94 in the year 2015 though, that had increased to 16.3 by the end of the year 2019. (The figures relating to the year

2019 were the values forecasted) Particulars are shown in Graph 56.



Graph 56 : Decline in the ratio of infant deaths.

Competitive Examination for Recruiting to the Government Health Management Assistant Service

According to the Service Minute of the Government Health Management Assistant Service, the competitive examination for the recruitment to that service should be conducted through an institution approved by the Secretary to the Ministry. However, despite the possibility of conducting that examination through the Department of Examinations of Sri Lanka in the year 2018, the Acting Secretary, without any authority at all, had allowed the said examination to be conducted through the Exam Division of the Ministry of Health, Nutrition and Indigenous Medicine.

According to the following observations, it was revealed that the said examination had not been conducted with transparency and a proper internal control by the Examination Division of the Ministry.

- The exam papers had not been prepared by a skilled and independent board.
- Lack of confidentiality in the duties relating to the exams.
- The officers who marked and translated the exam papers, had not signed the certificates of confidentiality.
- The CCTV system at the Examination Division of the Ministry had not been properly functional.
- Marking of the aptitude question paper had been done by the officers of the top level management of the Ministry.
- The Director (Examinations) and the Administrative Officer (Examinations) who should have

supervised the marking process, had themselves involved in the paper marking process.

Owing to the reasons such as, failure of the marking examiners to reexamine the answer scripts, failure to recheck the answer scripts by another marking examiner, and failure to discuss on the inconclusive answers given by the candidates through a supervising committee, deficiencies were revealed in the paper marking process. After the answer scripts were reexamined in the wake of the audit conducted in that connection, 54 applicants who had initially been deemed qualified, were found disqualified whilst previously unqualified applicants became qualified.

Progress in the Implementation of Development Projects

Out of the 13 main development projects costing a total of Rs. 121,956 million that had been mentioned in the annual budget estimate of the Ministry of Health, Nutrition and Indigenous Medicine for the year 2019, the project for the construction of Helmut Kohl maternity hospital, Karapitiya at a total cost of Rs. 5,130 million, should have been completed by the year 2018, but that project had not been completed even up to 31 December 2019. Furthermore, 04 development projects with a total cost of Rs. 37,529 million failed to achieve the physical progress of 100 per cent expected to have been achieved in the year under review. Particulars relating to those 04 projects are shown in Table 22

Name of the Project	Total Cost Rs. Million	Physical Progress Achieved
Project for the construction of a building for the Ministry.	5,979	60
Project for the development of hospitals in the Northern Province – DRIVE (Government of Sri Lanka – the Netherlands)	14,065	90
Project for providing high efficiency radiotherapy treatments for the cancer patients in Sri Lanka.	7,960	85
Project for the construction of 10 comprehensive stroke centers at district level, and improving the emergency treatments and service facilities of those hospitals.	9,525	53

Table 22: Projects that failed to achieve the expected physical progress.

In addition to that, a sum of Rs. 696 million had been granted by the Ministry to the National Hospital of Sri Lanka and the South Colombo Teaching Hospital for the implementation of 50 capital projects. Eight of those 50 projects had been cancelled whereas the other 42 projects had not at least been commenced.

A performance of less than 50 per cent was indicated as at 31 December of the year under review with respect to 08 projects with an estimated cost of Rs. 4,098 million for which a performance of 100 per cent had been expected during the preceding year and the year under review.

Funds Receivable to the Government from the Medical Officers and the Nursing Students

A sum of Rs. 81.91 million remained receivable to the Government from 95 Medical Officers who had breached the agreements entered into with the Government following the reasons such as, failure to return to service after proceeding abroad for post graduate studies, failure to provide mandatory period of service for the Government upon returning to the service, and failure to return to service after proceeding abroad on no-pay leave for employee opportunities. Accurate information relating to the monies recoverable from 107 Medical Officers who had vacated the service, had not been documented.

According to information collected from 16 nursing schools functioning under the Ministry, 861 nursing students out of the total number of students enrolled during the period of 18 years from 1999 to 2017, had left the course. Of those students, a sum totaling Rs. 281.99 million remained recoverable from 706 students. However, according to information presented to the Audit from time to time, it was confirmed that more than 1000 nursing students had left the course during that period, and the sum recoverable from them totaled Rs. 325.33 million. As such, the Ministry did not possess comprehensive and accurate information relating to the number of students who had left the course, and the monies recoverable from such students.

Contract Administration

- The contract for the construction of estate hospital, Raigama with an estimated cost of Rs. 35 million, had been awarded to a contractor on 14 September 2016 at the contract value of Rs. 24.91 million. Accordingly, a mobilization advance of Rs. 5.53 million had been paid to the contractor on 04 November 2016. Nevertheless, the contract had been awarded without the relevant land being acquired by the Government , and conducting a feasibility study and a soil test on the land whilst failing to obtain a certificate of conformity issued by the National Building Research Organization. Owing to those reasons, commencement of the works had been delayed and hence, the contract value had to be increased by Rs. 7.7 million due to additional works and price hikes.

  Two interim bills presented by the contractor on 13 December 2017 and 05 June 2018 had been forwarded by the Ministry to the offices of the regional director of health services, Kalutara on 29 March 2018 and 15

February 2019 for making payment. A sum of Rs. 5.21 million had been retained at the General Deposit Account of the office without being paid to the contractor, and the contractor had abandoned constructions since 11 November 2017. A proposal to terminate the contract agreement in mutual consent was brought by the contractor on 06 May 2018 on the ground that payments to those bills had been delayed. Approval was granted by the Procurement Committee thereon after a lapse of 01 year and 07 months on 30 December 2019.

The performance security valued at Rs. 1.24 million and the advance security valued at Rs. 5.53 million furnished by the contractor, had become expired on 07 June 2018 and 01 September 2018 respectively. Constructions of the hospital had remained abandoned from 11 November 2017, and the sum paid to the contractor thus far totaled Rs. 12.6 million.

- Seven construction contracts valued at Rs. 2,825.44 million had been awarded to a private company in the year 2017. However, due failure in adhering to the agreements, the agreements of those 07 contracts had been cancelled by 23 September 2019. Even as at 01 September 2020, advances totaling Rs. 138.2 million had been paid for 03 of those contracts, but those monies had not been recovered. The validity period of the performance securities valued at Rs. 168.82 million furnished with respect to those 03 contracts, had become expired by 03 August 2019. Moreover, the remaining works of the said 07 contracts had not been commenced even by 01 September 2020.

Non-compliance with Tax Requirements

According to the Value Added Tax Act, No. 14 of 2002 and Guideline 5.4.12 of the Government Procurement Guidelines, details on the Value Added Tax (VAT) paid to the contractors and the suppliers by the Government institutions should have been informed to the Commissioner General of Inland Revenue with a copy to Auditor General, on or before the 15th day of the following month. However, the Ministry had not done so, and taxes had been paid without verifying as to whether the contractor had been an active taxpayer whilst failing to obtain a proper invoice with a serial number in terms of Sections 20 (1) and 20 (2) of the Value Added Tax Act. As such, the Value Added Tax totaling Rs. 274.670 million paid in 162 instances by the Ministry and the Thriposha Limited to 32 suppliers in the years 2018 and 2019, along with the Value Added Tax totaling Rs. 114.59 million paid to 02 contractors by the Ministry during the period from 07 July 2016 up to 30 June 2019, had not been remitted to the Commissioner General of Inland Revenue by the relevant contractors.

Recruitments Exceeding the Approved Cadre

As for 12 posts in the senior executive level, 328 persons had been employed in excess of the approved number whilst 08 persons had been employed exceeding the cadre approved for 4 posts in the tertiary level. Relating to 36 posts in the secondary level, 340 persons had been employed in excess of the approved cadre, and 3,058 persons had been employed exceeding the cadre approved for 22 posts in the primary level. Furthermore, 2,656 persons had been employed in 62 posts that had not been approved for their places of service. Contrary to the Scheme of Recruitment relating to the unskilled posts in the primary level, 1,946 employees recruited on contract, temporary and casual bases to the post of Health Assistant, had also been included therein.

Incurring Expenses by Exceeding the Approved Provision

According to the financial statements presented, provision totalling Rs. 87,608.73 million had been made by Parliament in the year 2019 with respect to 09 Items of Expenditure. Having been failed to properly allocate provision, a sum of Rs. 88,574.89 million had been spent in excess of that provision by Rs. 966.16 million. Furthermore, as per the financial statements presented by the Ministry, liabilities amounting to Rs. 1,923.53 had also been incurred in the year 2019 with respect to the aforesaid Items of Expenditure.

Project for the Management of Clinical Waste of the Government Hospitals

It had become an essential factor to properly manage the clinical waste of the Government hospitals in view of sanitation and controlling the communicable diseases. As per the regulations imposed by the Central Environmental Authority, clinical waste of all sorts are deemed hazardous, and such waste should be sterilized &disposed of within a period of 48 hours after being generated. As for the management of clinical waste, Australian and local loan project involving a sum of US $ 21.11 million equivalent to Rs. 452.25 million had been implemented in the year 2013 in order to supply & install 20 Meta Mizer machines and 15 incinerators, and maintain those machines for a period of 5 years. It had been planned through the project to dispose of clinical waste from 134 Government hospitals divided into 134 clusters covering all the provinces in the island.

However, instead of the 15 incinerators proposed to be supplied, the number of incinerators had been reduced to 05 whilst the value of US $ 18.45 million agreed on the machines had also been decreased to US $ 16.19 million, and the operating fee for the implementation of the project had not been changed.

The said Australian and local loan project had been signed in the year 2013 under the consent of Secretary to the Ministry and officers of all three divisions of the Ministry, namely Project

Division, Development Division and the Environmental Division. The project would have managed clinical waste by dividing 134 hospitals into 06 clusters covering the entire island. The officers of the Ministry had taken action in the year 2014 in a manner favorable to a project proposed by a different private company to manage clinical waste in the Western , Southern, and Central provinces. Accordingly, 10 Meta Mizers and 08 incinerators agreed to be purchased and installed in the Western , Southern, and Central provinces under the Australian and local loan project had been removed from that project thereby allowing the said company to manage the clinical waste in those provinces.

Having been involved either directly or indirectly, the officers of the Ministry had the intention of awarding the contract for disposing of the clinical waste in Western , Southern, and Central provinces to an another company; as such, they had taken measures to enter into a commercial agreement favorable to that company, debilitate the cluster-based plan by changing the 03 provinces of which over 50 per cent had been covered under the scope of the Australian and local loan project, and obtain Cabinet approval for revising the Australian and local loan project agreement thereby restricting its scope only to the management of clinical waste in the Northern, Eastern, North Central, North Western, and Sabaragamuwa provinces. Hence, in addition to paying the interest and installments on loan obtained through the Australian and local loan project, a sum of Rs. 384.12 million had remained payable for a period of 04 years between 2016 and 2019 to the said private company and other institutions for their involvement in the disposal of clinical waste generated by 21 hospitals located in the said 03 provinces that had been audited. That sum had become an additional financial burden to the Government.

In this backdrop, the objectives expected from the Australian and local loan project in managing the clinical waste, could not be achieved. Furthermore, the Meta Mizers and the incinerators provided under the Australian and local loan project had not functioned at the capacity stated in the specifications, and an independent test had not verified that the emissions from the machines had become innocuous for the environment. One of the main objectives of the project, *the cluster system* – disposal of clinical waste collected from several hospitals at the same location, had become a total failure. Moreover, a proper methodology had not been implemented island wide to dispose of the waste processed by those machines, through the local authorities.

Purchase of Medical Supplies.

The Cabinet had decided that no medical supply should be purchased without being recommended by the Formulary Revision Committee. Of the 20,698 medical supplies being used as of 31 December 2019, a number of 7,137 items or 34 per cent comprising 483 medicinal items, 4,611 surgical items, and 2,043 laboratory items, had been in use without recommended by the Formulary Revision Committee.

A number of 190 items of medical supplies being used sans approval of the Formulary Revision Committee, had been ordered for the year 2019, and a sum of Rs. 1,711.21 million had been paid thereon by 09 July 2020. Moreover, by 29 June 2020, orders valued at Rs. 3,507.28 million and Rs. 564.79 million had been placed for the years 2020 and 2021 respectively to purchase the drugs being used without recommendation of the Formulary Revision Committee.

The Expired Coronary Stent Bare Metals

In case the demand for a drug, surgical item, or other medical supply changes, or the item is a non moving / slow moving one, the Formulary Revision Committee should be referred in that connection thereby taking the decision as to whether such item is withdrawn from use in terms of the Cabinet decision taken in the year 2012 relating to the procurement of drugs. Furthermore, there existed the possibility to revise the specifications in a timely manner in line with the changes in demand caused by new technology, establish an independent division to control the specifications, assemble the Formulary Revision Committee on time, prevent the stocks becoming expired or excessive due to changes in specifications, and prevent placing the relevant orders by quickly identifying the fluctuations in the demand due to new technology. However, due to failure in doing so, the item named Coronary Stent Bare Metal being used for heart surgeries, had become expired in the year 2019 and the first quarter of the year 2020.

Quality Failed and Expired Drug - Depogestin I

The Medical Supplies Division had issued a purchase requisition to the State Pharmaceuticals Corporation on 30 March 2011 to purchase 1,200,000 units of the drug named Depogestin I (Depot Medroxy Progesterone Acetate) prescribed as a contraceptive medicine on healthy females.

A member of the Technical Evaluation Committee had informed the Chairman of that Committee that the said drug supplied by other suppliers previously had caused various complications including deaths. However, by disregarding that matter and the conditions set out in the technical specifications approved by the Procurement Committee and the Technical Evaluation Committee, approval had been granted on 21 November 2011 by the Ministerial Procurement Committee to award the order valued at Rs. 87.03 million to the lowest bidder.

The first stock of 600,000 units had been cleared by the Port on 13 March 2012, and within the first week itself after distribution of the stock, severe anaphylactic reactions had been reported. Hence, the Secretary to the Ministry of Health had been recommended by the Director of Maternal and Child Health of the Family Health Bureau that the said stock be withdrawn from use, discontinue the procurement of the rest of the stock of 600,000 units, and provide an internationally acclaimed product.

The loss of Rs. 96.4 million incurred on 1,131,800 units pertaining to the said order and a previous order that had been withdrawn from use after failing the quality tests, was recovered from the State Pharmaceuticals Corporation by the Medical Supplies Division. However, the supplier had defaulted on the payment of Rs. 60.4 million to be made to the State Pharmaceuticals Corporation; hence, the State Pharmaceuticals Corporation had decided on 17 October 2016 to suspend transactions with the said supplier, and that sum had not been recovered even by 01 September 2020.

Despite being recommended by the Technical Evaluation Committee assembled on 12 December 2012 that the Technical Consultancy Committee should reach the decision based on the Good Manufacturing Product report, the decision to cancel the rest of the 60,000 units in the order had been negated by the Procurement Committee - B following the objections of the supplier by stating that all the aspects had been taken into consideration. Thus, it had been decided to award the order to the same supplier to provide the remaining 600,000 units. Having been failed during the technical evaluation to consider the quality, safety, and efficacy of this vaccine being prescribed on healthy females thus risking the patients' lives, approval had been granted by the Ministerial Procurement Committee on 02 April 2013 that the said drug be issued to the hospitals with resuscitation facilities whilst maintaining close supervision.

The subsequently ordered stock of 600,000 units had been received by the Family Health Bureau on 05 August 2013. However, the GMP Inspection Report prepared on 18 & 19 September 2012 on the complexities of the drug, sixteenth session of the national committee of the Family Health Bureau held on 09 September 2014, the meeting of the third Subcommittee on Safety & Risk Evaluation of the National Medicines Regulatory Authority held on 22 January 2016, and the 25^{th} meeting of the National Drugs Regulatory Authority on the evaluation of drugs, had informed that the said drug be withdrawn from use.

Before the stock became expired, the responsible officers, knowingly or unwittingly, had neglected to issue the Circular which would state that the said stock had failed in quality. After a delay of 14 months as from the date of expiring the stock at the premises of the Family Health Bureau in June 2018 without being distributed, the Director of Medical Supplies had issued the Circular dated 17 June 2019 to withdraw the entire stock from being used. Due to that reason, the State Pharmaceuticals Corporation had been deprived of the possibility to recover the loss from the supplier. The loss sustained by the Government due to the said purchase had exceeded Rs. 91 million.

Manufacture of Thriposha

With the objective of issuing free to the pregnant women, breast feeding mother, and infants, the Sri Lanka "Thriposha" Limited had manufactured 12,239 metric tons, 11,913 metric tons and 11,712 metric tons of Thriposha in the years 2017, 2018, and 2019 respectively. Accordingly, in the year 2018, manufacture of Thriposha had been declined by 2.66 per cent as compared with the preceding year whereas the manufacturing had also been declined in the year 2019 by 1.68 per cent as compared with the year 2018. However, as for the said three years, 1,230 metric tons, 2,610 metric tons and 3,717 metric tons of "Suposha" introduced to the market on commercial basis, had been manufactured respectively. As such, the production of "Suposha" had increased by 112.19 per cent and 42.41 per cent in the years 2018 and 2019 respectively as compared with the preceding year, thus observing that the objective of social welfare had been overshadowed by the commercial objective.

Failure to Credit Revenue to the Consolidated Fund

All the expenses incurred on raw materials used by the Sri Lanka "Thriposha" Limited in manufacturing Thriposha had been given to them by the Ministry of Health & Indigenous Medical Services. The revenue generated through the sale of waste from the manufacturing process should have been credited to the Consolidated Fund by the Sri Lanka "Thriposha" Limited. However, the sum of 23.84 million being the revenue from the sale of waste in the year under review, had not been credited to the Consolidated Fund of the Government. Although a revenue totaling Rs. 139.91 million had been so generated during a period of 09 years from 2011 up to the end of the year under review, that revenue had not been credited to the Consolidated Fund.

Payments Made on Milk powder

Following a Cabinet decision, the milk powder used in the production of "Thriposha" had been purchased only from the Milco Private Limited. In the years 2017, 2018, and 2019, sums of Rs. 810, Rs. 798, and Rs. 800 had been paid respectively per kilogram of milk powder to the said Company. Nevertheless, the Milco Private Limited had supplied milk powder at Rs. 690 per kilogram to the sales outlet of the "Thriposha" Company through an agent during all the said 03 years. As such, despite the possibility of obtaining milk powder at Rs. 690 per kilogram from the Milco Private Limited, overpayments of Rs. 120, Rs. 108, and Rs. 110 had been made respectively per kilogram of milk powder during those 03 years. Hence, overpayments totalling Rs. 77.76 million, Rs. 64.80 million and Rs. 66.00 million had respectively been made during the relevant years.

Failure to Make Procurements in accordance with a Plan

The procurement for the supply of 12,000 metric tons of maize for the period 2018/2019 had been commenced on 23 May 2018 by the Sri Lanka "Thriposha" Limited. After a period of 08 months, the procurement had been awarded to supply one kilogram of maize at Rs. 55.90 in accordance with the Cabinet Decision, dated 22 January 2019. In order to fulfill the maize requirement of 12,000 metric tons for the period of 08 months from 23 May 2018 to 22 January 2019, a quantity of 9,000 metric tons of maize had been purchased under competitive bidding in 04 instances in the manner of 3,100 metric tons at Rs. 59.50, per kilogram, 2,775 metric tons at Rs. 59 per kilogram, 1,250 metric tons at Rs. 58.50 per kilogram, and 1,875 metric tons at Rs. 66 per kilogram. As such, due to failure in making the procurement under a proper plan, a sum of Rs. 41.95 million had been overpaid to purchase maize.

Failure to Follow the Cabinet Decision

According to the Cabinet Decision taken in the year 2014, a number of 308 Ayurveda Community Health Medical Officers had been absorbed into the post of Medical Officer of the primary grade in the Sri Lanka Ayurvedic Medical Service with effect from 01 October 2014 subject to a mandatory service period of 05 years in the divisions of Divisional Secretariats in which the kidney disease had been prevalent. As per the said Cabinet Decision, those Medical Officers should not have been attached to the Western, Central, and Sabaragamuwa provinces. However, contrary to the Cabinet approval, 164 of the 285 Assistant Medical Officers of Community Health had been attached to the Western, Central, and Sabaragamuwa provinces by the Department of Ayurveda as of 31 December 2018.

Assignment of Duties relating to the Prevention of Kidney Disease

Salaries & allowances totaling Rs. 197.28 million and Rs. 228.22 million had been paid by the Department of Ayurveda in the years 2018 and 2019 respectively with respect to the programme for the prevention of kidney disease. However, those officers had not been assigned with duties relating to the prevention of kidney disease, nor had an action plan been prepared in that connection. Furthermore, as for the period of 05 years during 2014-2019, a methodology had not been established to ensure the productive involvement of those officers in the prevention of kidney disease, review the progress, and evaluate the performance.

Hindrances to the Patient Care Services

The shortage in the minor staff of the Ayurvedic teaching hospital, Borella, had become a hindrance to the patient care services. A proper system of internal control had not been introduced as well for the management of minor staff. As such, they had obtained leave at their discretion in negligence of their essential services.

Treatment Management System for the Non-communicable Diseases

A staff whose direct involvement in the activities of the project to improve researches on the treatment management system for the non-communicable diseases, had been approved. The Department of Ayurveda had not taken action to fill vacancies in the said posts and provide laboratory facilities as well. Research instruments had been purchased in the years 2013, 2014, and 2015 spending a sum totaling Rs. 164.96 million. Although those instruments remained idle, research instruments had again been purchased in the year 2016 incurring a sum of Rs. 38.05 million. Instruments valued at Rs. 65.07 million remained idle without being used even by 31 December 2019 whilst instruments valued at Rs. 137.94 million remained underutilized.

Conservation of Traditional Knowledge and Promoting Indigenous Medicine

With the objective of conserving traditional knowledge and promoting indigenous medicine, the Department of Ayurveda had purchased equipment spending a sum of Rs. 23.55 million to conserve the knowledge possessed by every traditional medical practitioner living in the country thereby establishing a universal centerpiece of audio-visual information. The 07 posts essential for that unit such as, Officer in charge of the Audio-Visual Unit, Programme Producer, Technical Officer, Video Editor, Audio Editor & Assistant, and Computer Operator, along with 03 posts of Cameraman had not been approved thereby failing to make recruitments even up to 31 August 2020. As such, the equipment remained idle.

Construction of New Building at the Ayurveda Hospital, Borella

The new building of the Ayurveda Hospital, Borella, having been constructed at an expenditure of Rs. 1,164.13 million, had been handed over to the Department of Ayurveda as at 31 December 2018. The following observations are made on that building.

- As the water sump and the sewage system had not been included in the construction plan and the engineering plan, those two items had not been constructed; hence, the building had not been made use of even as at 31 March 2020.

- Although 200 television sets, 108 water geezers, and 161 air conditioners had been installed at a total cost of Rs. 7.37 million, the building remained unused even after the expiration of their warranty periods.
- The works had not been completed by the contractor within the period specified in the contract agreement. Provision sufficient for each year had not been allocated since the year 2015 in order to make payments to the contractor without delay. Bills furnished by the contractor could not be settled on time. Due to delays in making payments for the bills, the

contractor had requested penalties for delay totaling Rs. 27.91 million.

Installation of a Document Management Software

The governing Board of the Sri Jayawardanapura General Hospital had spent a sum of Rs. 21.5 million during the period 2016-2019 on the activities such as, procurement of an electronic document management software, scanning data, management of social media, and allowances paid to the staff. As the said software had not been used even up to 31 December 2019 for achieving the said objective, the expenditure incurred thereon had become fruitless. Moreover, 25 laptops had been purchased on 03 October 2018 at an expenditure of Rs. 2.82 million with a view to making diagnoses through that software by using bed head tickets and reports of the tests conducted on patients, saving the relevant information in the system, and providing patient care services at clinics. Nevertheless, those laptops had not been utilized on the intended purpose even up to 30 June 2020.

Purchasing Equipment for the Orthopedic Theatre

An estimate valued at Rs. 1.5 million had been prepared for the purchase of an Arthroscopy set with Full HD Camera System to be used for the orthopedic theatre of the Sri Jayawardanapura General Hospital. Exceeding the said estimated value by a sum of Rs. 12.96 million, that equipment had been purchased at the price of Rs. 14.46 million contrary to the provisions of the Government Procurement Guidelines. Furthermore, the equipment did not comply with the specifications that had been deemed essentially necessary, and 11 licenses obtained by the relevant bidder from the National Medicines Regulatory Authority for importing components of the said equipment, had become expired by the date of opening the bids. Penalties for delay equivalent to 1 per cent of the contract value per one week of delay totaling Rs. 144,558 had not been recovered contrary to Condition, C-23 of the contract.

Purchasing Machines for the Cardiac Surgery Intensive Care Unit

The governing Board of the Sri Jayawardanapura General Hospital had purchased 02 Ventilators of the model, Maquet Servo on 06 July 2018 at an expenditure of Rs. 18.24 million to be used at the aforesaid Unit. This procurement had been done contrary to provisions of the Government Procurement Guidelines. Contrary to Guidelines 2.1 and 2.2 of the Guidelines for the Procurement of Pharmaceuticals and Medical Devices, the selected bidder had not obtained the registration certificate from the National Medicines Regulatory Authority for the relevant equipment whilst he had not obtained authority to act as the local agent as well. Furthermore, specifications had been prepared in a manner favorable to that bidder in contravention of Guideline 5.6.2 of the Government Procurement Guidelines. Owing to that, the highest bid had been selected by rejecting the lowest bid; as such, the Board had incurred an additional expense of Rs. 12.3 million. Attention of the Technical Evaluation Committee had not been brought on the training required for operating the machine, and it was further revealed that an additional cost would be incurred had EDI Catheters been used for the machine. Even after a period of one year since the purchase of those machines, they remained underutilized.

Purchasing Drugs

- In 14 instances during the years 2018 and 2019, the State Pharmaceuticals Corporation had spent a sum of Rs. 891.18 million to purchase 8,945 vials of the drug , Trastuzumab Injection 440 mg with Solvent in 20 ml under the trade name of Herticad from a supplier of the local market to be given to the Medical Supplies Division. of the 14 procurements, the procurement value of 13 instances had exceeded Rs. 50 million; hence, the Ministry of Health should have appointed a Technical Evaluation Committee comprising 05 members including 02 consultants to evaluate the procurement. However, the Corporation had appointed a Technical Evaluation Committee comprising only 03 members without any consultant.

  Based on the fact that a consultant had been recommended in view of technical assistance by the Chairman of the Corporation who had also been the Chairman of the Procurement Committee of the Department, assistance of only one consultant had been obtained for 13 Technical Evaluation Committees. The Technical Evaluation Committee had given its recommendation based on the recommendation made by that consultant.

  No provision had been set out in the Government Procurement Guidelines to reject bids owing to the lack of previous experience relating to the drug possessed by the consultant assisting the Technical Evaluation Committee. The Procurement Committee had rejected the lowest bid in 14 procurements based on the recommendation made by the consultant that he had not previously used the products of the lowest bidder. As such, the Corporation had to incur an additional expenditure of Rs. 230.86 million.

  A maximum controlled price of Rs. 95,000 for one unit of the drug named Trastuzumab Injection 440 mg had been set through the Gazette notice published on 31 August 2018. Nevertheless, payments had been made at Rs. 135,900 per unit with respect to 500 units of Trastuzumab relating to the purchase order placed on 04 September 2018. The amount paid in excess of the controlled price, totaled Rs. 20.45 million.

- The main order to purchase 80,000 vials of the drug named, Cefriaxone Injection 500 mg for the Medical Supplies Division at Rs. 18.72 per vial, had been issued by the State Pharmaceuticals Corporation in the preceding year, and the stock had been supplied after a delay. In order to avert the shortage that occurred following the delay, 10,998 vials of the said drug were purchased from the local market at Rs. 490 per vial. The additional cost of Rs. 5.18 million incurred due to delay of the supplier, had not been recovered from the supplier contrary to the order conditions.

- Credit cards valued at Rs. 1,839.15 million had been issued as at 31 December 2019 to recover the expenses such as, costs incurred on quality failed and damaged drugs supplied to the Medical Supplies Division & supply of drugs in shortages, administrative charges, and expenses incurred on destroying such stocks from the suppliers. The State Pharmaceuticals Corporation had failed to recover a sum of Rs. 791.31 million therefrom even by 30 June 2020.

Enterprise Resource Plan

An agreement valued at Rs. 49.35 million had been entered into with a contractor on 19 December 2016 to establish an Enterprise Resource Plan for the State Pharmaceuticals Corporation. As per that agreement, the project should have been completed by 19 February 2018. The performance in implementing the project continuously remained poor, but the contract period had been extended over a period of 03 years since the date of entering into agreement. The agreement had been terminated after a period of 03 years on 20 February 2020.

In order to implement the project, 497 units of computers and accessories under 09 items had been purchased in the years 2018 and 2019 spending a sum of Rs. 32.36 million. Those computers and accessories had not been made use of on the project, and 266 units under 07 items costing Rs. 15.57 million had been issued to be used for other activities of the Corporation. Of the rest of the 07 items of computers and accessories costing Rs. 16.79 million, 231 units had remained stored without being used even as at 30 June 2020.

Due to defects in the 04 Server Computers existed in the stores, the contractor had agreed to replace them. Nevertheless, the Corporation had not been able to obtain them even by 30 June 2020.

The project becoming unsuccessful after a period of 03 years, had made an adverse impact on the information system thus affecting all the activities of the Corporation including the *Osusela* outlets.

Manufacturing Drugs

The manufacturing of 25 out of 45 drugs expected for the year under review could not be fulfilled in accordance with the monthly manufacturing and packaging plan of the State Pharmaceuticals Corporation. Furthermore, the Corporation had not been able in the year under review to supply over 80 per cent of the overall annual requirement of 20 out of 38 drugs ordered by the Medical Supplies Division. The Corporation could not supply 50 per cent of the overall annual requirement relating to another 13 drugs ordered by the Medical Supplies Division. Of the drugs ordered by the Medical Supplies Division for the year under review, 408.23 million units of 18 drugs with the selling price of Rs. 528.86 million could not be supplied even by 12 February 2020 due to reasons such as, ambient air inside the manufacturing plant of the drugs had not complied with specifications, lack of employees for manufacturing and packaging processes, lack of raw materials required for manufacturing and delays in supplying them, and inadequacy of packaging. A sales target of 353.95 million units of 41 drugs could not be fulfilled in the year under review, and the percentage of failure in achieving the expected target ranged between 06 per cent and 92 per cent.

Joint Ventures

Under the proposal to establish joint ventures between the State Pharmaceuticals Manufacturing Corporation and eligible private investors with a view to enhancing the manufacturing process of drugs locally, the Corporation had entered into agreements with 17 potential investors in the years 2018 and 2019 for the supply of drugs. The following observations are made as to how the Corporation had performed transactions with those joint ventures in the year 2019.

- The official Committee appointed by the Cabinet for the establishment of joint ventures recommended that the Corporation should enter into agreements with the relevant producer of drugs. Contrary to that, however, the Chairman of the Corporation entered into a third party agreement with the local producer and an intermediary for manufacturing and supply of surgical consumables.

- As recommended by the official Committee appointed by the Cabinet, the Corporation should provide quality control, management and technical assistance relating to the manufacturing process of the investor with whom the agreement was entered into for the joint venture, and as a *quid pro quo*, 10 per cent of the shares of the enterprise belonging to that investor be issued to the Corporation. However, 15 items of drugs and 05 items of surgical consumables valued at Rs. 2,172.65 million and Rs. 42.41 million respectively had been purchased from 02 private companies that had not issued shares to the Corporation , and sold to the Medical Supplies Division in the year under review. Moreover, the Corporation had not provided an adequate quality control, management or technical assistance for the products of the said 02 private companies.

- The selling price should be decided by adding a profit margin of 20 per cent to the cost of the drug manufactured by the investor with whom the agreement had been entered into for the joint venture. However, the investor had earned a profit margin of 13.73 per cent of the total manufacturing cost of 11 drug items sold to the Medical Supplies Division after being supplied by one such investor whereas the Corporation had charged a service fee of 8.28 per cent of the invoiced price in the year under review. As such, the selling price had been decided by adding 23.15 per cent of the total manufacturing cost as profit and service fee.

- As recommended by the official Committee appointed by the Cabinet, the joint venture should be established only with the companies manufacturing drugs and medical equipment; nonetheless, an agreement had been entered into for a joint venture with a company only distributing surgical equipment without being manufactured. Considering the price at which the said intermediary investor had supplied the surgical consumables to the Medical Supplies Division after being purchased from other manufacturers in 08 instances during the year under review, it was observed that profits and service charges ranging from 56 per cent to 115 per cent of the selling price of the original manufacturer had been kept by the intermediary investors and the Corporation, and under no circumstance had the Corporation drawn its attention on the manufacturing cost of the original manufacturer.

- It was verified that the costing information on the said surgical consumables provided for the Corporation by that company which only had distributed the surgical instruments without being manufactured, was not correct; and, such information had not been prepared by taking into account the actual cost of the original manufacturer. None of the responsible officer in the Corporation had tried to verify the accuracy of that information or certify the data through an independent party.

- As the investor agreed in the joint venture had earned profits apart from the Corporation charging service fees, a joint venture had not in fact been established. The objective of supplying drugs at a minimum cost had not been fulfilled as well. A process in which the public funds spent by the Government on medical supplies were transformed into the revenue of several intermediary companies, was thus executed. The Corporation being the main partner of joint ventures, had not been involved in any supervision, operation or control whatsoever.

Establishment of a General Laboratory and a Training School

The building that had been renovated at an expenditure of Rs. 131.39 million in the years 2017 and 2018 with the objective of establishing a general laboratory and a training school, was taken over by the State Pharmaceuticals Manufacturing Corporation on 18 August 2019. However, the building remained closed without being used even up to the date of audit on 20 May 2020 and at least the certificate of conformity (COC) that should have been obtained from the relevant local authority, had not been obtained. Even after completing the renovation of the building, the Corporation did not have a plan or was prepared for other requirements to be fulfilled in order to establish the laboratory and the training school.

Renovation of the Cephalexin Manufacturing Plant

A sum of Rs. 88.42 million had been spent by the State Pharmaceuticals Manufacturing Corporation in the year under review to renovate the Cephalexin manufacturing plant, and the contractor had handed over the plant to the Corporation on 09 August 2019. Due to failure in obtaining the certificate on Good Manufacturing Practices and the registration of the National Medicines Regulatory Authority with respect to the drug named Cephalexin Capsules USP 250 mg proposed to be manufactured in the plant, the manufacturing process could not be started even by 16 July 2020.

The State-of-the-art Tertiary Health Care Center for Patients Having Problems with Head and Spine

By utilizing a sum of Rs. 2,791.16 million equivalent to US $ 12 million granted to the Government of Sri Lanka by the Saudi Development Fund on credit basis, a new unit comprising 300 beds and a state-of-the-art tertiary health care center for patients having problems with head and spine had been constructed at the National Hospital of Colombo. The unit remained open for patient care services since the year 2010. Sums of Rs. 43.33 million and Rs. 820.02 million had been spent from the loan for purchasing medical equipment and furniture respectively. Even after a period of 09 years since the unit had been opened, vacancies such as, 16 posts in the staff of Medical Officers, one post of Nursing Officer in the special grade, 03 posts of Nursing Sister, 112 posts of Nurses, and 27 posts of minor staff , had existed. As such, one of the six intensive care units maintained at the unit, had not been made use of for patient care whilst another intensive care unit had been used as a high defensive unit. Accordingly, 29 beds equivalent to 44 per cent of the total number of beds available in the intensive care units, remained idle.

A specific and adequate training is provided for the nurses employed in the intensive care units through the post primary nursing school under the supervision of qualified officers. However, that training had been provided only for 08 nurses representing 04 per cent of the 185 nurses attached to

06 intensive care units during the period of 2011-2017.

Laboratory for Testing Tissue Samples

A fully automated slide preparation system (Biogenex fully automated IHC strainer with glass slipper) had been purchased at an expenditure of Rs. 9.89 million in September 2018 to be used in the histopathology lab of the National Hospital, Colombo. Procurement of the said system had been awarded to a bidder who had not presented the registration certificate issued by the National Medicines Regulatory Authority, and no action had been taken to obtain a performance security. Approval of the Head of the institution had not been obtained for the recommendation made by the regional Procurement Committee. The system had been received by the histopathology lab of the Hospital in September 2018. However, due to failure in supplying electricity for the system, the machine remained idle without being used even by 23 July 2020.

