



**NINTH PARLIYAMENT OF
THE DEMOCRATIC SOCIALIST
REPUBLIC OF SRI LANKA
(THIRD SESSION)**

**ANNUAL REPORT OF
THE AUDITOR GENERAL
2022**

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2022

NATIONAL AUDIT OFFICE

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**

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.

Note of the Auditor General

The duties and functions devolved on the Auditor General in pursuance of the provisions in Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka are the direction of the independent examinations on the effective and efficient maintenance of the parliamentary control on the Public Finance devolved on Parliament and reporting thereon to Parliament in pursuance of provisions in Article 148 of the Constitution. I am pleased to present my report for the financial year 2022 in fulfilling discharging such activities. The Annual Report is presented as the seventh installment of my report presented to Parliament and arrangements have already been made to table the other reports under the following ten installments.

First Installment	- Ministries and Departments
Second Installment	- Public Corporations, Authorities, Boards and Statutory Funds
Third Installment	- Non-statutory Funds
Fourth Installment	- Foreign Aid Projects
Fifth Installment	- Provincial Councils
Sixth Installment	- Local Authorities
Eighth Installment	- Performance and Environmental Audit Assignments
Ninth Installment	- Public Companies
Tenth Installment	- Special Audit Assignments
Eleventh Installment	-Triennial Reports

The National Audit Act, No. 19 of 2018 was envisaged to provide for the powers, duties and functions of the Audit Service Commission, to establish the National Audit Office and the Sri Lanka State Audit Service, and to make provisions for matters connected therewith or incidental thereto. Although the Audit Act had been implemented with effect from 01 August 2018, the State Audit Service Minute relating to the Audit Staff which is essential to perform the functions of the National Audit Office had not been established yet. As a result, it had been hindered to perform audit duties efficiently and also the staff opportunities have had with them, have been limited to get promotions. The Audit Service Commission, chaired by the Auditor General by the 21st Amendment to the Constitution has been empowered, the

draft service minute relating to establishment of the State Audit Service has been submitted for Cabinet Approval by now.

The Auditor General's independent audit process has been hampered by transferring of such powers to the Public Service Commission and the legal impediment to the delegation of those powers to the Auditor General by the Public Service Commission. I believe that this situation will be cleared to a certain extent once Cabinet approval was received for the service minute of the State Audit Service.

Taking into consideration the failure in recruiting the staff due to non-establishment of the State Audit Service of the National Audit Office, the Cabinet had granted its approval on 13 September 2021 to attach the officers in Sri Lanka Audit Service and Audit Examiners' Service in accordance with the cadre proposed to be included in the proposed Service Minute, in a manner of absorbing, making appointments to vacant posts or promoting them with the recommendations of the National Salaries and Cadre Commission and the concurrence of the Public Service Commission. Even though the Public Service Commission has completed the absorption of officers on the said approval, promotions and appointments could not be finalized due to failure in granting proper approval therefor despite having lapsed 24 months by now.

Performing audit activities in the year 2022 was hindered in consideration of the inability of filling vacant posts in the staff by appointment and promotion in accordance with expectations of the Cabinet as mentioned above and the dearth of staff of the year 2022. Even though said restrictions were particularly challenging in the performance of our role, we were able to complete audit activities and submit relevant reports within the targeted periods due to the commitment and maximum effort of my staff. As well as considering the significant role of the National Audit Office, it has launched several programmes to enable assurance of understanding the major issues faced by the public sector. The National Audit Office is committed to improve and review the performance of the Office continuously for the efficient and effective distribution of audit reports. Finally, the independence of audit vested by the Constitution is clearly identified as a key factor of the productivity of the Office.

It is an honour for me to work with the dedicated staff of the National Audit Office and I appreciate their commitment to carry out their duties efficiently and effectively. I also take

this opportunity to thank the Chairpersons and members of the Committee on Public Accounts, Committee on Public Enterprises, and the Committee on Public Finance, Institutions consisting of Chartered Accountants who generally practice audits in the public sector, the Institute of Chartered Accountants of Sri Lanka, Auditee Institutions, Staff including the Secretary to the President, Staff including the Secretary to the Ministry of Finance, Public Service Commission, National Salaries and Cadre Commission, Attorney General and other Government Institutions that have assisted in the administration and also the International Development Association and the European Union for their contribution to the physical and human resource development of the Office.

I look forward to strengthen audit activities further through the Sri Lanka Financial Management Development Project implemented presently under World Bank Aid.

Despite the challenges encountered, I will continue to work with great commitment to achieve the needs of the general public and Parliament through utilizing existing resources.

Sgd./W.P.C. Wickramaratne
Auditor General

W.P.C. Wickramaratne

Auditor General

23 October 2023

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Plantation Industry	103	Aviation Sector	375
Livestock Sector	111	Transportation Sector	381
Insurance Sector	117	Ports and Shipping	393
Banking Sector	123	Buddhasasana, Religious and Cultural Affairs Division	407
Government Revenue	131	Forests, Wildlife and Environment Division	413
General Treasury and Public Debt	141	Investment Promotion Section	423
Water Supply and Sanitation Services	161	Tourism Affairs Section	429
Public Security Sector	169	Foreign Funded Projects	439
National Security	177	Sports and Youth Affairs Sector	453
Judicial Prisons affairs and Constitutional Reforms Sector	191	Provincial Council	465
Women and Child Affairs	203	Local Authorities	489
Foreign Employment Sector	209		
Education Sector	217		

Our Organization

Our History

The beginning of the Auditor General's post 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 41 Auditor Generals until year 2018 and from year 2018 continues as National Audit Office.

Our Audit Mandate

The Mandate for the Auditor General to audit the Public Sector Institutions is primarily derived from Article 154 of the Constitution and it is further expanded by the Twentieth Amendment to the Constitution and the provisions of the National Audit Act No. 19 of 2018 with effect from 01 August 2018.

Under the Article 154(1) of the Constitution is states that

“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 office of the Ministers appointed under Article 44 or 45, the Judicial Service Commission, the Constitutional Council, the Commissions referred to in the schedule to Article 41A, 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.

- National Audit Act No. 19 of 2018 provides clearly the role of the Auditor

General and provisions for related matters in respect of Public Finance

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

And also, the Article 154(3) of the Constitution states that 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.

Also he has 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 twentieth amendment to the Constitution by inclusion of Companies. Table 01 shows our Client base at present.

Clients	No of Institutions
Ministries	29
State Ministries	40
Departments	110
District Secretariats	25
Divisional Secretariat	331
Government Corporations, Boards, Authorities and Business Undertakings Vested by Government	222
Government Owned Companies	117
State Banks	09
Statutory and Other Funds	67
Foreign Funded Projects	113
Other Independent Institutions	11
Provincial Councils	09
Local Authorities	341
Agrarian Service Centers	565
Sport Associations	66
Provincial Councils Ministry, Department and Special Expenditure Units	273
Institute Established under the Provincial Councils Ordinance	70
Total	2,398

Table 01 – Our Client base

Our Audit 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 National 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 of the National Audit Act No. 19 of 2018, 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.
- Sri Lanka Auditing Standards determined by the Audit Standards Committee established under the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 shall be applicable for audits conducted by the National Audit Office established under Section 29 of the Audit Act.
- Where there are no auditing standards specified in Sri Lanka Auditing Standards for performance audits, environmental audits, technical audits and any other special audits, published by the Audit Service Commission 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 will determine the scope of the audit at his discretion and will act in accordance with Section 5 of the National Audit Act No. 19 of 2018 in this regard. Accordingly

Our Independence

The independence of the Auditor General is extensively guaranteed by the Constitution itself. The amendments to the Constitution and the National Audit Act No. 19 of 2018 are in line with the fundamental principles of the International Organization of Supreme Audit Institutions based on the independence of a Supreme Audit Institution. Article 153 of the Constitution states that;

“There shall be an Auditor General who shall be a qualified auditor and subject to the provisions of Article 41A, 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.

Limitations on the Financial and Administrative Independence of the Auditor General

Though the functional independence of the Auditor General has been 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 constraints have been obstructed from 01 August 2018 by the provisions of the National Audit Act, No.19 of 2018.

The Auditor General must be completely free from all obligations to any individual or institution and arbitrary retaliation and also believe that the Auditor General dependence on the executive for his staff requirements and finance would adversely affect the independent nature of the audit performed on behalf of the Parliament. Therefore, it is required to safeguard the functional and financial independence of the Auditor General by incorporating required legislative provisions through the Parliament. The Auditor General depended on the General Treasury for his budget up to the year 2018.

After enacted the National Audit Act, No.19 of 2018, the budget of the Auditor General in Sri Lanka and his staff of the National Audit office is approved by the parliament subject to scrutiny of the public finance committee of the parliament and being nor safeguarded against Executive control. Thereby, the financial independence of the Auditor General in discharging his duties and functions has been safeguarded like in other advanced Commonwealth Countries.

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 had already been shifted to the Public Service Commission after the dissolution of the National Audit Service Commission by the 20th Amendment to the Constitution. As a result, it negatively affects the administrative independence of the Auditor General, since the Auditor General depends on Public Service Commission in obtaining the required human resources for the National Audit office. Further, the powers vested by the Public Service Commission to the other head of departments had not been given to the Auditor General. This has been adversely affected in discharging the statutory role of the Auditor General and we expect that this situation will be regularize by re-establishing the Audit Service Commission by giving adequate powers under the proposed constitutional amendments.

Further, the Auditor General has been included in to the "Special list of Non – Public officers" by the 170 constitution. This had been done to make sure the administrative independence of the Auditor General.

Also, the 21st Constitutional Amendment established an Audit Service Commission and recruited members for it. The Service Minute of the Sri Lanka State Audit Service approved by the said commission has been submitted to

the Cabinet of ministers and since the policy clearance of the Cabinet of Ministers had not been received up to now, securing the administrative independence of the Auditor General's audit staff, promotions, transfers and disciplinary measures of the staff, the National Audit Commission is no longer able to do the administrative matters related to salaries and other administrative affairs of the staff independently.

In the year 1977, the "Lima Declaration" of the International Organization of Supreme Audit Institutions (INTOSAI) also determined the principle of independence of the Government Auditing in methodological and professional terms. In the "mexico Declaration" after 30 years, the XIX Congress of INTOSAI (2007 in Mexico) defined these requirements in more concrete terms and identified following eight major requirements for the independence of the Supreme Audit 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 the normal 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, where specifically the laws enacted by the Legislation, SAIs do not audit government or policies of public entities and restrict them to the audit of policy implementation.

While respecting the laws enacted by the Legislature pertaining to SAIs and such SAIs are free from the following 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 matter. 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 allocates 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 institution 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 the requirement of the authority and function of the staff of the Auditor General has been fulfilled like other countries by the Audit Act No. 19 of 2018 with effect from 1 August 2018.

National Audit Act, No.19 of 2018

The National Audit Act, No.19 of 2018 provides provisions for 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 audits undertaken by the National Audit Office.
- 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 salaries and other allowances and any other benefits of persons recruited to the National Audit Office 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 annual budget estimate of the National Audit Office should be prepared 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. Comments of the Minister of Finance should be taken within 10 days by the Speaker and should be tabled in the Parliament. The estimate approved by the Parliament should be submitted to the Minister of Finance to be included in to the National Budget.
- 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 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.
- Auditor General's authority had been expanded enable to access to written or electronic records, books, documents or information without considering the confidentiality.
- Auditor General had been given the power to charge the cost of audit and to determine the audit fee of any person or any institution after been audited.
- Deadlines for tabling the reports in the Parliament had been specified.
- Security of the persons who provide information the Auditor General had been secured.
- Reports should be made available in the official website of the National Audit Office after tabling the report in the parliament to enable general public to make use of them.
- The Auditor General or any officer of his staff are free from any legal action taken against any action or pre-legal action under the Constitution done in good faith and honesty by those officers.

Our Organizational Structure

The Auditor General is the Head of the National Audit Office 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 National Audit Office comprises five (5) 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 Senior Deputy Auditor Generals. The second level comprises of 15 Deputy Auditor Generals who is attending policy matters and overall supervision of the Government Audit.

Seventy four divisions are established under the Deputy Auditor Generals and the Senior Assistant Auditor Generals headed by such divisions represents the third layer. They carry out the Government and Provincial audits. Audit branches coming under the divisional heads are headed by an Assistant Auditor General or a Superintendent of Audit and represent fourth level. They are charged with the responsibility for execution of the audits of Public Institutions assigned to them by deploying Assistant Superintendent of Audit and Audit officers assigned to them, efficiently and effectively. Accordingly, the fifth level comprises those 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 74 divisions and 24 out of them are in charge of Regional audit at district level and they are supervised by three Deputy Auditor General.

The administrative activities of the Department are carried out by the Director (Administration) of the Establishments Branch under the supervision of Senior Deputy Auditor General and the financial activities are carried out by 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.

As it takes a long period to prepare a service minute and get the approval from the relevant authorities as per the provisions available in the National Audit Act in order to establish the State Audit Service, a Cabinet decision had been given on 13 September 2021 with a view of performing the Auditor General's functions without any interruption to substitute the salary scales, designations and cadre already approved by the National Pay Commission for the State Audit Service to the prevailing positions and to do recruitments on seniority basis and that process is in progress with the instructions of the Public Service Commission. This Cabinet decision gives a reasonable solution to the officers who have been in the National Audit office without promotions for a long period.

Accordingly, the new Organizational Structure of the National Audit Office had been amended with effect from 01 October 2021, to enable to carry out the audit functions as shown below.

Organizational Structure of the NAOSL

AUDITOR GENERAL	Deputy Auditors General	Senior Assistant Auditors General	Assistant Auditors General / Superintendents of Audit	Assistant Superintendents of Audit / Audit Officer
	Administration (ADM)	Administration Branch (S1)		
	Transportation, Aviation, Port & Shipping (TAP)	Finance Branch (S2)		
	Banking, Finance, Public Revenue & Treasury (BPT)	Aviation (AAV)		
		Transportation (COT)		
	Industries, Trade & Commerce, Public Administration & Foreign Affairs (ITP)	Port & Shipping (PAS)		
		Finance (INS)		
	All Audits other than Financial Audits and Other supportive services including Parliamentary Reporting (SPA)	Banking (BAN)		
		Public Revenue (PUR)		
	Parliamentary and other Independent Commissions, Communication & Media and Disaster Management(PMD)	Treasury (TPD)		
		Industry, Manufacturing and Technology Sector (IMT)		
	Agriculture, Plantation, Fisheries and Irrigation (APF)	Public Administration (PAF)		
		Foreign Affairs (PAF)		
		Trade Sector (TAC)		
		Special Investigation and Forensic Audit Division (SIF)		
		Special Audit Report (PSE)		
		Tabling of Auditor General's reports in Parliament (RTP)		
		Performance Audit (PSE)		
		Environment Audit (PSE)		
		Sri Lanka Parliamentary Division (PIC)		
		Disaster Management (DMG)		
		Communication & Media and Disaster (CAM)		
		Agriculture (ARI)		
		Fisheries and Aquatic Resources Development Sector (FLS)		
		Irrigation (IWM)		
		Plantation (PAL)		
		Livestock Sector (FLS)		
		Local Authorities & Provincial Councils & Surcharge (PLG)		
		Colombo (COA)		
		Colombo (COB)		
		Gampaha (GMP)		
		Kaluthara (KLU)		
		Galle (GAL)		
		Matara (MTR)		
		Hambantota (HMB)		
		Trincomalee (TRC)		
		Ampara (AMP)		
		Batticaloa (BTC)		
		Jaffna (JAF)		
		Kilinochchi, Mulathive,Vavniya & Mannar (KVM)		
		Puttalam (PTL)		
		Kurunegala (KRG)		
		Matale (MTL)		
		Kandy (KDA)		
		Kandy (KDB)		
		Nuwara Eliya (NUE)		
		Anuradhapura (ANP)		
		Polonnaruwa (POL)		
		Ratnapura (RAT)		
		Kegalle (KGL)		
		Badulla (BDU)		
		Monaragala (MNG)		
		Foreign Funded Projects (PSY)		
		Sports & Youth Affair (SYA)		
		Power Sector (PWR)		
		Energy Sector (ENR)		
		Health Sector (MED)		
		Indigenous medicine sector (MED)		
		Division of Tobacco and Alcohol (THO)		
		Teaching Hospitals (THO)		
		Labor and Foreign Employment sector (LSW)		
		Medical Supplies (MSU)		
		Water Supply and Drainage (WAS)		
		Buddha Sasana Religious and Cultural Affairs Division (CAA)		
		Forest animals and Environment Sector (FWL)		
		Investment Promotion (TIP)		
		Women and Children Affairs (VOT)		
		Foreign Employment Sector (VOT)		
		Educational Publication (EDU)		
		Education (EDU)		
		Higher Education (HED)		
		Vocational Training (VOT)		
		Urban development and housing (HUD)		
		Road Sector (RAH)		
		Construction and Engineering (CAE)		
		Public security (JLO)		
		National security (EEF)		
		Justice and Prison Affairs (JLO)		
		Registrar General (JLO)		
		Chief Internal Auditor (INA)		

According to the cadre approved on 13 September 2021 by the Department of Management Services after an evaluation of the responsibility and role of the National Audit Office, the total number of officers in the Sri Lanka Audit Service stands at 545 and the officers in the Audit Examiners' Service stand at 1,450.

The National Audit Act No. 19 of 2018 had been enacted, the Sri Lanka Audit Service Commission established by the 19th amendment of the Constitution of the Democratic Socialist Republic of Sri Lanka was abolished by the 20th Amendment to the

Constitution and re-established by the 21st Amendment to the Constitution. However, the new audit Service Minute prepared to establish a State Audit Service for the National Audit Office had been submitted for the Cabinet's approval; however the approval has not been received so far.

The vacancies in the respective posts in the Department that existed as at the beginning of the year 2021, as at the end of year 2021 and as at 30 June 2022 under such circumstances are given in the Table 02 below.