The Electric Laundry

An electric iron roll had been purchased at an expenditure of Rs. 2.98 million on 23 May 2018 for the electric laundry of the National Hospital of Colombo. Due to difficulties in using, the item remained unused even by the end of the year under review.

Scarcity of Essential Drugs and Vaccines

Twenty six types of essential drugs and vaccines issued for cancer patient of the Apeksha Hospital, Maharagama remained scarce for a period of 06-316 days in the year 2019. Furthermore, 07 types of drugs and vaccines ordered under the names of certain cancer patients, remained scarce for a period of 02-180 days within the last 06 months of the year 2019. Due to scarcity of certain drugs that should be continuously administered for a period of 06 months upon being medically recommended, such medical advices could not be heeded.

Purchase of a Cold Storage for Storing Drugs

A cold storage had been purchased by the Apeksha Hospital, Maharagama at an expenditure of Rs. 5.44 million in the year 2018 for storing certain anti-cancer drugs without following the provisions set out in Government Procurement Guidelines. Furthermore, due failure in obtaining expert advice for the Technical Evaluation Committee appointed with respect to that procurement, the recommendation made by the Technical Evaluation Committee had become incomplete. As such, a cold storage not suitable for storing specific anti-cancer drugs had been purchased and it remained idle over a period of one year with the warranty period expired. According to the Government Procurement Guidelines, the retention money of Rs. 0.27 million representing 05 of the contract value, should be released after a satisfactory service period of one year and obtaining the engineering certificate verifying the compliance with specifications. However, without doing so, the full amount had been released. As a condition relating to the recovery of penalties for delay had not been included in the agreement, penalties could not be recovered for a period of 09 months.

Purchase of Medical Equipment for the Base Hospital in Kantale

A number of 30 medical equipment purchased by the Base Hospital, Kantale at an expenditure of Rs. 110.22 million along with 49 medical equipment purchased by the bio-medical engineering services division at an undisclosed value, had been provided for the intensive care unit of that Hospital. Nevertheless, the Hospital had been closed from time to time during the period from December 2016 to July 2018 due to lack of anesthesiologists, and that unit had been maintained as a high defensive unit after August 2018.

Construction of a Blood Dialysis Unit at the Base Hospital, Kantale

A blood dialysis unit had been established at the Base Hospital, Kantale in the year 2015 at an expenditure of Rs. 3.78 million with the objective of providing health care services for kidney patients regionally thus addressing the issue of growing trend in the number of kidney patients. Having spent a sum of Rs. 11.94 million in the year 2017, forty four equipment including 03 dialysis machines and 03 Multi Para monitors had been purchased for use in that unit. Even though all the equipment and trained nursing staff had been provided for the unit, a nephrologist had not been attached thereto; hence, patient care services had not been commenced in this unit even by 20 June 2020. The possibility of conducting dialysis for 6,570 times during the period of 02 years that the unit had remained idle, had been lost.

Sports Affairs

The compilation, implementation and monitoring of the activities relating to the local and international sports in the country in order to build an active nation to enhance the national image of the country at the international level had been the intended result of the Ministry of Sports. The following functions had to be executed by the Ministry of Sports and the Department of Sports Development under it, 05 statutory bodies, a sports fund and 65 sports associations to achieve that result.

- To take necessary steps to enhance sports in Sri Lanka in accordance with the National Sports Policy and the International Olympic Charter and Promoting infrastructure and providing support
- Promoting sports education, training and research
- Compilation of new strategies and implementation of programmes in a manner that sports could be deployed for building the image of Sri Lanka at the international level
- Promotion and coordination of facilities required to provide physical fitness to the general public
- Regulation of National Sports Associations
- Promoting sports medicine facilities and taking necessary steps to prevent the use of banned stimulants during sports
- Development and management of sports complexes.

A sum of Rs. 21,206.48 million had been made available by Parliament for the period from the year 2017 to 2019 to execute the above mentioned functions and a sum of Rs. 11,155.02 million had been utilized thereof. Accordingly, a provision of Rs. 10,051.46 million or 47.40 per cent out of the provisions made available by Parliament had not been utilized. Details are shown in Diagram 57

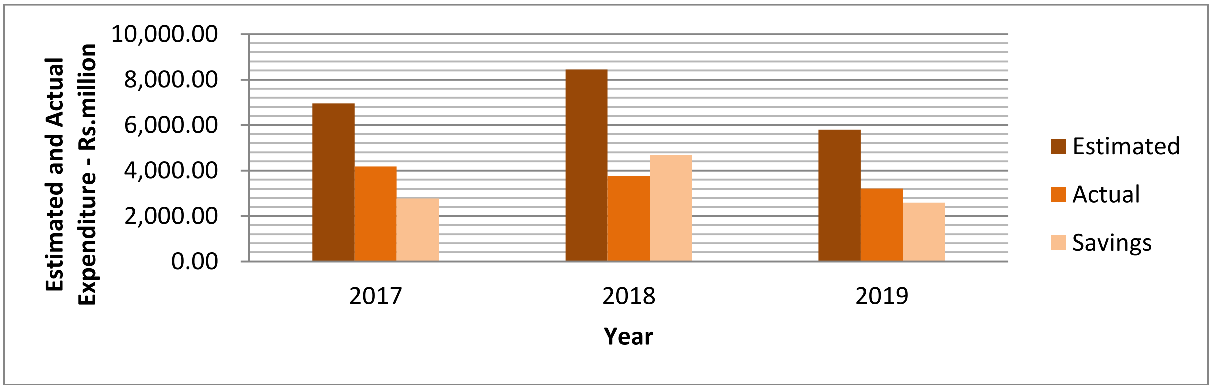


Diagram 57- Provision and utilization provided by Parliament
Source - Treasury Final Account Statements

The audit observations made during the sample audit test checks of the above functions performed by the Ministry and the institutions under it are summarized as follows.

International Achievements made by Sri Lankan Athletes

Sri Lankan athletes had participated in 12 international tournaments and won 331 medals as 64 gold, 106 silver and 161 bronze medals in 2019. Similarly, it had won the bronze medal at the Asian Youth Netball Championship, the runner-up position in the Under-19 Basketball Championship and the Championship of Asian Netball.

Achieving Sustainable Development Goals

The Ministry had not formulated the Sustainable Development Goals for sports even by the end of the year under review.

Delays in Execution Projects

- The Ministry of Sports had made a provision of Rs.310 million and Rs.15.16 million respectively for two projects to construct the 400 meter artificial running track and toilet system and the access road of the Mahinda Rajapaksa National Sports Academy, Diyagama. A sum of Rs.183.85 million and Rs.10.3 million had been spent on these projects respectively in the year 2019. Even though construction works on the two projects were scheduled to be completed by 30 December 2018 and 29 April 2018, had not been completed even by the end of the year 2019.

- The Ministry of Sports had made a provisions of Rs. 12.23 million for the construction of the shooting and archery center at Maliyadeva College, Kurunegala and a sum of Rs. 7.43 million had been incurred in the year 2019. Even though the Project, which was scheduled to be completed by 03 November 2018 had been extended to 23 May 2019, it had not been completed even by December 2019.

- The Department of Sports Development had made a provision of Rs. 1,000 million for the construction of 12 District Sports Complexes and 7 Provincial Sports Complexes under the construction of Provincial and District Sports Complexes. A sum of Rs. 692 million had been incurred for that commencing the construction of 10 District Sports Complexes and 07 Provincial Sports Complexes in the year 2018. Of which, works on 6 District Sports Complexes and 2 Provincial Sports Complexes had been completed and works on rest of 4 District Sports Complexes and 5 Provincial Sports Complexes had not been completed.

- A contract valued at Rs. 59.28 million had been entered into with a private company for the supply, installation, operation and maintenance of research equipment to the Sri Lanka Anti-Doping Agency with a budget provision of Rs.101 million for the year 2019. As a result of considerable delays existing in the procurement process, only the installation of relevant equipment had been done even by August 2020. The equipment could not be used due to delays in obtaining specialists' services for the training of officers to operate the machines and the testing required to use the machines.

Abandoned Projects

The projects aiming to identify children with athletic skills in the age group of 13-14 years on a scientific basis and direct them to the Olympic Games in 2024 and 2028 had been planned to implement from 2016 to 2018. A total of provisions amounted to Rs. 474 million had been made available for these projects and of which incurring a sum of Rs. 160.16 million, this project had been stopped in 2018.

Utilization of Infrastructure

The Swimming Pool in Kilinochchi Sports Complex, Kilinochchi Indoor Stadium, Kilinochchi Sports Ground and Hockey Ground which were constructed by the Ministry of Sports had not been properly utilized and maintained.

Construction of National Cricket Ground and Multi-sports Complex

Sri Lanka Cricket had spent Rs. 132.09 million as at 31 December 2019 for the construction of a National Cricket Stadium and Multi-sports Complex in the Hingurakgoda area in Polonnaruwa that can be upgraded to international standards. The construction contract had been awarded to the contractor on 17 August 2017 and was scheduled to be completed in October 2018. Since the title deed which covers the area of 10 acres of land for the construction of the stadium had not been obtained from two institutions the ownership of the land had not been taken over from Sri Lanka Cricket. Even though plumbing works were carried out for the irrigating method of the ground , the drainage system was not properly constructed. Further, the construction of a safety fence and the preparation of the access road with a distance of nearly 600 meters had not been carried out and the electricity as well had not been obtained for the stadium premises. There was a delay in commencing of work on the stadium and the construction had not been completed even by 31 December 2019.

Income Due for Sponsorship Rights

There was a sum of US $ 187,085 or Rs. 33.96 million to be received to Sri Lanka Cricket from the sponsorship company for the sponsorship rights of the South Africa - Sri Lanka Cricket tour in 2018. However, due to suspicious and informal interferences in this transaction, it was doubtful that the money would be recovered from the sponsor and an investigation is being carried out by Criminal Investigation Department regarding the matter.

Establishment of a Cricket Institute

Sri Lanka Cricket had acquired a land called Walakumburawatta in Katugastota, Kandy on 29 April 2017 with 256 perches in extent under a 30 year lease agreement to establish a cricket academy and the lease rent to be paid for 30 years had been Rs. 26.25 million. In addition to this lease rent, a donation of Rs. 25 million had been paid to the lessee in 2017. However, construction works on the cricket academy had not been commenced even by August 2020.

PAYE Tax

The PAYE tax which should be charged from the Coach of the Sri Lanka Cricket Team and paid to the Department of Inland Revenue amounted to Rs. 15.54 million had been paid by the Sri Lanka Cricket on behalf of the Coach. Further, due to neglect of certain income in the calculation of taxes, the payment of income tax totalled to Rs. 1.59 million to the Department of Inland Revenue had been defaulted.

Failure to follow Government Procurement Guidelines

Although the every sports association should follow the Government Procurement Guidelines in terms Section XXI under the powers and functions of the National Sports Associations in Part III of the directives made by the Minister of Sports under Sections 31 and 41 of the Sports Act No. 25 of 1973, the Sri Lanka Cricket had not followed the said guidelines.

National Sports Fund

A sum of Rs.2.50 million had been paid from the National Sports Fund for the renovation and upgrading of the building and stadium of Uva Sports Club. It had not explained the way of identifying that sports club and the needs of the sports club. In addition, it had not been reviewed and monitored the contribution made to the sports sector and the performance and the arrangements had not been made by the Fund to formulate and implement a system regarding such payments.

Cash Fraud

The Sri Lanka Football Federation had revealed in 2017 that the former Finance Manager of the Sri Lanka Football Federation had obtained money by entering fake names as match referees and suppliers. The Criminal Investigation Department had conducted further investigations regarding the fraud and had referred to the courts. It had been revealed in August 2020 that the total amount defrauded was Rs. 46.86 million. A sum of Rs. 16.05 million which was identified in connection with this fraud had been shown as funds transferred under accounts receivable in the financial statements for the year under review. The Federation had not taken actions to recover the fraudulent amount even by the end of August 2020 and accordingly, it could not be ascertained in audit that the possibility of recovering the money.

Youth Affairs

The following functions should have been performed by the Ministry of National Policies, Economic Affairs, Resettlement & Rehabilitation, Northern Province Development, Vocational Training and Skills Development and Youth Affairs and 05 Statutory Institutions under its purview with the objective of recruiting youth in the right direction.

- Formulation of projects and programmes relating to the subjects of youth affairs
- Formulation and implementation of attitudinal development programmes initiated to recruit youth in the right direction
- Implementation of youth-centric international development cooperation programmes and unemployed youth-centric skills development programmes
- Formulation of volunteer programmes for youth community

Provision of Rs. 20,741.11 million had been made by Parliament for performing aforesaid functions for the period from the year 2017 to the year 2019 and out of that, a sum of Rs. 14,270.64 million had been utilized. Accordingly, out of the provision made by Parliament for the said period, a sum of Rs 6,470.47 million representing 31.20 per cent had not been utilized. Details are in Figure 58

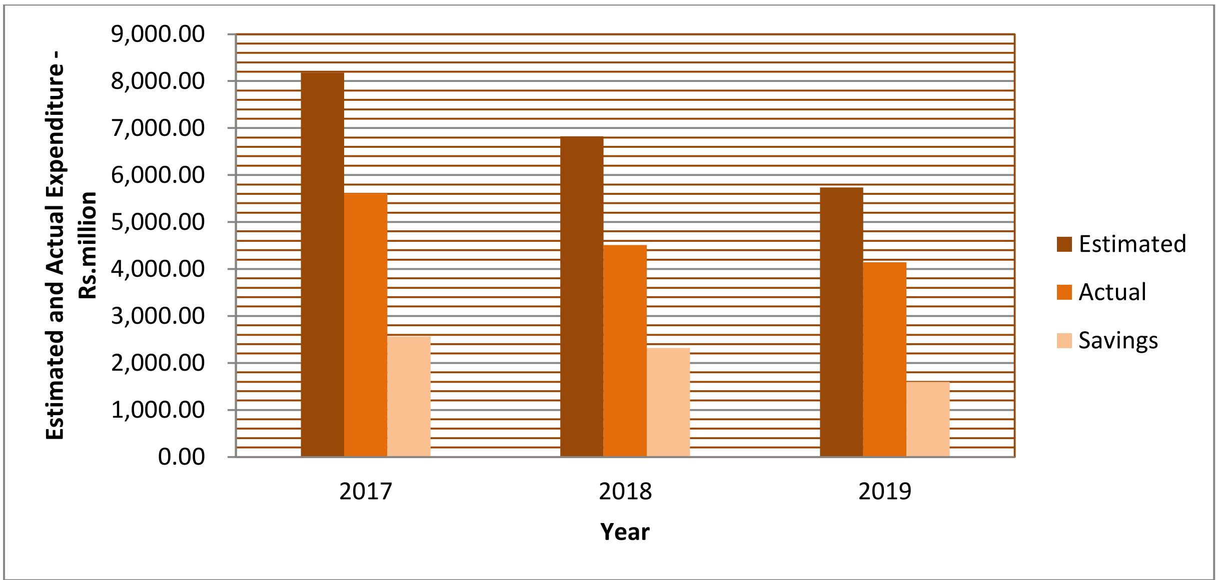


Figure 58 –Provision Made by Praliament and Utilization
Source – Final Treasury Accounting Statements

The audit observations revealed in the discharge of the said functions by the Ministry, and 05 Statutory Institutions under its purview, are summarized below.

Enrolment of Apprentices

Even though a number of 21,007 apprentices had been enrolled in the year 2018 for full time and part time training courses in 50 training centres of the National Youth Services Council, it had failed to meet the demand for training courses. A number of 2,977 applications were received for 58 full time training courses in 28 centres in the year 2018 and only 1,433 candidates had been registered for training courses. However, the Council had failed to provide training opportunities to candidates from 40 per cent to 70 per cent of candidates applied for training courses. Moreover, a number of 5,661 applications were received for 80 part time training courses in 22 centres in the year 2017 and only 2,386 candidates had been registered for training courses. However, the Council had failed to provide training opportunities to candidates from 40 per cent to 75 per cent of candidates applied for training courses.

Non-identification of New Courses

In carrying out a study on training courses conducted from the year 2017 to the year 2019 in 54 centres of the National Youth Services Council, number of courses had decreased from 54 to 46 in 06 centres and the number of courses conducted in 20 centres as well had not been increased. Further, only one or two training courses were being conducted in 14 training centres in the year 2019.

Expenditure deviating from Objectives

The National Youth Services Council had implemented the Yowun Pura Programme to build up the youth so as to suit the current world of works by using modern technology and methodologies and managing current needs and requirements of the youth of Sri Lanka and thereby to achieve their living and career targets; to produce a group of youth who can make a direct contribution towards the development of the country and to launch number of procedures and projects lined up accordingly at the same time. A sum of Rs.40.59 million had been spent in the year 2019 for activities not directly related to the objectives of the Yowun Pura programme, such as conducting a musical show at the Debarawewa Public Stadium on 26 March 2019 by making more effort and incurring expenses for giving priority to outdoor shows and entertainment events rather than improving the knowledge, skills and leadership of the youth, construction of a pandal at Debarawewa Junction, organization of night musical shows for 05 days on the Yowun Pura premises, construction of temporary cinema halls, construction of 2 pandals in the exhibition grounds etc.

Transactions of Contentions Nature

In obtaining domes on hire basis necessary for the Yowun Pura Programme of the National Youth Services Council of the year 2019, the procurement process had been carried out without proper planing and entering into an agreement. Before placing orders relating to the procurement, expenditure exceeding the original contract value had been approved based on statements given by the Storekeeper and the payment of Rs.2.23 million for additional 8 and 10 days of two stores had been approved by the Procurement Committee without taking action to justify them and give proper reasons therefor.

Technology Development

Sector

Science, Technology and Reserch
Communication

Observations

- Performance of Functions in the Annual Action Plan
- Monies recoverable from Officers for Breach of Agreements
- Non-compliances with Procurement Guidelines
- Non-achievement of Economic Benefits
- Non-settlement of Advances issued
- Inoperative Light Measurement System
- Idle or Underutilized Assets
- Recall of Provisions
- Number of Landline and Mobile Phone Subscribers
- Declined Number of internet subscribers relative to the population
- Low Distribution of ADSL Internet facilities
- E-Government Survey Reports
- Revenue in Arrears
- Payment of Surcharge
- Musical Instruments Misplaced
- Not entering in to Agreements Formally
- Earth Watchman Project
- Issuance of Ad hoc Sub Imprest
- Serving Liquor at Festivals
- Sustainable Development Goals
- Recruitments and Promotions
- Market Share of the State Television Network
- Discontinuation of newly introduced newspapers and declining of newspaper sales
- Release of Employees to Other Government Institutions
- Litigation against the Company
- Selasine Television Institute
- Implementation of projects
- Lotus Tower Project

Science and Technology

Creating a scientifically and technologically advanced country by conducting scientific research and popularization of science and technology is the main objective of this Sector. The Ministry of Science, Technology and Research, which is a non-cabinet Ministry, a Department and 18 Statutory Institutions, should have performed the following functions to achieve the expected result from this field.

- Formulation, monitoring and evaluation of policies, programmes and projects in regard to the subjects of science, technology and research
- Provision of necessary facilities for local research and discoveries to fall in line with new discoveries made in research conducted in the fields of science and technology internationally
- Improving science, technology and innovations for a knowledge based economic development
- Adoption of measures to expand scientific, technical, social and economic research and development activities
- Provision of facilities to research and research institutes to plan and conduct research
- Provision of information on findings and knowledge from new research and discoveries, including nano, robots, electronics and biotechnology, to relevant stakeholders including the business community
- Actively contributing to achieving national development objectives through co-ordinating all research institutions functioning in Sri Lanka
- Adoption of measures to guide and motivate the community towards new discoveries
- Implementation of research for the promotion and development of construction industry
- Co-ordinating with international science, technological and research institutions and implementing co-operative programs
- Matters on the copyright of functions relating to administration of the International Convention on Intellectual Property and the copyright relating to the World Intellectual Property Office

Provisions of Rs.28,428.58 million had been made by Parliament for the period from the year 2017 to the year 2019 for performing the aforesaid functions and a sum of Rs.18,498.01 million thereof had been utilized. Accordingly, out of the provisions made by Parliament for the said period, 34.93 per cent or provisions of Rs.9.930.57 million had not been utilized. Details are indicated in Figure 59

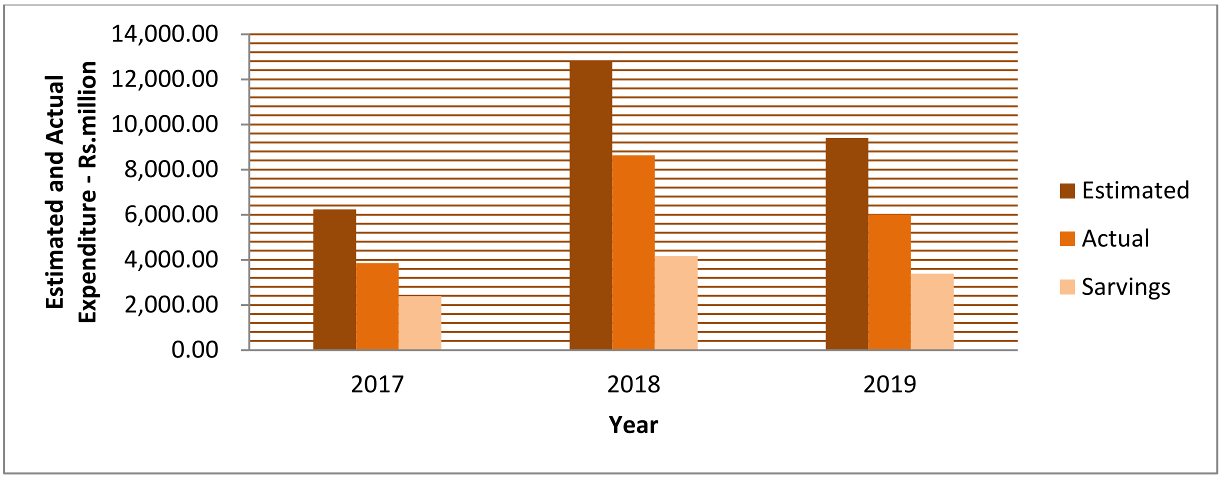


Figure 59– Provisions made by Parliament and Utilization
Source –Final Treasury Accounting Statements

The audit observations revealed at the audit test checks carried out on the performance of the aforesaid functions by the Ministry and Statutory Institutions, are summarized below.

Performance of Functions in the Annual Action Plan

- Even though the commencement of constructions of the National Science Centre was planned in the year 2019, only the activities of purchasing the land had been finalized.

- Even though a sum of Rs.70 million had been spent in the year 2019 for the Facilitation Project for Petroleum Production Testing by the Industrial Technology Institute, the testing activities thereof had not been commenced even by the end of the year under review.

- The final reports of 25 out of 56 research projects to be completed during the period from the year 2015 to the year 2019 by the Industrial Technology Institute, had not been issued. As such, the expected objectives had not been achieved by research projects executed during the said period.

Monies recoverable from Officers for Breach of Agreements

In breaching of conditions in agreements entered into by officers of the Industrial Technology Institute in the event of proceeding abroad for foreign scholarships, the relevant monies should have been recovered from the said officers. Twenty officers had breached the conditions in agreements entered into in proceeding abroad on foreign scholarships after entering into agreements and a sum of Rs.16.90 million had been recoverable therefor. The said monies which were brought forward throughout many years could not be recovered even by the end of the year under review.

Non-compliances with Procurement Guidelines

A sum of Rs.4.52 million had been paid to a private institution contrary to Government Procurement Guidelines for repairing, polishing and upholstering of 564 seats in the Sri Lanka Planetarium belonging to the non-cabinet Ministry of Science, Technology and Research.

Non-achievement of Economic Benefits

An income of Rs.1.61 million had been earned for technology transfer by research carried out by the Industrial Technology Institute during the period from the year 2015 to the year 2019. A sum totalling Rs.95.43 million comprising of Rs.61.45 million for research projects and Rs.33.98 million as research allowances had been spent during the said period. As such, an economic benefit had not been achieved for the monies spent for research projects.

Non-settlement of Advances issued

Purchase and installation of an integrated software package included in the Annual Action Plan of the Industrial Technology Institute, had been planned to be completed by 31 December 2019. Mobilization advances of Rs.772,000 had been paid to the institution to which the contract was awarded. Even though the contract had been discontinued due to technical defects in the said system, the advance issued to the contractor had not been recovered.

Inoperative Light Measurement System

A Light Measurement System had been purchased for a sum of Rs.15.48 million for the Arthur C Clarke Centre for Modern Technologies with a guarantee period of two years from 12 October 2015 up to 13 October 2017. The Light Measurement System itself had become inoperative due to the Power Analyzer (xitron 2801) valued at Rs.925,000 becoming defective by 11 October 2017 and the Mini Computer becoming inoperative by 17 October 2017. Accordingly, the said system had been inoperative for a period of 13 months from 11 October 2017 up to 09 November 2018. The Amatek Power Supply valued at Rs.2.35 million had become inoperative on 19 November 2018 one week after repairing the defects. As such, the said system had been inoperative for a period of 2 years from that day up to 23 September 2019. Even though the defects of the Light Measurement System had been repaired by spending an additional sum of

Rs.3.28 million due to 03 inoperative accessories in the said system, after a 2 year period of its purchase, it had become inoperative once again. As such, the income deprived of to the institute due to the inoperativeness of the said system for a period of 25 months, had been Rs.2.80 million.

Idle or Underutilized Assets

- A Rack Mountable Server System valued at Rs.2.55 million had been received to the computer division of the institute on 05 September 2019 to be used for the installation of the LIMS computer system at the Industrial Technology Institute. However, it had remained idle without being made use of, even by 23 June 2020.

- Two RFID gates, necessary for installing a data system using RFID technology for inspecting the books borrowed from the library of the Arthur C Clarke Institute for Modern Technologies, had been purchased in the year 2018 for a sum of Rs.1.37 million. They had remained idle in the library premises, without being made use of.

- The total provision relating to the research had been credited to a current account under each project at the commencement of the research itself, of the National Research Council. A sum of Rs.411.51 million received as Government grants relating to 97 projects commenced during the period from the year 2015 to the year 2019 had been credited to current accounts. However, a sum of Rs.236.14 million had remained unutilized in the current accounts by September 2020.

Recall of Provisions

The estimates, expenditure, plans, procurement activities and financial progress relating to the projects implemented, had not been under the proper supervision of the National Research Council. As such, a sum of Rs.67.72 million relating to 53 projects completed in the year 2019, had been recalled by the Council. Out of provisions made relating to 10 of those projects, provisions from 42 per cent to 93 per cent had been so recalled.

Communication

The Ministry of Telecommunications, Foreign Employment and Sports and a Department under its purview in achieving the objective of building a digitally empowered nation and the Non Cabinet Ministry of Mass media and the 08 statutory bodies under the purview of it with a view to acting as a pioneer in the economic, social, cultural and political spheres by focusing the attitudes of the people towards positive dimensions and the Ministry of Postal Services and Muslim Religious Affairs and a Department under the purview of it with the objective of providing a modern business oriented postal service using the latest technology and management systems should have been accomplished the following role of this Sector.

- Formulate, follow up and evaluate policies, programmes and projects related to the subjects of telecommunications and digital infrastructure.
- Taking necessary steps to provide telecommunication facilities to all using modern technology.
- Assisting in the use of appropriate IT solutions to enhance the productivity and efficiency in the provision of public sector services.
- Implementation of programmes for the enhancement of computer literacy.
- Develop strategies to encourage the use of information and communication technology.
- Formulation, implementation and evaluation of policies, programmes and projects related to the subject of mass media in line with the National Policy Framework.
- Develop strategies to contribute to the advancement of the media in the economic, social, cultural and political spheres by focusing the attitudes of people towards positive dimensions.
- Implementation of programmes to inculcate knowledge, attitudes and power of appreciation within the people.
- Take necessary steps to ensure the right of the people to know accurate information.
- Implementation of programmes required to practice moral ethics in media.

This had been the role to be accomplished through this sector. The objectives of the three aforementioned Ministries and the Department were to fulfil that role. The following role had to be accomplished by the Ministry of Finance and Mass Media and one Department and nine statutory bodies to achieve those objectives.

Parliament had allocated provisions amounting to Rs. 80,496.48 million from the year 2017 to the end of the year 2019 for the accomplishment of the aforementioned role by the Ministry, Department under its purview and the statutory bodies. Rs. **58,488.32** million out of the provision had been utilized. Accordingly, 27.34 per cent or

Rs.22,008.16 million out of the provision made by Parliament during that period had not been utilized. Details are shown in the figure 60.

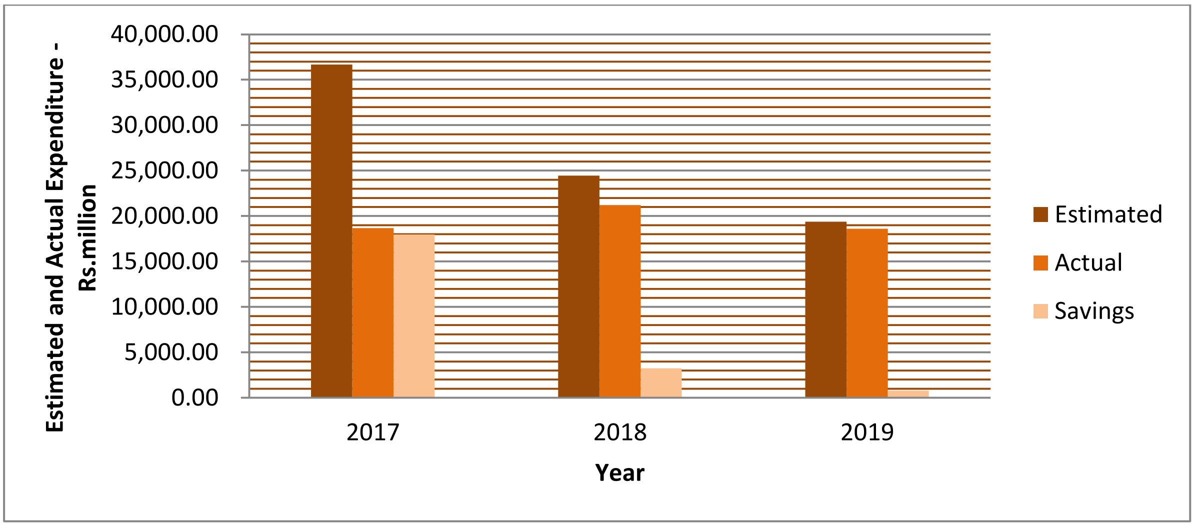


Diagram 60- Provision made by Parliament and its utilization
Source - Final Account Statements of the General Treasury

The audit observations made during the audit test checks carried out in relation to the accomplishment of the aforementioned roles have been summarized and stated below.

Number of Landline and Mobile Phone Subscribers

Even though the number of landline subscribers in Sri Lanka in the year 2011 was 3.6 million, the number of landline subscribers had decreased by 36 per cent and reached to 2.3 million subscribers by the year 2019. A combined annual growth had recorded in the mobile phone sector during the past 12 years. Accordingly, the number of mobile phone subscribers had increased by 879 per cent from 3.36 million in 2005 to 32.88 million by the end of the year 2019. Details of decreasing the number of landline subscribers from the number of telephone subscribers and increase in the number of mobile phone subscribers are indicated in figure 61.

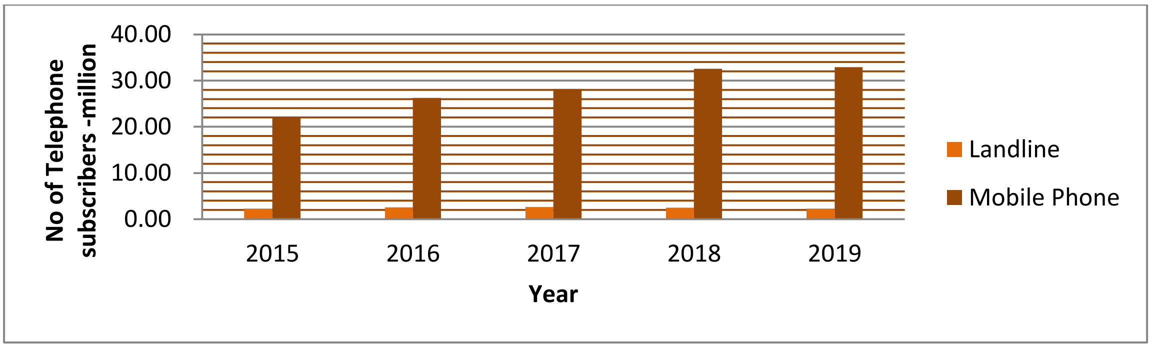


Figure 61 - Number of telephone subscribers
Source - Annual Reports of the Central Bank of Sri Lanka

Even though the density of landlines was 11.5 per 100 persons in the year 2018, it had dropped to 10.5 in the year 2019. In contrast to that trend, the density of mobile phones was increased from 150.1 per 100 people in 2018 to 161.4 per 100 people in 2019. These numbers did not reflect the true status as an individual uses significant number of the active subscriber identity module Cards (SIM cards).

Declined Number of internet subscribers relative to the population

According to the statistics of the Telecommunications Regulatory Commission of Sri Lanka, the numbers of Internet subscribers were 6,747,154, 10,562,675 and 13,408,403 in the years 2017, 2018 and 2019 respectively. However, the regional distribution of the Internet subscribers was very low. Despite the growth in the number of subscribers, the number of internet subscribers was very low compared to the population of Sri Lanka.

Low Distribution of ADSL Internet facilities

Only 908,418 people had gained the access to ADSL Internet facilities by the year 2019. About 42.66 per cent of the subscribers, who had gained access to internet facilities were in the Western Province and 0.46 per cent to 31.18 per cent of subscribers had dispersed in the other Provinces. Accordingly, the distribution of ADSL internet facilities in rural areas was very low.

E-Government Survey Reports

According to the United Nations E-Government Survey, the e-Government Development Index in Sri Lanka has increased from 192 in 2012 to 74 in 2014. However, the index had dropped to 85 by the year 2020.

Revenue in Arrears

The tax revenue to be recovered for tele dramas, films and commercial Programmes imported by two private media institutions during the period of 2007 to 2013 was Rs.53.16 million including the fines. The Ministry of Mass Media, which was a Non Cabinet Ministry, had failed to recover the revenue arrears even by 31 December 2019.

Payment of Surcharge

Gratuities should have been paid within 30 days from the date of termination of service according to Section 5.1 of the Gratuity Act No. 12 of 1983. The gratuity for two officers, who had served in the Sri Lanka Broadcasting Corporation, had been paid with a delay of 08 months. The Commissioner of Labour had imposed a surcharge amounting to Rs.253,884 on the Sri Lanka Broadcasting Corporation owing to the delay in the payment of the gratuity.

Musical Instruments Misplaced

Twelve (12) musical instruments were misplaced In 2016, while they were at the Ruhuna Broadcasting Service of the Sri Lanka Broadcasting Corporation. Although the value of replacing the instruments was Rs. 305,900, the Corporation had failed to recover the loss from the responsible officer even by 31 July 2019.

Not entering in to Agreements Formally

The Sri Lanka Rupavahini Corporation (SLRC) should have recovered a sum of Rs. **103.55** million as airtime revenue for the telecast of the publicity programme related to bestowing of the Gam Udawa Model Village to the Public Ownership organized by the Ministry of Housing, Construction and Cultural Affairs. The revenue in arrears had not been recovered even by June 2020. The Corporation had not entered into a formal agreement with the Ministry of Housing, Construction and Cultural Affairs regarding the publication of these advertisements and although several parties had requested to telecast those Programmes from time to time, there was no formality in those requests.

Earth Watchman Project

The Earth Watchman project was initiated by the Chairperson and Director General of the Sri Lanka Rupavahini Corporation under an agreement entered in to with a private company without the approval of the Board of Directors. The Corporation had spent Rs. 1.72 million for its inauguration ceremony. The project had been finalized only after conducting that ceremony. The project had only received a sponsorship of Rs. 1.25 million and the Corporation had incurred a loss of Rs. 470,035 due to the commencement of the project without conducting a formal study.

Issuance of Ad hoc Sub Imprest

A sum of Rs. 3.06 million had been paid as advances exceeding Rs. 100,000 to the officers on 12 occasions without following the Provisions stipulated in the Financial Regulations. Although the advances had to be settled within 10 days after the completion of the purpose for which advances had been paid, the advances had been settled after a delay for a period of 02 days to 192 days.