Post		Approved Cadre	Actual		Vacancies	
			As at 01.06.2023	As at 30.06.2023	As at 01.06.2023	As at 30.06.2023
(a) - Executive Grade/ Staff and Executive/ Non-Staff Grades						
1	Auditor General	1	1	1	0	0
2	Additional Auditor General	3	0	0	3	3
3	Deputy Auditor General	15	13	13	2	2
4	Director (Administration)	1	1	1	0	0
5	Chief Accountant	1	0	0	1	1
6	Chief Internal Auditor	1	1	1	0	0
7	Senior Assistant Auditor General	72	47	46	25	26
8	Assistant Auditor General	455	15	15	206	206
9	Superintendent of Audit		234	234		
10	Assistant Director (Admin)	1	1	1	0	0
11	Accountant	1	1	1	0	0
12	Assistant Director (IT)	1	0	0	1	1
13	Legal Officer	1	0	0	1	1
14	Administrative Officer	3	2	2	1	1
15	Technical Officer - Special	1	0	0	1	1
16	Assistant Audit Superintendent	360	193	192	167	168
17	Audit Officer	1090	769	765	321	325

18	Information and Communication Officer	3	2	2	1	1
19	Translator	10	8	8	2	2
20	Development Officer	73	54	53	1	20
21	Librarian	1	1	1	0	0
22	Technical Officer - I	1	0	0	1	1
23	Information and Communication Assistant	6	2	2	4	4
24	Management Service Officer	121	119	119	2	2
25	Report Processor	41	39	39	**	**
26	Offset Printer Operator	1	0	0	1	1
		<u>2264</u>	<u>1503</u>	<u>1496</u>	<u>741</u>	<u>766</u>
(b) - Junior employees						
1	Driver	48	43	44	5	4
2	Circuit Keeper	13	7	7	6	6
3	Electrician	1	1	1	0	0
4	Plumber	1	1	1	0	0
5	Office Assistant	148	135	137	13	11
6	Department Labor	2	1	1	**	**
		<u>213</u>	<u>188</u>	<u>191</u>	<u>24</u>	<u>21</u>
<u>Summary</u>						
	Executive Grade/ Staff and Executive/ Non-Staff Grades	2264	1503	1496	741	766
	Junior employees	213	188	191	24	21
		<u>2477</u>	<u>1691</u>	<u>1687</u>	<u>765</u>	<u>787</u>

Table 02 – Cadre Position as at 01 June 2023, 30 June 2023

The staff of the National Audit Office has been expanded by the Cabinet Decision No. 21/1274/301/017 dated 13.09.2021 by strengthening the National Audit Office in order to carry out the activities more effectively. Until the State Audit Service is established officially, the public Service Commission has been initiated to fulfill the new cadre by giving promotions on seniority basis.

Service Minute of the State Audit Service

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

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 was 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.

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(4)

(a) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

Accordingly, sums amounting to Rs.31.4 million and Rs.35.6 million had been paid for the years 2021 and 2020 respectively to the relevant Audit Firms for the audit services rendered. 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.

Two Audit Firms engaged in Public Practice assisted me in the audit of 17 Companies out of 125 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, 15 audit firms helped me to carry out the audit of the Central Bank of Sri Lanka and 35 Sport Associations.

As a result of recruiting audit examiners, above companies were directly audited by the National Audit office and the decision taken by me to not to appoint qualified auditors for the branch audit of two state banks there by since year 2017, the number of audit firms deployed had gradually been decreased. However, technical assistance was obtained from one qualified audit firm in public practice.

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 oversight committees setup under Parliament 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.

The duty of the COPA established under Parliament Standing Order 119, is 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 there from.

The duty of the COPE established under Parliament 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 comprising its own members and also have the power to summon before them and question any person, call for and examine any paper, book, record or other document and to 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 Auditor General and/ or his representatives are assisted to those two Committees. 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.

Before appearing at the Committee to examine the Auditor General's report, normally one month period is given by the Committee to the respective public institutions to submit a report with a copy to the Auditor General about their operational performance and the current performances. Based on the copy of the report submitted to the Auditor General and considering the progress of implementing the directions given by previous committee meetings a brief note is prepared by Auditor General for the discussion at the Committee. Before the commencing the discussions, a copy of the brief note is given to the Chief Accounting Officer/ Accounting Officer, hence it is easier to continue the discussion smoothly.

The role of the Auditor General is to assist the committees by providing background information about the matter discuss and expressing his views about the matter discuss by the committee and as express his views about the questions raised by the committee members and the facts presented by the officers of the institutions during the committee meetings.

Accordingly, 27 institutions have summoned by the Committee on Public Accounts (COPA) to examine their performances and the Auditor General has assisted for 30 committee sessions. Out of

that 24 sessions had been held to examine the 154(6) reports table in parliament as per the constitution, 03 sessions to examine special reports and 03 sessions to examine their performance. And also, 17 institutions have summoned by the Committee on Public Enterprise (COPE) to examine their performance and the Auditor General has assisted for 17 committee sessions. Out of that 11 sessions had been held to examine the 154(6) reports table in parliament as per the constitution, 06 sessions to examine special report. Accordingly, the two committees had been held 44 sessions during the year 2022.

In addition to above, the officers of the Auditor Generals have assisted the COPA to develop an IT based questioner to rate the institutions financial and operational performances of institutions coming under the Committee, specially Independent Commissions, Ministries, Departments, Provincial Councils and Local Authorities. Further, the Auditor Generals has assisted to finalize the evaluations by validating the accuracy of answers given by each and every institution.

Other than the statutory role of the Auditor General, he has assisted to finance committee and budget committee of the

parliament by representing his representatives during the year 2022.

Further, the committee reports state accounts as per the Standing Order No. 114

Surcharges imposed by the Auditor General

With the enforcement of the National Audit Act No. 19 of 2018 on 01 August 2018, according to its section 19, the Audit Service Commission shall report the amount of any deficiency or loss in any transaction of an auditee entity audited by the Auditor General, where the Audit Service Commission has reasonable grounds to believe that such transaction has been made contrary to any written law and has caused any deficiency or loss due to fraud, negligence, misappropriation or corruption of those involved in that transaction to the Chief Accounting Officer of the auditee entity for imposition of a surcharge on the value of the deficiency or loss in every transaction of such auditee entity.

The responsibility is assigned to the concerned Chief Accounting Officer of recovering the value so reported from the persons responsible for the deficiency or loss, jointly or separately.

However, due to the Auditor General is restricted to disclose the information to other parties as per Section 09 of the National Audit Act and there is no legal provision on how the Audit Service Commission should obtain the audit information required to implement Section 19 of the Audit Act from the Auditor General, the Attorney General has expressed an opinion that the Audit Act should be amended to include such legal provisions

In that situation, there were obstacles in the effective implementation of the audit process introduced by the Audit Act.

Even so, even before enforcing the National Audit Act, the process of surcharges has been going on as before with the intervention of the Auditor General based on the powers assigned to the Auditor General by other written laws to impose surcharges related to universities and local authorities.

Accordingly, the need to make this surcharge process more active is emphasized and for that purpose, it is recommended that the commission should be entrusted with revising the provisions of the National Audit Act to end the imposition of surcharges by the Auditor General and to entrust the consideration of appeals to the Audit Service Commission.

An appropriate amendments should be made to paragraph 19 of the National Audit Act No. 19 of 2018 for this.

Levy of surcharges from local authorities

There are 341 Local Authorities in Sri Lanka comprising 24 Municipal Councils, 41 Urban Councils and 276 Pradeshiya Sabhas. These Local Authorities are audited by the Auditor General in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka, 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, 10 surcharge certificates valued at Rs. 261,095 for 35 parties had been issued.

Investigation of Public Representations

As per the section 4 of National Audit Act, No. 19 of 2018, 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 substantial proof of the matters asserted, and report thereon to Parliament.

A separate unit has been established at the National Audit Office to work on the representations received from individuals of the public or public agents and different organizations.

Representations which are received to the National Audit Office through above unit are transmitted to the Special Investigation and Forensic Audit Units and / or Special Investigation Units have been established in different auditee institution or investigation units have been separately established in regionally for further investigations. Audit checks are carried-out based on the transmitted information and actions are taken to include the material and qualitative audit observations encountered through the audit in respective entities audit reports table in parliament or to table as special / performance audit report in parliament by the National Audit Office. However, by giving attention to section 9 of the National Audit Act, No.

19 of 2018, the outcome of the audit are not directly communicate to the parties who have submitted representations. But, replies are sent to all parties except representations submitted without mentioning their identity that the representations have been received and outcome of the examinations are report to the parliament as necessary.

The number of representations received during the year 2022 was 2,111. Out of that 1,416 representations are related to administrative matters of government and government institutions and 57 are related to the grievances of various parties. Another 305 representations are in pertaining to the frauds and corruptions and 28 are related to personal matters of different parties. And also 318 representations have been submitted by mentioning their identity and 1378 representations have been submitted without mentioning their identity. Out of this most representations are submitted with sufficient or some evidences. Representations are submitted without any evidences are as being examined.

In categorizing the written representations referred for further investigations, it was noted that 334 representations have been received in relation to the Education Sector, 268 are related to Local Government, 176 are related to Health

Sector, 172 are related to Divisional Secretaries and 119, 58 and 46 are related to Agriculture, Environment and Staff Welfare Sectors respectively. Further, 769 representations have been received in relation to other government institutions.

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 1302 audit officers and 417 offices in supporting services to fulfill this statutory role.

In fulfilling these statutory requirements in an efficient and effective manner, the following areas have been identified as required for the training perspectives of the staff of the National Audit Office.

- 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.

In order to achieve the above objectives, the National Audit Office had identified and emphasized the requirement of training officers at least cover 100 hours of Continuous Professional Development (CPD) in both theory and practical in relation to the Local and Foreign training programs.

Training sessions are being arranged pertaining to the below mentioned fields in order to improve the professional development with the officers that had already been identified in the training need assessment study in the year 2018.