Attendance at Social Functions of a Public Nature such as Cocktail Parties

Serving Liquor at Festivals

According to Public Administration Circular No. 26/90 of 18 May 1990, liquor should not be served at public functions conducting at government institutions. The Sri Lanka Rupavahini Corporation had spent Rs. 1.70 million during the year under review for a cocktail reception for the Innovation Ceremony (Nawyakaranaye Abhimangalya) Programme held at the Hilton Hotel Colombo. Even though all the public officers should not attend social functions of a public nature such as cocktail parties in terms of the Public Administration Circular No. 148 of 16 October 1979, the Senior Management of the Corporation had participated in the above programme in contrary to that

Provision of the Circular. The Provisions of the Government Procurement Guidelines were not adhered to in the selection of the hotel for this programme.

Sustainable Development Goals

Although the Sri Lanka Rupavahini Corporation had been aware of the United Nations Agenda for 2030, action had not been taken to identify the sustainable development goals related to its functions and targets and milestones to be achieved in the accomplishment of the targets and the indicators for measuring the achievement of targets.

The Sustainable Development Goals and targets related to the Corporation had not been identified and as a result, any activity related to the Sustainable Development had not been included in the Annual Action Plan.

Even though it is essential to have an accurate database to measure the correct performance of a certain function, the Corporation had not taken action to create an accurate database to measure the achievement of the Sustainable Development Goals. The Corporation had not issued any Circulars or guidelines regarding the execution of the United Nations 2030 Agenda on Sustainable Development Goals.

Although it is required to function with proper coordination with the other institutions in the preparedness to achieve the Sustainable Development Goals, planning and pre-preparatory process of the Corporation to achieve the Sustainable Development Goals was in a very poor level since the Corporation had not identified the other government institutions, with whom coordination should be done.

Recruitments and Promotions

- Appointments were made for **07** posts in the Independent Television Network Limited without any approved Scheme of Recruitment and without following a formal procedure. According to the Memo of the Board of Directors bearing No. **325/30** of **21** June **2019**, the female officer holding the Post of Accountant of Independent Television Network Limited had been appointed to cover the duties of the Post of Deputy General Manager Finance. However, this female officer had been performing duties in the Post of Manager Finance since 07 November 2018 without getting a formal appointment. A sum of Rs. 477,086 had been paid to the officer for discharging duties in those two posts for the period from 07 November 2018 to 31 July 2019. Even though it had been informed by the Memo of the Board of Directors bearing No.328/35 of 30 July 2019 that the approval is granted to promote the female officer to the Post of Manager Finance and to pay a salary amounting to Rs.61,809 and to pay the other approved allowances until a final decision is taken on the recruitment and to pay a monthly allowance of Rs.9,635 for covering the duties in the Post of Deputy General Manager, it had been stated in the Memo of the Board of Directors bearing No. 329/14 of 03 September 2019 that these appointments were not approved by the Board of Directors and the payments made in that regard were not legal.

- Independent Television Network Limited had made appointments for the Posts of Manager Marketing, Deputy General Manager Marketing (Covering Duties), Assistant Manager (Marketing), Manager (Marketing) (Radio), Assistant Manager (Marketing) (Radio), Deputy General Manager (News & Current Affairs) and Manager (Business Development). The requirement for recruiting to these Posts had not been published and applications had not been called for making these appointments in order to recruit the most suitable person for these posts. Also, recruitments had not been made in a fair and a transparent manner. The appointed officers had not fulfilled the qualifications that should be completed as per the proposed scheme of recruitment.

- Payments should have not been made exceeding the salary scales of the relevant posts as per the approval of the Director General of Management Services. The officer had been paid a sum of Rs. 1.11 million in the year 2019 by the Independent Television Network Limited in addition to the salary entitled to the Post of Manager (Sales). The officer had been granted a monthly allowance of 120 litres of petrol or 140 litres of diesel in addition to those allowances. An amount of Rs. 222,144 had been paid in addition to the salary and allowances entitled to the Post of Manager (Marketing) (Radio) and Rs. 200,544 had been paid by exceeding the allowance entitled to the Post of Assistant Manager (Marketing) (Radio) during the year 2019.

- Promotions had been granted to Manager Finance and Manager Creative Programmes of the Independent Television Network Limited. Those promotions had been given to the officers, who had not completed the required qualifications as per the proposed scheme of recruitment and without calling applications from the officers of the institution.

Market Share of the State Television Network

Information on the market share of the Sri Lanka Rupavahini Corporation and the Independent Television Network Limited for the past five years is shown in Figure 62

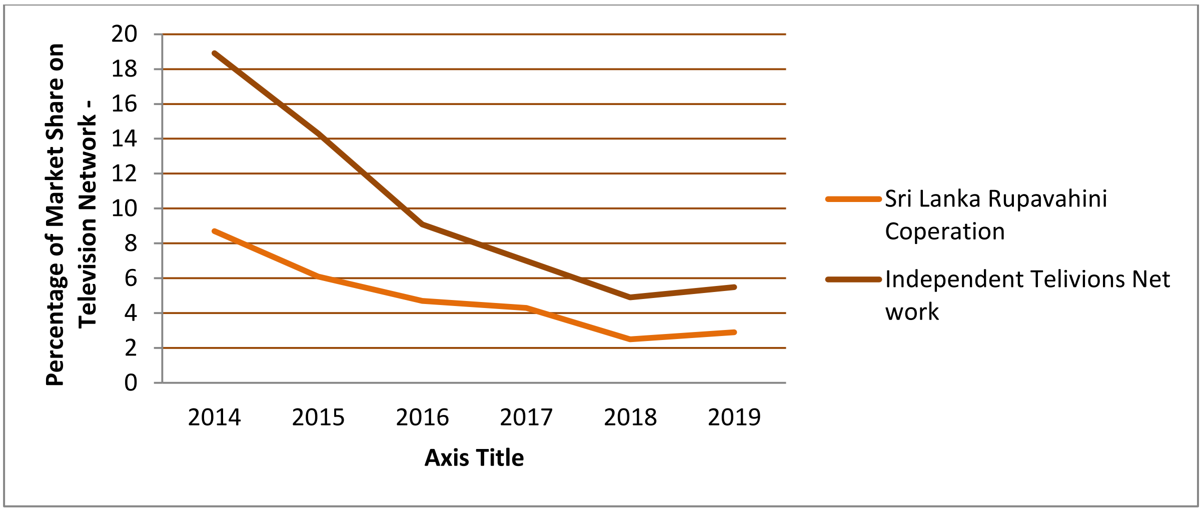


Figure 62 – Market Share of the State Television Network
Source - MLRB Reports

According to the information, the market share of these two Institutions had been steadily declining year on year and there was a slight increase again in the year 2019. As a result of the steady decline in the market share, the revenue from air time sales, the major source of revenue of these two institutions had sharply declined annually. Details are indicated in figure 63

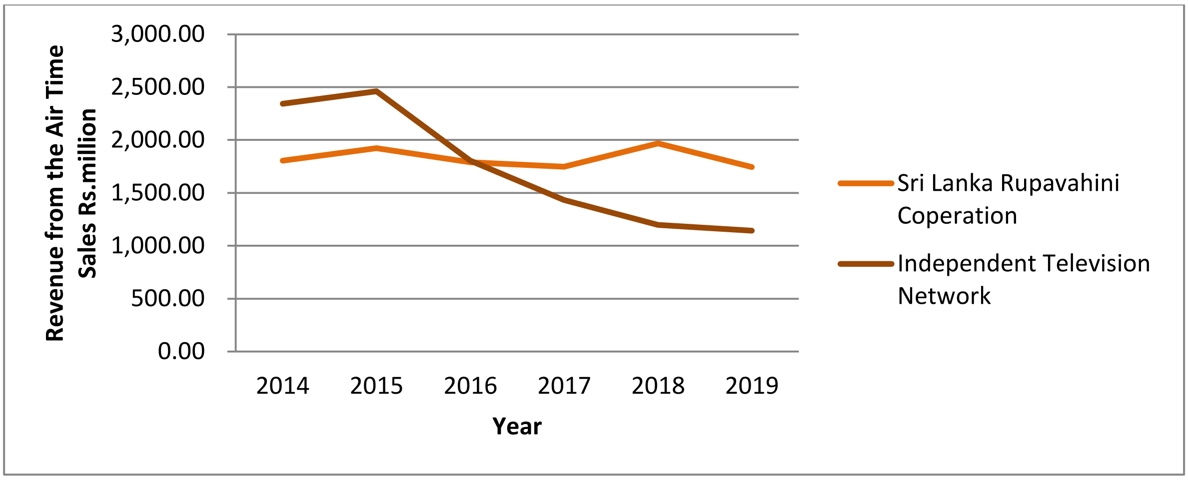


Figure 63 – Revenue from air time sales
Source - Annual Financial Statements

The decline in revenue from air time sales had reduced the market share and clients had attracted to private television channels. In order to re-attract clients, who had left the two Television channels, the clients should be offered the air time at rates much lower than the standard rates charged for approved commercials on both channels, at discounts exceeding 65 percent. In addition to granting discounts, the clients had also been offered more and more strip advertisements and supplementary advertisements free of charge.

Discontinuation of newly introduced newspapers and declining of newspaper sales

The Associated Newspapers of Ceylon Limited had published 07 types of newspapers including Silumina, Dinamina, Rasa, Sunday Observer, Daily News, Thinakaran and Waramanjari and 10 periodicals including Tharuni, Sarasaviya, Mihira in the year 2019. The Management had decided to discontinue “Rasa”, the daily newspaper launched in 2018 with effect from 30 January 2020. The number of copies of “Rasa” newspaper sold in 2019 had decreased by 52 per cent compared to the sales of the newspaper in the previous year. The total number of sold copies of the other six newspapers had decreased within the range of 07 per cent to 20 per cent in the year 2019 compared to that of in the previous year. The number of sold copies of 08 periodicals out of the 10 periodicals had decreased from 07 percent to 22 percent in the year 2019 compared to that of in the year 2018.

Release of Employees to Other Government Institutions

Seventeen officers including nine journalists, four editors, an assistant manager, a photographer, a senior executive and a shroff had been released to serve in other government institutions during the year under review in contrary to paragraph 9.4 of Public Enterprises Circular No. PED 12 of 02 June 2003. The United Newspapers of Ceylon Ltd. had spent Rs. 8.83 million as their salaries, wages and allowances. The Company had hired 26 journalists and 23 editors on contract basis during the year under review, even after the release of nine journalists and four editors.

Litigation against the Company

The Notification, "Code of Ethics for Journalists" was published in the Extraordinary Gazette No. 162/5 of 14 October 1981. Fifteen (15) defamation cases had been filed against the Associated Newspapers of Ceylon Limited by external parties as at 31 December 2019. In one of the 15 defamation cases, the plaintiff had claimed Rs. 500 million as damages from the Company. The Court had decided the case in the plaintiff’s favour as the defendants and the lawyer of the Company were not present in the relevant courtroom at time of calling the Case at the Colombo District Court in 2010. The Company had appealed against the decision first at the Colombo District Court and second at the High Court of Civil Appeals. However, the previous judgement was upheld and therefore, the Company had decided to appeal against the judgement at the Supreme Court. Accordingly, the Company had decided to select a President's Counsel for a payment of Rs. 18.23 million as per the decision of the Board of Directors bearing No. F 104.19 of 30 August 2019 and the amount had been paid on 09 October 2019.

Selasine Television Institute

Although Selasine Television Institute, which had been under the purview of the Mahaweli Authority, was taken over by the Ministry of Mass Media and

Information, provisions had not been made by an Act or by any Law to specify its objectives and functions and to execute powers. Although action had been taken since 2009 to register this Institute as a public company called as “Selasine Limited" under the Companies Act, those functions could not be completed even by the end of 2019. Further, the advertising and publicity of government institutions should have been carried out by the Selasine television Institute as per the Cabinet Decision No. 10/1682/407/014 of 12 August 2010. Although the Management had to take action to meet the required human and physical resources, it had been the general norm of the Company to award subcontracts to private companies without taking action to meet those requirements even after 9 years. Even though revenue amounting to Rs. 37.42 million had been earned for seven production activities according to the audit test checks carried out, an amount of Rs. 24.29 million had been paid to external parties for the production of those programmes.

Adhering to the guidelines stipulated in the Government Procurement Guidelines in carrying out the procurement activities of the Institute was very poor. Even though Procurement Committees should be appointed and the procurement should be carried out in a transparent manner in case of Service Procurements above Rs.500,000 as per Guideline 3.4 of the Government Procurement Guidelines, a sum of Rs. 5.04 million had been paid to external parties by selecting suppliers without adhering to the Government Procurement Guidelines in the selection of external suppliers for the accomplishment of three printing activities as revealed by the audit test check.

The Institution had taken action to organize the official ceremony of taking over of Neville Fernando Private Hospital to the Government at a cost of Rs. 13.57 million and an external institution had been selected for the accomplishment of the major organizational activities of the ceremony at an estimate of Rs. 4.54 million without adhering to the provisions of the Government Procurement Guidelines. Although money had been paid to that institution, an authorized officer of the selected institution had not signed for receiving the money. Further, formal agreement had not been entered in to with that supplier. Although the company had stated that it would get a profit margin of about 15 per cent in pricing the services, there had been no formal methodology in pricing since the selected institution had submitted prices amounting to Rs. 13.57 million, after adding a profit margin of 152 per cent to the cost at the time of submitting prices to the Ministry of Health in relation to this ceremony.

Implementation of projects

The Non-Cabinet Ministry of Digital Infrastructure and Information Technology had made provisions amounting to Rs. 1,055 million for the projects of Digitization of Economy including the purchase of computers and computer accessories to schools in the year 2019. Only a sum of Rs. 194 million, out of the provision made, had been utilized during the year under review. The quantity of bills to be paid by the end of the year under review was Rs. 363 million. Accordingly, the financial progress of the project was 53 per cent and only 04 projects had been fully finalized out of the 14 projects scheduled to be finalized during the year. Due to the non-accomplishment of the procurement activities within the due period and due to non-provision of imprest by the General Treasury, the target could not be achieved as planned during the year under review.

Lotus Tower Project

As per the Cabinet Decision bearing No. 10/2473/401/031 of 29 October 2010, the contract for the construction of the Lotus Tower had been awarded to two Chinese companies. The Telecommunications Regulatory Commission (TRC) had entered into a contract agreement with these companies on 03 January 2012. The contract value of this construction was USD 104,300,000 and according to this agreement, the contract should have been finalized within 912 days, from 12 November 2012 to 12 May 2015. The Commission had approved the extension of the contract period until 31 October 2017.

The Telecommunications Regulatory Commission of Sri Lanka (TRCSL) entered into a loan agreement with the EXIM Bank on 17 September 2012, in order to finance this construction contract. According to the loan agreement, it had been agreed to pay 85 per cent of the contract value, which was USD 88.655 million, and obtaining the loan had to be completed by 18 August 2016.

Even though the land in extent of 2.59 hectares, where the Lotus Tower was constructed should have been transferred by the Urban Development Authority to the Commission according to the Cabinet decision bearing No. CP/11/2262/501/026/TBR of 14 December 2011, it had not been transferred accordingly.

It was not possible to obtain the full amount of loan as scheduled due to non-completion of the project in accordance with the time schedule of the construction contract, and only an amount of USD 67,259,758 or 76 per cent of the loan amount had been granted during the relevant period. Although it was not possible to obtain a loan amount of USD 21,395,242, insurance fees, agreement charges and management fees for the entire loan had been paid. A total of USD 2,911,633, comprised of USD 2,091,287 as the insurance fees and USD 627,789 as the agreement charges and USD 192,557 as the management fees, paid in proportionate to the amount of loan not received had become an idle expense.

Even though it had been scheduled to commence operations of the project and to earn revenue of Rs. 1,685 million annually from the year 2015 as per the financial feasibility report prepared in relation to this project, that annual revenue was lost due to the delays in the project activities.

Although the approval had been granted by No. 5.4 viii of the Cabinet Decision bearing No.10/2473/401/031 of 29 October 2010 to establish a Management Consultancy Company under the ownership of the a Telecommunications Regulatory Commission of Sri Lanka (TRCSL), the Commission had not vested with powers to establish such a Company in terms of the Sri Lanka Telecommunication (Amendment) Act No. 27 of 1996. Therefore, the General Treasury had been vested with powers by the Cabinet Decision bearing No.CP/19/2305/103/140 of 11 September 2019 to establish a state-owned company to manage the commercialization activities of Colombo Lotus Tower. Nevertheless, the activities had not been carried out even by the end of the year under review.

Even though the work of the contract of constructing the Lotus Tower had been scheduled to finalize and to hand over the Lotus Tower on 31 October 2017, it had not been handed over even by 31 August 2020. Accordingly, the period of delay by 31 August 2020 was 1035 days. Nevertheless, charging of late fees according to the contract agreement was only limited to 200 days.

Although it had been planned to pay the loan instalments from the project income as per the original plans, USD 39,335,307 had been paid as loan instalments and interest using the money of the Commission by 31 December 2019 since construction activities of the project had not been finalized as scheduled. Remittances to the Consolidated Fund had decreased by a total of Rs. 30,400 million comprised of Rs. 5,200 million in the year 2017 and Rs. 6,150 million in the year 2018 and Rs. 19,050 million during 2019 as the Commission had to repay the loans and instalments.

As a result of obtaining a loan for the construction of the Lotus Tower, the Commission had to incur a total of USD 23,775,376 additionally comprised of the agreement charges amounting to 1,573,054, management fees amounting to USD 797,895, insurance fees amounting to USD 8,665,620 and interest amount of Rs. 12,738,807 as at 31 December 2019.

Environment

Sectors

Wildlife

Environment Management

Observation

- Arrears Income
- Deaths of Wild Elephants
- Elephant Corridors
- Construction of Electric Fence
- Horowpathana Elephant Holding Ground
- Uma Oya Multi-purpose Development Project
- Construction of Solid Waste Disposal Facilities Project
- Ecosystem Conservation and Management Project
- Amendment of the National Environmental Act
- Post-consumer Plastic Waste Management National Project
- Misplacement of Teak Trees
- Manufacture and Sale of Furniture
- Debtor Balance
- Madampitiya Refinery Pumping Station
- Achieving of Sustainable Development Goals
- Climate Impact Reduction Project
- Misuse of Government Lands using Fraudulent Documents
- Unauthorized Felling of Timber in Weerakkulicholai Reserve in Puttalam District.
- Earnings from a Voluntary Organization outside the Hurulu Ecological Park
- Decrease in Revenue of Hurulu Ecological Park due to New Revised Ticket Prices
- Inspection on Quarries at Vavuniya District Forest Office
- Forest Cover in Sri Lanka

Wildlife

The Ministry of Tourism Development, Wildlife and Christian Affairs and the Department and a statutory body had to be performed the following functions through participatory management with the vision of conserving wildlife heritage for present and future generations to fulfill the mission of ensuring the conservation of wildlife heritage.

- Conservation of wildlife resources
- Taking necessary steps to emphasize the conservation of relevant ecosystems in promoting the Tourism Industry in wildlife sanctuary areas.
- Convention on International Trade in Endangered Species and related activities

A sum of Rs.7,641.40 million had been made available by Parliament for the period from the year 2017 to 2019 to execute the above mentioned functions and a sum of Rs.6,191.89 million had been utilized thereof. Accordingly, a provision of Rs.1,449.51 million or 18.97 per cent out of the provisions made available by the parliament had not been utilized. Details are shown in Diagram 63.

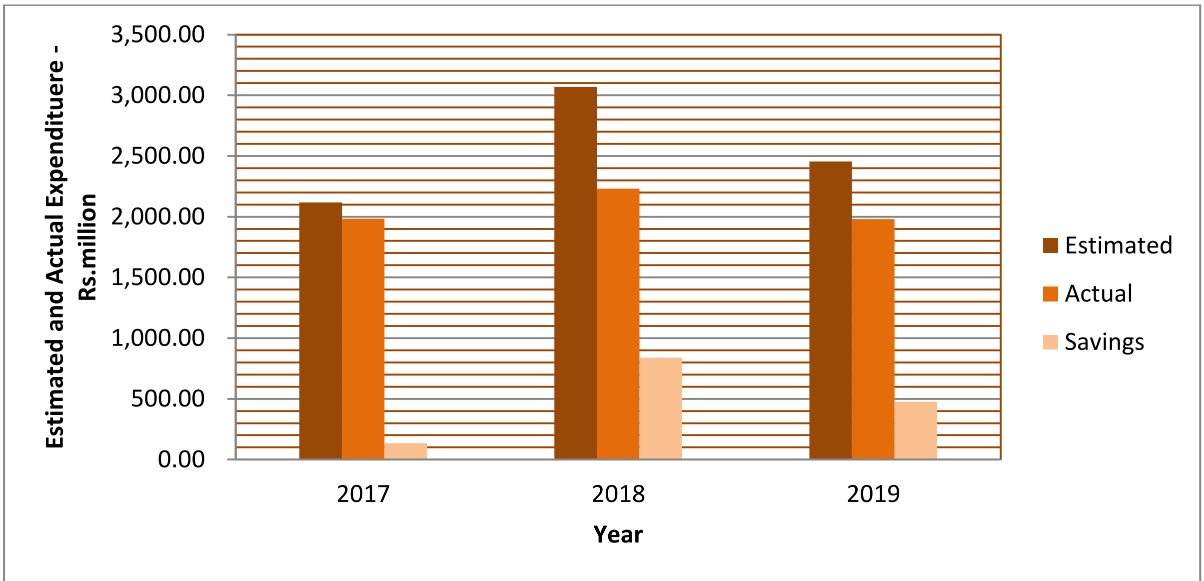


Diagram 63 Provision made by Parliament and utilization
Source – Treasury Final Account Statements

Arrears Income

The Wildlife Trust had operated restaurants in buildings owned by the Department of Wildlife in Horton Plains and Yala National Park. The rent of Rs.9.30 million for those buildings had not been paid for the period from 2014 to 2018 to the Department by the end of the year under review.

Deaths of Wild Elephants

The wild elephant population in Sri Lanka and its survival had been obstructed due to commercial and other misuse of wildlife, flora and fauna. More than 50 per cent of the deaths out of the total elephant deaths in the year 2019 had occurred due to the use of firearms, electric shocks, hakkapatas, poisoning etc.

The human-elephant conflict had rapidly increased by the end of the year under review due to the changes in land use patterns because of development activities and illegal deforestation , deterioration and limitation of usable nutrient habitat, elephant encroachment due to food shortage for elephants and blockage of elephant corridors due to development activities.

The diagrams shows the details of the increase in elephant deaths, human deaths and increase of property damages due to the severe increase in the human-elephant conflict during the last 5 years.

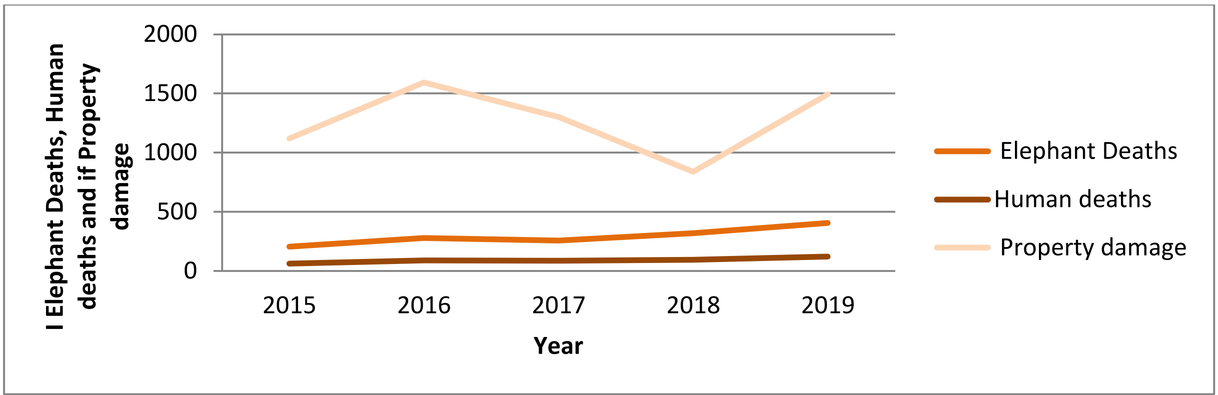


Diagram 64- Increase of Elephant Deaths, Human deaths and increase of Property damage

Elephant Corridors

Only 03 wild elephant corridors had been declared in the Gazette published in order to allow wild elephants to roam freely. Another 16 projects were identified and 7 corridors had been surveyed by the end of the year under review with the Project Proposal for „Wild Elephant Human Conflict Management' carried out in May 2015. However, it had been failure to announce even a single corridor by 31 August 2020 .

Construction of Electric Fence

A provision of Rs.24.20 million had been made available for the construction of 21 electric fences as per the Action Plan for 2019. Construction works had not yet been completed even by the end of the year 2019. Obtaining community consent and clearance of the relevant lands for the construction of electric fences had been a pre-work. Without fulfilling those preliminary works, the task of constructing an electric fence had been assigned to the Department of Civil Defense. As a result of the troublesome situations that had arises, the construction of 11 electric fences had not been completed by 31 August 2019.

Horowpathana Elephant Holding Ground

It had been mentioned in the register for admissions of elephants that the health condition of 15 out of 51 elephants in the Horowpathana Elephant Holding Ground was in poor condition. Any follow-up had not been carried out on the so sick elephants.

According to the Elephant Census Report conducted in June 2019, the rest were 09 out of the 52 elephants entered into Horowpathana Elephants Holding Ground and 12 had died of various causes. The Department did not have any information regarding the remaining 31 elephants whether they have escaped from that place or died.

Environment Management

The following functions had to be executed by two Departments and 08 statutory bodies under the purview of the Ministry of Mahaweli Development and Environment to be operated for a sustainable environment.

- Compilation of policies and programmes for the field of environment
- Conservation of the environment for the present and future generation
- Compilation of programmes to eliminate environmental pollution and implementation of those programmes effectively
- Carrying out the disclosure of Marine pollution and urban solid waste management
- Preservation and conservation of forests, wildlife and flora and fauna
- Promotion of the commercial plantation of forests to fulfill the timber requirement of the country
- Promotion and regulation of the gem and jewelry industry and trade
- Preservation and conservation of the coast

A sum of Rs. 142,888.53 million had been made available by Parliament for the period from the year 2017 to 2019 to execute the above mentioned functions and a sum of Rs.116,324.63 million had been utilized thereof. Accordingly, a provision of Rs.16,569.9. million or 18.59 per cent out of the provisions made available by the Parliament, had not been utilized. Details are shown in Diagram 65

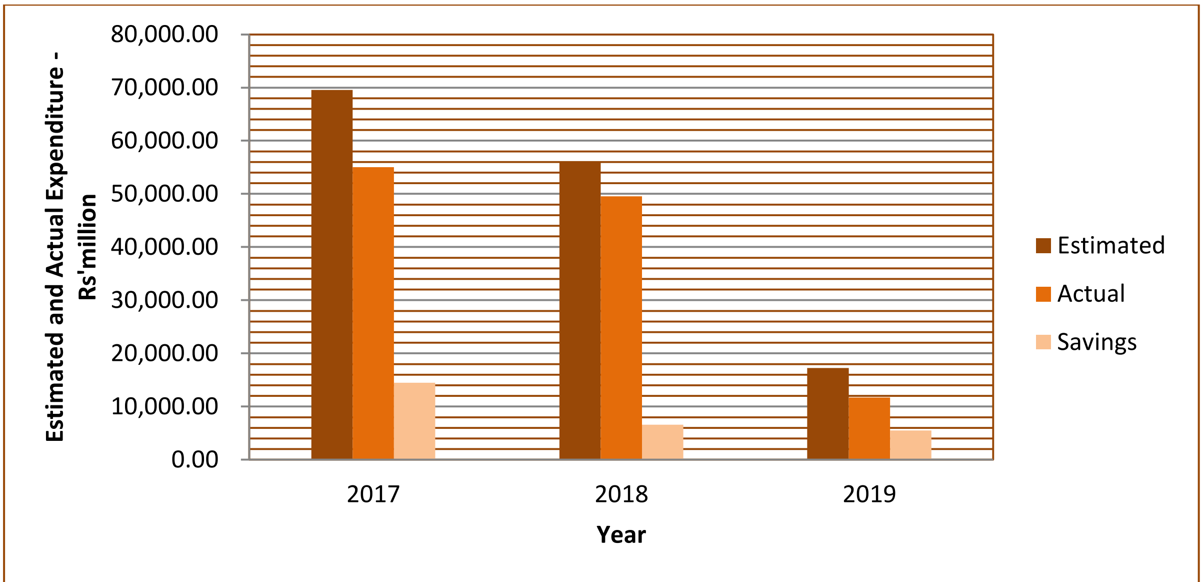


Diagram 65- Provision made by Parliament and utilization
Source – Treasury Final Account Statement

Audit observations revealed at the audit test checks carried out in respect of execution of the functions of the above institutions are briefly shown below.

Uma Oya Multi-purpose Development Project

A Memorandum of Understanding had been signed in between the Government of Sri Lanka with the Government of Iran had been signed on 27 November 2007 with the main purpose of annually diverting 145 million cubic meters of water a year from the Uma Oya basin to the Kirindi Oya basin in the southern region which suffers from water scarcity, in a manner that would not make an the environmental and other needs of water of the Uma Oya Basin. The provisions required for this project consists of foreign loan from the Export Development Bank of Iran (EDBI) amounted to US $ 450,000,000 and US $ 79,059,198 and Rs. 15,474.25 million provided by the Government of Sri Lanka. Due to not being able to fulfill or complete all the activities of the Project within the stipulated time frame, the expected results had not been achieved.

Construction of Solid Waste Disposal Facilities Project

The total estimated cost of the Construction of Solid Waste Disposal Facilities Project with Korean Loan Assistance of Economic Development Cooperation Fund is US $ 41,886,000 and of this, Korean Loan Assistance is US $ 33,536,000 and the loan is to be repaid in a period of 40 years, with a grace period of 10 years at 0.15% interest per annum. The local funding for the Project is US $ 8,350,000. The loan agreement had been entered into on 23 July 2013 and it had been planned to construct 04 sanitary landfills at Kirikkulama in Anuradhapura, Monroviawatta in Hikkaduwa, Malamulla in Panadura and Gonadhikawatta in Udunuwara to facilitate to dispose the waste generated in Local Government Institution areas completely under cluster scheme within 04 years (48 months) .

The project had not worked out at the beginning to select locations for sanitary landfills conducting a formal feasibility study and it had elapsed about 2 years since the project was commenced only to install these landfills at Kirimale and Medirigiriya battlefields in Jaffna instead of construction of these sanitary landfills in Panadura Malamulla and Udunuwara Gonadhikawatta. Accordingly, the Project had failed to achieve the desired objectives in a timely and effective manner and the construction of the landfills had not been commenced even by now.

It had been decided to suspend this Project as per Decision of Cabinet of Ministers No. 20/0933/227/013-i of 03 July 2020 . A sum of Rs.457 million incurred on the initial requirements of the Project so far had been an useless expense.

Ecosystem Conservation and Management Project

The financial provision of this Project had been made available by a US $ 45 million loan provided by the International Development Association (IDA) affiliated to the World Bank to provide benefits to the people through the conservation and management of sensitive ecosystems in selected locations in Sri Lanka. Preparation and management of pilot landscape plans , sustainable use of natural resources to improve livelihoods and Elephant-human coexistence to secure human livelihood, Reservation Area Management and Corporate Skills Development and Project Management have been stated as project components. The financial performance of the Project was at a low level of 24 per cent out of the provision made from the beginning of the Project to the end of the year under review and Project period had exceeded 70 per cent.

Amendment of the National Environmental Act

Even though the process of amendment of the National Environmental Act was commenced in the year 2017, it had not been completed even by the end of the year under review.

Post-consumer Plastic Waste Management National Project

Implementation of the Post-consumer Plastic Waste Management Project had been interupted. Even though the powers had been received under the Environmental Act to give priority to minimize the use of chemical fertilizers through compost fertilizer production which is a by-product of waste management, the attention on it had not been drawn .

Misplacement of Teak Trees

As a result of missing of 69 (358,890 dm3) trees in supplying 7,840 teak trees provided by the Forest Department to the Halmillewa Site in the year 2015 to the State Timber Corporation , a loss of Rs.2.99 million had occurred to the Corporation,

Manufacture and Sale of Furniture

Out of the advances made to six contractors to produce furniture for the Bussa Furniture Complex of the State Timber Corporation, a balance totalled to Rs. 13.78 million had remained at the end of the year under review. Actions had not been taken to procure goods of similar value from the relevant contractors to settle the balance. Further, even though an advance not more than 20 per cent of the contract value can be paid in terms of Guideline 5.4.4 of the Government Procurement Guidelines, advances to commence the work had been paid ranging from 54.4 per cent to 80.2 per cent of the contract value by exceeding that limit .

Despite the furniture remained in the warehouse amounting to Rs.10.51 million, new contracts had been entered into for the production of the furniture items without making them suit to sell and the actions had been taken having produced and sell the furniture. A stock of furniture valued at Rs. 14.90 million delivered from the factory to the warehouse from 2012 to 2019 had been damaged and had become ill-suited for sale due to prolong storage in the warehouse and insecurely stacking in place and unsafe storage of the furniture in the warehouse.

An 88 per cent of the manufacturing activities of the Boossa furniture complex had been accomplished by external contractors on a contract basis during the period from January 2019 to 17 December 2019 . Only 12 per cent of production had been carried out by Corporation employees. A sum of Rs. 10.85 million had been paid as salaries and allowances to the employees working in the furniture complex during this period. Accordingly, the contribution of the Corporation employees to production activities had remained minimal and their expenses including salary allowances had been added to the production cost. Out of the orders received, a portion of 93 per cent were received from government agencies and a very low amount that is, 7 per cent was received from private sector. Nevertheless, the Corporation had not taken actions to increase the demand from the private sector.

Debtor Balance

A sum of Rs.11.87 million from a private company was in arrears for 36 years. Even though the then Secretary to the Ministry of Environment had submitted a Memorandum of Cabinet of Ministers on 06 September 2012 to write off that debtor balance, a response had not been received even by the end of the year under review.

Madampitiya Refinery Pumping Station

Only a few samples taken from bowsers that bring waste and wastewater from outside institutions to the Madampitiya Refinery pumping station are tested in the laboratory located at that premises. Only the PH value of the wastewater is tested there in often. The tests carried out by the laboratory, where only one testing officer is occupied , had been ineffective without adequate staff to the Marine Environment Protection Authority. It had been difficult to prevent the marine pollution due to the inability to identify bowsers containing with substandard wastewater prior to landing at the pumping station .

Achieving of Sustainable Development Goals

Five indicators had been identified to achieve the Sustainable Development Goals and a proper programme to minimize the use of plastic polythene had not been available. Due to the lack of a systematic programme at the level of the Ministry of Environment there was a problematic situation with achieving the goals.

Climate Impact Reduction Project

Sixty five months had elapsed from the period of 73 months pertaining to the Project by the end of the year under review and even though it had been 89 per cent of the total time period, only US $ 79.32 million or Rs. 12,388.92 million had been spent out of the total provision of US $ 110 million for the

Project. It had been 72.1 per cent of the total provision. Accordingly, 27.9 per cent of the total provision had to be utilized within 8 months.

The works of 30 Contract Packages which should be completed by the end of the year under review valued at Rs. 1,540.7 million were not completed and had remained as work-in-progress . There was a time delay in the packages ranging from 1 month to 34 months.

Misuse of Government Lands using Fraudulent Documents

A person had taken over 10,000 acres of government lands of the Forest Department in Anuradhapura District in his own name with the support of various parties using fraudulent documents and sold. Credit facilities had also been obtained from banks and finance companies on the property. The financial value of the lands so sold was approximately Rs. 2,000 million. Even though the facts have been reported in this regard under Kebethigollewa Magistrate Court B Report No. 405/2018, a solution had not been found by the end of the year under review.

Unauthorized Felling of Timber in Weerakkulicholai Reserve in Puttalam District.

The above reserve in the Puttalam District had spread over an area of 23,354 hectares.

It had been declared as a reserve by a Notice published in the Gazette Notification No. 1834/13 dated 28 October 2013 surveying by the Forest Resource Management Project (FRMP) implemented by the Department of Forest Conservation. An unauthorized felling of timber in the reserve had taken place in late 2016 and early 2017 and even though 04 preliminary investigation teams have been appointed for more than two years from 11 May 2018 to 30 June 2020 in relation to illegal felling of timber, each of those Committees had not submitted any report.