Accordingly, to get the service in relation to,

- Financial Audit
- Investigation Audit
- Performance Audit
- Environment Audit
- Forensic Audit

- Procurement and Construction Audits
- Project Audits
- Sri Lanka Accounting and Auditing Standards
- Taxation
- Auditing of Appropriation Accounts
- Local Authorities
- Accounts and Auditing
- Surcharge Process
- Audit Reporting
- Development of Computer Literacy
- Development of Language Skills

Of the officers in a professional manner, the training sessions are organized and implemented by the training division of the National Audit Office and also encourage and facilitate the officers to enable to achieve their skills. In doing so, the capable resource persons of the National Audit Office are employed while obtaining resource persons from the outside as well whenever required in conducting lectures, interactive sessions like workshops, Practical training and field trips etc. in fulfilling the training requirements.

Local Training

In order to achieve the above objectives, in the year 2022, the training division of the National Audit Office had organized 36 training programs under 3 topics covering the above-mentioned fields for the auditors and 02 inaugural training programs for the new auditors recruited to the National Audit Office in the year 2021 and the non-audit officers recruited in the year 2022.

According to the Public Administration Circular No. 18/2020 "Implementation of the State Language Policy", necessary facilities have been provided for the officers of the audit staff and non-audit staff to complete the official language proficiency.

Foreign Training

Two officers have participated in an overseas training program under the ITEC scholarship program and two officers have participated in 2 overseas workshops organized through the online system in the year 2022.

The details in relation to the trainings conducted for the officers of the National Audit Office pertaining to the local and foreign during the year 2022 are shown in the table 03.

	Details of the Programme	No of Programmes	Officers involved in the Programme						No. of Training Hours
			Divisional Heads	Assistant Auditor General /Superintendent of Audit	Assistant Superintendent of Audit	Audit Examiners	Non Audit Staff	Total	
	Local Training Programmes								
1	Financial Audit	33	111	281	184	581	-	1,157	8,504
2	Taxation	2	26	108	27	406	-	567	4,111
3	Procurement	1	13	80	40	219	-	352	10,280
4	Induction training for new officers	2	-	-	-	54	56	54	2,770
	Total	38						2,130	25,664
	Foreign Training Programmes								
1	ITEC Scholarship Program 2022/2023 Budgeting, Accounting and Financial Management in Government Sector	1	-	2	-	-	-	2	131
2	Climate Performance Audit Training (Online)	1	-	1	-	-	-	1	12
3	Advancing Public Sector Sustainability Reporting (Online)	1	-	1	-	-	-	1	4

Table 03- Number of Local and Foreign Trainings sessions

Source- Training Division of the National Audit Office

Providing Resourcefulness to External Entities

7 officers working in the National Audit Office have been directed to provide their resourcefulness at the request of those institutions for the development of the knowledge and abilities of the officers

working in other government institutions on the National Audit Act and other areas related to the audit on 14 occasions in the year 2022

Financial Statements of the National Audit Office for the year 2022

Statement of Financial Position As at 31st December 2022

Basis of Reporting

**Statement of Financial Performance for the period ended
31st December 2022**

**Statement of Cash Flows for the Period ended
31st December 2022**

Statement of Financial Position As at 31st December 2022		
	Actual	Revised
	2022 Rs	2021 Rs
<u>Non Financial Assets</u>		
Property, Plant & Equipment	1,481,951,627	1,452,918,947
<u>Financial Assets</u>		
Advance Accounts	194,108,547	224,242,476
Cash & Cash Equivalents	-	-
Total Assets	1,676,060,174	1,677,161,423
<u>Net Assets / Equity</u>		
Net Worth to Treasury	(67,047,400)	49,419,013
Property, Plant & Equipment Reserve	1,481,951,627	1,452,918,947
Rent and Work Advance Reserve		
<u>Current Liabilities</u>		
Deposits Accounts	261,155,947	174,823,463
Unsettled Imprest Balance	-	-
Total Liabilities	1,676,060,174	1,677,161,423

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 Financial Statements, Notes to accounts and other relevant accounts were reconciled with the Treasury Books of Accounts and found in agreement.

W.P.C. Wickramaratne
Chief Accounting Officer
Auditor General
28 February 2023

G.S. Karunaratne
Chief Accountant
28 February 2023

Basis of Reporting

Reporting Period

The reporting period for these Financial Statements is from 01st January to 31st December 2022.

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 specified.

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 relevant revenue 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 reserve account is the corresponding account of Property Plant and Equipment.

Cash and Cash Equivalents

Cash & cash equivalents include local currency notes and coins in hand as at 31st December 2022.

Statement of Financial Performance for the period ended 31st December 2022

Budget 2022 Rs.		Actual	
		2,022 Rs.	2,021 Rs.
-	Revenue Receipts	489,581,029	348,678,099
-	Income Tax	-	-
-	Taxes on Domestic Goods & Services	-	-
-	Taxes on International Trade	-	-
300,000,000	Non Tax Revenue & Others	489,581,029	348,678,099
300,000,000	Total Revenue Receipts (A)	489,581,029	348,678,099
-	Non Revenue Receipts	-	-
-	Treasury Imprests	1,532,936,000	1,426,015,000
-	Deposits	190,875,670	138,531,867
-	Advance Accounts	80,667,273	83,398,507
-	Other Main Ledger Receipts	5,509,635	4,570,132
-	Total Non Revenue Receipts (B)	1,809,988,578	1,652,515,506
	Total Revenue Receipts & Non Revenue Receipts C = (A)+(B)	2,299,569,607	2,001,193,605
	Remittance to the Treasury (D)	103,715,921	68,514,459
-	Net Revenue Receipts & Non Revenue Receipts E = (C)-(D)	2,195,853,687	1,932,679,146
	Less: Expenditure		
-	Recurrent Expenditure		-
1,758,350,183	Wages, Salaries & Other Employment Benefits	1,740,721,144	1,579,046,154
337,729,817	Other Goods & Services	319,461,981	242,889,315
16,000,000	Subsidies, Grants and Transfers	14,499,269	13,168,281
-	Interest Payments	-	-
-	Other Recurrent Expenditure	-	34,698
2,112,080,000	Total Recurrent Expenditure (F)	2,074,682,394	1,835,138,448
	Capital Expenditure		
12,000,000	Rehabilitation & Improvement of Capital Assets	6,724,786	7,415,964
6,739,940	Acquisition of Capital Assets	6,730,671	4,670,023
-	Capital Transfers	-	-
-	Acquisition of Financial Assets	-	-
1,760,060	Capacity Building	1,602,007	1,445,665
-	Other Capital Expenditure	-	-
20,500,000	Total Capital Expenditure (G)	15,057,464	13,531,652
	Deposit Payments	104,543,186	76,096,982
	Advance Payments	50,533,345	79,461,594
	Other Main Ledger Payments	5,509,635	4,570,132
	Total Main Ledger Expenditure (H)	160,586,166	160,128,708
2,132,580,000	Total Expenditure I = (F+G+H)	2,250,326,024	2,008,798,808
	Balance as at 31st December J = (E-I)	(54,472,338)	(76,119,662)
	Balance as per the Imprest Reconciliation Statement	(54,472,338)	(76,119,662)
	Imprest Balance as at 31st December	-	-

Statement of Cash Flows for the Period ended 31st December 2022

	Actual	
	2022 Rs.	2021 Rs.
Cash Flows from Operating Activities		-
Total Tax Receipts	-	-
Fees, Fines, Penalties and Licenses	489,581,029	348,678,099
Profit	-	-
Non Revenue Receipts	-	-
Revenue Collected on behalf of Other Revenue Heads	78,011,355	77,718,554
Imprest Received	1,532,936,000	1,426,015,000
Recoveries from Advance	81,525,178	85,093,512
Deposit Received	190,875,670	138,531,867
	5,509,635	4,570,132
Total Cash generated from Operations (A)	2,378,438,867	2,080,607,164
Less - Cash disbursed for:		
Personal Emoluments & Operating Payments	2,064,649,400	1,830,269,066
Subsidies & Transfer Payments	14,499,269	13,168,281
Expenditure incurred on behalf of Other Heads	28,578,887	3,567,631
Imprest Settlement to Treasury	103,715,921	68,514,459
Advance Payments	50,211,898	79,750,590
Deposit Payments	104,543,186	76,096,982
	5,509,635	4,570,132
Total Cash disbursed for Operations (B)	2,371,708,196	2,075,937,141
NET CASH FLOW FROM OPERATING ACTIVITIES (C)=(A)-(B)	6,730,671	4,670,023
Cash Flows from Investing Activities		
Interest	-	-
Dividends	-	-
Divestiture Proceeds & Sale of Physical Assets	-	-
Recoveries from On Lending	-	-
Total Cash generated from Investing Activities (D)	-	-
Less - Cash disbursed for:		
Purchase or Construction of Physical Assets & Acquisition of Other Investment	6,730,671	4,670,023
Total Cash disbursed for Investing Activities (E)	6,730,671	4,670,023
NET CASH FLOW FROM INVESTING ACTIVITIES (F)=(D)-(E)	(6,730,671)	(4,670,023)
NET CASH FLOWS FROM OPERATING & INVESTMENT ACTIVITIES (G)=(C)+(F)	-	-
Cash Flows from Financing Activities		
Local Borrowings	-	-
Foreign Borrowings	-	-
Grants Received	-	-
Total Cash generated from Financing Activities (H)	-	-
Less - Cash disbursed for:		
Repayment of Local Borrowings	-	-
Repayment of Foreign Borrowings	-	-
Total Cash disbursed for Financing Activities (I)	-	-
NET CASH FLOW FROM FINANCING ACTIVITIES (J)=(H)-(I)	-	-
Net Movement in Cash (K) = (G) + (J)	-	-
Opening Cash Balance as at 01st January	-	-
Closing Cash Balance as at 31st December	-	-

Special Investigation Division

Transactions/Incidents/Entities subjected to investigations

- A specific part of the Aruwakkalu Sanitary Waste Management Project
- The stock of 300,000 manufactured Thripasha as at 02 February 2021 in the Sri Lanka Thripasha Limited
- A specific part of the Imaduwa Township Development Project
- Selected administrative fields of the National Training Authority
- Property and financial irregularities of the Colombo Municipal Council
- The vehicle park administration of the Colombo Municipal Council
- The activities of the caretaker of the Borella cemetery belonging to the Colombo Municipal Council
- Making recruitment to the post of Director of the Suagthadasa National Sports Development Authority
- Administration of the Medawala Divisional Hospital in Kandy district
- Lanka Mineral Sands Ltd putting out on tender 85,000 metric tons of Ilmenite in the year 2020
- Renovation of roads in Anuradhapura district damaged by floods during 2011-2012
- Printing of election manifestos of the election, 2020 by Lake House
- Payment of salary increments to the Director General of the Sri Lanka Broadcasting Corporation
- Conducting modular programmes online

Special Investigation Division

In order to streamline and facilitate the exercise of statutory powers vested in me as the Auditor General concerning state audit, the audit staff has been organized into different subject oriented audit divisions, with each division assigned specific tasks. Accordingly, in the event of a necessity that arises to conduct an investigation audit with regard to a particular transaction or an incident concerning an auditee entity, a special audit division, staffed with the trained and experienced officers in the fields of special investigation and forensic audit in the National Audit Office, has been established to conduct such special audit activities and to provide assistance to other divisions in conducting similar audits.

The transactions and incidents that I determine appropriate for subject to special audit investigation based on the public representations that I received in pursuance of Section 04 of the National Audit Act No.19 of 2018, and the acknowledgements from the Committee on Public Accounts and the Committee on Public Enterprise as well as comments of the heads of the public institutions and the mass media, economic and social matters of timely significance, and the other

professional requirements that I take into account, will be audited by this Special Investigation Division.

In certain cases, special investigations are conducted by temporarily attaching the officers of this division into other divisions/ branches.

The materially significant investigations from among the transactions and incidents thus subjected to special investigations in the year 2022 are indicated below.

Transactions/Incidents/Entities subjected to investigations

1. A specific part of the Aruwakkalu Sanitary Waste Management Project
2. The stock of 300,000 manufactured Thripsha as at 02 February 2021 in the Sri Lanka Thripsha Limited
3. A specific part of the Imaduwa Township Development Project
4. Selected administrative fields of the National Training Authority
5. Property and financial irregularities of the Colombo Municipal Council
6. The vehicle park administration of the Colombo Municipal Council

7. The activities of the caretaker of the Borella cemetery belonging to the Colombo Municipal Council
8. Making recruitment to the post of Director of the Suagthadasa National Sports Development Authority
9. Administration of the Medawala Divisional Hospital in Kandy district
10. Lanka Mineral Sands Ltd putting out on tender 85,000 metric tons of Ilmenite in the year 2020
11. Renovation of roads in Anuradhapura district damaged by floods during 2011-2012
12. Printing of election manifestos of the election, 2020 by Lake House
13. Payment of salary increments to the Director General of the Sri Lanka Broadcasting Corporation
14. Conducting modular programmes online

The reasons such as, limitations on filed inspections due to transport issues and turmoil in the country during 2022, and lack of staff of the auditing and auditee

institutions performing duties at offices, had affected the duties of the Investigation Division.

Some of the observations made by the Investigation Division are included into the reports to be issued in terms of Sections 11 and 12 of the National Audit Act, No. 19 of 2018 and the special reports issued as per Section 13 of the said Act. Those observations are thus tabled in accordance with Article 154 of the Constitution. Certain observations are included into the reports issued to the management.

Nevertheless, due to reasons such as, the staff of the Division is attached permanently or temporarily to other Divisions/Branches as per requirements, amount of time spent on investigation audits and replying to the audit observations is relatively higher, and the necessity to review those replies repeatedly, observations of investigation audits are usually included in the said reports of the ensuing year.

Special Audit Report

Special Audit Reports issued in 2022

- **Special Audit Report on Operations of the Central Cultural Fund**
- **Special Audit Report on the Study of Expected Relief provided to consumers from the Reduction of Special Commodity Levy on one Kilogram of Sugar from Rs.50 to 25 cents**
- **Special Audit Report on Financial Management and Public Debt Control in Sri Lanka 2018-2022**
- **Special Audit Report on Procurement of 96,000 Metric Tons of Organic Fertilizer**
- **Special Audit Report on the evaluation of the procurement process for the purchase of coal for the period 2022-2025 for the Lakvijaya Coal Power Plant in Norochcholai**
- **Special Audit Report on the Unilateral Termination of the Light Rail Transit System Project (from Colombo to Malabe) by the Government of Sri Lanka**

Special Audit Report

Special Audit Reports are tabled in Parliament on terms of Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka and Section 13 of the National Audit Act No. 19 of 2018. Arrangements have been made to issue these reports in respect of special cases identified in relation to Ministries, Departments, Corporations, Boards and other institutions being audited by the National Audit Office. In issuing these Special Audit Reports, subjects for special audit reports are determined based on the discretionary powers vested to me by drawing attention notifications made by the Committee on Public Enterprises, Committee on Public Accounts and requests made by Heads of Audited Institutions, on national and contemporary importance and considering the matters such as media disclosures or public representations.

Six (06) Special Audit Reports had been issued in the year 2022 as per the details shown below and all those special reports have been tabled in Parliament and arrangements have been made to publish those reports in trilingual on the National Audit Office website for the reference of

interested parties as per Section 13 of the National Audit Act.

The matters behind the issuance of each audit reports issued and the Summaries included in each of those reports in the year 2022 are shown below.

Special Audit Report on Operations of the Central Cultural Fund

The “Central Cultural Fund” has been established under the Central Cultural Fund Act, No.57 of 1980 identifying “To make Sri Lanka’s cultural heritages a global miracle” as its vision. The administration, management and control of this Fund is vested in a Board of Governors and the Secretary to the Ministry in charge of the subject of Cultural Affairs, functions as the Chief Administrative Officer of the Fund. The main source of income of this Fund which is managed in such manner, can be identified as the income received by issuing tickets to local and foreign tourists who visit cultural heritage sites and this report is issued to examine how effectively the said income has been utilized in the achievement of objectives of the Fund. As such, in view of the examinations carried

out, it was observed that the Board of Governors in which powers are vested with for the control of this Fund, has not met timely and that the Board of Governors were not been appointed in the correct composition. Further, this Fund had failed to formulate a proper set of rules for achievement of certain objectives of the Act and when a percentage ranging from 38 to 58 per cent was being expended out of the total expenditure of the Fund for maintenance of employees, the expenditure incurred for achievement of key objectives of the Fund had taken a low percentage in comparison during the period between 2016 and 2019 in which audit examination was carried out. Moreover, in donating funds for reconstruction of cultural and religious sites, it was observed that the Board of Governors had failed to formulate and implement a proper methodology and the Fund had earned an income of approximately Rs.13,552 million from the year 2016 to June 2019 by issuing tickets to tourists who visit the places of religious and cultural importance outside the Cultural Triangle from where collection of income is unauthorized in terms of the aforesaid Act.

Further, in the recruitment of staff for the Fund, significant issues including

recruitments made exceeding the approved cadre and those made for posts outside the composition of staff relating to the Scheme of Recruitment were observed in the management of employees. Further, in making provision for various projects of the Fund, an uncertainty in the authority for determining criteria in selecting relevant projects and the value of provision, was observed. In view of all matters revealed by this report including the observations mentioned above, the necessity of making expedite provision for operating this Fund at an optimum and effective level is emphasized.

Special Audit Report on the Study of Expected Relief provided to consumers from the Reduction of Special Commodity Levy on one Kilogram of Sugar from Rs.50 to 25 cents

In October 2020, the Government took the initiative to reduce special commodity levy imposed on one kilogram of sugar from Rs.50 to 25 cents. Accordingly, in consequence of the above tax reduction, the Government had been deprived of a tax revenue of about Rs. 16,763 million by February 2021 that could have been earned and it was opined that the resultant

benefits had not passed to the consumers as expected by the Government. Accordingly, in view of the above backdrop, this report was prepared at the request of the Committee on Public Accounts.

The average monthly consumption of white and brown sugar in Sri Lanka is around 50,000 metric tons and the average monthly sugar production in Sri Lanka is 4,359 metric tons at present. Accordingly, there is a shortfall of about 45,000 metric tons for the monthly consumption in Sri Lanka and measures will be taken to meet that shortfall through imports.

With the import of 46 metric tons of sugar, the sugar importation in Sri Lanka was embarked on during the year 1974 and whilst marking a gradual upward trend, the average annual sugar importation had increased up to around 596,000 metric tons by the year 2020.

However, with a view to demoralizing the sugar importation recently and generating an income for the Government, the Government occasionally imposed tax on sugar importation. Accordingly, a levy of Rs. 50 had been imposed on one Kilogram of Sugar by the year 2020. However, in a bid to provide some relief to the livelihood

of the people, the Government had reduced the above levy up to 25 cents on 14 October 2020.