Out of the 1,443 palu and other trees that had been fallen and removed from the reserve, the volume of timber 139 trees was 263,977 decimeter and the value of them had been identified as Rs. 6.93 million. The volume of timber and financial value of the other 1,304 trees had not been computed. An existing location of the timber that had been fallen and removed from the Weerakkulicholai Reserve or the timber that had been taken away by the Forest Offenders had not even been revealed and the legal actions as well had not been taken against the Forest Offenders.

Earnings from a Voluntary Organization outside the Hurulu Ecological Park

Hurulu Ecological Forest was declared as a Reserve by the Extraordinary Gazette Notification No. 1572/10 of 21/10/2008 and it had been published as a conservation by the Extraordinary Gazette Notification No. 1767/03 of 16.07.2012 . The extent of this reserve is 18,268 hectares and the Hurulu Ecological Park is located in an area about 2,700 hectares.

An external voluntary organization which is not affiliated to the Forest Department has been active in the Park since 2006 and they charge a guide fee from local and foreign tourists. Accordingly, a revenue receivable to the Government from a forest park belonging to the Department had been earned by the above voluntary organization from the year 2006 to 31 December 2019 without the government sponsorship or approval. The total value of it could not be ascertained and the voluntary organization had earned approximately an income of Rs. 92.98 million.

The above voluntary organization was allowed to interfere unnecessarily in the duties of the Forest Department by allowing to provide a service which should be rendered by the Department to tourists, to be carried out by an external voluntary organization in an informal manner and the ability to earn an income to the government had been prevented. This organization also had made an impact on the reputation of the Department by using letterheads and exercising the name of the Department also as indicating an affiliated institution of the Department.

Decrease in Revenue of Hurulu Ecological Park due to New Revised Ticket Prices

Even though the Department had tried to revise the ticket prices and thereby increase of government revenue by 20 per cent, as a result of the reduced ticket prices for this Park the revenue deprived to the Department had been Rs. 13.07 million during the period from 16 December 2019 to 31 January 2020 ..

Inspection on Quarries at Vavuniya District Forest Office

A sample physical test was carried out on the granite workshops belonging to the above Divisional Forest Office and arrangements were made to obtain the assistance of three Geologists from the Geological Survey and Mines Bureau for that. The EDM (Electronic Distance Measurement) instrument which is currently being used in developed countries to measure the forest produce was used to measure and the actual number of cubes of the rock was calculated using those measurement data.

In calculating the amount of granite that has been removed from the rock by the license holders of the District, the DEM (Digital Elevation Model) data for the year 2009 with the assistance of the Department of Survey had been based and measured data based on GPS calibration as well were used by EDM equipment in the year 2019. Accordingly, it was observed that the difference among the calculated number of cubes between the year 2009 and 2019 as the number of the total granite cube currently broken from the rock.

Accordingly, breaking of granite exceeding the permitted license limits had been carried out by the license holders who run the granite quarries in Vavuniya District Forest Office. The Department had not carried out proper supervision on the quarries and the arrears due to the government from that had not been recovered .

Forest Cover in Sri Lanka

The Department had identified Sustainable Management, Promotion, Stopping Deforestation, Restoration of Destroyed Forests and Promote Global Plantation and Reforestation of all types of forests by this Section under Sustainable Development Objectives 15.2 by 2020 .

It had been identified that the total forest cover of Sri Lanka is 35.12 per cent out of the total land area under the on-screen digitizing method using Google satellite imagery as per the Performance Report 2017 of the Forest Department. The Department had prepared a cover map of the forest again making a difference in the methodology that had used and accordingly, the forest cover of the whole island was identified as 29.3 per cent.

Although the Department is functioning to increase the total forest cover to 32 per cent by 2030, since it had to release lands for government development activities , a net increase in forest cover could not be achieved. An extent of 26,158 hectares of land owned by the Department had been released in between the years 2010-2015 only.

Reginonal Development

Sectors

Rural Economic Affairs

Reginonal Administration

Observations

- **Decentralized Budget**
- **Rural Infrastructure Development Programme *Gamperaliya* Rapid Rural Development Programme**
- **Haritha Samaja Activity Programme**
- **Failure to Perform Projects**
- **Underutilization of Assets**
- **Losses and damages**

Rural Economic Affairs

Rural economic affairs had been stated as a project of the Ministry of Agriculture, Rural Economic Affairs, Livestock Development, Irrigation and Fisheries and Aquatic Resources. The Annual Budget Estimate stated it as a key function of planning the financial assistance for rural economic affairs. Further, Ministry of National Policies, Economic Affairs, Resettlement and Rehabilitation, Northern Province Development, Vocational Training and Skills Development and Youth Affairs had implemented the decentralized budget, infrastructure development, rural infrastructure development and *Gamperaliya* Rapid Rural Development Programme under the Integrated Rural Development and Domestic Economic Programme.

Provisions amounting to Rs.172,225.36 million had been made by Parliament from the year 2017 to 2019 for the performance of functions mentioned above and out of that, a sum of Rs.102,825.55 had been utilized. Accordingly, 40.30 per cent or Rs.69,399.81 million of the provisions made by Parliament for the said period, had not been utilized. Details are given in Figure 66

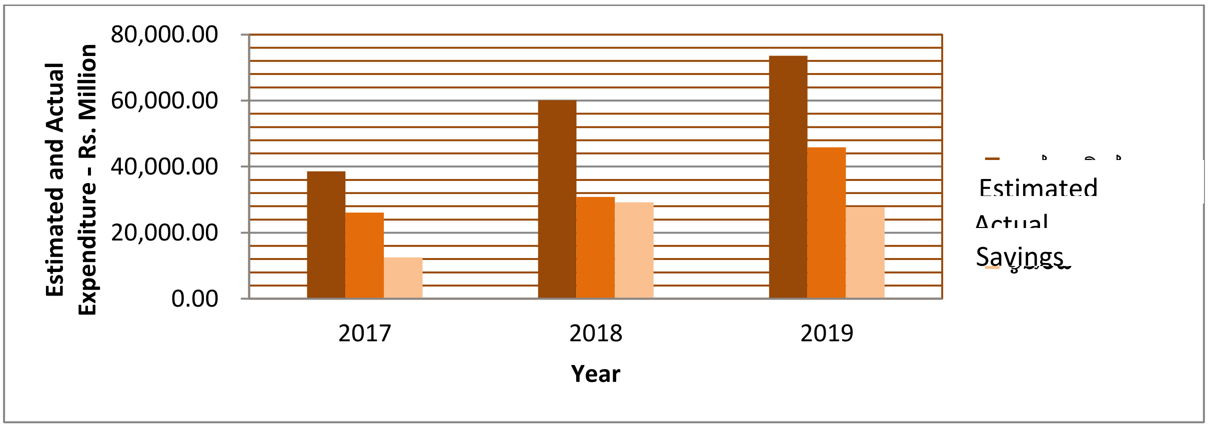


Figure 66..Provision made by Parliament and the utilization
Source - Final Treasury Accounting Statements

The audit observations revealed at audit test checks carried out with regard to the performance of the aforesaid function are summarized below.

Decentralized Budget

A provision of Rs.10 million had been made annually for one Member of Parliament with the intention of developing infrastructure and improving the social, economic and living standard of the community. Accordingly, provisions totalling Rs.2,350 million had been made for the implementation of 21,263 projects in the year 2019 while 20,612 projects had been completed by utilizing a sum of Rs.1,418 million out of the provisions approved as at the end of the year under review. As such, 40 per cent of the provisions approved had not been utilized while activities of 651 approved projects had not been completed.

Rural Infrastructure Development Programme

Provisions amounting to Rs. 13,825 million had been made by the Budget Estimate -2019 for the implementation of Rural Infrastructure Development Programme. Even though provisions totalling Rs.13,154 million had been made to the District Secretaries and Secretaries of Ministries for the implementation of 8,248 projects, works of 4,528 projects had been completed by utilizing a sum of Rs.4,584 million by the end of the year under review. Accordingly, 63.69 per cent of the provisions made had not been utilized while 3,272 projects had not been implemented.

Gamperaliya Rapid Rural Development Programme

Provisions amounting to Rs. 48,000 million had been made by the Annual Budget Estimate- 2019 for the *Gamperaliya* Rapid Rural Development Programme- 2019 implemented with the intention of supporting the livelihood development of people and accelerating the economic growth by improving the quality of infrastructure. Number of 117,354 projects with an estimated value of Rs.47,283 million had been approved in the year under review. Out of the 105,203 projects implemented, 101,391 projects had been completed at a cost of Rs.34,480 million while 12,151 projects had not been implemented.

Regional Administration

The following functions had to be executed by the Ministry of Internal and Home Affairs and Provincial Councils and Local Government and 09 Provincial Councils, 25 District Secretariats and two statutory bodies under this .

- Regulating the activities related to the Provincial Councils.
- Training of Members, Officers and Employees of Provincial Councils and Local Government Institutions
- Government functions pertaining to Local Government Institutions
- Providing loan facilities to local authorities for the development of public facilities
- Conducting research on every dimension of Provincial Councils and Administrations of Local Government Institutions
- Coordinating activities, projects, programmes and resources at the District and Divisional level
- Taking actions relating to registration of births, marriages and deaths

A sum of Rs. 800,087.00 million had been made available by Parliament for the period from the year 2017 to 2019 to execute the above-mentioned functions and a sum of Rs.725,536.74 million had been utilized thereof. Accordingly, a provision of Rs.**74,550.26** million or 9.32 per cent out of the provisions made available by the Parliament, had not been utilized. Details are shown in Diagram 67

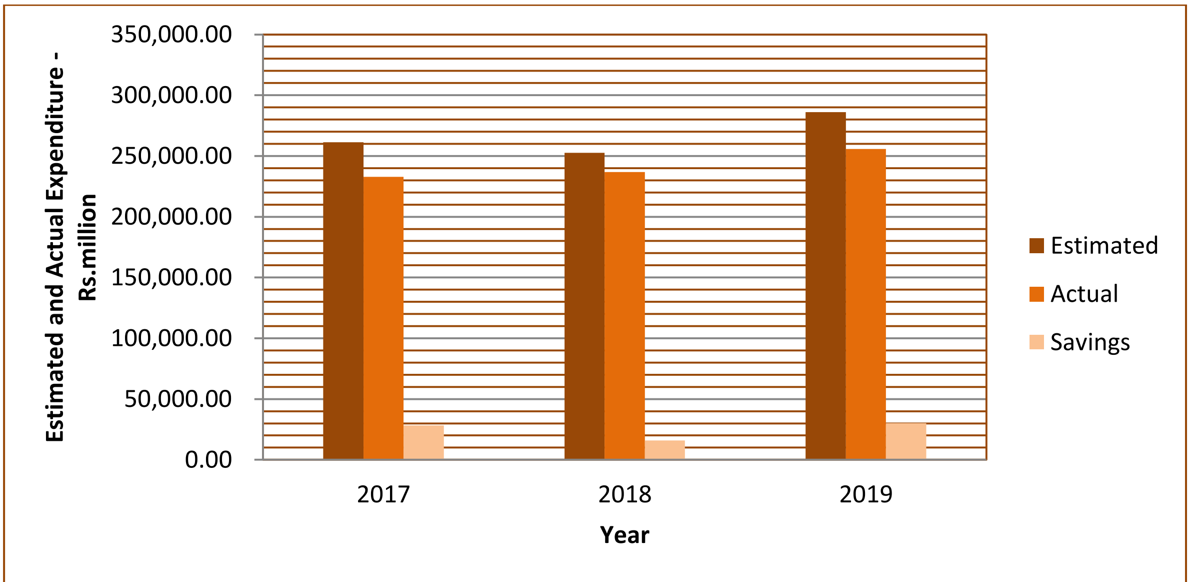


Diagram 67- Provision made by Parliament and utilization
Source – Treasury Final Account Statement

Audit observations revealed at the audit test checks carried out in respect of execution of the above functions by the Ministry, District Secretariats and

Statutory Bodies the institutions under it are summarized and shown below.

Haritha Samaja Activity Programme

A total of Rs. 9.11 million from the provisions made available by the Supplementary Estimates for the implementation of the Haritha Samaja Activity Programme in 03 Divisional Secretariats in Kegalle District, Kalutara District Secretariat and 02 Divisional Secretariats in Ratnapura District had not been utilized.

Failure to Perform Projects

- Actions had not been taken to complete Bathalayaya College Volleyball Stadium Development Project implemented by Mahiyanganaya Divisional Secretariat at an estimated cost of Rs. 2.21 million, developing of the side wall of the Public Stadium Project of the Passara Divisional Secretariat at an estimated cost of Rs. 3.60 million and two Projects valued at Rs. 3.97 million and Rs. 3.64 million in Bandarawela Divisional Secretariat during the year under review.

- The works of 04 multi-purpose buildings, 5 Seva Piyasa and a Nila Piyasa building which had been commenced in the years 2015 and 2016 at a cost of Rs.10.75 million with the objective of providing facilities to the Grama Niladharis, Development Officers, Samurdhi Officers and Agricultural Research and Production Assistants attached to the Grama Niladhari Divisions in the Bandaragama Divisional Secretariat Division, had been stopped without being fully completed.

- The Project to construct a new four storied building for the Kalutara Divisional Secretariat had been commenced in the year 2017 at a cost of Rs. 108.48 million and had to be completed in 2018. But works had been halted and only 22.5 per cent of the total work had been completed and a sum of Rs.42.90 million had been spent for that.

- A sum of Rs. 2.15 million had been provided to purchase of lands for national water supply projects in Pachchilaipalli Divisional Secretariat, Kilinochchi during the period from 4 preceding years to the year under review. The money received had been retained in deposit accounts without performing those functions even by the end of the year under review.

- It had not taken into consideration the land and the needs of customers when designing and preparing of engineering estimates of the buildings of Okewela Divisional Secretariat. As a result, changes were made to the building plan during construction and Rs. 5.40 million had been paid as 72 additional items. Further, because of the contract was canceled upon submission of false documents by the first bidder and transfer to the second bidder, an additional expenditure of Rs. 3.68 million had been made.

- A provision of Rs. 188 million had been made available for the construction of the Homagama Divisional Secretariat building. The construction of the office building had been suspended in the year 2017 and the works had not resumed even by the end of the year under review.

Underutilization of Assets

- A sum of Rs. 7.52 million had been spent from the year 2014 to 2018 for the development of Gorakana Playground in Panadura Divisional Secretariat. The playground had not been arranged to be usable and the maintenance activities as well had not been properly carried out. The development works that had been done were deteriorating.

- Nine multi-purpose buildings and a Seva Piyasa which had been constructed at a cost of Rs. 19.09 million with a view to providing offices with facilities for Grama Niladharis and Agricultural Research and Production Assistants attached to the Grama Niladhari Divisions of Panadura Divisional Secretariat and Bandaragama Divisional Secretariat during the period 2014-2016 had not been utilized even by 10 June 2020.

- Although the Mannar District Secretariat had purchased a Sesamy Oil production machine in 2018 for Rs. 4,978,350, necessary actions had not been taken to use the relevant machinery for the production of Sesamy Oil by the end of the year under review.

- The machines valued at Rs. 15.95 million had been purchased by the District Secretariat and provided them to the Madu Co-operative Society with the view of producing fruit juices in the Madu area under the financial assistance of the Ministry of Resettlement, Rehabilitation, Northern Cultural Affairs and Hindu Cultural Affairs in the year 2019. The machines remained in idle for more than a year without being utilized for the intended purpose.

- Two hundred eight houses constructed with Government funds valued at Rs.151.60 million in 03 Divisional Secretariats in the Mannar District during the period from year 2015 to 2019, were being used. Because of those who took over the houses had not maintained them and selection of inappropriate locations, the houses had damaged for more than five years.

- A sum of Rs.1.98 million had been spent on the construction of a pre-school building on an estimated cost Rs. 2.00 million under the Infrastructure Programme for Sinhala Muslim Protracted Displaced People in the year 2018 by Manthai West Divisional Secretariat on a land which had not owned by the

Divisional Secretariat. Although the construction of the building had been completed in December 2018, it had not been utilized. Any effective action to acquire the land had not been taken even by the end of the year under review.

- Two sub-offices belonging to the Hikkaduwa Divisional Secretariat had been established in a rented building at Rathgama and Madampagama in the year 2017. A total of Rs.8.33 million had been spent on the maintenance of the two sub-offices by June 2019. However, only the activities such as issuing nutrition stamps to pregnant women and Grama Niladhari certificates had been carried out by those sub-offices .

- The procurement of renovation of bicycle parking at Anuradhapura District Secretariat with an engineering estimated value of 4.88 million had been awarded to a contract value of Rs. 4.64 million without inviting competitive bids.

Losses and damages

- The Gabion Wall for which was set to the safeguard of the official residence of the Galle District Secretary had not been constructed to a suitable standard. As a result of the damages occur to the wall in two days in October 2019, there had been a loss of Rs. 7.69 million to the Government.

- A weigh of 26,244 kg of explosives had been released to the quarry at Liyangastota area in the Ambalantota Divisional Secretariat from October 2017 to October 2019. However, the total volume of granite excavated was 12,656 cubes according to the field inspection report conducted by the Geological Survey and Mines Bureau in October 2019 and the minimum amount of explosives required for that had been 6328 kg. Accordingly, tasks in which excess explosives of 19,916 kg of the remaining explosives or 76 per cent were used were not revealed.

- The quarry maintained at the Okewela Divisional Secretariat had excavated 0.6227 hectares of government land beyond its personal boundary as per the final village plan No. 240. The Divisional Secretariat had not charged government fees for 10,911 cubes of granite excavated so illegally in terms of the circular.

Social Protection

Sectors

Community Development

Social Relief

Social Security

Observation

- Samurdhi Subsidies Programme
- Providing an allowance for low income citizens above 70 years of age
- Payment of Disability allowance
- Provide access to buildings for persons with disabilities
- Inactive Lands
- National Policy for Adults
- Purchasing a Management Information System for the Socail Security Board of Sri Lanka
- Failure to implement the provisions of the Act
- Maintaining the hostels of the Institute of Rural Development Research and Training
- Livelihood Development Project
- Outstanding employee loans
- Granting Samurdhi subsidies out of order
- **Construction of Kottawa Children's Guidance Center**
- **Construction of Batticoloa Vocational Training Center**
- **Construction of Kilinochchi Vocational Training Center**
- **Providing Tool Kits to the Trainees**
- **United Nations Children's Fund Assistance Programme**
- Actions taken on Violence and Abuse on Women and Children
- Ensuring Child Protection by strengthening the Civil Society
- **Dry Zone Development Project**
- Non-formulation of Laws on Child Rights
- Refurbishment of Children’s Homes
- Delay in Resolution to Complaints
- Non-legalization of the National Child Protection Policy

- **Impact of Public Serice Pensions on the Economy**
- **Management of Funds**
- **Providing Fire Extinguisher Vehicles and Equipment for the Colombo Municipal Council**

Community Development

Formulate and implement policy mapping and strategizing strategies to create effective, efficient, fast and effective philanthropic social and economic services through local and global agencies through service networks and professionals to enhance quality of life. The objective of this sector was to be nationally active in community development activities.

In order to achieve that objective, the Ministry of Primary Industries and Social Empowerment and its **03** departments and 04 statutory bodies had to play the following role.

- Formulation of policy programs and projects related to primary industries and social empowerment, value addition, enhance export market opportunities and strategies to direct farmers, fishermen and small scale agro entrepreneurs to the global economy by creating industrial security.
- Promoting sustainable resource use and biosafety, including value added products.
- Facilitating agriculture development zones and fisheries export development zones
- Elderly care and protection
- Identifying and rehabilitating the disabilities of persons with special needs
- Rural and regional economic development by implementing the Samurdhi Programme
- Reviewing public assistance schemes, reorganization and introduction of appropriate new reforms
- Assistance to tuberculosis patients, kidney patients, leprosy patients, cancer and thalassemia patients and their dependents
- Implementation of counseling services
- Provide strategies to give vocational training and job opportunities for persons with disabilities
- Implementation of social security and insurance schemes

From the year 2017 to 2019, Parliament had allocated a total of Rs. 228,020.02 million, of which Rs. 209,884.51 million had been utilized to fulfill the above functions. Accordingly, 7.95 percent or Rs. 18,135.51 million of the allocation made by Parliament had not been utilized. Detailed diagram 68 is given below.

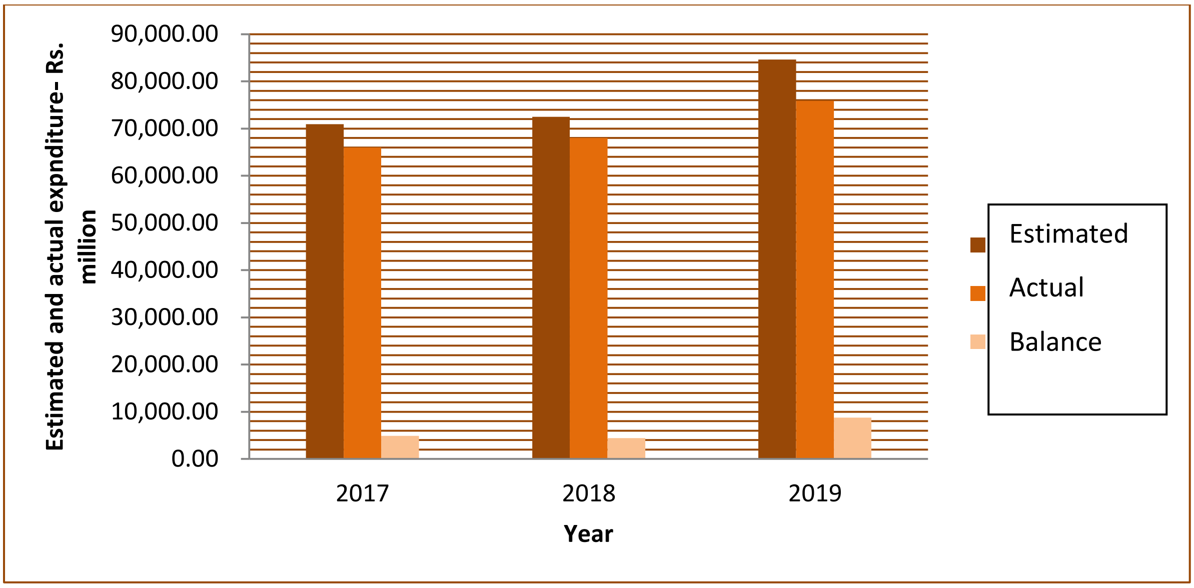


Diagram 68 – Provision and utilization provided by Parliament
Source – Final Financial Statements of the treasury

The following is a summary of the audit observations made in the performance of the above role.

Samurdhi Subsidies Programme

In 2018, the number of Divi Neguma and Samurdhi Beneficiaries Island wide was 1,384,021, but in the year under review the number had increased by 416,161 or percent to 1,800,182 during the year under review. According to the United Nations Sustainable Development Goals 1.1, the poverty alleviation of all people in all areas should be eradicated by 2030, but the number of Samurdhi recipient families in Sri Lanka increased from 1,453,078 in 2015 to 1,800,182 by the end of 2019.

The number of beneficiaries receiving the nutrition allowance in 2015 was 101,200, but by 2019 it had increased to 300,246. Detailed diagram 69 is given below.

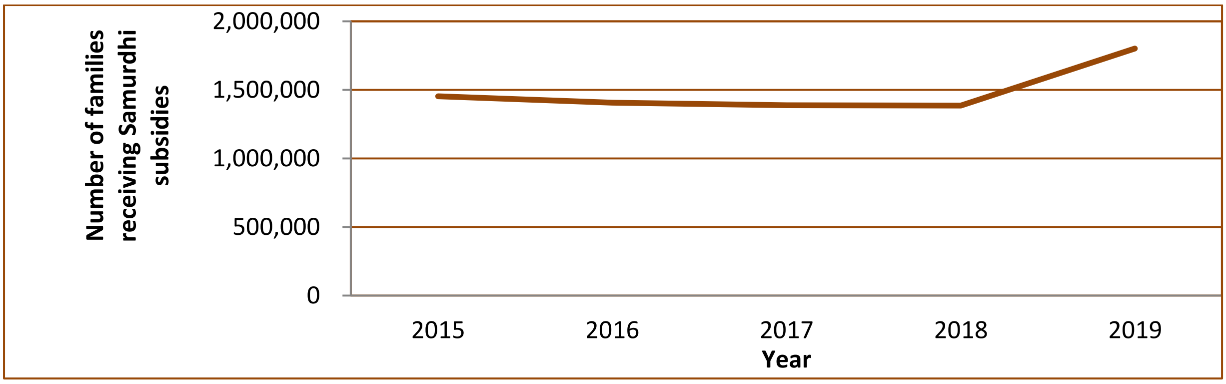


Diagram 69 – Number of families receiving Samurdhi subsidies
Source – Annual report of the Central Bank of Sri Lanka-2019

Providing an allowance for low income citizens above 70 years of age

Provisions of Rs.10,000 / - were provided during the year under review by the National Secretariat for Elders to pay a monthly allowance of Rs.2,000 / - to an adult over 70 years of age earning less than Rs.3000. During the year under review, 416,667 elders were paid benefits amounting to Rs. 9,855.5 million, while another 157,720 elders were unable to pay benefits on the waiting list. As per the decision of the Cabinet of Ministers dated 31 August 2016, Rs. 100 had been deducted from this allowance and given to the Secretariat of Elders by the Divisional Secretariats and accordingly Rs. 502.8 million had been credited to the Elders' Fund established from that fund during the year under review. As at 31 December 2019, the balance of the fund was Rs. 1.93 billion. During the year under review, Rs. 1,404.8 million was allocated from the fund to carry out 14 functions for the elderly community, but only Rs. 297.22 million or only 21 percent had been utilized.

Payment of Disability allowance

From May 2019, the disability allowance was increased from Rs. 2,000 to Rs. 5,000 and allowances were paid to 72,000 persons with disabilities. The 2019 Annual Budget Estimation provided Rs. 4,320 million, with Rs. 3,000 in the first four months and Rs. 5,000 each in the next eight months, providing allowances to 72,000 persons with disabilities. During the year under review, Rs. 2,810 million had been spent. Accordingly, as at 31 December 2019, 35 percent of the provision had not been utilized.

Provide access to buildings for persons with disabilities

Under the access order for persons with disabilities No. 01 of 2016, the council for persons with disabilities was required to take legal action to provide access to buildings for persons with disabilities and monitor to access facilities. A technical officer included in the approved staff of the National Secretariat for the disabled could not be successfully recruited due to non-recruitment by the end of the year under review.

Inactive Lands

In 2011, the National Council for the Elderly received a gift deed worth Rs. 13 million and another land worth Rs. 3.2 million for the construction of elders' homes. At the end of the year under review, the lands remained vacant due to the failure to build elders' homes on those lands.

National Policy for Adults

In 2016, the secretariat for the elderly initiated the formulation of a national policy for the elders in Sri Lanka based on how to ensure that aging is not a challenge as the need for an elderly policy arises in achieving the country's development aspirations. The policy, which was proposed to be implemented in 2019, had cost Rs. 5 million to socialize, but had not been implemented by the end of the year under review.

Purchasing a Management Information System for the Socail Security Board of Sri Lanka

Provisions of Rs. 12.51 million were made to the Social Security Board of Sri Lanka for the purchase of a Management Information System to implement the social security pension scheme. The purchase of this computer system was delayed for about 4 years.

The board has not been able to identify active and inactive contributors who have paid their dues due to the existing management information system errors in the board since 2016.

Failure to implement the provisions of the Act

According to the provisions of the social security board (Amendment) Act No. 33 of 1999, the board had not performed the following functions.

- Encouraging self-employed persons
- Improving their skills and abilities
- Encourage youth to engage in self-employment and improve their skills and abilities
- Awareness about the benefits of thrift and resource management to self-employed people
- Improving the life standards of self-employed

Maintaining the hostels of the Institute of Rural Development Research and Training

The hostel with training facilities for 30 officers belonging to the existing Rural Development Research Institute in Borella under the Ministry has been closed from the year of 2018 for renovation work. However, by the end of the year under review, the renovations had not begun and training could not be carried out. In addition, equipment worth Rs. 3.38 million purchased for the hostel in the year of 2017 and 2018 remained idle in the warehouse.

Livelihood Development Project

Under the Livelihood Development Project, 09 programs were implemented with the aim of empowering Samurdhi beneficiaries and low income families. These programs were aimed at improving the economic and social status of samurdhi beneficiaries and members of low-income families, improving the level of health and nutrition, providing vocational training, assisting in legal matters, developing infrastructure and creating environmental development. The Samurdhi Development Department had spent Rs. 504.85 million to carry out these tasks.

A total of Rs. 199.78 million has been allocated for the implementation of 02 major projects and 7,938 projects in the years 2018 and 2019.By the end of the year under review, those tasks and projects had not been completed.

Outstanding employee loans

Out of the 204 transferred deceased, suspended and dismissed officers in the 02 departments who were merged into the department as at 31 December 2019, the total outstanding debt balances for a period of 03 months to 05 years amounted to Rs. 3.98 million. Further, the loan balance of the employee credit circular Fund, which includes the loans of the employees of the three authorities integrated into the department as at 31 December 2013, is Rs. 130.16 million. Although loans have been made from this fund to the officers who have been deputed by the authorities, no action has been taken to obtain the approval of the treasury and to prepare financial statements since the year of 2014.As a result, the loan balance due at the end of the year under review was not disclosed.

Granting Samurdhi subsidies out of order

Out of 589,472 families included in the waiting lists in 21 districts, 135,106 families had not been given Samurdhi subsidies. Also, out of 43,853 families included in the waiting lists of the Divisional Secretariats in the Gampaha District, 33,398 families selected outside the waiting list were given subsidies.

Social Relief

The objective of this sector was achieving the desired outcome through fast, efficient and effective research, policy formulation and program implementation through innovative approaches through inter-institutional coordination and professional intervention for social integration through the protection and empowerment rights of targeted communities. The following functions had to be executed by the Ministry of Primary Industries and Social Empowerment and a Department and 04 Statutory Boards under this to achieve these objectives.

- Elderly care and protection
- Identifying and rehabilitating the disabilities of persons with special needs
- Review of Public Assistance Scheme, Reorganization and introduction of appropriate new reforms
- Providing assistance to tuberculosis patients, kidney patients, leprosy patients, cancer patients and thalassemia patients and their dependents
- Implementation of counseling services.
- Provide strategies required to offer vocational training and to create job opportunities for persons with disabilities.

A sum of Rs. 1,971.46 million had been made available by Parliament for the period from the year 2017 to 2019 to execute the above-mentioned functions and a sum of Rs. 1,..8.64 million had been utilized thereof. Accordingly, a provision of Rs. 961.81 million or 15.30 per cent out of the provisions made available by the Parliament, had not been utilized. Details are shown in Diagram 70

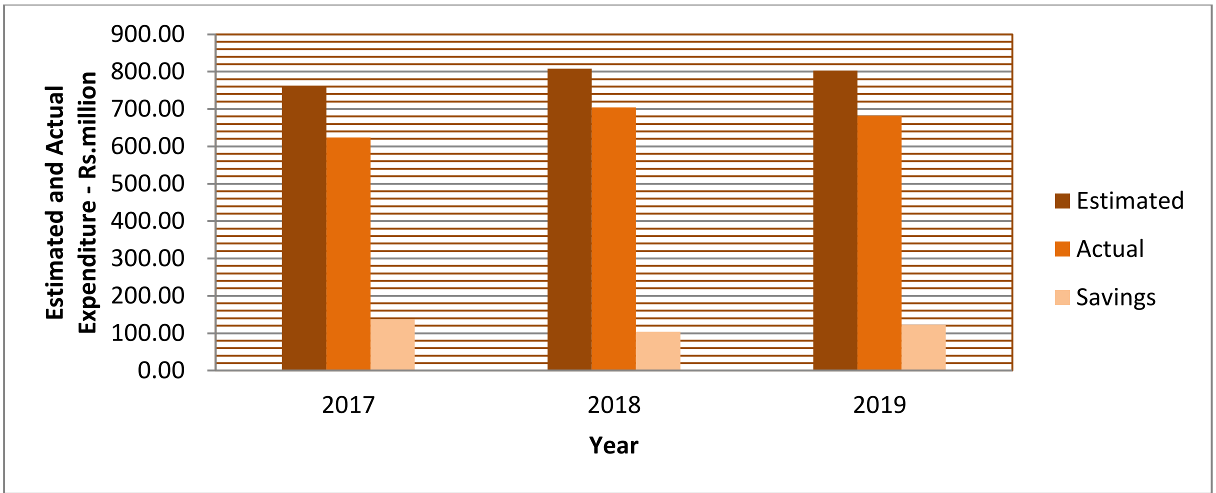


Diagram 70- Provision made by Parliament and utilization
Source – Treasury Final Account Statement

Construction of Kottawa Children's Guidance Center

Construction works of the Kottawa Children's Guidance Center owned by the Department of Social Services with an estimated cost of Rs. 48.9 million scheduled to be completed in the year 2017. However, due to the delays in commencing of the Project, the construction could not be completed even by 31 December 2019 . Even though a sum of Rs.43.06 million had been spent for the construction as at that date the Vocational Training Center could not be commenced since the Project had not been completed.

Construction of Batticoloa Vocational Training Center

Construction of the Batticaloa Vocational Training Center was scheduled to be commenced in 2016 and to be completed in 2017. The estimated cost of that had been Rs. 100 million. Nearly a four years had elapsed for the said construction works by 31 December 2019 and sum of Rs. **97.43** million had been incurred. Even though it had been planned to recruit instructors during the year under review and begin the relevant courses, the trainings could not be commenced even by the end of the year under review due to the constructions had not been completed.

Construction of Kilinochchi Vocational Training Center

A vocational training center had been planned to be built in Kilinochchi in the year 2017 for the economic development of the youth community in the Northern Province. The estimated cost of the first phase had been Rs. 90.43 million. The construction of the men's and women's hostels and classrooms had been completed in October 2018 under the first phase of this contract. However, as the constructions of kitchens and dining rooms in men's and women's hostels had been included under the second phase, it had been not impossible to enroll students and start training.

Providing Tool Kits to the Trainees

A sum of Rs.3.19 million had been made available during the year under review to provide tool kits and sewing machines to the trainees who have completed their formal vocational training under the welfare and development programme for the disabled persons. A number of 169 trainees who had completed trainings in 13 courses during the year under review and passed the examinations were qualified to obtain these kits and sewing machines. Nevertheless, any toolkit had not been provided during the year 2019 and equipment valued at Rs. 174,439 had been purchased only for 10 trainees in 02 courses by September 2020 . Accordingly, the delivery of the kits was delayed.

United Nations Children's Fund Assistance Programme

An allocation of Rs. 50 million had been made available for the year 2019 by Expenditure Head of the Ministry of Provincial Councils and Local

Government Under the assistance of the United Nations Children's Fund to contribute to the children's programmes implemented by the Provincial Councils. An imprest of Rs.35.93 million had been released by the Treasury through the Ministry Expenditure Head at the request of the Eastern, Uva and Central Provincial Councils in the year 2019 for the implementation of child protection activities, education programmes and health programmes by those Provincial Councils. Accordingly, out of the provisions made available for this purpose, 28 per cent or Rs. 14.07 million had not been utilized.

Social Security

The following functions should have been performed under the purview of the Ministry of Women and Child Affairs and Development of Dry Zones, two Departments and a statutory authority with a view to create a society that is sensitive to the needs of women and children.

- Formulation, monitoring and evaluation of policies, programmes and projects, in regard to the subjects of women and children
- 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 groups affected by conflict and poverty, and to ensure gender equality and equity
- Implementation and strengthening of laws and policies for the prevention of women and child abuse
- Implementation of policies relating to accomplishment of Millennium Development Goals
- Implementation of the Women's Charter and Children's Charter
- Formulation of policies and programmes on early childhood care and development aimed at bringing up a physically and mentally healthy child and formulation and implementation of plans, programmes and projects to promote rights of vulnerable children in line with national policies and international standards
- Implementation of the Sevana Sarana Foster-Parent Scheme

Payment of pensions in terms of the Pensions Minute established on 05 February 1934 for a pensioners' community highly satisfied in economic and social aspects, offering legal benefits to pensioners of Public Service 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, payment of widows' and orphans' pensions in terms of the Widows' and Orphans' Pension Fund Ordinance No.01 of 1898 and payment of widowers' and orphans' pensions in terms of Widowers' and Orphans' Pension Áct, No.24 of 1983 and control and management of the Public Service Provident Fund and regulation of the payment process in terms of Ordinance No.18 of 1942 are the functions which should be performed by this sector.