However, only the private sector is engaged in sugar importation in Sri Lanka and Lanka Sathosa sells sugar on behalf of the Public Sector. After the tax reduction, Lanka Sathosa had sold the sugar bought from private sector importers from time to time and it had resulted in a loss of about Rs.102 million to the Lanka Sathosa during the period from 14 October 2020 (From the date of tax reduction) to 08 February 2021 (Up to the date of removing the price ceiling)

Although the Department of Import and Export Control had introduced a licensing system to restrict the importation of sugar, it was observed that the system had not been implemented properly. Even though the Consumer Affairs Authority set control prices for sugar from time to time, it was observed that the expected control of sugar prices in the country had not taken place. Further, the trade community including importers and traders had paved the way for themselves to have a greater economic advantage through the reduction of taxes on sugar by the Government, while suppressing the Government's intention to provide concessions to the consumers. It was also observed that the sugar

importation of the Pyramid Wilma (Pvt.) Ltd. had increased by 1,222 per cent during the period from October 2020 to February 2021 alone from among the relevant importers.

Even though, in view of all the facts, the Government of Sri Lanka had foregone a revenue of about Rs. 16,708 million during the period under review through the tax reduction, the Audit could unveil that the said benefits had not adequately passed to the consumer.

Accordingly, it is recommended to focus on the possibility of recovering the tax revenue foregone by the Government from the parties holding it in their hands by correctly identifying the parties who retained the benefit in comparison to the reduction of the tax on sugar without passing it on to the consumers and considering the possibility of passing that economic benefit to the people in the future or otherwise.

Special Audit Report on Financial Management and Public Debt Control in Sri Lanka 2018-2022

This report was issued relating to the special audit examination carried out in respect of the requirement of domestic and foreign borrowings made by the

Government, sources of borrowing, debt reporting, debt servicing, achievement of objectives considered important for public debt management among objectives cited in the Fiscal Management (Responsibility) Act and internal control of public debt and matters relating thereto. Two special audit reports were issued on public debt in the years 2018 and 2019 as well prior to this report. Further, details on public debt management have been made available through Annual Reports of the National Audit Office and the Reports of the Auditor General issued on the Financial Statements of the Government.

According to Annual Reports of the Ministry of Finance and the Central Bank of Sri Lanka, the Government Debt which was Rs. 12,030.5 billion as at 31 December 2018, had gradually increased up to Rs. 13,031.5 billion, Rs. 15,117.2 billion and Rs. 17,589.3 billion as at 31 December 2019, 31 December 2020 and 31 December 2021 respectively. The percentage of Government debt which had represented 84.2 per cent of the Gross Domestic Product as at 31 December 2018, had increased up to 86.8 per cent, 100.6 per cent and 104.6 per cent as at 31 December 2019, 2020 and 2021 respectively. The composition of domestic and foreign debt as at the end of the year from 2017 to 2021 are as follows.

					Rs. Million
Year	2017	2018	2019	2020	2021
Foreign Loans					
Project Loans	2,610,547	3,149,905	3,231,464	3,458,461	3,764,319
International Sovereign Bonds	1,475,049	2,220,411	2,531,493	2,203,279	2,243,049
Sri Lanka Development Bonds	-	-	943	4,986	4,875
Treasury Bills & Bonds	322,611	158,823	104,021	6,874	1,914
Other	310,411	430,408	333,362	378,579	477,993
Total Foreign Debts	4,718,618	5,959,547	6,201,283	6,052,179	6,492,150
Domestic Debts					
Treasury Bonds	3,892,408	4,197,323	4,606,232	5,713,300	6,966,218
Treasury Bills	697,154	746,887	873,943	1,620,705	2,270,508
Sri Lanka Development Bonds	637,886	614,219	559,284	486,870	455,203
International Sovereign Bonds	-	-	202,099	415,756	372,612
Central Bank Advances	199,801	198,633	236,609	153,079	150,129
Rupee Loans	24,088	24,088	24,088	24,088	24,088
Other	212,878	289,851	328,006	651,269	858,466
Total Domestic Debts	5,664,215	6,071,001	6,830,261	9,065,067	11,097,224
Total Debt	10,382,833	12,030,548	13,031,544	15,117,246	17,589,374
Exchange Rate per USD 1 (At year end)	152.8548	182.7499	181.6340	186.4082	200.4338
Total Debt (USD, Million)	67,926.12	65,830.67	71,746.17	81,097.54	87,756.53
Source- Annual Report of the Central Bank of Sri Lanka, 2021					

Table 20 - The composition of domestic and foreign debt as at the end of the year from 2017 to 2021

The total value of Foreign Currency Denominated Debt as at the end of years 2019, 2020 and 2021 are US\$ 38,687.14 million, US\$ 38,492.4 million and US\$ 37,204.8 million respectively.

Furthermore, according to the Annual Report of the Central Bank of Sri Lanka, Public Debts including foreign project loans received by State enterprises and borrowings made on Government guarantees were Rs. 13,178.4 billion, Rs. 14,155.3 billion, Rs.16,427.1 billion and Rs. 19,407.2 billion as at 31 December of the years 2018, 2019, 2020 and 2021 respectively.

The credit rating agencies have gradually downgraded credit ratings based on issues of debt sustainability from the end of the year 2019 and it was not observed that adequate attention had been drawn relating to reasons indicated thereon or adequate and effective measures had been taken to control the said situation.

As per the review report issued in November 2019 relating to providing US\$164 million (SDR 118.5 million) under the Extended Fund Facility amounting to US\$ 1.5 billion approved by the International Monetary Fund in the year 2016 to Sri Lanka, the external debts of Sri Lanka have been indicated as

sustainable and it has been also indicated that the sustainability of public debt could be further increased through new fiscal rule framework and establishment of independent public debt management agency. It has been indicated that revenue could be collected through expansion of tax basis and improvement of compliance especially in the year 2020. However, it was observed that the tax revisions made at the end of the year 2019 are contrary to the recommendations in the said review report and that the achievement of objectives relating to fiscal policies and balances of payments agreed in the year 2016 relating to the provision of extended Fund facilities became a challenge.

The amount of Government debt and the per capita debt according to mid-year population have continuously increased and it had increased up to Rs. 793,888 representing an increase of 257 per cent by the end of the year 2021 as compared with the year 2010. Further, accepted definitions on Public Debt and Liabilities are not included under section 113 of the Monetary Law Act or in the Fiscal Management (Responsibility) Act, No.3 of 2003. As such, it is not specified whether the value computed as the debt percentage to Gross Domestic Product is the percentage expected in the Fiscal

Management (Responsibility) Act, No.3 of 2003.

The responsibility of the scope assigned to the Central Bank of Sri Lanka and the General Treasury in regard to Debt Management of Sri Lanka, had not been clearly identified by a written law and a formal methodology to identify the accurate total debt balance in the country at a certain instance and its composition could not be recognized as well. It was observed that the achievement of a considerable amount of the Government's priorities on public finance mentioned in statements relating to fiscal strategies of the Government presented in Parliament on the day on which the second reading of the Appropriation Bill of the years 2017 – 2021 was scheduled, have failed. It was observed in some instances that debt balances realized during the year had not been correctly accounted as debt, specially, the loan taken by the government to construct the Hambanthota Port is not appearing in the financial statements of the government or Port Authority. Accordingly, as a formal methodology has not been introduced to accurately record the total debt balance, it is emphasized the need of introducing such a methodology.

A Projection Plan for repayment of project loans included in foreign borrowings was

available with the External Resource Department. However, according to that Plan, earning/managing of foreign currency had failed. As such, Sri Lanka had to suspend the affected debt servicing until Sri Lanka restructures its debts.

Foreign Debt Composition as per Country/Institution as at 31 December 2021 appear as follows.

(Rs.Million)										
Country/ Institution	2021					2020				
	Project Loans	Non Project Loans			Total	Project Loan	Non Project Loans			Total
		Commodity Loans	Other Loans	Total			Commodity Loans	Other Loans	Total	
Asian Development Bank (ADB)	1,051,994	-	425	425	1,052,419	864,407	-	1,049	1,049	865,456
Australia	5,002	-	-	-	5,002	7,017	-	-	-	7,017
Austria	21,969	-	-	-	21,969	21,560	-	-	-	21,560
Canada	3,209	1,003	-	1,003	4,212	3,385	1,117	-	1,117	4,502
China	710,336	-	210,068	210,068	920,404	628,805	-	305,535	305,535	934,340
European Investment Bank (EIB)	23,913	-	-	-	23,913	26,810	-	-	-	26,810
Finland	-	-	-	-	-	262	-	-	-	262
France	81,661	-	-	-	81,661	80,020	-	-	-	80,020
Germany	36,992	4,365	385	4,750	41,742	39,848	4,825	418	5,243	45,091
Hong Kong	25,290	-	-	-	25,290	22,454	-	-	-	22,454
India	158,136	7,746	-	7,746	165,882	145,156	9,356	-	9,356	154,512
Pakistan	-	423	-	423	423	-	1,113	-	1,113	1,113
IDA	616,323	-	-	-	616,323	568,784	-	-	-	568,784
Japan	621,587	-	-	-	621,587	659,260	-	-	-	659,260
Korea	66,624	-	-	-	66,624	68,771	-	-	-	68,771
Kuwait	17,947	-	-	-	17,947	14,866	-	-	-	14,866
Netherlands	43,352	-	-	-	43,352	48,178	-	-	-	48,178
OPEC Fund for International Development	24,265	-	-	-	24,265	21,686	-	-	-	21,686
Saudi Arabian Fund	26,781	-	-	-	26,781	24,085	-	-	-	24,085
Spain	20,544	-	-	-	20,544	21,448	-	-	-	21,448
Sweden	6,952	-	-	-	6,952	9,457	-	-	-	9,457
UK	39,640	-	-	-	39,640	46,276	-	-	-	46,276
USA	15,541	-	11,904	11,904	27,445	17,525	-	13,409	13,409	30,934
Other	146,262	-	2,491,514	2,491,514	2,637,776	118,402	-	2,256,896	2,256,896	2,375,298
Total	3,764,320	13,537	2,714,296	2,727,833	6,492,153	3,458,462	16,411	2,577,307	2,593,718	6,052,180

Source- Annual Report of the Central Bank of Sri Lanka-2021

Table 21 - Foreign Debt Composition as per Country/Institution as at 31 December 2021

Accordingly, by 31 December 2021, the Asian Development Bank, China, Japan and the International Development Association are the main countries/institution from which Sri Lanka has borrowed.