Provisions of Rs.742,064.59 million had been made by Parliament in the year under review and two preceding years on behalf of this sector for performing the aforesaid functions and a sum of Rs.733,531.00 million out of that, had been utilized. Accordingly, 1.15 per cent or Rs.8,533.59 million out of provisions made by Parliament had not been utilized during the said period. Details appear in Figure 71.

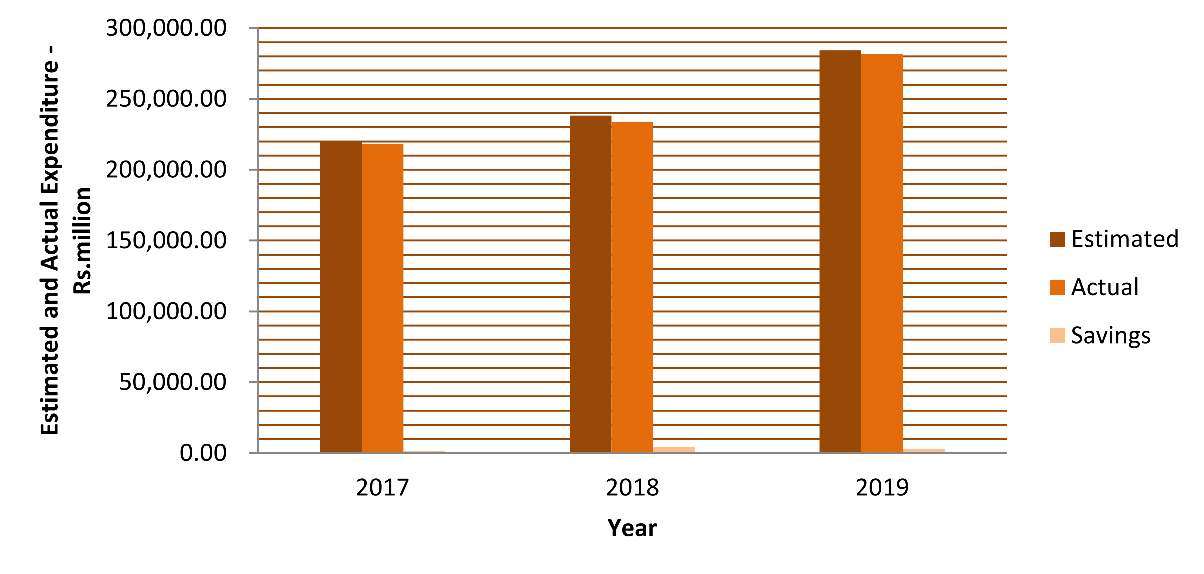


Figure 71– Provisions made by Parliament and Utilization
Source – Final General Treasury Accounting Statements

The audit observations revealed during the performance of aforesaid functions are summarized below.

Actions taken on Violence and Abuse on Women and Children

Implementing welfare and rehabilitation programmes for vulnerable women and children is a main function of the Ministry. A number of 1,806 complaints reported on various forms of violence relating to women had been received in the year under review by the Women Help Line 1938 of the Committee on Women of the Ministry, for immediate assistance. Moreover, news of 1,664 cases of violence against women and child abuse had been reported in newspapers. However, the Ministry had not taken any action regarding the said complaints and news.

Ensuring Child Protection by strengthening the Civil Society

This had been commenced in the year 2018 as an island wide programme for briefing the adult community to ensure children are free from all forms of abuse and identifying the civil society force for strengthening the civil society thereon. Provisions of Rs.6.58 million had been made for commencing the Jana Pawura programme at village level. The said total provisions had been utilized for conducting awareness programmes of 22 Divisional Secretariats in the District of Anuradhapura and had only identified the civil society force at village level.

Dry Zone Development Project

The Dry Zone Development Project had been commenced with a view to implementing programmes for the socio-economic development of the community living in the dry zone, minimizing the effects faced by them and for controlling situations arising due to climatic effects. A proper feasibility study had not been carried out for selecting the severely affected Districts out of Districts in the Dry Zone. Only the District of Anuradhapura, which is the largest District in the Dry Zone, had been selected for implementing projects relating to dry zone development. An additional staff comprising of 12 employees had been recruited to the project and paid salaries of Rs.4.63 million in the year under review. Even though provisions of Rs.331 million had been made in the year under review for this project, only a sum of Rs.67.37 million representing 20 per cent thereof had been utilized.

Non-formulation of Laws on Child Rights

The Department of Probation and Childcare Services had been established in the year 1956 and 64 years had passed since then. However, formulation of a national policy in compliance with the Universal Charter so as to protect rights of the child and making laws relating thereto, had failed even by the end of the year under review.

Refurbishment of Children's Homes

Provisions of Rs.3.50 million had been made in the year under review for refurbishment of children's homes and Rs.3.25 million thereof had been sent to Provincial Commissioners of Probation for refurbishment of 10 children's homes. As the monies were sent before completion of refurbishment activities planned, they had been retained in general deposit accounts. Moreover, the functions planned, had been changed after receiving monies and the said monies had been sent before calling for quotations. The monies sent had been saved due to carrying out functions for a less expenditure and a follow up action as well had not been taken on the progress of achievement of functions.

Delay in Resolution to Complaints

Out of 81,259 complaints reported to the National Child Protection Authority from the year 2011 to the end of the year 2019, a number of 41,142 complaints or 50 per cent of the complaints received, had not been resolved even by the end of the year under review. The inefficiency of Divisional and District Officers for collecting information relating to complaints received to the Authority every year, failure in calling for information and failure in taking follow up action on investigations and improper supervision had contributed to the rapid increase in the number of unresolved complaints. A national data base had not been prepared and maintained relating to child abuse in terms of the National Child Protection Authority Act, No.50 of 1998.

Non-legalization of the National Child Protection Policy

Even though a period of 20 years had lapsed after the establishment of the National Child Protection Authority, the legalization of the National Child

Protection Policy had failed even by the end of the year under review.

Non-performance of Functions of the Early Childhood Development Project

The Early Childhood Development Project had been commenced under World Bank aid of US$ 50 million with a view to developing high quality early childhood in Sri Lanka. Provisions of Rs.1,200 million had been made for the year 2019 for carrying out the affairs of the project. A sum of Rs.1,186.78 million out of that had been spent. Provisions of Rs.254 million had been made for activities such as construction of 75 early childhood development centres in the estate sector, construction of 03 early childhood development resource centres, construction of 12 new early childhood development centres, included in the Action Plan in the year 2019. However, the said activities had not been carried out as planned. Even though provisions of Rs.375 million had been made for the development of facilities in 1,700 early childhood development centres, only 92 centres had received provisions at the end of the year 2019 and only the works of 03 centres out of them had been completed.

Impact of Public Service Pensions on the Economy

Benefits had been granted as at 31 December 2019 by the Department of Pensions to 639,984 active pensioners and the expenditure on pensions in the year 2019 had been Rs.272,463 million. It represented 11.8 per cent of the total Government recurrent expenditure and it had represented 11.6 per cent of the total Government revenue. The increase in the total expenditure on pensions including the year under review and 7 preceding years is indicated in Figure 72

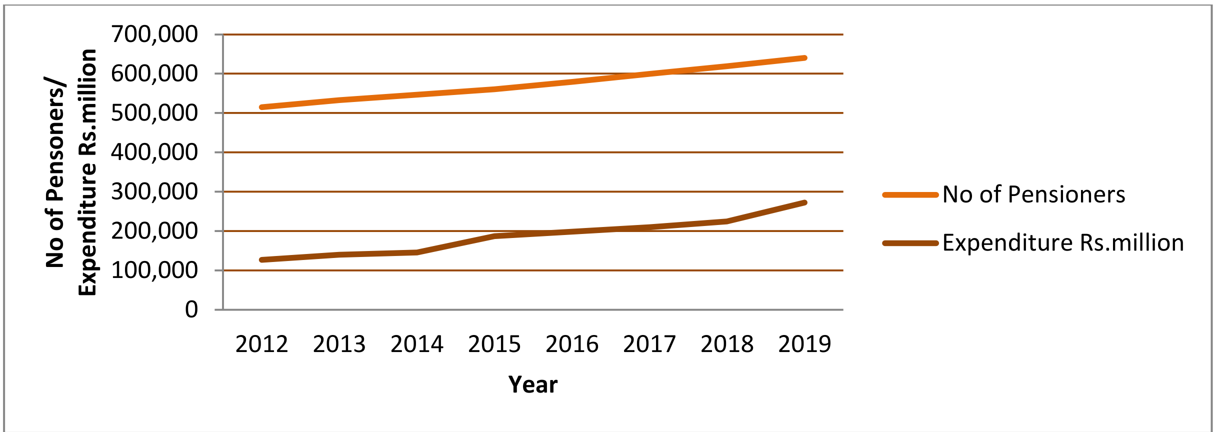


Figure 72 – Number of Pensioners and Expenditure on Pensions
Source – Pensions Data Base – Statement of Financial Position 2019

Management of Funds

Five pension funds are managed by the Department of Pensions and out of them, only the Public Service Provident Fund was at a functional level. The Provincial Public Officers became entitled to the benefits of pension entitled to Public Officers and widowers' and orphans' pension with the establishment of Provincial Public Service in the year 1993. As such, no new members had joined the Local Government Services Pension Fund, Local Government Services Widows' and Orphans' Pension Fund and Local Government Services Widowers' and Orphans' Pension Fund from 03 September 1993 up to the end of the year under review. Provisions had been obtained from the Expenditure Head of the Department of Pensions and made necessary payments as adequate funds were not available for payment due to non-receipt of subscriptions of new members.

In terms of Order No.04 of the School Teachers' Pension Act, No.44 of 1953, a fund should have been raised by the contributions of Teacher Widows and Orphans and paid the Teacher Widows and Orphans pensions from the fund. However, a bank account had not been operated on behalf of the fund for collecting and expending contributions and the contributions had been collected in the Widows' and Orphans' Contribution Bank Account of the Department of Pensions. Budgetary provisions had been made under the Expenditure Head of the Department of Pensions and expended therefor.

Providing Fire Extinguisher Vehicles and Equipment for the Colombo Municipal Council

Action had been taken in the year 2018 to obtain a loan from the Austrian Government for purchase of fire extinguisher vehicles and equipment for the Colombo Municipal Council. Accordingly, provisions had been made therefor in the year 2019 under the Ministry of Provincial Councils and Local Government. There had been a delay in entering into the loan agreement up to 31 October 2019. As such, the total provisions made by Parliament had been saved as the affairs relating to the said project could not be carried out in the year 2019.

Service Economy
Sectors
Financial Service Public Service Trade Tourism Zoological & Botanical Gradens
Observations

- **Government Revenue**
- **Quality of Imported Goods**
- **Inspection of containers consisting of imported goods in Depth**
- **Implementation of the New Revenue Administration Management Information System (RAMIS)**
- **Slowing down in Project Implementation**
- **Compensation to Depositors of a Financial Institution**
- **Accounts Receivable and Payable**
- **Progress of the Annual Action Plan**
- **Execution of Powers of the Commission**
- **Failure to Make Investments**
- **Broadcasting Programmes using Electronic Media**
- **Moving of Office to Another Location**
- **Providing Water to the Residents of Malmaduwa Village**
- **Construction of 3000 Rainwater Harvesting Units (Tanks) in Jaffna District**
- **Unused Software**
- **Forms that are Used Directly by the Public**
- **Revenue from the Lotus Pond Theater**
- **Establishment of a Center of Excellence for Higher Education Recruitment of Trainee Project Assistants**
- **Public Service Provident Fund**

- **Acquisition of Property for Missions**
- **Efficiency Bar Examinations**
- **Payment of Incentives Without Aapproval**
- **Idle Assets**
- **Payment of Secondment Allowance**
- **Arrears Rents of Government Quarters**
- **Unauthorized Occupation of Government Houses**
- **Damages Forged Measurement Raids**
- **Forged Measurement Raids**
- **Installation of Air Conditioning System in the New Laboratory**
- **Warehouses Owned by the Department**
- **Utilization of Scientific Warehouses**
- **Export Market Access Assistance Programme**
- **Inventory Management**
- **Enterprise Resources Planning Project**
- **Perform Inconsistent with the Provisions of the Companies Act**
- **Arrears Income**
- **Registration of financial Statements of Companies**
- **Scanning Of Company Files**
- **Idle Assets**
- **Arrival of Tourists and Earning of Foreign Exchange**
- **Underutilization of Provisions**
- **Achievement of Expected Targets**
- **Expenditure on Sales Promotion**
- **Failure to take Action for the Recovery of Embarkation Levy**
- **Recruitment of Officers contrary to the Scheme of Recruitment**
- **Animal Breeding and Conservation**
- **Maintain the Premises in Clean**
- **Not Discharging Wastewater Mixing with Clean Water**

Financial Services

The function of this division is to formulate and implement policies and strategies and to contribute in the economic, social, cultural and political spheres by focusing on the attitudes of the people towards a positive dimension pertaining to public finance to ensure optimal utilization of public resources to accelerate economic growth and social progress in Sri Lanka.

The Ministry of Finance and Mass Media and 20 Departments and 19 Statutory Bodies under it had to perform the above function.

A sum of Rs. 6,235,441.91 million had been made available by Parliament for the period from the year 2017 to 2019 to execute the above-mentioned functions and a sum of Rs.5,878,065.95 million had been utilized thereof. Accordingly, a provision of Rs.**357,375.96** million or 5.73 per cent out of the provisions made available by the Parliament, had not been utilized. Details are shown in Diagram 73.

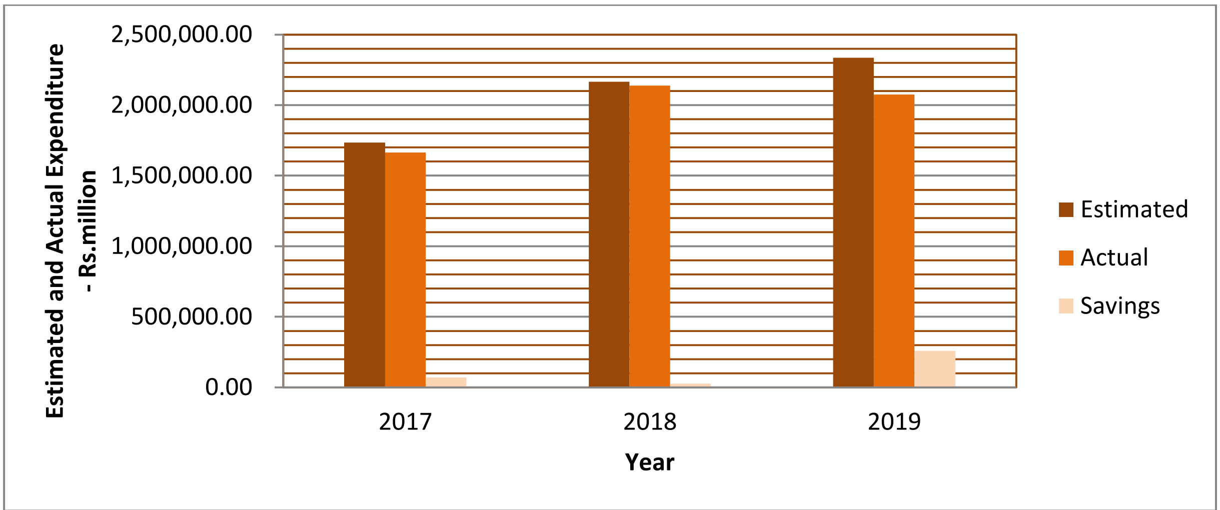


Diagram 73 - Provisions and Utilization provided by Parliament
Source – Treasury Final Account Statements

Audit observations revealed at the audit test checks carried out in respect of execution of the above role of the Ministry and the institutions under it are summarized and shown below.

Government Revenue

- The revenue collected from income tax was Rs. 428 billion or 25 per cent of the total tax revenue or 22 per cent of the total government revenue as per the financial statements for the year under review. It had grown by 38 per cent or Rs. 117 billion compared to the income tax collected during the preceding year. Changes in the corporate tax structure and tax rates due to the implementation of the Inland Revenue Act No. 24 of 2017 had a mainly attributed on the increase in revenue collected through income tax.

- The tax revenue imposed on local goods and services had been Rs. 974 billion or 56 per cent of the total tax revenue and 51 per cent of the total government revenue out of the tax revenue collected during the year under review. It had been 62 per cent of total tax revenue and 55 per cent of total government revenue in the preceding year. Disruption of certain sectors of the economy due to the terrorist attack occurred in the country during the year under review and the reduction in value added tax rate from 15 per cent to 8 per cent from December in the year under review and taking actions by the government to remove the Nation Building Tax had caused the decrease in tax revenue imposed on local goods and services in the year under review compared to the previous year. However, more than 29 per cent of value added taxes and nation-building taxes under local goods and services had contributed to total government revenue even in the year under review.

- Taxes on alcohol and cigarettes had contributed 10.5 per cent to total government revenue and more than 10 per cent had contributed to the government's total revenue from taxes (special provisions) imposed on motor vehicles and petroleum products.

- Revenue amounted to Rs. 333 billion had been collected from the taxes imposed on international trade during the year under review as per the government financial statements and it was 19 per cent from the total tax revenue and was also 17 per cent from the total government revenue. Revenue collection through taxes imposed on international trade had declined by 3 per cent or Rs. 8 billion in the year under review as compared to the previous year. The reduction of Special Commodity Levy by 5.4 billion in the year under review had mainly affected to this.

- Even though there had been a quantitative effect from the following factors on the change in the composition of tax revenue within the government revenue structure as mentioned above, quantitative measures had not been taken by Revenue Collection Departments to calculate the financial value of those impacts. As a result, it was observed that it was not sufficient to consider the growth of the revenue collected alone to measure the actual performance of revenue collecting Departments.

  - Revision of tax rates by the Government
  - Increase in tax revenue due to increase in foreign market prices of goods and services.

- Growth in tax revenue due to growth in imports in special cases.

  - Increase in tax revenue on import growth due to the decline in the foreign exchange rate.

  - Further, due to tax way offs, releases and tax exemptions made on foreign trade agreements and other laws, the detailed information on the impact on government revenue had not been taken into account in measuring the performance of the relevant Departments.

- According to the Arrears Revenue Reports submitted by Sri Lanka Customs as at 31st December 2019, the total arrears tax revenue as at that date had been Rs. 22.9 billion. It was revealed in audit that, there were arrears revenue of Rs.4.9 billion within those arrears tax reports. Likewise, the total of taxes and fines that could be collected by 31 December 2019 had been Rs. 264 billion as per the arrears revenue reports of the Department of Inland Revenue. Accordingly, adequate steps had not been taken to collect the arrears revenue by the Revenue Accounting Officers.

Quality of Imported Goods

The Sri Lanka Customs should have seek the assistance of the responsible agencies to ensure that the goods imported to Sri Lanka are in compliance with the required standards. Although the relevant goods are released to importers' premises on personal warranty until the certification of those institutions is received but the supervision of the Sri Lanka Customs was not at a satisfactory level on those items.

Inspection of containers consisting of imported goods in Depth

It had been ascertained through the investigations of the customs officers that a number of custom offenses such as importation of illicit drugs, tax evasion by importing undeclared goods, importing goods in excess of the stated quantity and evading customs duties, importing goods under incorrect classification numbers and engaging in tax irregularities are being committed due to instances where containers consisting of imported goods are not subjected to in-depth inspection.

Implementation of the New Revenue Administration Management Information System (RAMIS)

Implementation of the new Tax Administration Management Information System (RAMIS) of the Inland Revenue Department had been commenced on 01 January 2016. A number of 764,251 tax returns issued to 329,979 taxpayers pertaining to the period from that date to 31 December 2019, had not been returned to the Department even by 31 December 2019. Similarly, out of the tax returns received by the Department, a number of 283,055 tax reports received from 210,572 taxpayers had not been subjected to the process in the system even by 27 February 2020. As a result, activities such as non-reporting of tax arrears and recoveries had not been carried out in a timely manner.

The maintenance of the Revenue Management Administration Information System of the Department of Inland Revenue was to be taken over by the Department by the year 2020. The preliminary work related to it had not been prepared even by the end of the year under review. Likewise, there was also a significant delay in awarding the contract for the RAMIS 2.0 project to the relevant supplier for other identified amendments, including changes to the tax administration system as per the new Income Tax Act and the agreements for the first phase in September 2019 and the second phase agreements in July 2020 had been signed.

Slowing down in Project Implementation

A provision of Rs. 1,894.60 million had been made available during the year under review for the implementation of 07 projects under the Ministry of Finance, Economic and Policy Development using local funds and foreign loans and aids. Of those seven projects, not a single project had been started. Activities of the remaining 06 projects were being performed slowly. As a result of these deficiencies, a sum of Rs. 1,364.68 million or 72 per cent could not be utilized out of the provisions made available for the implementation of projects.

Compensation to Depositors of a Financial Institution

A provision of Rs. 1,055.00 million had been made available under the Ministry of Finance, Economic and Policy Development during the year under review to pay compensation to the depositors of a financial institution as per an order issued by the Supreme Court in 2015. A 34 per cent of the allocation, or Rs. 355.10 million had been saved without utilization by the end of the year under review. Provisions had been saved because of the Treasury had not provided the required amount to the Ministry.

Accounts Receivable and Payable

The Annual Regulatory Charge should have been paid to the Commission within 30 days from the date of commencement of power supply to the system on or before 30 June of the relevant year, as per the Condition No. 11 of the Electricity Generation License issued to the licensees by the Public Utilities Commission of Sri Lanka. The total amount of regulatory fees due from 25 licensees including the Ceylon Electricity Board, had been Rs.184.93 million. From those charges, Rs.82.13

million had not been recovered even by September 2020. Although the Commission had the power to take legal action to recover the arrears regulatory fees totalled to Rs. 81.85 million pertaining to the years 2014 and 2015, said legal actions had not been taken even by September 2020.

Progress of the Annual Action Plan

The Public Utilities Commission of Sri Lanka had planned to implement 123 activities under 10 Sections and a sum of Rs. 339.26 million had been allocated for this purpose. The provisions amounting to Rs. 80.30 million for 15 activities relating to the petroleum industry and Rs. 55.14 million for 10 activities relating to the water industry had been made available within those activities. Out of the planned activities, 49 activities for which Rs. 104.46 million had been allocated, had failed to achieve the desired goals.

Execution of Powers of the Commission

Although the authority of regulatory activities in the field of electricity in Sri Lanka had been delegated to the Public Utilities Commission of Sri Lanka, as a result of failure to provide information and other requirements by the Ceylon Electricity Board which is the licensee of the transmission and the licensee of the distribution, there had been the instances where the rules and recommendations of the Commission were not complied with.

Public Service

Appointments, transfers, dismissals and disciplinary control of public officers in the public service are vested in the Cabinet of Ministers under Articles 54 and 55 of the Constitution of the Democratic Socialist Republic of Sri Lanka. Activities related to public service officers are carried out under the Ministry of Public Administration. The Ministry of Public Administration and Disaster Management should have executed the following functions as per the Annual Budget Estimate in the 2019.

- Formulate, follow up and evaluate policies, programmes and projects related to the subjects of Public Administration and Disaster Management and National Productivity
- Functions under the Establishments Code
- Administration and personnel management pertaining to island-wide and combined services
- Public service training
- Implementation of the Code of Pensions and activities related to all government pension schemes
- Introduction of new methods of good governance

Likewise, functions pertaining to the public service had to be executed by the Special Expenditure Units, Ministry of Foreign Relations , National Integration, Official Languages, Social Progress and Hindu Religious Affairs, National Policies, Economic Affairs, Resettlement and Rehabilitation, Northern Province Development, Ministry of Vocational Training and Skills Development and Youth Affairs, Ministry of Economic Reforms and Public Supplies Non-Cabinet Ministry, and Ministry of Parliamentary Reforms and Departments and the 04 Statutory Bodies under them .

A sum of Rs. 198,300.28 million had been made available by Parliament for the period from the year 2017 to 2019 to execute the above mentioned functions and a sum of Rs. 144,913.31 million had been utilized thereof. Accordingly, a provision of Rs. 53,386.97 million or 26.92 per cent out of the provisions made available by the Parliament, had not been utilized. Details are shown in Diagram 74

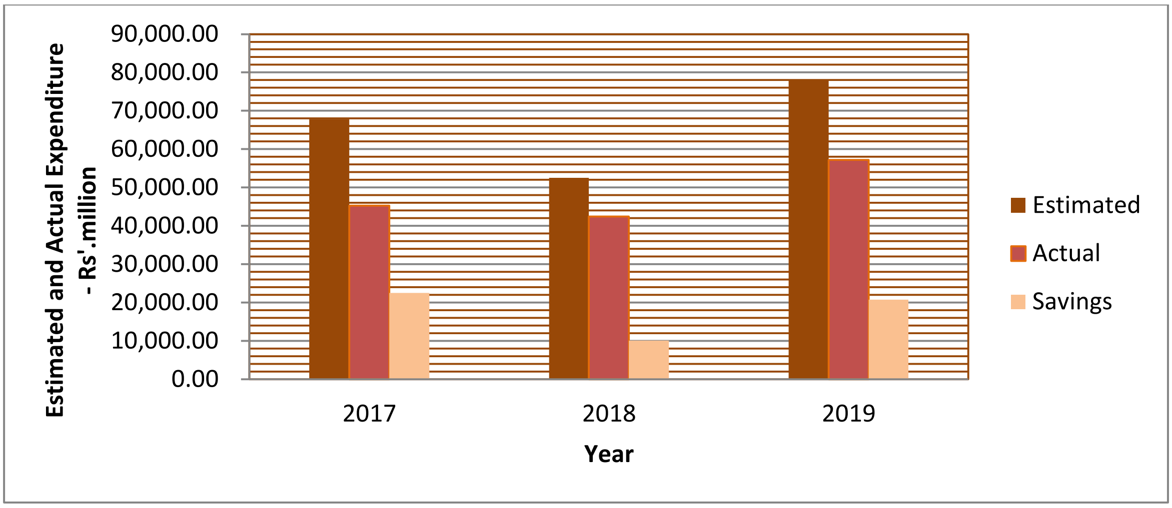


Diagram 74- Provision made by Parliament and utilization
Source – Treasury Final Account Statements

Failure to Make Investments

Although the surplus funds of the institute are required to be invested as per the National Language Education and Training Institutions Act No. 26 of 2007,the balance of Rs. 51.2 million in the savings account as at 31 December 2019 had not been invested in short-term and long-term securities with the approval of the Board of Management.

Broadcasting Programmes using Electronic Media

The National Institute of Language Education and Training conducted 210 radio programmes and 37 television programmes incurring a cost of Rs. 19.66 million or 48.07 per cent of the total expenditure of Rs. 40.90 million during the year under review. Follow-up had not been conducted on the extent to which those programmes communicated to the public and how useful they were.

During the year under review, the National Institute of Language Education and Training spent Rs. 15 million on the radio broadcasting and co-ordination of the Know-Teach-Know-Learn program and Rs. 4.3 million on the television program. In obtaining these services, the provisions of the Government Procurement Guidelines had acted outside.

Moving of Office to Another Location

Even though the Cabinet of Ministers approved the relocation of the Cabinet Office to another building on three occasions in 2016 and 2018, it had failed to enter into a definite decision on the building intended to be moved and relocated and the date even by the end of the year under review

Although there has been no change in the office premises by the end of the year under review as per the approval of the Cabinet of Ministers, a sum of Rs. 2.4 million had been spent from 14 August 2017 to the end of the year under review to obtain quality reports for two approved unused buildings, security duties, water and electricity bills.

Providing Water to the Residents of Malmaduwa Village

A sum of Rs. 2.9 million and Rs. 5.3 million had been spent by the Bureau of National Unity and Reconciliation with a view to the construction of water tanks and plumbing systems to provide water to the residents of Malmaduwa village in 2017 and 2018 respectively. An provision of one million had been made available in 2019 for the deepening of the well to increase the water level in the public well for this project, although a sum of Rs. 446,576 had been incurred, the task of providing piped water had not been completed as intended.

Construction of 3000 Rainwater Harvesting Units (Tanks) in Jaffna District

A Memorandum of Understanding (MoU) had been entered into between the Government of India and the Government of Sri Lanka on 13 January 2017 on the consent of Government of India to provide assistance of Rs. 300 million for the construction of 3000 rainwater harvesting units (tanks) in the Jaffna District within a period of 3 years. The Bureau of National Unity and Reconciliation acted as the implementing agency for the project. Nevertheless, due to lack of raw materials, lack of appropriate experienced and capable staff, lack of proper coordination between contractors, project staff and beneficiaries, the contractors had abandoned the work. As a result, only 489 tanks had been built, which is similar to 16 per cent of the expected output level by 31 December 2019. In addition, a sum of Rs. 51.9 million, equivalent to 17 per cent of the allocation, had been spent and it had been impossible to achieve the expected progress .

Unused Software

The Department of Official Languages had spent Rs. 7.2 million to develop two Sinhala-Tamil and Tamil-Sinhala translation software. Any Sinhala-Tamil translations had not been carried out during the year under review.

Forms that are Used Directly by the Public

Actions had been taken to translate 36 forms which are directly used by the public into Sinhala and Tamil by the Ministry of National Integration and Official Languages, Social Progress and Hindu Religious Affairs and a sum of Rs. 1.2 million had been spent for that. Even though it had been intended to make these translated forms available on CDs and the website of the Ministry, they were not available for download even by the end of the year under review.

Revenue from the Lotus Pond Theater

Although the revenue of the Nelum Pokuna Theater, which was activated under the Office of the President, had to be credited to the State Revenue in accordance with Article 149 (1) of the

Constitution, the proceeds collected so was retained in the General Deposit Account and payments had been made without credited to the State Revenue.

Establishment of a Center of Excellence for Higher Education

The Institute of Advanced Technology Ltd. had been incorporated on 01 August 2017 in a public-private partnership to establish a Center of Excellence for Higher Education. The approval of the Cabinet of Ministers had been granted on the Joint Cabinet Memorandum submitted by the Ministers of National Policies and Economic Affairs, Higher Education and Highways, and Science, Technology and Research on "Provision of US $ 1 Million for Advanced Technological Institute Limited" on 05 December 2017 to award of US $ 1 million to pay for services rendered by a foreign institution.

Accordingly, an agreement had been entered into with that institution on 28 February 2018. A sum of Rs. 113.75 million had been paid in the year 2018 for obtaining the necessary services from the foreign institution to formulate a permanent plan for the establishment of a formal Board of Management for the management of the new Business School as per the above Cabinet Decisions and Agreement. Further, although a provision of Rs. 40 million had been made available for this purpose in 2019, that provision had not been utilized. Although two years had elapsed since the agreement was entered into, the Detailed Project Report had not been submitted to the Cabinet.

Recruitment of Trainee Project Assistants

The approval of Cabinet of Ministers had been received on 19 March 2019 to recruit 7,500 Trainee Project Assistants to oversee development projects and programs. However, the provisions had not been made available from the Annual Budget Estimate for this. For this purpose, enrollment interviews had been commenced before receiving the Recommendations of the Department of Management Services and the Salaries and Cadres Commission. The Ministry of National Policies, Economic Affairs, Resettlement and Rehabilitation, Northern Province Development, Vocational Training and Skills Development and Youth Affairs had spent Rs. 6.95 million on these enrollments. This enrollment had been cancelled by a Decision of Cabinet of Ministers dated 18 December 2019.

Public Service Provident Fund

A compound interest for the compulsory contributions and government bonuses in the accounts of all contributors to the Public Service Provident Fund should be entitled in terms of Sections 11 and 12 of Pension Circular No. 7/2015 dated 23 July 2015 and Section 14 of the Public Service Provident Fund Ordinance No. 18 of 1942. Apart from those directives, a sum of Rs.2.8 million of Government Bonus of the Public Service Provident Fund of a Communications Assistant at the

Consulate General in Toronto for the period from August 2008 to August 2018 and the Government Bonus of the Public Service Provident Fund of a Management Assistant for the period from June 2014 to December 2018 amounted to Rs.1.4 million had been remitted to the Department of Pensions in March 2019 by the Ministry of External Relations .Therefore, those officers had lost the compound interest to be claimed to them.

Acquisition of Property for Missions

The Ministry of External Relations had spent Rs. 1,720 million of annual rental for the buildings of Embassies, Mission Offices, Official Residences for Heads of Embassies and other staff quarters. As a solution to this, the Ministry had not prepared a plan to acquire property for the Missions in a financially advantageous manner.

Efficiency Bar Examinations

Thirty seven Efficiency Bar Examinations which were not intended or functional as stated in the Establishment of the Sri Lanka Institute of Development Administration Act, and were not relevant to the training programmes of the Institute had been conducted during the year under review.

Payment of Incentives Without Aapproval

The approval of the General Treasury had to be obtained for the incentive procedure as per the Section 8.3.3 of the Public Enterprise Circular No. PED / 12 of 02 June 2003. Without obtaining such approval, the Sri Lanka Institute of Development Administration had paid incentives amounting to Rs. 6.0 million in 2017, Rs. 7.4 million in 2018 and Rs. 2.3 million in 2019 to 95 officers of the Institute.

Idle Assets

The Sandarani Research Center of the Sri Lanka Institute of Development Administration had been renovated in 2018 incurring a cost of Rs.3.4 million and the furniture, computers and other electronic equipment had remained in idle without use .

Payment of Secondment Allowance

The Sri Lanka Institute of Development Administration had paid a 50 per cent secondment allowance to the secondment Academic Staff as per the Decision of the Cabinet of Ministers dated 19 April 2013 No. අමප/ 13/0237/523/001. In order to pay it, it had been stated that according to the Directive of the Committee on Public Enterprises dated 14 November 2014, the minimum number of hours to be performed per month should reach the limit of 45 hours. In contrary to that Directive, a sum of Rs. 9.1 million had been paid from July 2015 to 31 December 2018. Actions had not been taken to recover such payments even by the end of the year under review. Further, the amount due for the year under review had not been computed even by 31May 2020.

Arrears Rents of Government Quarters

According to Section 5.2.1 of Chapter XIX of the Establishments Code of Democratic Socialist Republic of Sri Lanka, although 12.5 per cent from the salary of a married officer residing in government houses and 7.5 per cent of the salary of an unmarried officer should be charged as rent, though a sum of Rs. 64.6 million was receivable for the period from 2012 to 2019 from officers residing in government quarters by the end of the year under review, the Ministry of Public Administration and Disaster Management had not recovered the rent.

Unauthorized Occupation of Government Houses

According to Section 6.1 of Chapter XIX of the Establishments Code of the Democratic Socialist Republic of Sri Lanka, the lease period for all houses except a house reserved for a post is limited to 5 years and the approval of the Secretary to the Ministry of Public Administration and Disaster Management had to be obtained. It was observed that 14 Ministers and 14 government officials were living in government houses as such ,without permission even by 22 July 2020.

Damages

In the event of an accident, the officers or drivers traveling in it must report it to the nearest police station. However, even though there had been a damage caused by an accident to a vehicle of Ministry of Public Administration and Disaster Management amounted to Rs. 2.7 million, it had not reported to the police station. Five other accidents were reported to the police in the hope of obtaining insurance coverage.

Trade Affairs

The Ministry of Industry and Commerce, Resettlement of Protracted Displaced Persons and Co-operative Development and 05 Departments, 05 Government Institutions and 13 State Companies under it had to execute the following functions in this sector.

- To take necessary steps to supply consumer goods in the local market at reasonable prices with quality and without any shortage.
- Formulation and implementation of national pricing policies pertaining to consumer goods.
- To Approve Lending Institutions under Section 114 of the Mortgage Act No. 6 of 1949.
- To take actions for consumer protection.

A sum of Rs. 39,902.46 million had been made available by Parliament for the period from the year 2017 to 2019 to execute the above mentioned functions and a sum of Rs.16,311.51 million had been utilized thereof. Accordingly, a provision of Rs.23,590.95 million or 59.12 per cent out of the provisions made available by the Parliament, had not been utilized. Details are shown in Diagram 75.