The remittance of Foreign Service employees which was US\$ 7,103.93 million in the year 2020 had declined up to US\$ 5,491.46 million in the year 2021. Further, as per the daily exchange rates of the Central Bank of Sri Lanka, it had taken

action to maintain the exchange rate of the US Dollar at a fixed value (Rs.202.9992) from 07 September 2021 to 07 March 2022 and as such, it was observed that the receipt of foreign remittance had significantly decreased during the said period. Moreover, it was observed that only US\$ 2,049.7 million had been received for the period of 07 months from September 2021 to March 2022 in relation to the sum of US\$ 3,548.9 million received for the period of 07 months from February

2021 to August 2021. The gross value of official reserves (Foreign Reserves) of Sri Lanka remained as US\$ 9,936 million as at April 2018 had become a value even less than US\$ 2,000 million by March 2022 due to impact of aforesaid matters as well.

In terms of Section 66(1) of the Monetary Law Act, in order to maintain the international stability of the Sri Lanka rupee, the Monetary Board shall endeavor to maintain among the assets of the Central Bank an international reserve adequate to meet any foreseeable deficits in the international balance of payments. However, it was observed that foreign reserves totaling Rs.1,500 million had been used by the Central Bank of Sri Lanka to settle International Sovereign Bonds on two occasions.

Further, measures should have been taken to achieve the adoption of policies relating to spending and taxing, as are consistent with a reasonable degree of stability and predictability in the level of tax rates in the future as stipulated in the Fiscal Management (Responsibility) Act No. 3 of 2003, whereas the tax revenue estimate of the Inland Revenue Department of Rs. 1,038 billion for the year 2019 had been revised up to Rs.575 billion for the year 2020. Accordingly, the estimated revenue had decreased by Rs.463 billion in year

2020. As estimated tax revenue for the year 2021 was Rs. 612 billion, estimated tax revenue had decreased by Rs.426 billion for the year 2021 compared to the year 2019. Even though, the actual tax revenue collected by Inland revenue Department amounted to Rs. 1,025 billion in the year 2019, it had become Rs.523 billion in the year 2020 as compared with the year 2019, thus indicating a decline in the actual tax revenue by Rs.502 billion in 2020 compared to the year 2019. Moreover, according to the draft performance report of the Inland Revenue Department for the year 2021, the actual tax revenue collected by the said Department was Rs.623 billion and as such, it had declined by Rs. 402 billion as compared with the year 2019. According to the financial statements of the Government, the total tax revenue for the year 2017 was Rs. 1,670 billion and it was Rs.1,712 billion, Rs.1,734 billion, Rs.1,216 billion and Rs.1,298 billion in the years 2018, 2019, 2020 and 2021 respectively.

The total Government revenue of Sri Lanka (With Grants) was 17.3 per cent in the year 2006 as a percentage of the Gross Domestic Product and it was 13 per cent, 13.3 per cent, 13.5 per cent, 9.1 per cent and 8.7 per cent in the years 2010, 2015, 2018, 2020 and 2021 respectively. Further,

total tax revenue in Sri Lanka as a percentage of Gross Domestic Product was reported as 11.3 percent in 2010 and it was 12.4 in 2015 and 7.7 per cent in 2021. The fiscal deficit which remained at 7.6 per cent in the year 2015, had increased up to 12.2 per cent by the year 2021 due to the decrease in revenue as well.

Even though the non-financial assets had not been accounted for in the financial statements during the period from 2005 to 2014, it had been brought to account with effect from the year 2015. Out of the sums totaling Rs. 8,199 billion stated in the government cash flow statements as construction or purchase of physical assets and acquisition of other investments since the year 2015, assets worth Rs. 5,530 billion or 67 per cent had not been identified and brought to account.

Accordingly, the attention of the responsible parties is hereby drawn on the implementation of the recommendations specified in this report including the recommendations to the effect that the Parliament should prescribe by law the types of loans that should be more accurately included in the category of public debt in Sri Lanka, considering the internationally accepted definitions of public debt, as per the recommendations of the Central Bank of Sri Lanka, the

Ministry of Finance and the relevant parties, that the borrowings should be made within the maximum borrowing limits set under the Appropriation Act and the Active Liability Act, and taking action for optimum management of borrowings made, that to plan and implement strategies to control the continuing depreciation of the rupee, a major risk factor for foreign debt and to maintain the exchange rate stable, that taking expedite actions to formalize debt recording, that establishing an independent methodology/ institute specialized to obtain public debt at low cost and low risk and managing in the optimum manner, that formulate and legalize a debt policy appropriate to the country, that timely respond to the observations made by International Monetary Fund and Credit rating agencies.

01. Special Audit Report on Procurement of 96,000 Metric Tons of Organic Fertilizer

Sri Lanka used to farm using the imported chemical fertilizers for many years and with immediate effect from May 2021, the import of chemical fertilizers was banned by a special gazette issued by the Ministry of Finance. By therefrom, it had been planned to save a large amount of foreign exchange amounting to 221 million USD spent for the import of chemical fertilizers

in the year 2019 and to accustom the farmer to a healthy food pattern by directing the use of organic fertilizers.

The Ministry of Agriculture had planned to use only organic fertilizers from the 2021/2022 Maha season and the Minister of Agriculture submitted a Cabinet Memorandum stating that the requirement of organic fertilizers for 500,000 hectares of paddy cultivation should be imported due to lack of sufficient organic fertilizers in the country for the aforesaid season. The Cabinet of Ministers' approval of CP No.CP 21/0964/323/030 has been obtained on 08th June 2021, for the import of organic fertilizers. Accordingly, by following an expedited procurement method and timeline, Qingdao Seawin Biotech Group Co., Ltd. of China was selected by a cabinet appointed tender board for the import of organic fertilizers and while testing fertilizer samples of that company, the National Plant Quarantine Service had observed that the fertilizer samples had not been sterilized and contained harmful bacteria such as Erwinia and Bacillus. In such a situation, due to the problems arising in obtaining the necessary quarantine certificates for importation, the two state fertilizer companies i.e. the Ceylon Fertilizer Company Limited and the Commercial Fertilizer Company Limited had taken

actions to open letters of credit for the respective fertilizer stocks based on the recommendations given by a special task committee made up of members of the Sri Lanka Standards Institute appointed by the Secretary of the State Ministry of Agriculture. After that, the relevant supplier company had been informed by Shipping Advice that the 20,550 MT of fertilizer was sent from Qingdao Port to Colombo Port in China on September 23, 2021. A controversial situation had been created due to the fact that even the Hippo Spirit ship which carrying the stock of fertilizers arrived near the port of Sri Lanka, it could not be land a stock of organic fertilizers that had not been sterilized in accordance with the Plant Quarantine Act. Later, by refusing to accept and pay for the fertilizer in this fertilizer shipment, the two relevant import state companies i.e. Ceylon Fertilizer Company Limited and Colombo Commercial Fertilizer Company Limited filed cases No.CHC213/2021MR and CHC214/2021MR in the Colombo Commercial Court, and a stop payment injunction was obtained against the People's Bank. Due to the expansion of the controversial situation, as directed by the decision of the Cabinet of Ministers No.CP 21/2161/323/030-IX related to the Cabinet Memorandum submitted to be resolved

through mediation on the advice of the Attorney General, it had been given approval to pay an advance payment of USD 6.9 million for 75 percent of the cost of the fertilizer stock contained in the ship which is equal to Rs. 1,382 million. Accordingly it has been paid by the Treasury Operations Department on 07 January 2022 and had been reported for accounting to the State Ministry of Agriculture on 09 May 2022. The two cases had been settled and withdrawn with the condition of fertilizers should be resupplied with the desired composition and quality given by the settlement. Nonetheless the expected standard of stock of fertilizer has not been obtained until now. Although the period of the letter of credit and the performance bond should be extended and kept valid as per the settlement terms, those documents had been expired on 12 March 2022 and on 24 March 2022 respectively. As a result, the ability to encash the money paid on settlement has been lost if supplier will not provide standardized fertilizers. Resulting all of the above, the entire amount paid for fertilizers will be become a loss to the government.