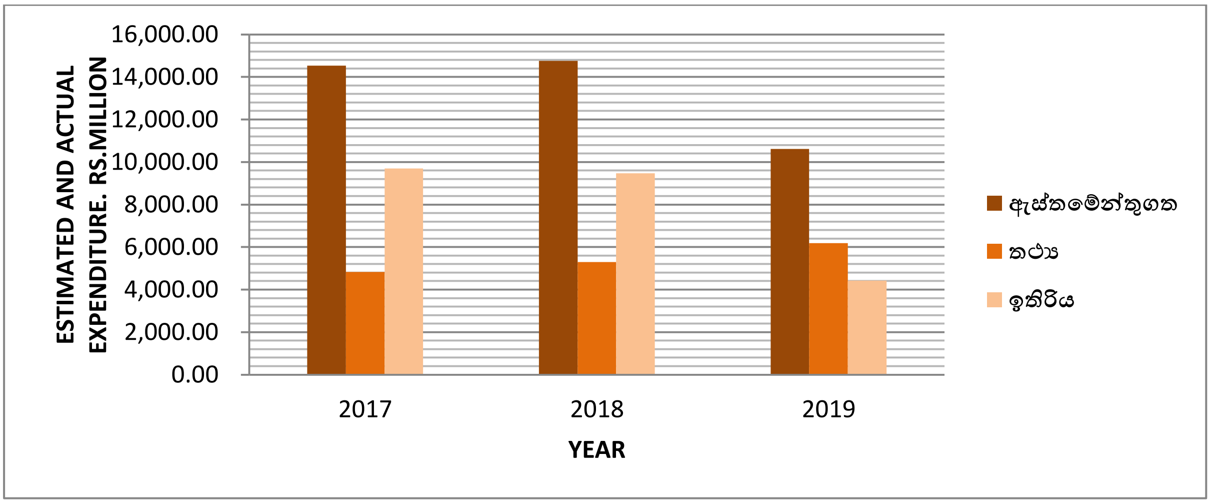


Diagram - Provision and utilization provided by Parliament
Source - Treasury Final Account Statements

Forged Measurement Raids

During the year under review, the Department of Measurement Units, Standards and Services had conducted 22,165 forged surveys. Out of which, 1,514 raids had been successful. Any raid had not been carried out in Mullaitivu and Mannar Districts. A sum of Rs.2.85 million had been earned as fines.

Installation of Air Conditioning System in the New Laboratory

Even though a provision of Rs. 995 million had been made available during the year under review for the installation of the air conditioning system in the new laboratory, the work had not been commenced even by 25 May 2020 .

Warehouses Owned by the Department

There were 120 warehouses with a capacity of 271,046 metric tons, belonging to the Food Commissioner's Department as at 31 December 2019 . Out of which, 46 warehouses on lease to government and private institutions, 28 warehouses on free of charge to government institutions had been provided and there were 24 warehouses in the custody of the Department and 20 warehouses in the custody of the District Secretary and 02 warehouses were not in the usable condition. The rental income from warehouses leased out to government and private institutions in 2019 was Rs. 92.51 million. The arrears of rent receivable to the Department as at 31 December 2019 was Rs. 111.16 million and the Department had not taken adequate steps to recover the aforesaid arrears of rent.

Utilization of Scientific Warehouses

Six warehouses with a storage capacity of 34,300 metric tons in Veyangoda Warehouse Complex owned by the Food Commissioner's Department had been upgraded as scientific and natural warehousing for the purpose of safety storage of rice . A sum of Rs. 292.31 million had been spent on warehouse upgrading from 2012 to 31 December 2019.

However, the Department did not have any safe stock of rice in 2019 and the warehouses remained in idle. The Department had not taken appropriate actions to achieve the objective of upgrading these warehouses and to get effective outcome from the money spent.

Export Market Access Assistance Programme

Although it had been targeted 100 companies to assist export market access as per the budget proposals for 2019 , it had been decided to assist 36 companies under the first classification and 52 companies under the second classification during the year 2019 by the Board.

A total of Rs. 17.3 million had been spent on 36 companies for the participation in international trade fairs under the first category. Meantime, 2 companies for trade fairs relating to the rubber and rubber products sector, 11 companies for trade fairs relating to the apparel sector and 5 companies for trade fairs relating to the Information Technology and business process management sector had participated.

In addition, 34 companies had been approved for the purchase of machinery under the second classification in 2019, of which a total of Rs.21.8 million that is 40 per cent from the approved amount for 13 companies had been paid and it had been approved to support 17 companies for product process expansion, production capacity development and new brand development and of which only 11 had been given a total of Rs. 17.7 million at 40 per cent each.

Further, although the provision approved for this programme in 2019 was Rs.175 million, the Export Development Board of Sri Lanka had received only Rs. 96 million and therefore, it had not been able to fulfill the budgeted targets.

National Programme for Development of 2000 New Exporters

The Export Development Board of Sri Lanka has spent a sum of Rs. 34.12 million from 2017 to 2019 on the programme to transform 2000 entrepreneurs into new exporters. Even though it was stated in the Board Memorandum No. 2017/03/20/20 dated 30 March 2017 that a Governing Committee should be appointed to implement this program, it had not been so done. Further, in selecting the venues for these programmes, the programmes had been conducted in 06 private hotels incurring a sum of Rs. 3.47 million inviting Bids from private sector institutions without calling for bids from public sector institutions. A sum of Rs.215,900 had been spent in excess of the estimated cost in this regard. Even though it had expected to attract 2,000 entrepreneurs to export from this programme , only 155 were able to be directed for exports during the period 2017-2019.

Inventory Management

The task of implementing the stock management process of Lanka Sathosa Ltd. had been entrusted to a private sector company from 2016 to 2019. Even though, the operations of the Kerawalapitiya Warehouse where the company's stock management process was being functioned had been suspended since June 2019, due to a lack of a proper stock management and a stock of groceries which were valued at Rs.42.76. million and categorized as short-termly expire that and suitable for distribution and returned from stores had remained in thee warehouse even by October 2019.

Enterprise Resources Planning Project

The Enterprise Resource Planning Project, which was to be completed within 15 months with a grant of Rs. 198.17 million from Lanka Sathosa Limited, had not been completed by 31 December 2019. The contractor had been paid 30 per cent of the contract amount. It had been stated that if the contractor is late in completing and handing over the Project, one per cent of the contract amount should be deducted on one day of delay. As a result of not determining the fee to be paid for one day of delay, despite there was a delay of 574 days beyond the due date of the contract, only 1 per cent of the contract amount was deducted and the relevant payments had been made.

Further, although the contractor is liable to be equal to 1 per cent of the relevant contract value in case of damages or losses incurred by assigning the contract or any part thereof to any other party without the written consent of the Buyer as per the Agreement, actions had not been taken to recover the amount of Rs.19,817,578 which is 1 per cent of the delayed contract value from the contractor due to the transferring of certain parts to another institution.

Out of 12,800 plastic crates valued at Rs. 24.38 million, purchased from a single supplier for two prices without National Competitive Bidding in terms of Guideline 3.2 of the Government Procurement Guideline, 1,975 plastic crates were still in idle in stores even by the end of the year 2019 and the minimum estimated value of those crates had been Rs. 3.76 million.

Perform Inconsistent with the Provisions of the Companies Act

Although 74,818 Annual Reports had to be filed with the Department of the Registrar of Companies by the end of the year under review, only 17,532 companies had filed those reports. Accordingly, 77 per cent of companies which were required to file Annual Reports, had been defaulted filing of them.

Arrears Income

There was an arrears revenue of Rs. **2,292.00** from the annual report revenue receivable by the end of the year under review from registered companies as per Sections 131 (1) and (2) of the Companies Act No. 07 of 2007 . It had increased by 16 per cent as compared to arrears income of Rs.1,974.60 million of the preceding year. The Department of Registrar of Companies had failed to recover the arrears even by the end of the year under review.

Registration of financial Statements of Companies

According to Section 170 (1) of the Companies Act, the number of companies required to be register financial statements in the year under review was 6893. Of which, although only 1922 companies had submitted financial reports ,4971 companies had not complied with the provisions of the Act.

Scanning Of Company Files

An agreement had been entered into scanning 9,128,320 pages and indexing data relating to 70,931 active company files registered with the Department of Registrar of Companies with a private company for Rs. 68.09 million. Since the actual number of pages pertaining to the scanning of the file was 6,082,608 and as it was less than the number of contracted pages , many documents relating to inactive societies as well as auditors, secretaries and mortgage bond registrations had also been scanned to fill the gap. Accordingly, as a result of the subsequent scanning of unexpected documents, and because of the corresponding increase in the cost of indexing data as well, it had been re-contracted with the contractor for the additional work of Rs. 25.71 million.

Idle Assets

Five televisions purchased in the year 2018 with three years warranty period valued at Rs.1.325 million , a stock of computer accessories valued at Rs. 3.641 million and stock of computers and computer accessories purchased in 2019 with 03 years warranty period valued at Rs.4.7801 had been retained in the warehouse of the Department of Registrar of Companies by the end of August 2020 without being used.

Tourism Affairs

The vision and mission of the Tourism Sector are "To recognize Sri Lanka as the world's finest island for memorable, authentic and diverse experiences and to be a high-value destination offering extraordinary experiences that reflect Sri Lanka's natural and cultural heritage are socially inclusive and environmentally responsible and provide economic benefits to Communities and the country". Accordingly, the Ministry of Tourism Development, Wildlife and Christian Religious Affairs and 04 statutory institutions under its purview, should have performed the following functions in achieving those objectives.

- Developing tourism industry in accordance with the national policy on tourism and formulating standards
- Registration and regulation of tourist agencies
- Promotion of activities relating to provision of recreational facilities for holidaying
- Adoption of measures to lay emphasis on conservation of eco- systems in promoting tourism industry in wildlife protected areas

Provision of Rs. 9,.61 million had been made by Parliament for performing aforesaid functions relating to the year under review and 02 preceding years and out of that, a sum of Rs. 1,141 million had been utilized. Accordingly, out of the provision made by Parliament for the period of 03 preceding years, a sum of Rs 1,81. million representing 59.46 per cent had not been utilized. Details are given in Figure 76

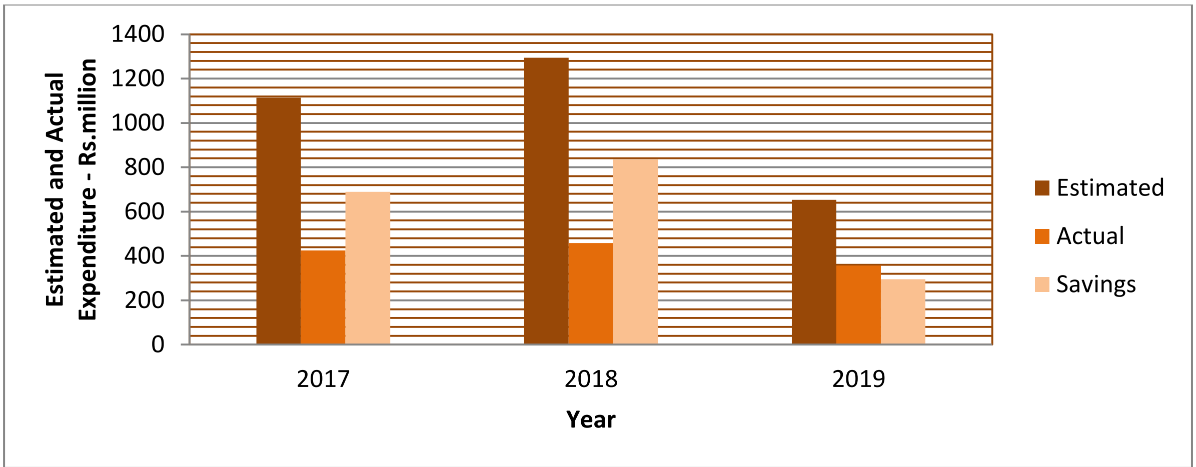


Figure-76 Provision made by Parliament and Utilization
Source – Final Treasury Accounting Statements

The audit observations revealed at the audit test checks carried out with regard to this Sector, are summarized below.

Arrival of Tourists and Earning of Foreign Exchange

A number of **2,333,796** tourists had arrived in the year **2018** and it had declined up to **1,913,702** in the year 2019. The tourism of Sri Lanka was badly affected by the Easter attack which occurred in April 2019. A massive slump is reflected as compared with the preceding year. A number of **129,446** tourists had arrived in May **2018** whilst only **37,802** had arrived in May 2019. Accordingly, it is reported 70.8 per cent decline as compared with the month of May in the preceding year. However, after May 2019, it had declined regularly up to 4.5 per cent by December 2019. The said position appears in Figure 77

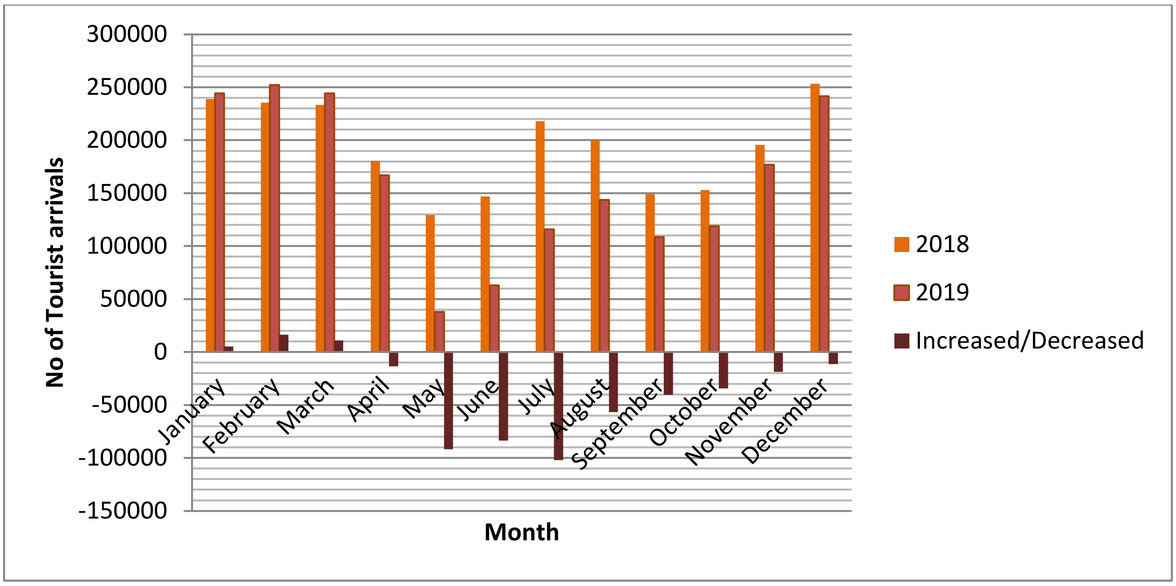
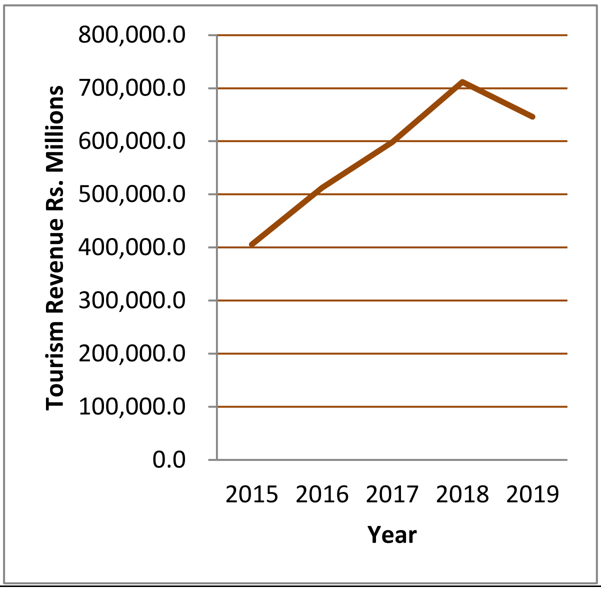


Figure 77 – Arrival of tourists in each month in the years **2019** and **2018**
Source – Sri Lanka Tourism Development Authority

Even though revenue amounting to Rs. **712,027.3** million had been collected from the tourism industry in the year 2018, it had decreased by Rs. **65,665** million representing **9.22** per cent in the year **2019**. According to the foreign exchange, it had decreased up to USD **3,606.9** million in the year 2019 as compared with the sum of USD **4,380.6** million in the year 2018. Accordingly, a sum of USD **773.7** million had been lost in the year 2019 as compared with the year 2018. Revenue received from tourism had regularly increased from the year 2014 to the 2018 and decreased in the year 2019. Details thereon appear in Figure78 and 79



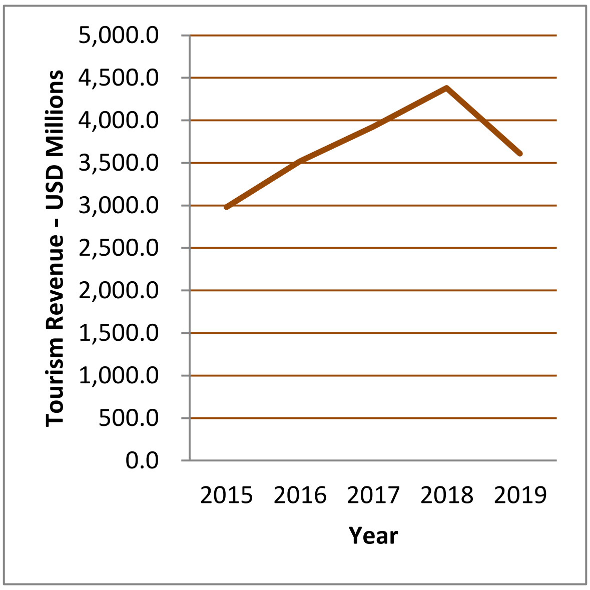


Figure 78 – Tourism Revenue Rs. Million
Source – Sri Lanka Tourism Development Authority

Figure 79 – Tourism Revenue USD Million
Source – Sri Lanka Tourism Development Authority

The arrival of tourists in all main regions had declined even in the year under review due to impact of the Easter attack. Moreover, **355,002** tourists had arrived from India and it was the highest number of tourist arrival as a country and it had declined by 16.4 per cent as compared with the preceding year. A number of **198,776** tourists had arrived from the United Kingdom and it was the next more attractive country. However, it was a decline of 21.8 per cent as compared with the preceding year. Details are given in Figure 80

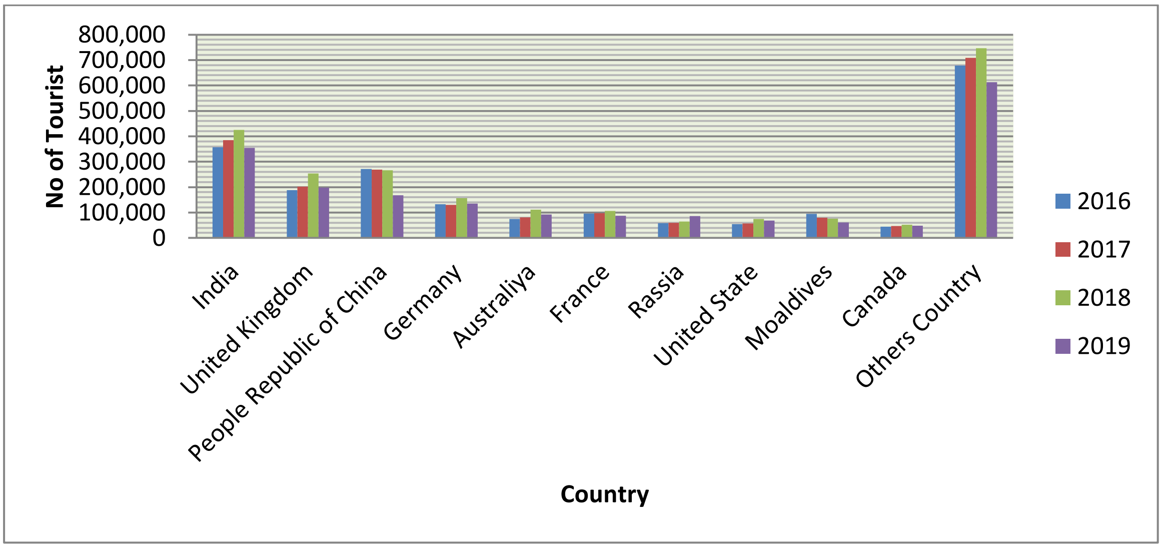


Figure 80 – Arrival of Tourists as per the Country
Source - Sri Lanka Tourism Development Authority

Revenue from tourism development levy charged on turnover of tourist hotels in the year under review had been Rs. **924.2** million. The said revenue from tourism development levy had been Rs. **1,482.1** million in the preceding year.

Accordingly, the revenue from levy in the year under review had decreased by Rs. **557.9** million representing **37.64** per cent as compared with the preceding year. The Easter attack which occurred in April 2019 had impacted on the above decline. Even though the revenue from tourism development levy had regularly increased in preceding years, it had decreased in the year under review. Details are given in Figure81

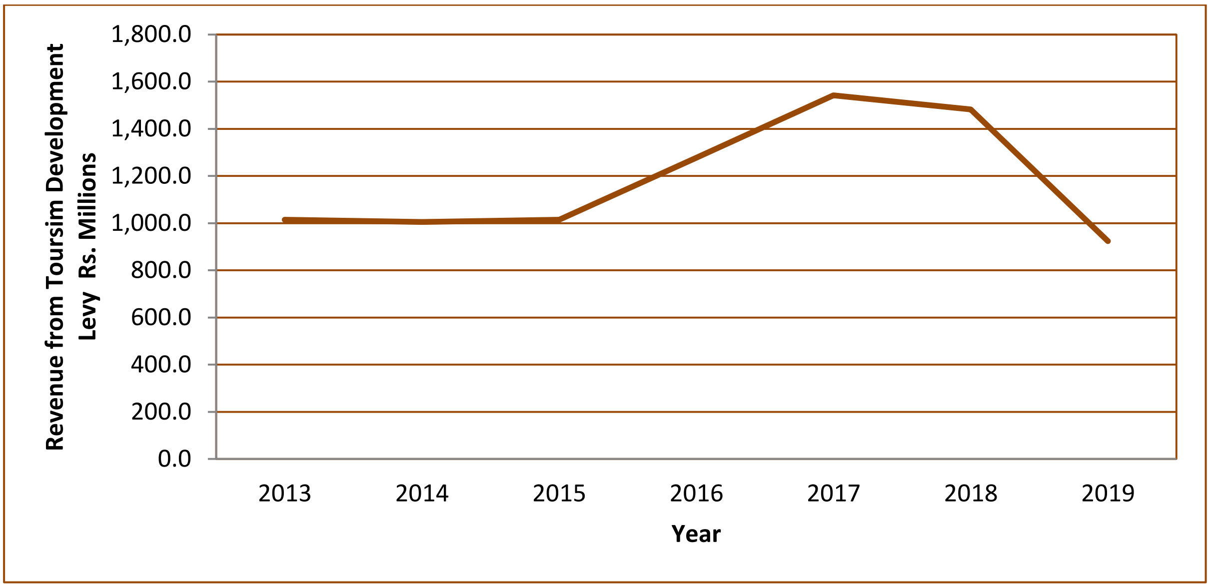


Figure 81 – Revenue from Tourism Development Levy
Source - Sri Lanka Tourism Development Authority

Decrease in the tourist arrivals as well as in the average cost of a tourist and the average number of days spent in Sri Lanka by a tourist had been one of the main reasons to decrease in the earnings from tourism. The average number of days spent in Sri Lanka by a tourist in the year **2019** had been **10** days while it was **11** days during the preceding year. As compared to the average number of **13** days spent in Sri Lanka by a tourist in the year **1987**, that target could not be achieved during the year under review as well. The average daily cost of a tourist in the year 2019 amounted to USD 181 while it was USD 173.8 in the year 2018. Nevertheless, the decrease in tourist arrivals by 18 per cent had been the reason for decrease in the revenue of tourism industry by 9.22 per cent.

The revenue of Tourist Development Levy and Embarkation Levy collected for the development of tourism industry in the year 2019 amounted to Rs.3,031 million. Four institutions namely, Sri Lanka Tourism Development Authority, Sri Lanka Tourism Promotion Bureau, Sri Lanka Institute of Tourism and Hotel Management and Sri Lanka Convention Bureau had been provided with 14 per cent, 70 per cent, 12 per cent and 4 per cent respectively. Further, a sum of Rs.801 million from the revenue of

Embarkation Levy of the Tourism Development Fund had been provided for the development activities of the Palali Airport. In addition to the Tourism Development Fund, provisions amounting to Rs.318 million had been made by the Annual Budget Estimate as well for the Ministry of Tourism Development and Christian Religious Affairs in respect of tourism development activities.

Underutilization of Provisions

A provision of Rs.318 million had been made for the Ministry of Tourism Development and Christian Religious Affairs in respect of tourism development projects. Even though a provision of Rs.120 million out of the said amount, had been made for the development of tourist attractions in the year under review, only a sum of Rs.86.24 million or 28.13 per cent thereof had been utilized by the end of the year under review. Moreover, even though a provision of Rs.100 million had been made for the development of Forts in the year under review, only a sum of Rs.47.76 million thereof had been utilized by the end of the year. Further, even though a provision of Rs.50 million had been made for the development of Railway Stations in the year under review, only a sum of Rs.8.71 million had been utilized by the end of the year.

Achievement of Expected Targets

Even though it had been planned to carry out 73 activities expected as per the Annual Action Plan of the Sri Lanka Tourism Development Authority, only 46 activities thereof had been carried out.

Expenditure on Sales Promotion

The Sri Lanka Tourism Promotion Bureau in respect of the countries namely, Middle East, Austria and Italy. Nevertheless, tourist arrivals from the said countries had declined within a range from 5 per cent to 146 per cent. Moreover, even though a provision of Rs.3,347.54 million had been made by the Annual Budget Estimate of the Bureau in the year under review for the activities of tourism promotion, only a sum of Rs.2,078.56 million thereof had been utilized.

Failure to take Action for the Recovery of Embarkation Levy

In terms of Sub-section 2 (b) of the Finance Act, No. 25 of 2003, taxes should be levied from every ticket issued in respect of a passenger embarking a ship leaving Sri Lanka and a portion thereof should be remitted to the Sri Lanka Tourism Development Authority. Nevertheless, taxes had not been levied from passengers embarking a ship and those had not been remitted to the Authority. According to the information made available by the Department of Immigration and Emigration, 100,614 passengers had left during the year 2019 while embarkation tax totalling USD 167,019 or Rs.29.73 million receivable to the Fund for the year under review from each passenger at USD 1.66 in this connection, had not been recovered.

Recruitment of Officers contrary to the Scheme of Recruitment

Two officers who do not have the service experience had been recruited to the Sri Lanka Tourism Development Authority and to the Sri Lanka Convention Bureau contrary to the Scheme of Recruitment approved by the Department of Management Services. Salaries and various allowances amounting to Rs.8.20 million and Rs.3.83 million respectively had been paid during the year under review.

Zoos and Botanical Gardens

The Ministry of Tourism Development, Wildlife and Christian Affairs and the two Departments under it had to execute the following functions to fulfill the mission of displaying a diverse collection of healthy animals providing a home with maximum care in accordance with accepted rules and regulations under modern zoological concepts, using attractive techniques and skills.

- Promoting activities related to the provision of recreational facilities for spending leisure.
- Improving the flora conservation, botanical garden maintenance and floriculture industry in Sri Lanka.
- Activities related to the collection and display of various animals such as animals, birds and reptiles.

A sum of Rs. **5,590.13** million had been made available by Parliament for the period from the year 2017 to 2019 to execute the above mentioned functions and a sum of Rs.4,755.46 million had been utilized thereof. Accordingly, a provision of Rs. **834.67** million or **17.93** per cent out of the provisions made available by the Parliament, had not been utilized. Details are shown in Diagram 82.

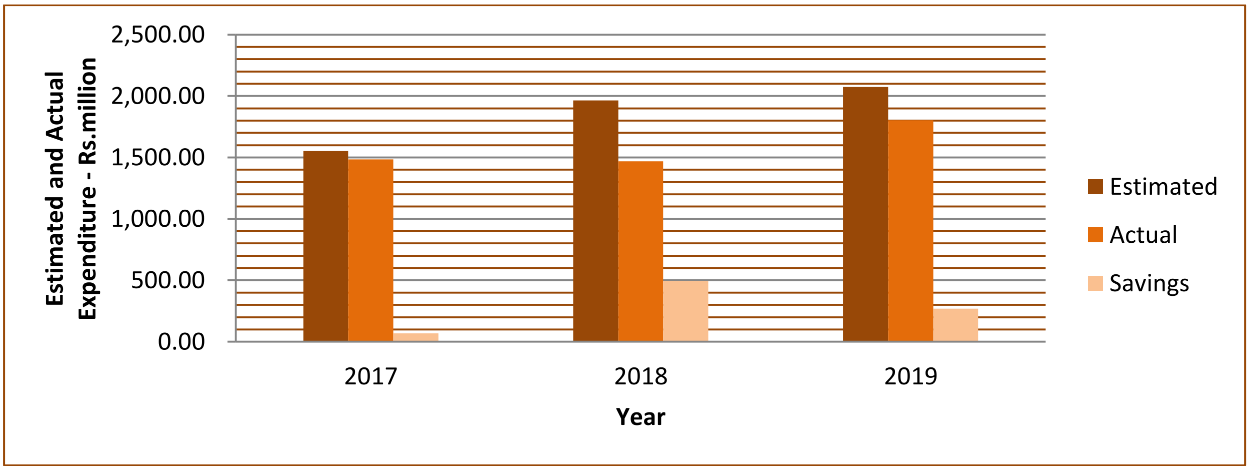


Diagram .82 - Provision and utilization provided by the Parliament
Source - Treasury Final Account Statements

The summary of the audit observations made in the audit test check carried out on
the performance of above functions is given below.

Animal Breeding and Conservation

Although animal breeding and conservation had been the primary objective of the Department of Zoology, at least one baby elephant had not born in the Pinnawala Elephant Orphanage since 2011. This had caused due to the fact that the failure to provide the required scientific background for breeding elephants. The Pinnawala Elephant Orphanage earns around Rs. 3 million annually and the occasion of milking the baby elephants that is a main factor that influences the increase in income was unable to exhibit the tourists.

Maintain the Premises in Clean

The Management had failed to formulate a formal system for disposing of elephant dung and leftover food items collected daily at the Pinnawala Elephant Orphanage. The elephant dung and leftover food items were piled up near the elephant enclosures. As a result, the premises remained untidy and this had contributed to the decline in tourist attraction.

Not Discharging Wastewater Mixing with Clean Water

When discharging wastewater from a location, it must be mixed with at least eight times the capacity of the water and discharged in accordance with the terms of the Environmental Protection License issued by the Central Environmental Authority. Nevertheless, the wastewater discharges from the Dehiwala Zoo had been released to a nearby place called "Gal wala" without such treatment. As a result, the water sources in the area became polluted and environmental problems such as adverse effects for the health of the surrounding people had occurred.

Introduction to Provincial Councils

Provincial Councils were established in Sri Lanka by the 13th Amendment to the Constitution and the Provincial Councils Act No. 42 of 1987 with the objective of devolving the powers of the government to the Provinces. Accordingly, 09 Provincial Councils were established in Sri Lanka and delegated provincial level powers in a number of areas including agriculture, education, health, housing, local government and social services. A provincial council is under the control of the Governor and its legislature is headed by the Chief Minister and consists of 04 ministers including the Chief Minister. The chief secretary acts as the administrative authority and each provincial council consists of the provincial council fund and the emergency needs fund. This provincial council fund, which is very similar to the government consolidated fund, receives funding from government grants, tax collection and other sources, and incurs recurrent and capital expenditure from the fund. Further, financial statements are prepared annually, including provincial council institutions, provincial council ministries and appropriation accounts of all departments under the ministries, not under a provincial council ministry.

Apart from that, each Provincial Council prepares final financial statements showing all revenue, expenditure, assets and liabilities.

The Auditor General shall audit the accounts of the provincial council fund in accordance with article 154 (1) of the Constitution and section 23 (1) of the Provincial Council Act No. 42 of 1987.

Accordingly, this chapter presents an analysis of the audited financial statements for the years 2018 and 2019 in the Western, North Central, Sabaragamuwa, North Western, Central, Northern, Eastern, Central and Uva Provinces.

Further, as the Central Government does not have quantitative control over the financial and operational functions of the Provincial Councils, the Provincial Councils have not been involved in the disbursement of revenue and expenditure in respect of Government Financial Statements to be submitted to the Auditor General under Section 15 of the National Audit Act No. 18 of 2018.

Submission of Provincial Council Accounts

In the years of 2017 and 2018, the provincial councils followed a very similar procedure in preparing the financial statements. Therefore, although a hypothetical financial statement was prepared consolidating the financial statements of all the provincial councils for those years, the audit was not able to prepare the financial statements for the year 2019 as in the previous year due to the preparation of financial statements by the Provincial Councils following various methods.

Several provincial councils had prepared financial statements on an accrual basis and other provincial councils on a monetary basis or modified cash basis. It was also observed that different formats were used in the preparation of the financial statements. Accordingly, there was a lack of coherence in the financial statements and it was observed that the decision making parties could be inconvenienced by the comparative use of the financial statements.

Provincial Council Revenue

The revenue of a provincial council consists of various sources, mainly government grants, tax revenue and non-tax revenue. The income of the provincial councils and those comparisons were made subject to the fact that the accrual basis and the cash basis were used alternately in the calculation of revenue on certain provincial councils and not all the provincial councils used the same sources of revenue calculation.

Government Grants

The government grant for 09 provincial councils in the year 2019 was Rs. 218 billion and in 2018 it was Rs. 204 billion. In the year 2019, the highest percentage of grants,15 percent was given to the Central Provincial Council and it was Rs. 32 billion. Furthermore, the lowest grant to the North Central Provincial Council was Rs. 18 billion, which is 8% of the total grant. According to the government financial statements, out of the total government expenditure of Rs. 2959 billion in 2019, Rs. 218 billion were in grants. It is 7 percent of the total cost.

Tax Income

Tax revenue of all provincial councils in 2019 was Rs. 78 billion, an increase of about 4 percent over the year 2018. The highest tax revenue from is reported from the Western Provincial Council in the year 2019 and it is Rs. 41 billion. That accounts for about 53 percent of total provincial tax revenue. However, compared to the total tax revenue of Sri Lanka included in the Government Financial Statements for the year 2019, the tax revenue earned by the Provincial Councils was only 4.4 percent. The total tax revenue earned by the central government in the year of 2019 was Rs. 1,735 billion.

Non-tax Income

Non-tax revenue earned in the year of 2019 was Rs. 12 billion and in the year 2018 it was Rs. 10 billion. Non-tax revenue earned during the year 2019 included Rs. 4 billion earned by the Western Provincial Council, which is 32 percent of the non-tax revenue earned by all provincial councils. Although, according to the government financial statements, that revenue is only 7 percent of non-tax revenue.

Government grants and tax revenue earned by the Provincial Councils & non-tax revenue

In the year 2019, the government had given a grant of Rs. 218 billion to the Provincial Councils and in comparison the total tax and non-tax revenue that could have been earned for the Provincial Councils was only Rs. 90 billion. It was 41 percent relative to grants and the taxable income that could have been earned relative to those grants was only 36 percent.

Provincial Council Expenditure

Each provincial council incurs annual recurrent expenditure, including capital expenditure, other goods and services, maintenance costs and development expenditure in the form of capital. Accordingly, the total expenditure incurred by the Provincial Councils in the year 2019 was Rs. 314 billion. In the year 2018, the provincial councils had borne Rs. 300 billion for those expenditures and in 2019, they had spent Rs. 14 billion in excess of that amount.
Expenditure incurred by the Provincial Councils is 10 percent of the expenditure in the Government Financial Statements.

Recurring Expenditure

In the year 2019, Rs. 289 billion had been spent by the provincial councils. In 2018, that expenditure was Rs. 266 billion. According to the government's financial statements for the year 2019, the total recurrent expenditure will be Rs. 2,322 billion and the total expenditure including government and provincial council expenditure was Rs. 2,611 billion. Furthermore, the highest recurrent expenditure incurred by the Western Provincial Council in the year 2019 was 21% of the recurrent expenditure incurred by all provincial councils.

In addition, the recurrent expenditure exceeding the total tax and non-tax revenue earned by the Provincial Councils in 2019 was Rs. 199 billion. Accordingly, the percentage of recurrent expenditure exceeding that income is 220%. The Northern Province spent 638 percent more than the revenue earned, while the Eastern Province spent 563 percent, the Uva Province spent 637 and the Sabaragamuwa Province spent 444.

In addition, the total grant given to the provincial councils by the government in the year 2019 was Rs. 218 billion but that amount was also Rs. 71 billion, recurring expenditure of Rs. 289 billion.

Development Expenditures

The 09 provincial councils had borne Rs. 25 billion as development expenditure in the year 2019 and in the year 2018 it was Rs. 34.8 billion. Accordingly, the expenditure on development expenditure had decreased by Rs. 10.8 billion compared to the year 2018. According to the financial statements of the government in the year 2019, Rs. 637 billion spent as development expenditure. Further, the highest development expenditure of Rs. 69

billion was borne by the Western Provincial Council while the Eastern Province bore the lowest development expenditure of Rs. 0.3 billion.

Provincial Council Assets

In the year 2018, the total assets of the Provincial Councils identified as Rs. 222 billion have been identified as Rs. 230 billion in the year 2019 which is an increase of 3%. According to the government financial statements, the total assets in 2019 were Rs. 2,199 billion. According to the financial statements of the Provincial Councils and the financial statements of the Government, the total assets of the country in the year 2018 were Rs. 2.133 billion and by the year 2019 the total assets were Rs. 66 billion, an increase of 3 percent.

Non- current Assets

The value of non-current assets, which stood at Rs. 179 billion in 2018, had increased by Rs. 11 billion in the year 2019 and it was Rs. 190 billion. These non-current assets include assets, plants and equipment valued at Rs 177 billion.Non-current assets in government financial statements for the year 2019 stood at Rs. 1.355 billion and a total value of Rs. 1.545 billion.

Current Assets

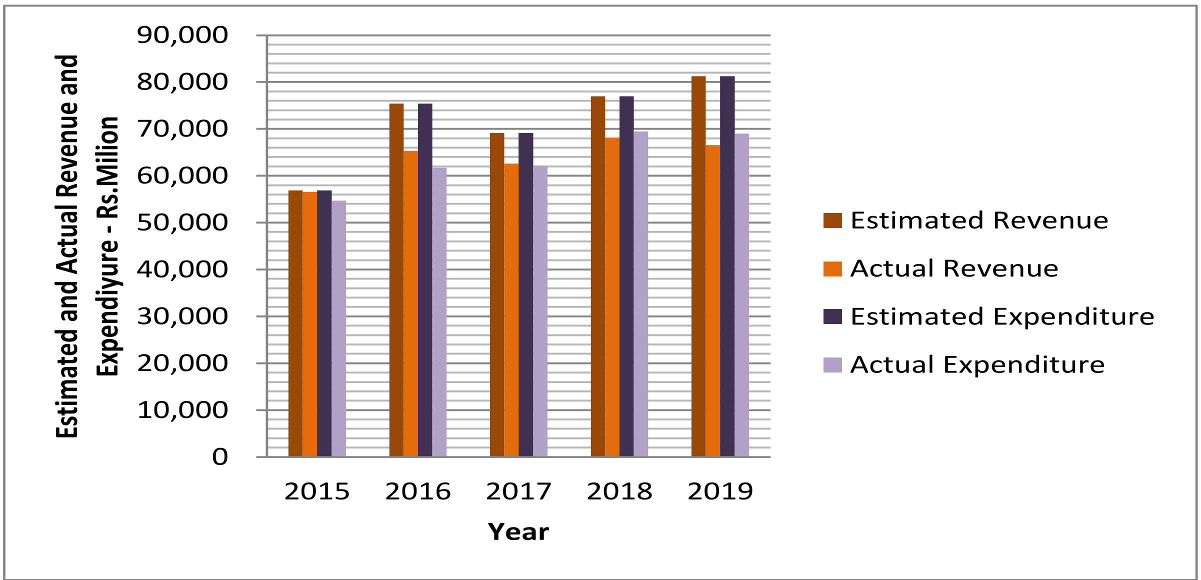
The value of current assets, which stood at Rs. 42 billion in the year 2019, had fallen to Rs. 40 billion in 2019. The total value of the current assets of the provincial councils and government financial statements in the year 2019 is Rs. 884 billion.

Provincial Council Liabilities

The total liability of the Provincial Councils which was Rs. 13.9 billion in 2018 was Rs. 13.5 billion in 2019. According to the government's financial statements, the total liabilities in 2019 were Rs. 12.645 billion.

Western Provincial Council

Income totalling Rs.81,281 million had been estimated for the year 2019 for the Western Provincial Council as a sum of Rs.24,477 million by Government Grants and a sum of Rs.56,804 million by Internal Channels. A total sum of Rs.81,281 million had been estimated, as a sum of Rs.68,377 million for Recurrent Expenditure and a sum of Rs.12,904 million for Capital Expenditure. Income totalling Rs.66,530 million had been collected in the year 2019 as a sum of Rs.21,608 million by Government Grants and a sum of Rs.44,922 million by Internal Channels. A sum of Rs.68,971 million had been utilized as a sum of Rs.61,380 million as Recurrent Expenditure and a s sum of Rs.7,591 million as Capital Expenditure. Details on the Estimated and Actual Income and Expenditure of the year under review and of 04 preceding years appear in the Graph 82 below.



Graph 82- Estimated and Actual Income and Expenditure
Source- Financial Statements of the Western Provincial Council

The material and significant audit observations revealed in the audit carried out in this connection, appear below.

Obtaining a Bus for a School

Funds had been collected for purchasing a Bus for a Central College in the Gampaha Educational Zone, by the Past Pupils Association of the Central College without influencing either the parents or the students and, by stating that the Funds are being collected from external parties, who are not parents of the students, by obtaining the approval of the Principal relating thereto. A sum of Rs.6.65 million, collected from the children who are newly enrolled into the School and from the Past Pupils Association of the Central College, for this objective, had been credited to a

Savings Account by 31 December 2019. However, a sum of Rs.5.07 million of the amount credited to that Bank Account had been spent for building construction functions, external to the objective of purchasing of the Bus. A sum of Rs.1.20 million had been paid to a Motor Vehicle Sales Institution as an initial payment for the purchase of the Bus on 19 and 30 November 2018. The Principal had obtained a circular loan facility for the payment of a sum of Rs.2.70 million that remained further payable, without any approval, under 23.5 per cent annual interest, on the basis of repayment within a period of 24 months, from a Leasing Company. The Bus had been received to the School by 01 January 2019 and even though it had been registered in the Department of Motor Traffic under the name of the Principal, any action whatsoever had not been taken to entrust its registration under the name of the School even by 31 December 2019.

Installation of a Master Clock System

It was decided to install a Master Clock System in all Officers' Rooms, all Committee Rooms (ABC) and within the Council Hall in the Committee Meeting on Council Affairs of the Western Provincial Council. In addition, it was decided in the same Committee Meeting to install clocks that state time in Digital Digits in the Hall in which the Council is held, Council Secretariat Room and within the Council Secretariat premises. However, a sum of Rs.12.94 million had been spent for the procurement of 142 Analog Clocks amounting toRs.35,387 each and for 27 Digital Clocks amounting to Rs.96,471 each, for the installation within the building of the Western Provincial Council, without being complied with that decision. Instances where several clocks being installed in a single place unnecessarily and instances where differences in terms of time remaining between each clock, in the installation of these clocks, was observed. These clocks had not been entered into inventories even by 17 February 2020 as per the Circular No.09/2019 issued on 02 October 2019 relating to handing over of the stewardship of all the tangible and intangible assets remaining within the building of the Western Provincial Council and entering them into the inventories.

Purchasing an Operating System to the Finance Division of the Western Provincial Council

The Information Technology Resources Development Authority of the Western Province had been established by the Provincial Council for the establishment of the software systems necessary for the Western Provincial Council and action had to be taken either for the purchase or for the development of the software system by the Institution after conducting a proper study on the necessity of the relevant software and on the facilities that should be provided. However, a sum of Rs.7.71 million had been spent for the purchase of an Operating System by the Finance Division of the Western Provincial Council without making a proper consideration on the establishment of that Authority and without conducting a study on the compliance with the necessity of the relevant software system. The facility of obtaining information of those Consolidated Accounts remain under the new CIGARS Programme and even though those facilities could be utilized without the assistance of other external programme, purchases had been carried out without paying attention in this connection.

Foreign Tours

The approval of the Treasury should be obtained in the instance where the number of participants in a Foreign Tour is less than 05 in terms of the call made to all Honorable Governors and to all the Provincial Chief Secretaries and in terms of Paragraph 02 of the Letter of the Presidential Secretariat No.CSA/1/4 of 26 January 2017. However, 28 Public Representatives and 21 Officers had been participated for 13 Foreign Tours in the years 2018 and 2019 only on the approval of the Govener and without obtaining the approval of the Treasury in the instance where the number of participants for the relevant Foreign Tour is less than 05 and, a sum of Rs.66.78 million had been spent in this connection

Central Provincial Council

A revenue totalling Rs.46,256 million comprising a sum of Rs.36,436 million from Government grants and a sum of Rs.9,820 million from internal sources had been estimated for the year 2019 by the Central Provincial Council. A total sum of Rs.46,335 million comprising a sum of Rs.39,529 million for recurrent expenditure and Rs.6,806 million for capital expenditure had been estimated to be utilized in the year 2019. Accordingly, a revenue totalling Rs.40,066 million comprising Rs.32,230 million from Government grants and Rs.7,836 million from internal sources had been collected in the year 2019. A sum of Rs.40,312 million comprising Rs.37,567 million for recurrent expenditure and Rs.2,745 million for capital expenditure had been utilized in the year 2019. Details on estimated and actual revenue and expenditure for the year under review and 04 preceding years are given in Figure 83

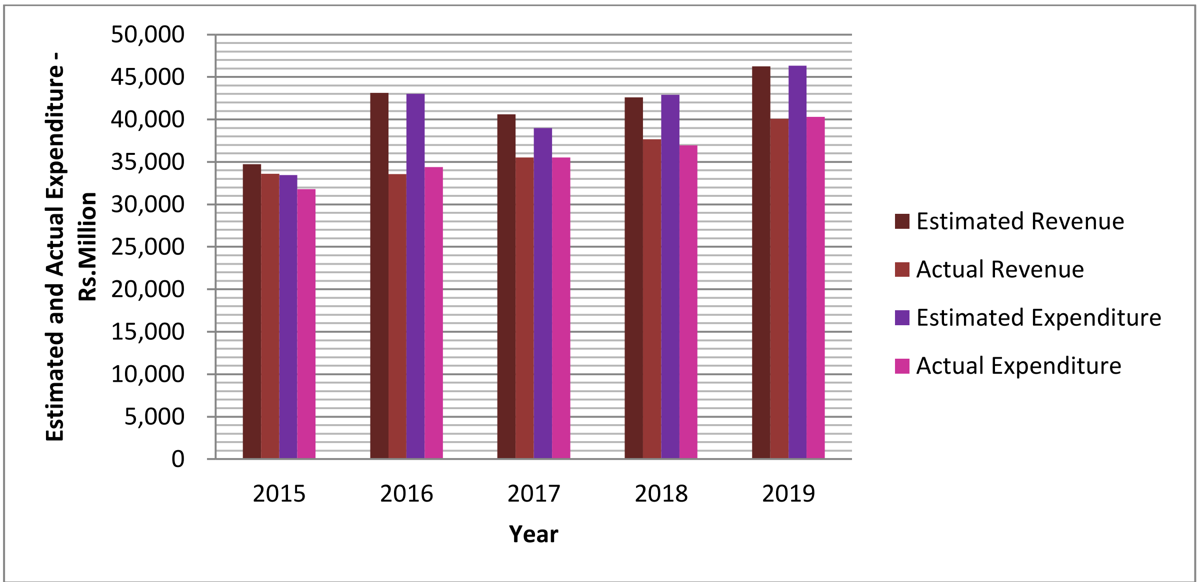


Figure 83 - Estimated and Actual Revenue and Expenditure

Source - Financial statements of the Central Provincial Council

The significant audit observations revealed in audit carried out in the year 2019 relating to the activities of the Central Provincial Council, are given below.

Failure in timely amendment of Laws for the Recovery of Water Tax

In the physical inspection carried out relating to 13 mini hydro power plants in 05 Divisional Secretariats in the District of Kandy, a sum of Rs.2.29 million had been recovered as water tax in the year 2019 from relevant power plants. The relevant companies had earned revenue of Rs.848.27 million for 54,782,382 kilowatts of electricity generated during that year. Water tax recovered had been 0.27 per cent as compared with the revenue earned due to failure to amend laws for the recovery of water tax in a timely manner. Electricity generated during the period from January to December of 2019 from 04 mini hydro power plants which were not registered in the Uda Palatha Divisional Secretariat, was 8,430,932 kilowatts and the revenue earned therefrom was Rs.118.3 million. However, no tax whatsoever had been recovered therefor.

Non-remittance of Revenue of Local Authorities

Stamp duty and court fines collected by the Provincial Council on behalf of local authorities should be provided to those authorities for execution of development activities and community services within the area of authority of the relevant local authorities. However, instead of providing the stamp duty and court fines collected by the Central Province as at the end of the year under review totalling Rs.2,481.66 million to the relevant local authorities, the said monies had been invested in fixed deposits.

Preparation of the Five Year Plan for the Central Province

A staff consisting 37 persons including 09 officers with knowledge relating to the field of planning managed under the post of Deputy Chief Secretary - Planning within the administrative structure of the Central Provincial Council, had been attached. An agreement had been entered into for a contract of Rs.4.69 million with the Regional Economic Development Agency without any connection with the said field for preparation of the five year plan for the Central Province on sustainable development. Allowances of Rs.1.75 million had been paid to 07 officers holding direct responsibility for briefing on the said plan. This plan should be implemented during the period from 2019-2023. However, Sinhala hard copies and soft copies had not been submitted even by 23 January 2020 and action had not been taken to implement this plan for the year 2020 as well.

Allocation of Official Residences

In terms of Sections 2(a) and (b) of the Provincial Councils (Salaries and Allowances) Act, No.37 of 1988 and the Circular No.10/2007 (1) dated 05 March 2009 of the Secretary to the Ministry of Public Administration and Home Affairs under the topic, "Providing Residential Facilities", only one residence each should be provided to the Governor and the Chief Minister. However, two residences each had been provided in the cities of Kandy and Nuwara Eliya to the Governor and the Chief Minister.

Proceeding Abroad without Approval

In terms of the Circular No.CSA/1/4 dated 26 January 2017 of the Secretary to the President, it had been informed that, if the number of the group proceeding abroad exceeds 05, it should be submitted for approval of the Presidential Secretariat subsequent to obtaining approval from the Treasury. The approval of His Excellency the President had not been obtained for the tour abroad in which 18 persons including Chairmen and Secretaries of 09 Provincial Councils, participated. Moreover, a sum of Rs.2.36 million had been spent from the Provincial Council Fund for the Hon. Chairman and the Secretary of the Central Provincial Council who had participated in the said tour.

Southern Provincial Council

A revenue totalling Rs.37,107 million, comprising a sum of Rs.28,362 million from Government grants and a sum of Rs.8,745 million from internal sources had been estimated by the Southern Provincial Council for the year 2019. A total sum of Rs.40,561 million comprising Rs.34,719 million as recurrent expenditure and Rs.5,842 million as capital expenditure had been estimated. Moreover, the revenue totalling Rs.36,492 million comprising a sum of Rs.27,697 million from Government grants and Rs.8,795 million from internal sources had been collected in the year 2019. A total sum of Rs.37,772 million comprising a sum of Rs.33,919 million as recurrent expenditure and Rs.3,853 million as capital expenditure had been utilized. Details on estimated and actual revenue and expenditure for the year under review and 04 preceding years, are given in Figure 84

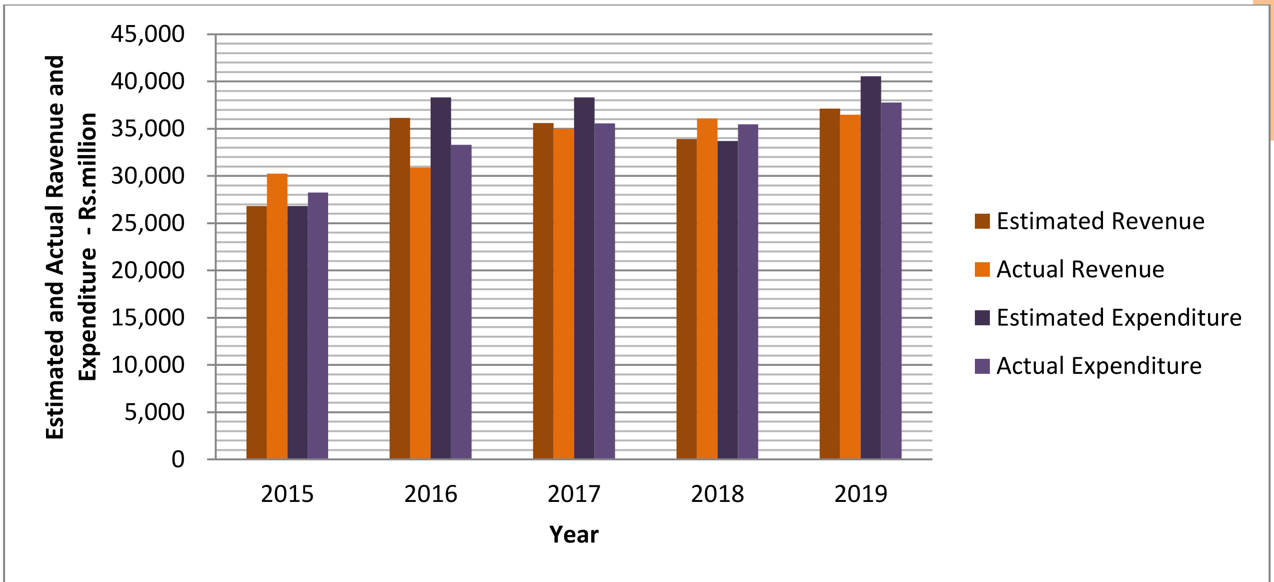


Figure 84 Estimated and Actual Revenue and Expenditure
Source – Financial statements of the Southern Provincial Council

Construction of an Information Centre

The Southern Provincial Chief Minister and the Ministry of Finance and Planning, Law and Order, Local Government, Transport, Health and Indigenous Medicine, Tourism and Engineering Services had entered into an agreement with a private contractor for Rs.26.92 million to complete the contract of construction of an information centre in the Yashorapura Model Village by 31 December 2016. The two storied building should have been constructed within 08 days from the date of entering into agreements. Even though it had been obvious that the said building cannot be constructed within the contractual period, agreements had been entered into by neglecting it and constructions had not been completed even by the end of the year 2019. The period of the contract had been extended by 842 days instead of extending the period of the performance bond. A sum of Rs.7.14 million had been paid in a fraudulent manner for the item of work of fixing laminated tempered glass. Further, a total sum of Rs.8.22 million comprising Rs.723,664 due to rates changed as a result of extending the period of contract and Rs.357,566 under additional works, had been paid.

Payment of Overtime and Holiday Allowances

Officers of the Southern Provincial Chief Minister and Ministry of Finance and Planning, Law and Order, Local Government, Transport, Health and Indigenous Medicine, Tourism and Engineering Services had used the fingerprint scanner in reporting duty on week days. However, a sum of Rs.914,624 had been paid as allowances for working on weekends and public holidays without using the fingerprint scanner .

Overpayment for Constructions

The contract of construction of the stone-wall and wall of Halpathota Niwarthana Niwasaya belonging to the Department of Social Welfare, Probation and Child Care Services at an estimated value of Rs.3.75 million had been awarded to a Rural Development Society exceeding the relevant financial limit without considering qualifications thereof. An overpayment of totaling Rs. One million had been made for the said constructions.

Irregular Payments

The Southern Provincial Development Authority had spent a sum of Rs.3.39 million for the Project of Construction and Development of Physical Capital Assets of the Hungama Farm premises. Moreover, a total sum of Rs.1.91 million had been irregularly overpaid, comprising Rs.1.14 million for building materials and other goods not used by the project, Rs.332,050 for goods and **services** not provided by the supplier and Rs.443,750 for trained and untrained labourers exceeding approved salary rates and number of actual working days.

Northern Provincial Council

A revenue of Rs. 29,686 million had been estimated by the Northern Provincial Council for the year 2019 comprising sums of Rs. 25,742 million and Rs. 3,945 million through Government grants, and internal sources respectively. Of the revenue estimate for the year 2019, it had been expected to incur a total of Rs. 29,870 million comprising sums of Rs. 25,382 million and Rs. 4,488 million spent on recurrent and capital expenditures respectively. Accordingly, revenue totalling Rs. 28,736 million had been collected in the year 2019 including a sum of Rs. 23,614 million from the Government grants and a sum of Rs. 5,122 million through internal sources. A sum totalling Rs. 27,051 million had been utilized in that year including sums of Rs. 24,463 million, and Rs. 2,588 million incurred on recurrent and capital expenditures respectively. Particulars on the estimated revenue & expenditure, and the actuals in the year under review and 04 preceding years, are shown in Figure 85 below.

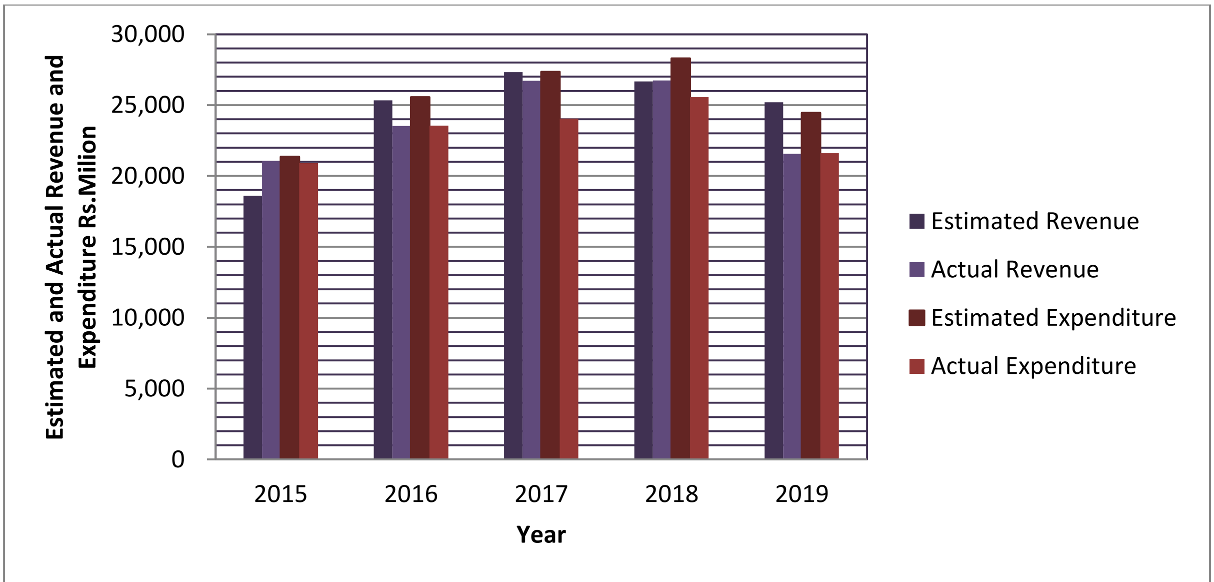


Figure 85 Estimated & actual revenue and expenditure.
Source : Financial statements of the Northern Provincial Council.

Projects Abandoned without being Completed

Construction works of 05 buildings worth Rs. 44.73 million carried out by the Northern Provincial Department of Education under the Programme "Lagama Pasala Hondama Pasala", had been halted halfway without being fully completed.

Financial Frauds

An Agreement had been entered into with a contractor for the construction of football ground of J/Sidambara

College pertaining to the zonal education office, Wadamarachchi at a contract value of Rs. 0.3 million. Having stated that the playground had been fully constructed, payments totaling Rs. 0.28 million had been made in full. Nonetheless, the construction works of the said football ground had been abandoned halfway at the preliminary stage.

Eastern Provincial Council

Revenue totalling Rs. 26,442 million comprising a sum of Rs. 21,612 million from Government Grants and a sum of Rs. 4,830 million from internal sources had been estimated for the year 2019 by the Eastern Provincial Council. A total of Rs. 30,371 million comprising Rs. 26,442 million for recurrent expenditure and Rs. 3,929 million for capital expenditure had been estimated to be utilized in the year 2019. Accordingly, revenue totalling Rs. 25,533 million comprising Rs. 21,612 million from Government Grants and Rs. 3,921 million from internal sources had been collected in the year 2019. A sum of Rs. 28,008 million comprising Rs. 26,012 million for recurrent expenditure and Rs. 1,996 million for capital expenditure had been utilized in the year 2019. Particulars on the estimated revenue and Expenditure, and the actuals in the year under review and 04 preceding years, are shown in Figure 86 below.

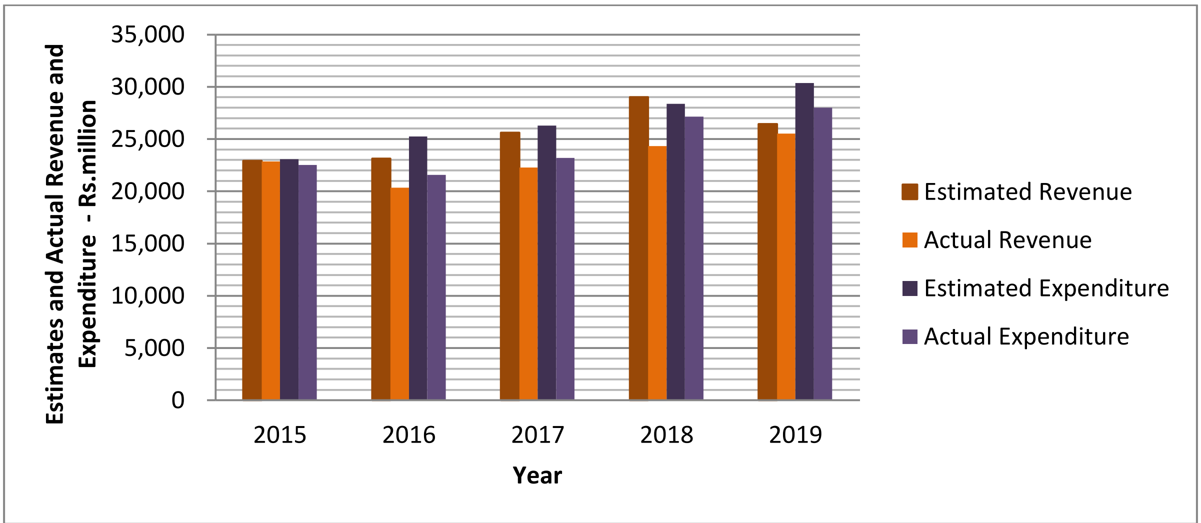


Figure 86- Estimated and Actual Revenue and Expenditure
Source – Financial Statement of the Eastern Provincial Council

Material and important audit observations made during the sample audit carried out in the year 2019 relating to the activities of the Eastern Provincial Council are given below.

Conducting Separate Classes for Bi-medium Students

Bi-medium class is defined as teaching several subjects in Sinhala/ Tamil, while teaching few selected subject in English in the same class, for the students in Grade 6-11. In this regard, it was observed that, according to the Ministry of Education Circular No.2008/12 dated 21 April 2008, there should not be a separate class for the students who learn in Bi-medium and they also should be mixed in Sinhala or Tamil medium students. Further, they should be separated when they learn the relevant subject in English. It is the responsibility of the Principal, to arrange the time-table accordingly. However, 20 separate classes had been established in 06 schools in Kinniya Education Zone in Trincomalee district for bilingual education contrary to the above Circular.

Appointment of Performing Principals

According to the Circular No. 1998/23 dated 06 July 1998 of the Ministry of Education, performing principals could be appointment only until qualified principals are appointed. However, 27 teachers of Sri Lanka Teachers' Service (SLTS) had been employed as performing principals at Kinniya Education Zone contrary to the above Circular.

Attachment of Principals

According to information made available for audit, 08 officers of the Sri Lanka Principals' Service (SLPS) had been attached to Schools without any school responsibility. However, the Kinniya Zonal Education Office had not taken actions to fill 27 vacancies for Principals in the Zone. As a result, educational standards in the Zone had been reduced to very low standards in terms of rank for education Zones in the Island.

Attachment of Teachers

Even though teachers should be attached to schools for temporary basis on an exceptional circumstance, 21 teachers of Kalmunai Education Zone had been attached from National Schools to Provincial Schools for a period ranging from 02 to 07 years. Further, salaries had been paid out of National Schools payrolls. However, actions had not been taken to cancel temporary attachments and place them in suitable Schools.

Excess of Principals

Even though 31 principals had reported excess, Kalmunai Education Zone had not taken actions to fill the vacancies in principals cadre in Kalmunai Education Zone or and transfer them to outside Zones.

Excess of Teachers

According to the information made available, 472 teachers were reported excess for main subjects such as primary level, Science and English subjects. However, Kalmunai Education Zone had not taken actions to balance the cadre among the schools where shortages of 272 were reported or transfer them to outside Zones.

Drop out of Students

17 Schools in Kalmunai Education Zone had not allowed students who have not performed well, to sit for the G.C.E O/L Examination in order to maintain the standard of the schools and Provincial ranking. As a result, students had to leave the schools without any educational qualification and also this practice will badly affect the higher education of the relevant students.

Non - transfer of Teachers

According to the Circular No.20/2007 dated December 2007 of the Ministry of Education, teachers who have completed over 08 years should be transferred. However, 311 teachers of the Sri Lanka

Teachers' Service attached to the Kalmunai Education Zone had been deployed in a school for period ranging from 08 to 15 years at same school without any transfers. In this regard, it was observed that proper transfer policy had not been followed by the Zone.

Non - appointment of Provincial Commissioner of Revenue

According to Section 2 of the Finance Statute No. 01 of 2008, a Provincial Commissioner of Revenue shall be appointed. However, the Provincial Council had not taken actions to fill this post in terms of Section 3.2 of an approved Service Minute and Scheme of Recruitment of the Provincial Department of Revenue of the Eastern Province even though the post of Provincial Commissioner of Revenue was vacant from 18 December 2011. As a result of not appointing a Provincial Commissioner of Revenue for 08 years, the activities relating to the collection and administration of provincial revenue of the Eastern Province as stipulated in the Finance Statute had been affected to a large extent.

Weaker Revenue Collection

Even though the Department of Provincial Revenue had been established on 18 November 2008 with the cadre of 54 as a separate Department, the Provincial Council had abolished the Department abruptly in 2013 and reduced the cadre from 54 to 23 in key posts in Provincial Revenue Service by reducing 01 Deputy Commissioner, 07 Tax Assessor and 19 Tax Officers from the approved cadre. As a result, the revenue collection and tax administration in the Province had been hampered considerably. In this regard, actions had not been taken even up to date to increase the cadre in order to improve the efficiency of the Department.

Failure to Change Face Value of the Property

The Department of Provincial Revenue had collected additional stamp duty aggregating Rs. 42 million on the value of property for declaring lese value of the property in Batticaloa and Ampara districts. However, the Department had not informed the Registrar of the Land Registry of the districts of Trincomalee, Batticaloa and Ampara to change the face value of the property in the Land Registry according to the new valuation done by the Assessor of the above Department since 2014. As a result, old face value of the assessed property reminded unchanged for several years in the Land Registry.

Failure to Obtain Valuation Report for Properties

According to Section 62 of the Financial Statute No. 1 of 2008, adjudication about the proper stamp duty could be obtained from the Assessor of the Department of Provincial Revenue by the land owners if they wish to, and their opinion was not a final and conclusive. However, the value of the property had been assessed in most instances by the Assessors of the

Department independently relying on their opinion without considering the Tax payers request for valuation report and without obtaining a valuation report from the Department of Valuation of the Government of Sri Lanka for disputes in the opinions of the Tax Payers. As a result, valuation done by the Assessors could not be relied upon and there were considerable discrepancies too observed between the declared amount and assessed value.

Collection of Stamp Duty and Court Fines

According to the mobile service conducted during the year 2017 and 2018 by the Provincial Department of Revenue relating to the collection of stamp duty from the registration of lands at the Land Registry in the Eastern Province, it was revealed that 794 land owners had declared less value for their lands in order to pay less amount as stamp duty. Therefore, additional stamp duty aggregating Rs. 14 million had been imposed for those undervalued properties. However, the Provincial Department of Revenue had not taken legal actions even up to 31 December 2019 to recover the outstanding back duty of Rs. 1.79 million from the land owners to whom they were imposed.

Failure to Impose Penalty for Tax Evasions

According to Section 57 (b) of the Financial Statute No. 1 of 2008, a penalty not exceeding three times the amount of the proper duty could be imposed for tax evasions. However, the Assessor of the Department had not impose a single cents on the tax evasion of stamp duty in the respect of 115 land owners. As a result, considerable revenue had been lost to the Provincial Council.

Failure to Assess Deeds

Six thousand and twenty-six (6,026) deeds registered in the Eastern Province during the period from 2012 to 2018 had not been subjected to assessment by the Department of Provincial Revenue in order to verify and impose additional stamp duty due to under-valuation of lands.

Failure to Generate its Own Funds

According to the letter No. G/EPC/B/14/R/H. A dated 20 June 2014 issued by the Secretary to the Governor of the Eastern Province, the funds had been made available during the year 2014 for salaries and other expenditure subject to condition that the Provincial Housing Authority must generate its own funds without depending on the Consolidated Funds. However, the Authority had failed to start any business activities in order to generate its own funds to meet expenditure even after the lapse of 05 years from the establishment of the Authority.

Failure to Create Permanent Cadre

Even though three years had elapsed after the establishment of the Authority, action had not been taken to create necessary cadres and appoint necessary officers for the efficient discharge of duties and functions of the Authority. However, 08 officers of the Provincial Ministry of Road Development had been released to the Authority on overseeing duty basis in addition to their existing substantive posts.

Irregular Appointment of Chairman

According to Section 03 (3) of Part I (1) of the Eastern Provincial Housing Authority Act No. 2 of 2013, if a person becomes a member of Local Authority, he is not qualified to be appointed as a Chairman of the Authority. However, a person who was an elected member of the Eravur Urban Council during that period and participated in the Council meetings was appointed as the Chairman of the Eastern Provincial Housing Authority on 30 January 2019 contrary to the above Statute.

Construction of Houses According to Housing Development Plan

According to the Housing Development Plan (2015-2019) prepared by the Provincial Housing Authority, it was expected to construct 29,700 houses for houseless families at the total estimated cost of Rs. 14,525 million during the years from 2015 to 2019. However, no houses had been constructed during this period except providing housing assistance beneficiaries under the Provincial Specific Development Grant.

Failure to Fulfill Objectives

- According to the decision No. 2014/03/03 of the Board of Directors of the Authority, it was decided to purchase cement from Tokyo Cement Company in order to distribute cement to the contractor who carry out development works in the Eastern Province. However, contrary to the above decision, the Authority had purchased cement from the above Company and sold them to the sub agents in order to earn profit. Therefore, the Company had stopped issuing cement to the Authority. As a result, the Authority was unable to provide cement to the contractors to carry out development works within the Province.

- According to the decision No. 2014/03/05 of the Board of Directors of the Authority, it was decided to establish 10 production centres within the Province for producing cement bricks for the development works undertaken by the Authority and it was expected to earn a profit of Rs. 4.3 million per year by producing 1.2 million cement bricks. However, no action had been taken to implement this Project even up to 31 December 2019.

Collection of Arrears of Revenue

- Forty-five Local Authorities functioning in the Eastern Province had not taken actions to collect the arrears of revenue totalling Rs. 895 million as at 31 December 2019 from the major sources of income such assessments tax, rents, licenses and leases.

- Out of 503 shops under the purview of Kalmunai Municipal Council, arrears of Rs. 5.1 million had not been recovered from 64 shops for over 08 years. It was further observed that these shops of the Council are being rented out for a monthly rent from Rs. 500 to Rs.4000 since 1980 without considering the prevailing market rate and without calling for public tender. As a result, a sum of Rs.60 million (approximately) had been lost annually to the Council.

Rent out Stalls to Members of the Council

Two shops belonging to Kalmunai Municipal Council in Ampara district had been rented out to two members of the Municipal Council from March 2018 contrary to Section 180 of the Municipal Councils Ordinance.

Purchase of LED Lights

Town and Gravest Pradeshiya Sabah in Trincomalee district had purchased LED lights for Rs. 11,150 for each whilst same type LED lights had been purchased by Kuchchaveli Pradeshiya Sabah for Rs15,900 and Rs 16,650 each. As a result, a sum Rs. 2.08 million had been over paid by the Kuchchaveli Pradeshiya Sabah.

Idle Assets

- Solid waste segregation center for Alayadivembu Pradeshiya Sabha had been constructed with the cost of Rs. 1.25 million in “Kannagipuram”, under the UNOPS project in year 2016 and Compost machinery at a cost of Rs. 1.2 million had been fixed under the PSDG fund in year 2018. However, due to the protest by the public and the lack of land space for the land fillings, the Compost center had not been operated since 20 October 2017 and found to be in a dilapidated condition. As a result, the investments for the segregation center had become fruitless and the machineries were being idle.

- A building constructed at a cost of Rs. 19.88 million in 2014 by Akkaraipattu Municipal Council for the purpose of fire brigade had not been used for the intended purposes even up to now.

- An electric train consisting of 14 seats valued at Rs. 2.3 million for the use of Children Park managed by Akkaraipattu Municipal Council had not been made use for the public even up to now.

- Two building complex constructed at a cost of Rs. 4.97 million and Rs 4.69 million in Irakkamam Pradeshiya Sabah areas had not been used for the intended purposes even up to now.

Department of Lands Administration

Lease income for Government lands relating to 09 Divisional Secretariats totalling Rs. 333 million had remained as arrears since the year 1991. However, prompt actions had not been taken to recover those arrears of income up to 30 June 2020.

Idling of GPRS System

The Eastern Provincial Road Passengers Transport Authority had purchased 13 Point of Sales (POS) connected with General Packet Radio Service (GPRS) system and 2000 ticket rolls on 08 June 2015 at a cost of Rs. 1.142 million in order to record the arrivals and departures of private buses to the bus terminals. However, those items had not been used for 05 years for the intended purposes due to the lack of proper software system to operate the machines.

Failure to Obtain ISO Certification

The Authority had made an agreement with a private company on 16 September 2016 to install an Effective Quality Management System based on ISO 9001:2015 standard at a cost of Rs. 1 million. Out of this, a sum of Rs. 0.326 million had been spent even up to 31 December 2019. However, the Authority had not obtained ISO certification as envisaged even up to 30 June 2020. As a result, the money spent on the Project had become fruitless.

Irregular Appointment of Chairman

According to Section 11(A) of the Eastern Province Tourism Bureau Statute No. 1 of 2016, if a person becomes a member of Local Authority, he is not qualified to be appointed as a Chairman of the Bureau. However, a person who was elected a member of the Ampara Urban Council during that period and participated in the Council meetings was appointed as the Chairman of the Eastern Province Tourism Bureau on 30 January 2019 contrary to the above Statute.

Failure to Complete Diploma Courses in Pre-school Education

According to the Policy Guidance issued by the Provincial Ministry of Education with the collaboration of UNICEF as minimum standards for Pre-school teachers, teachers should have completed an approved Diploma Course in Pre-school education compulsorily. However, 1515 Pre-school teachers had not completed Diploma Courses even up to 30 June 2020.

Repair of Incinerator

A incinerator at Muthur Base Hospital had been installed at a cost of Rs. 5.28 million in June 2016 by a private company. However, after the installation of incinerator, it was observed that more repairs had been done at the total cost of Rs. 2.43 million which mean that 46 per cent of cost of the machine had been incurred on installation cost up to 31 May 2020.

Purchase of Hospital Beds with Mattress and Bed sheet

According to the procurement committee meeting minutes dated 04 February 2019, the Provincial Department of Health Services had awarded this procurement to a private supplier for Rs. 3.66 million. In this regards, according to Section 7.3 of the Provincial Treasury Circular No. PT/04/2017 dated 21 September 2017, the Department and Authority limit for procurement of goods and services other than consultancy on shopping method should be limited up to Rs. 2 million. However, the Department Procurement Committee had selected supplier for Rs. 3.66 million on shopping method instead of following National Competitive Bidding (NCS) method.

North Central Provincial Council

A total revenue of Rs.25,200 million including a sum of Rs.20,469 million by Government Grants and a sum of Rs.4,731 million through internal sources had been estimated for the year 2019 by the North Central Provincial Council. It had been estimated to utilize a total sum of Rs.24,445.34 million including a sum of Rs.20,377.34 million as Recurrent Expenditure and a sum of Rs.4,068 million as Capital Expenditure. As such, a total revenue of Rs.21,558.14 million including a sum of Rs.16,680.58 million by Government Grants and a sum of Rs.4,877.56 million by internal sources had been collected in the year 2019. Further, a total expenditure of Rs.21,598.6 million including a Recurrent Expenditure amounting to Rs.15,741.5 million and Capital Expenditure amounting to Rs.5,857.1million had been incurred. As such, the expenditure over revenue amounted to Rs.40.46 million. Particulars of the revenue collected by the Provincial Council during the year under review and 4 preceding years and the utilization therefrom are given in figure 87

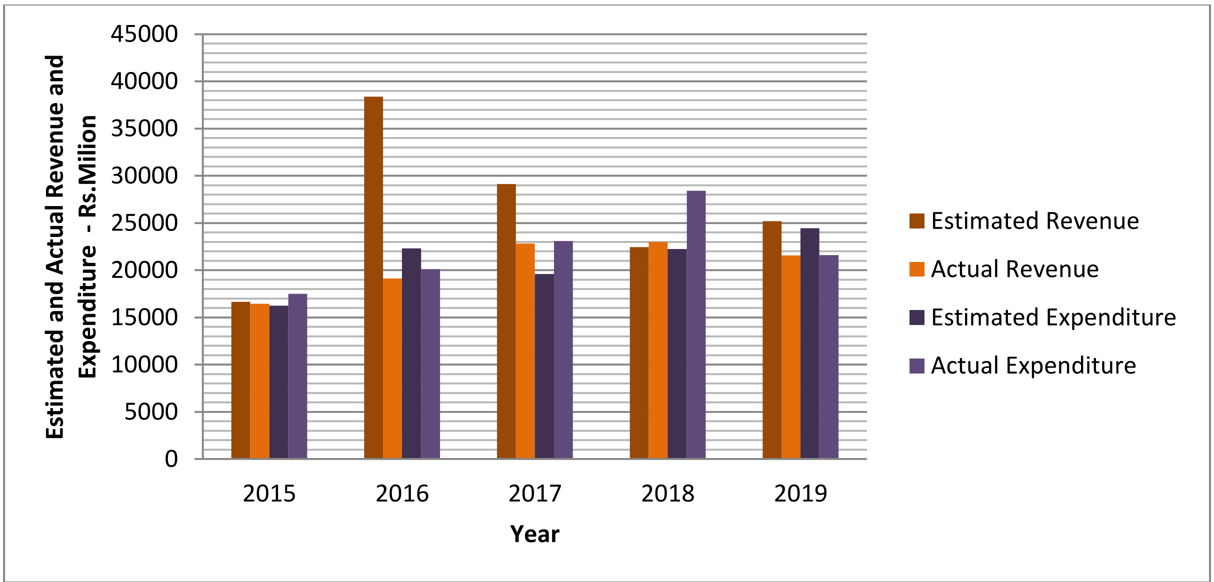


Figure 87 Estimated and Actual Revenue and Expenditure
Source – Financial statements of the North Central Provincial Council

The significant audit observations revealed in audit carried out on the North Central Provincial Council in the year 2019 are summarized below.

Impress Management

Even though the imprest balance remaining as at the end of each year should be settled to the provincial treasury, imprest balance of Rs.27.78 million relating to 03 provincial ministries had not been settled as at the end of the year under review. Out of those imprest balances, 95 per cent equivalent to an imprest balance of Rs.26.41 million existed over a period of 9 years while the remaining imprest balances remained over a period of 5 years. The said balances could not be settled even by the end of the year under review.

Revenue Management

The estimated revenue pertaining to 08 Revenue Codes for the year under review amounted to Rs.3,525.35 million and the revenue collected had been Rs.2,472.12 million. Accordingly, a sum of Rs.1,053.23 million out of the estimated revenue, had not been collected. The said revenue not so collected had ranged from 8 per cent to 99 per cent of the estimated revenue.

Provincial Development Plan

Provisions amounting to Rs.3,487 million had been made by the provincial council during the year under review for the implementation of 1,437 proposals as new work proposals and continuous work proposals. Activities of 1,160 proposals had been completed by utilizing a sum of Rs.2,086 million out of the provision made in the year under review. Activities of 57 proposals out of the said work proposals had not been commenced even by the year under review whereas the provision of Rs. 70 million made therefor had remained underutilized. Even though a provision of Rs.324 million had been made for the completion of 59 work proposals, those work proposals had been implemented less by 50 per cent. The progress of work proposals are shown in the Table 23

Particulars	Number of New Work Proposals	Number of Continuous Work Proposals	Number of Total Work Proposals	Estimated Value of Total Works
				Rs. Million
Completed	873	287	1,160	2,086
Completed more than 50%	151	10	161	1,007
Completed less than 50%	58	01	59	324
Not commenced	57	0	57	70
Total	1,139	298	1,437	3,487

Table 23 Progress of Provincial Development Plan – 2019
Source: Provincial Development Plan

Special Education Unit

- In terms of paragraph 01 of the Circular No.1/ පි.ආ./2/84 dated 24 May 2001 of the Ministry of Education, in the admission of children to the Special Education Unit, the children with special needs should be identified by a Committee comprised of 03 members out of the

Deputy Director of Education in charge of the subject of special education, Assistant Directors of Education, teaching instructors in charge of the subject of special education, teachers of special education, teachers in charge of primary section/subjects. Nevertheless, the North Central Provincial Council had deviated from the said methodology and as such, the children with minimum level of reading and writing skills, children without early childhood education, ordinary children of very poor families and children with poor hygiene habits who should be provided with the education in a common class room, had been admitted to the special education units.

- In terms of paragraph 05 of the circular No.42/2012 dated 23 November 2012 issued by the Secretary of the Ministry of Education, it is compulsory for the teachers who have been appointed to the special education sector to serve in the special education sector of relevant major subject despite whatever the sub-subject stated in the Letter of Appointment. Nevertheless, 20 teachers who have been well trained for teaching in a special education unit, had been employed for teaching other subjects in the North Central Provincial Council.

- In terms of the circular No.42/2012 dated 23 November 2012 issued by the Secretary of the Ministry of Education, teachers who have been well trained in the relevant sector should be appointed for special education units at least one teacher per 05 students. Nevertheless, vacancies of 29 teachers who were trained in the relevant sector existed in 24 schools with special education units in the 08 education zones of the North Central Provincial Council.

- Special education units had not been established in 04 divisions of the 30 education divisions in the 08 education zones of the North Central Provincial Council and as such, the children with special needs in those education divisions had deprived of the opportunity of receiving special education.

- Even though buildings for special education units had been renovated at a cost of Rs.18.48 million for 13 schools belonging to 03education zones of the North Central Provincial Council in the year 2017, the said special education units had not been in operation even by the end of the year 2019 while proper buildings had not been constructed for special education units in respect of another 12 schools. As such, the authorities had not taken action to renovate the buildings and to construct new buildings after properly identifying the schools which required the special education units.

- In terms of the circular No.9/2007 dated 14 May 2007 issued by the Secretary of the Ministry of Education, due attention should be paid to provide access facilities for persons with disabilities in the construction and renovation of school buildings and providing access facilities within the school premises was compulsory. Nevertheless, proper access facilities had not been provided for special education units in 14 schools of the North Central Provincial Council.

- In terms of the Circular No.ED/09/18/02/01/2 of 30 January 2017 issued by the Secretary of the Ministry of Education, Section 37 of the Education Ordinance and the notification published in the Gazette Extraordinary No.1963/30, the school committee and supervision committee should functioned for the implementation of programme on compulsory education for all children between the age of 5-16 years. Nevertheless, adequate evidence had not been made available to Audit to ascertain that the process of identifying the children with special educational needs in the Province and directing them to the special education units of schools, had been implemented.

Obtaining Allowances for the Days not reported for Duty

Two Medical Officers in the Divisional Hospital at Galkiriyama in Anuradhapura, had recorded in diaries that they have reported for duty on the days not actually reported for duty in the year 2019. Of those, the Medical Officer who served as the Medical Officer In Charge had obtained a sum of Rs.385,856 as additional allowance for 396 hours of 99 days not reported for duty while Rs.25,739 was obtained as holiday payments for 06 days not reported for duty. Moreover, the other Medical Officer had obtained a sum of Rs.146,060 as additional allowance for 268 hours of 67 days not reported for duty while Rs.9,732 was obtained as holiday payments for 04 days not reported for duty. The Medical Officer in Charge had prepared the duty rosters only for 03 months in the year.

Apparent Irregularities

Double payments had been made for one instance on originals of the documents including the measurement sheets, report on work completion and bill payments pertaining to the constructions carried out under the provision made for the Nearest School is the Best School Project and for other instance on the photo copies of the said documents. The amount obtained fraudulently through double payments totalled Rs.8.61 million as at 26 February 2020.

Construction of the Building for Library Services Board, Thambuththegama

The Chief Ministry of North Central Province had entered into an agreement with a contractor for a bid valued at Rs.24.99 million in respect of the construction of building for Library

Services Board, Thambuththegama under special projects in the year 2016. Contrary to the Guideline 6.2.2 of the Government Procurement Guidelines, only 05 days had been given for potential bidders despite the minimum bidding period of 21 days and as such, only one bid was submitted. Even though the constructions should be completed by 22 February 2017 as per the agreement entered into, it had been completed on 10 January 2019. Nevertheless, the liquidated damages amounting to Rs.2.50 million recoverable therefor in terms of the agreement, had not been recovered. Even though the said building had been constructed at a cost of Rs.25.20 million, it had remained idle over a period of one year without being opened even by 15 July 2020.

Nearest School is the Best School Project

Failure to take action for the settlement of Advances

Agreements had been entered into for a contract value of Rs. 21.95 million in respect of the completion of 02 construction contracts. Mobilization advances amounting to Rs.9.07 million had been paid for carrying out the said contracts. Those contractors had not completed the works in terms of the agreement whereas legal action had not been taken to recover the advances paid.

Entering into Agreements exceeding the Engineer's Estimate

In awarding the contract of which the Engineer's estimate amounted to Rs.1.71 million of a sub-project under the Nearest School is the Best School Project, to an approved society, agreements had been entered into exceeding the Engineer's estimate by a sum of Rs.292,725.

Deactivated Project

Even though the junior, secondary and primary laboratory building of the Mudunegama Maha Vidyalaya which was constructed at a cost of Rs. 36.64 million under the Nearest School is the Best School Project, had been declared open on 01 March 2019, it had remained idle over a period of one year due to the lack of electricity supply.

Incomplete Project

An Agreement had been entered into for a contract value of Rs. 41.45 million on 13 March 2017 for the construction of three storied class room building and the two storied Primary Learning Resource Building of the Primary School of the Thirappane Mahanama Vidyalaya under the Nearest School is the Best School Project. According to the agreement, the contract should be completed before 13 September 2017. Even though 30 per cent of the mobilization advances amounting to Rs.14.30 million had been paid on 13 March 2017, its physical progress had been 5 per cent even by 18 January 2019. The guarantee period of the advance had also expired by that date.

Fruitless Expenditure

A definite place had not been identified for the construction of the building of Administration Resource Centre of the Early Childhood Development Authority. Planning of project, preparation of Engineer's estimate and preparation of bid documents had been done without identifying a definite place. The Chief Ministry had entered into an agreement with a contractor on 31 July 2017 upon an estimate of Rs.24.27 million so prepared. Even though the construction work had been subsequently commenced on a land in the area of authority of the Anuradhapura Municipal Council, the activities of project had been stopped halfway due to the failure in obtaining the development permits and in constructing the building as agreed. A sum of Rs.2.08 million had already been spent for the project by that time and it had been a fruitless expenditure.

Idle Assets

Out of the 25 official quarters in schools of the Education Zone, Galenbindunuwewa, 22 official quarters had not been handed over to the teachers, thus the said quarters remained idle.

The incinerator purchased at a cost of Rs.2 million by the Chief Ministry of the North Central Province in the year 2016, had been handed over to the Kebithigollewa Base Hospital on 08 August 2017. However, it remained idle without being used by the Hospital from the said date.

Non-utilization of monies granted for Special Education

A total sum of Rs.1,514,149 comprising Rs.435,449, Rs.341,731, Rs.358,730 and Rs.378,239 granted in the years from 2015 to 2018 respectively for special education in 08 Zonal Education Offices, had not been utilized.

Failure in vesting the Assets properly

Even though the assets belonging to 04 schools in the Education Zone, Galenbindunuwewa which were closed over a period ranging from 05 years to 20 years, had been used by external parties, those assets had not been vested properly.

North Western Provincial Council

The North Western Provincial Council had estimated total revenue of Rs. 38,999 million for the year 2019 was consisted with Rs. 28,550 million from government grants and Rs. 10,449 million from internal ways. Recurrent and capital expenditure in 2019 was estimated at Rs. 35,934 million and Rs. 3,065 million respectively for a total of Rs. 38,999 million estimated expenditures. Collected revenue Rs. 34,791 million for the under reviewed year was consisted with Rs. 25,884 million from government grants and Rs. 8,907 million from internal ways. Total utilization of Rs. 35,818 million consisted with Rs. 33,876 million from recurrent expenditure and Rs. 1,942 million from capital expenditure. Details of the estimated and actual income and expenditure for the year under reviewed and last 04 years are given in diagram 88.

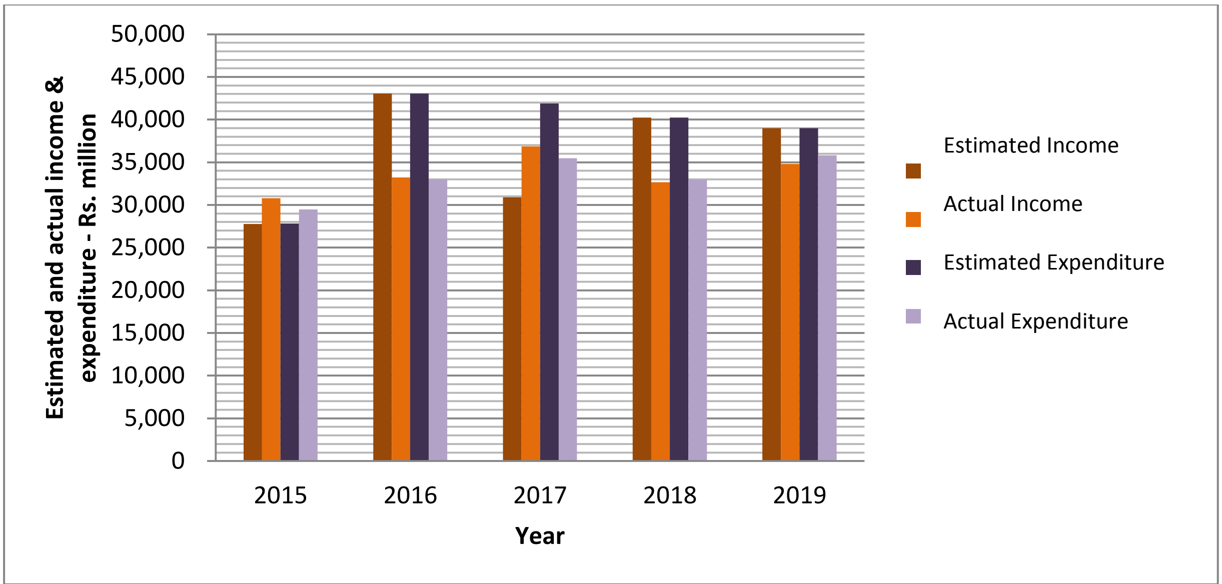


Figure 88 – Estimated and actual income & expenditure
Source – Financial Statements of the North Western Provincial Council

Summary of the important audit observations made during the sample audit conducted by the North Western Provincial Council on the role played during the year under reviewed was given below.

Deficit Income

The Chief Secretariat, the Provincial Revenue Department and the Land Commissioner's Department had arrears revenue of Rs. 232.9 million for 08 revenue tokens as at 31 December 2019. 152.9 million out of that, which has been in arrears for more than 3 years.

Exemption from Tax Revenue

The Provincial Council fund had lost Rs. 193.9 million due to released arrears turnover tax of Rs. 117 million on 784 files pertaining to the period from the year of 1991 to 2010, Rs. 36.9 million, Rs. 40.1 million taxes and fines respectively and additional stamp duty of Rs. 76.9 million on 483 stamp duty files pertaining to the period from the year of 2011 to 2019 during the year of 2016 to 2019.

Construction of a six storied building

The North Western Provincial Council and the Kurunegala Municipal Council had jointly constructed a six storied building at an estimated cost of Rs. 1,384.8 million. The need of building had to be identified and approved in accordance with the approval procedure in two stages as per Provincial Financial Rule 4.2.1 (b) and included in the annual development plans, but no such action had been taken with regard to this construction. This construction was identified in the year 2019 without approval of the Finance Commission and the procurement procedures were carried out as an expeditious project. Although the Governor had instructed the North Western Provincial engineering Department to prepare a plan for the construction, it had not been given sufficient time and had been considered as a matter of urgency and procurement had been carried out. However, this contract system is selected only in cases where there is a lack of technical knowledge of the relevant construction and the cost cannot be accurately estimated.

According to guideline 7.8.4 (b) of the Government procurement Guideline, the use of inadequate bid security declaration forms should not be considered as a major deviation in bid evaluation. However, the contractor who had submitted a bid of Rs. 1,384.8 million had been selected for the construction without evaluating the other bidders who had submitted an estimate of Rs. 720 million. The National Procurement Commission had also stated that awarding the relevant contract that was contrary to the basic procurement rules.

Although the contract is awarded on 06 November 2019, contrary to the procurement procedures considered as a matter of urgency, as at 15 October 2020, not sufficient work had been done on the contract.

Non-performing Assets

- 46 medical equipment worth Rs. 26 million and 14 medical equipment worth Rs. 16.7 million at the premature infant unit setup in the building constructed under the modernization of the Galagamuwa Base Hospital of the North Western Provincial Council Health Services Department on a foreign aid project remained inactive from the period of 05 years.

- The Madurankuliya Tourist Information and facility center, which was completed by the North Western Development Authority at a cost of Rs. 12.6 million without a formal feasibility study and planning, remained idle from the period of 03 years.

- **Rs. 15.6 million was received from the Ministry of Health and provincial specific allocations in 2018 for the construction of the Blood Transfusion Unit at Dambadeniya Base Hospital. Despite purchasing blood transfusion equipment worth Rs. 9.9 million in 2019, the unit had not commenced operations by the end of year. As a result, patients in the surrounding areas had not referred to Kuliyapitiya and Kurunegala hospitals for traetments.**

Sabaragamuwa Provincial Council

A total revenue of Rs.32,683 million including a sum of Rs.27,298 million by Government Grants and a sum of Rs.5,385 million through internal sources had been estimated for the year 2019 by the Sabaragamuwa Provincial Council. It had been estimated to utilize a total sum of Rs.32,683 million including a sum of Rs.28,387 million as Recurrent Expenditure and a sum of Rs.4,296 million as Capital Expenditure. As such, a total revenue of Rs.30,622 million including a sum of Rs.25,563 million by Government Grants and a sum of Rs.5,059 million by internal sources had been collected in the year 2019. Further, a total expenditure of Rs.30,071 million including a Recurrent Expenditure amounting to Rs.27,447 million and Capital Expenditure amounting to Rs.2,624 million had been incurred. Particulars of the estimated and actual revenue and expenditure during the year under review and 4 preceding years are given in figure 89.

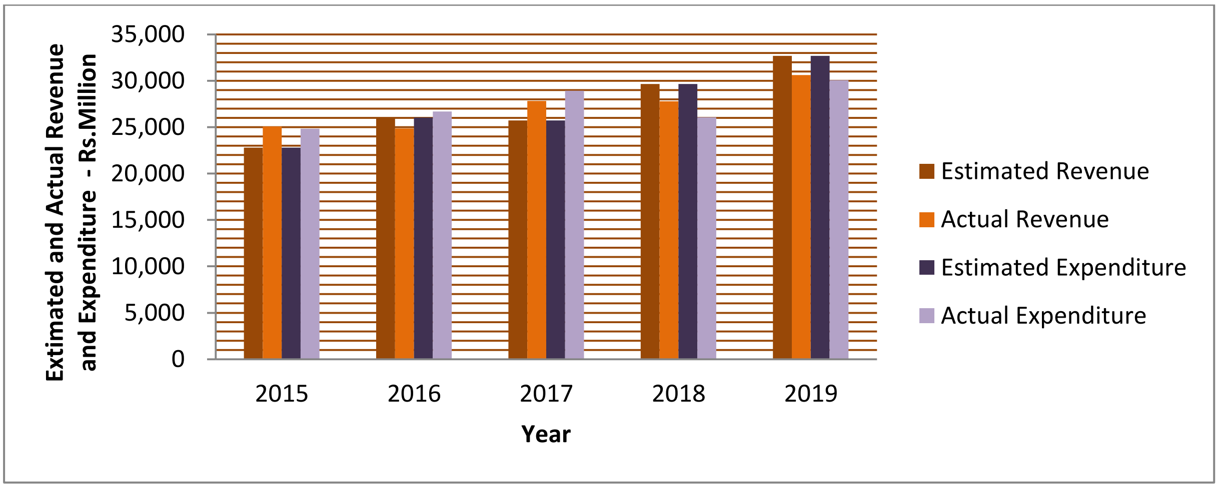


Figure 89- Estimated and Actual Revenue and Expenditure
Source – Financial statements of the Sabaragamuwa Provincial Council

The significant audit observations revealed in audit carried out on the Sabaragamuwa Provincial Council in the year 2019 are given below.

Non-formulation of a Set of Rules for the Funds established by Ordinances

In terms of Section 07 of the Ordinance No.05 of 1993 of establishing the Housing Development Fund of the Sabaragamuwa Province, the Provincial Minster has the power to formulate regulations on the utilization of funds within the limits in a manner not contrary to the Constitution of the Democratic Socialist Republic of Sri Lanka with a view to achieving the targets of Fund. Nevertheless, action had not been taken accordingly to formulate the regulations.

Non-conduct of a Surveys for providing Subsidies

In terms of Regulation 24 of the Ordinance No.04 of 1994 of establishing the Social Services Fund, subsidies would have been provided to the persons of extremely poor families who have not received any subsidy or assistance by a subsidy scheme. A balance of Rs.79.13 million existed in the Fund as at the end of the year under review. The Fund had not taken action to conduct a survey properly and to provide subsidies after identifying such families. As such, the amount spent by the Fund on goods and financial assistance had been less than the amount spent on goods and financial assistance for the preceding year by 47 per cent or a sum of Rs.8.87 million.

Failure to recover the Revenue in Arrears

- Even though Revenue Collection Officers should collect the revenue in arrears focusing due attention and with due consideration in terms of Provincial Financial Rule 116.1 of the Sabaragamuwa Province, the land tax revenue in arrears amounting to Rs.49.40 million pertaining to the year under review and two preceding years had not been recovered.

- The Minister had given the approval during the period from the year 2011 to 2016 to grant on long term lease basis, 04 plots of lands with 9.9123 hectares in extent in the Embilipitiya Divisional Secretariat which were owned by the Government but occupied by unauthorized occupants since the year 1995. Accordingly, necessary action had not been taken to recover the revenue in arrears totalling Rs.10.45 million as at 13 January 2020 and to obtain long term leasehold.

- A plot of land with 2.350 hectares in extent in the Grama Niladhari Division, Digana of the Elapatha Divisional Secretariat had been granted on long term lease basis in the year 1999 to a private company for 21 years in respect of the construction of a mini hydro power plant. The water tax amounting to Rs.2.34 million recoverable for diverting water during the period from the date of lease up to the year 2020 had not been recovered.

Registration of Early Childhood Development Centres

The key function of the Early Childhood Education Development Authority is to register all Early Childhood Development Centres established and maintained within the Sabaragamuwa Province. Number of 1,238 preschools had been registered while 275 schools had not been registered by the year under review. Out of the preschools registered, 67 per cent or 824 schools had not renewed the registration. As such, the supervision of Provincial Council over the Early Childhood Development Centres had been at a weak level.

Irregularities in the Supply of Raw Food for Hospitals

There were 43 instances where the raw food supplied was less than the quantity ordered and where there was no supply of raw food ordered or no relevant substitute supplied in the Base Hospitals in Balangoda and Kahawaththa during the period from September to November 2019.

Failure to reap the Expected Benefits

The Provincial Road Ministry had provided equipment and constructed the buildings for the circuit bungalows in the Seelogama Homestay at a cost of Rs.2.03 million during the period from the year 2014 to 2018 with the intention of promoting tourism in the Sabaragamuwa Province. The said equipment and buildings had not been utilized for the expected target while no follow up action has been taken by the Ministry in this connection.

Non-implementation of Projects as Planned

The progress of 16 projects valued at Rs.127.15 million which were to be commenced and completed by the Provincial Road Ministry during the year under review under the Development Plan -2019, had ranged from 10 per cent to 50 per cent as at 31 December 2019.

Failure to obtain Performance Security

- In terms of the agreement pertaining to the industry of concreting the Kadamuduna Sinharaja Aranya Road from 1.00 km to 2.325 km at a contractual value of Rs.14.86 million, the performance bond of Rs.743,120 which should be submitted, had not been obtained. Further, action had also not been taken to obtain the insurance cover which should be submitted by the contractor before the commencement of work.

- A performance security valued at Rs.6.04 million had not been obtained in respect of the industry of constructing the five storied new hostel for the Pussella Training Centre at a cost of Rs.120.71 million by the Chief Ministry, while the work of that contract had not been completed by 24 June 2020. The contractor had stopped the construction work halfway.

Uva Provincial Council

A revenue totalling Rs.26,732 million, comprising a sum of Rs.22,027 million from Government grants and a sum of Rs.4,705 million from internal sources had been estimated to be collected by the Uva Provincial Council for the year 2019. A sum of Rs.23,729 million for recurrent expenditure and Rs.4,473 million for capital expenditure had been estimated to be utilized out of the revenue so collected. Accordingly, a sum of Rs.21,249 million from Government grants and Rs.3,677 million from internal sources had been collected in the year under review. A sum of Rs.24,166 for recurrent expenditure and a sum of Rs.968 million for capital expenditure had been utilized out of the revenue so collected. The estimated and actual revenue and expenditure as compared with the preceding year is indicated in Figure 90.

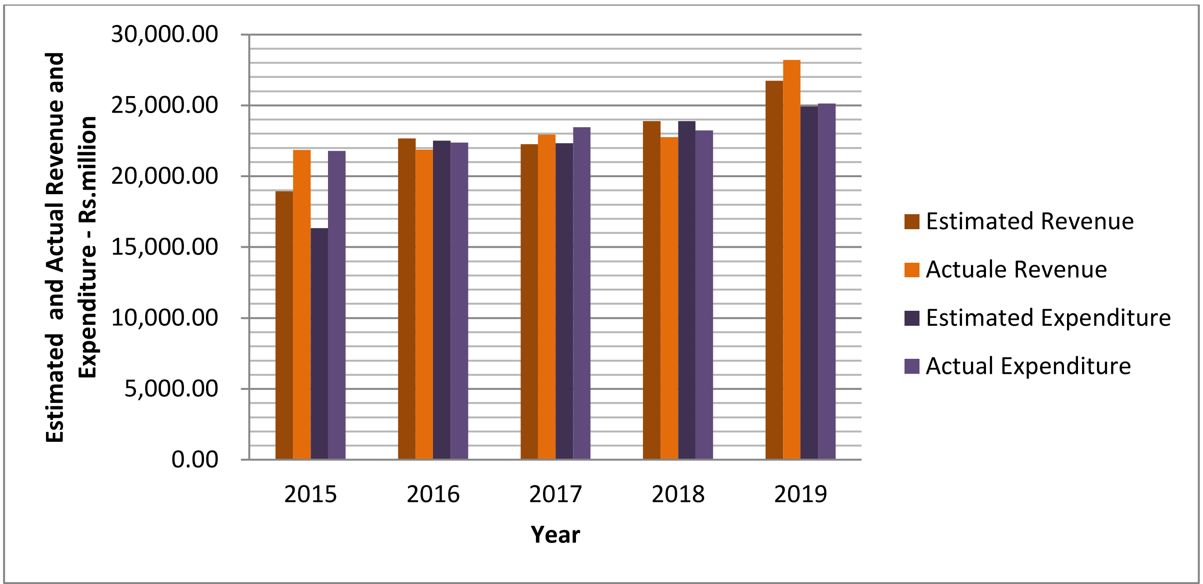


Figure 90.. – estimated and Actual Revenue and Expenditure
Source – Financial Statements of the Uva Provincial Council

Revenue Administration

The revenue estimated to be collected from internal sources was Rs.4,705 million in the year under review and the revenue collected was Rs.3,677 million. The accumulated arrears of revenue relating to 05 Revenue Codes as at 31 December 2019 was Rs.201.25 million and it stood at 4.28 per cent of the estimated revenue of the year 2019.

The stamp fees charged in terms of Chapter X of the Uva Province Financial Statute No.08 of 1990, should be credited to the Fund of the relevant Local Authority in terms of 129 (2)(b) of the Pradeshiya Sabha Act, No.15 of 1987, 158 (2)(b) of the Urban Councils Act and 185(2)(c) of the Municipal Councils Act. However, stamp fees amounting to Rs.332 million collected by the Uva Provincial Council in the year under review had not been identified as a liability until remitted to relevant Local Authorities and it had been accounted as revenue of the Provincial Council.

Construction of the Haliela Computer Resource Centre

An agreement had been entered into for a contractual value of Rs.68.85 million by the Deputy Chief Secretary (Engineering Services) with a construction company on 27 June 2016 relating to the construction works of the Haliela Computer Resource Centre. Even though the works should have been completed as at 21 June 2017, the works thereof had not been completed even by 31 December 2019. The liquidated damages recoverable in terms of the agreement had been Rs.3.42 million. However, only a sum of Rs.1.72 million out of that had been recovered by 24 April 2018.

The agreement entered into with the contractor had been cancelled on 09 April 2019 and in terms of F.R.705 of Provincial Councils Financial Rules, the details of the contractor had not been included in the contractors' Evade Responsibilities Register.

A sum of Rs.13.76 million had been paid to the contractor as advances on 29 August 2016 and only a sum of Rs.1.74 million out of that had been recovered by 31 December 2019. Even though the payment of advances had been made on a security, the validity period of the security had expired on 21 September 2018, action had not been taken to settle the advance or to extend the validity period of the security. As such, advances of Rs.12.02 million could not be recovered.

The validity period of the performance guarantee had expired on 31 July 2019 and a sum of Rs.3.44 million could have been recovered through the security. However, that amount had not been recovered.

Re-employment of Retired Officers

According to the Public Service Commission Circular No.03/2019 of 10 October 2019, seven retired officers had been re-employed in posts of All Island Service and Parallel Services without prior approval of the Public Service Commission and a retired officer had been re-employed for a post of Agrobiologist not approved by the Department of Management Services.

Non-completion of Projects

- **An agreement had been entered into with a contractor for Rs.5.85 million for the construction works of official quarters for Agricultural Instructors on the land of the Bibila Agri Training Centre belonging to the Uva Provincial Department of Agriculture. The works of the contract should have been** commenced on 14 December 2018 and completed on 10 February 2019. However, a part of the said works had been completed by 25 February 2020 and then discontinued. A sum of Rs.2.73 million had been paid to the contractor for these works by 07 August 2019.

- A sum of Rs.1.30 million had been provided to the Department of Agriculture of Peradeniya in the year 2017 for constructions of the rest room and the latrine system of the Diyathalawa Hela Bojun Hala operated under the Uva Provincial Department of Agriculture. Nevertheless, the said constructions had not been completed even by 25 February 2020.

- A sum of Rs.39.82 million had been spent by the year 2018 for the Udawalawa Tourist Resort of which constructions had been commenced in the year 2013 by the Uva Provincial Ministry of Sport, Youth Affairs, Tourism, Transport, Cultural Affairs, Textile and Small Industries. However, the resort and the boutiques had not been opened for the tourists even by July 2019.

- An agreement had been entered into for a contractual value of Rs.26.09 million on 20 October 2016 and commenced constructions of the kitchen and the canteen of the Kithulkote Tourist Facility Centre. According to the final bill submitted, the value of finished works had been Rs.20.99 million. The said buildings had remained idle even by June 2019.

- Agreements had been entered into with the contractor for a contractual value of Rs.6.33 million for constructing the latrine system of the Kithulkote Tourist Facility Centre. Constructions had been commenced on 30 September 2016 and even though the final bill amounting to Rs.6.03 million had been paid, it had not been made use of even by June 2019.

- Agreements had been entered into with a contractual society for Rs.1.91 million for the second phase of constructing a new building for the Light Engineering Centre at Kinigama belonging to the Uva Provincial Department of Industrial Development. According to agreements, the constructions should have been completed by 15 November 2018. However, they had not been completed even by 25 February 2020