It is recommended to Proceedings against the responsible officials for this transaction and recover the loss to the Government

due to failure to encashment of the relevant securities before their expiry or extend the tenure of the securities and release of funds without any security in case of advance payment, and proceeding the legal action against the supplier and obtain compensation for attempting to entry a stock of unsterilized fertilizer in to country containing the destructive bacteria i.e. Erwinia and Bacillus which causes to diseases called mild rot and blight for economically valuable crops in Sri Lanka that cannot be imported into Sri Lanka in accordance with the terms of the agreement and the Plant Protection Act No. 35 of 1999, and there is no recommended agrochemical for control. And also for the making a loss by not providing fertilizer required for paddy cultivation in the 2020/2021 season as per the agreement, obtaining an amount of Sri Lanka Rupees 1,382,720,494 equivalent to 6.9 million US dollars for an unsupplied fertilizer stock and non-compliance to the motion, and take actions to blacklist the relevant supplier company in Sri Lanka which has not performed in accordance with the laws and agreements of Sri Lanka.

Special Audit Report on the evaluation of the procurement process for the purchase of coal for the period 2022-2025 for the Lakvijaya Coal Power Plant in Norochcholai

The Norochhole Lakvijaya Coal Power Plant operates as a Base Load Power Plant in Sri Lanka and it contributes between 30 and 40 per cent of the national electricity requirement and about 2.25 million metric tons of coal is required annually to operate the plant. Fifty per cent of the annual coal requirement through long-term procurement and the remaining 50 per cent had been met through emergency procurement even by the end of the 2021-2022 procurement periods. Accordingly, 1.125 million metric tons had been supplied during the 2021-2022 period of time, as per the long-term tender agreement (Term Tender) executed for the purchase of 2.25 million metric tons of coal during the period 2021-2022 and a stock of 1.125 million metric tons of coal not yet supplied had to be supplied by SWISS SINGAPORE OVERSEAS ENTERPRISES PTE LTD through 19 cargoes.

Likewise, 02 shipments to be supplied by SUEK AG under Spot Tender No. 05 (LCC/21/22/ST/28/5) during the 2021-2022 procurement term but not supplied so far were also scheduled to be supplied during the 2022-2023 season and accordingly, 17 ships furthermore had to be procured out of the total requirement of 38 ships. Ceylon Coal Company had started the long-term procurement process for 4.5 million metric tons of coal on 21 July 2022 and it had been expected to be procured 1.125 million MT, 2.25 million MT and 1.125 million MT of Coal thus covering three terms (03 years) of 2022-2023, 2023-2024, 2024-2025 by that respectively.

This procurement process was started on 21 July 2022 and the tender was awarded to Black Sand Commodities FZ-LLC on 25 August 2022 within a short period of time that is 35 days. The Honorable Speaker had given instructions to the Chairman of the Committee on Public Finance to conduct an inspection regarding the awarding of the procurement tender to that Company and accordingly, actions were taken to issue this report as agreed in the discussion held in the Public Finance Committee on 08 September 2022. SUEK AG had requested to change its registration to Black Sand Commodities since Black Sand Commodities, which has

been introduced as its subsidiary company, is working to procure coal in the future instead of itself. Without providing a written response to the request, SSCAPC had decided to make strong and sensible amendments to the bid documents and after the amendment, the Black Sand Commodities was given the opportunity to get this bid.

Further, if they agree to the relevant amendment the Black Sand Commodities should submit bids on behalf of SUEK AG and although the SUEK AG, which is a registered supplier, has to provide full assurance regarding the quality, quantity and payment of the coal supplied, no legal document/agreement whatsoever had been submitted that the Black Sand Commodities would submit the bid documents on behalf of SUEK AG in the bid documents submitted by Black Sand Commodities. Further, legal documents/agreements that the SUEK AG would provide full assurance regarding the quality, quantity and payment of coal supplied were not submitted with the bid documents.

The suppliers who have fulfilled the essential qualifications are registered for coal procurement and although the tenders should be invited from registered suppliers

only because Black Sand Commodities is not a registered supplier of coal, none of the qualifications for coal supply had been tested. The IC SUEK Ltd. LLC (Russia) Company had passed a resolution on 31 May 2022 to incorporate Black Sand Commodities and it had been incorporated as a company incorporated in UAE on 01 June 2022. Accordingly, as it was not a company registered under the registered supplier; SUEK AG, it was observed that there was no direct relationship between SUEK AG and Black Sand Commodities. Nevertheless, without considering of this situation, the bid submitted by Black Sand Commodities had been accepted and advices had not been obtained from the Attorney General about its legal status prior to agreeing to transfer the service of a registered provider to an unregistered and insufficiently qualified provider for registration or making the relevant amendment.

It is expected from this report to confirm that all the parties involved in the coal procurement process will fulfill their responsibilities correctly in accordance with the government approved procurement guidelines and to emphasize the need to take appropriate steps against the parties who deviate from that situation, streamline the bidder registration process to an acceptable level and focus on

maximizing competitiveness without prejudice to the objectives mentioned in paragraph 1.2 of the Procurement Guidelines and to protect the basic requirements of suppliers including financial feasibility, experience, quality of supply, adequate legal obligations.

Further, such amendments should be made after verifying the legality of such amendments so as not to prejudice the relevant confirmations and obligations in making amendments to the bid documents and actions have been taken to provide some recommendations from this report including that actions should be taken to amend other clauses and agreements in the bid document and that strong revisions to the bid documents should be avoided whenever possible after calling for bids to suit that amendment.

Special Audit Report on the Unilateral Termination of the Light Rail Transit System Project (from Colombo to Malabe) by the Government of Sri Lanka

The Light Rail Transit System had been identified as the feasible rail based transport mode for the Colombo city based on the matters proposed by the Ministry of Megapolis and Western Development and

seven lines had been identified, covering several areas from RTS 1 to RTS 7 as Green, Yellow, Red, Purple, Pink, Olive and Grey. Out of those seven lines, RTS 1 (Green Line) and RTS 4 (Purple Line) had been planned to be constructed first. However, according to the Memorandum of Understanding relating to this project, it had been decided to consider RTS 1 line as a future project, by giving priority to the RTS 4 line from Borella to Malabe. These two lines had been planned to be constructed under six construction packages and the Japan International Cooperation Agency had agreed to provide financial facilities under concessionary credit conditions and the Oriental Consultants Global Company Limited of Japan had agreed to provide consultancy services in collaboration with several other companies.

The Japan International Cooperation Agency had provided the facility of paying the said loan during a period of 40 years including a grace period of 12 years and the annual interest rate thereon was 0.1 per cent. Moreover, the aforesaid proposed project was planned to be implemented first under 7 packages and a sum of Japanese Yen 30,040 million had been allocated out of the proposed loan for the Package 1 Project (Rolling Stock)

identified from among the aforesaid 7 packages.

According to the cost benefit analysis carried out relating to this project, economic internal rate of return and economic net present value had been identified as 20.18 per cent and Rs.174.3 billion respectively. Accordingly, the economic internal rate of return has exceeded the discount ratio and as such, this had been identified as a beneficial project for the national economy. Moreover, it had been identified that this project is beneficial when the economic benefit decreases by 10 per cent and the cost benefit decreases by 10 per cent and even in a more disadvantageous position such as when taking both the above situations together. According to the financial analysis carried out under 4 cases, case 4 had been identified as the more beneficial situation and the Financial Internal Rate of Return thereof is 27 per cent and it had been identified that it had exceeded the cost benefit ratio of 8.87 per cent and the net cash flow thereof had been identified as Rs.50,185 million. Further, according to the environmental report, it was confirmed that the environmental impact of this project was at a minimum level.

The Monetary Board of the Central Bank as well had recommended obtaining this loan due to the low interest rate and long term repayment and the expectation of improving the capacity of the public transport service and supply of services from the project. The Ministry of Finance as well had made observations indicating that availability of an effective, efficient and rapid railway transport system connecting the Colombo city and suburbs is an essential feature of the Megapolis Development Plan. Moreover, the Department of National Planning as well had recommended the implementation of this project due to the economic development and sustainable and qualitative improvement of lifestyle of the people which could be achieved therefrom. Documentary evidence was not made available to Audit to confirm on what basis this project, which was identified as effective according to the financial and economic analysis prepared by an international institution, was cancelled considering as an ineffective project.

The Government of Japan had been informed that the agreement is terminated due to the inability of implementing the project owing to Covid – 19 pandemic and it was observed that it could result in damaging the mutual trust and confidence in transactions between states. It was

further observed that there was no proper understanding and agreement amongst relevant institutions relating to termination of this project or the loan agreement.

Nevertheless, works of the Light Rail Project were commenced and subsequently, the Government of Sri Lanka had made a decision on the Directive of the then Honourable President for unilateral termination of the project. Moreover, if action is not taken either to recommence the project by utilizing the results achieved from expenditure of Rs.5,977 million already incurred or to commence an alternative project, it was observed as an uneconomic expenditure incurred by the Government of Sri Lanka. The claim of Rs.5,169 million relating to loss of profit, requested by the Oriental Consultants Global Company Limited which is the main consultancy company or the sum paid for the said request as well as the interest to be paid in future on delay of compensation or any other payment made, is definitely an uneconomic expenditure for the Government of Sri Lanka.

In the backdrop of Japan International Cooperation Agency (JICA) rejecting the request made by the Department of External Resources for terminating the loan agreement, there was no confirmation that this institution has refused to present

itself in international courts for arbitration and Oriental Consultants Global Company Limited which is the consultancy company has refused to go to arbitration and it was observed that if such a situation arises, a disadvantage (incurring a high cost) to the Government of Sri Lanka is inevitable.

While adhering to decisions of the Cabinet and the Executive by officers who implement those decisions, in case of instances for which conclusions, that a certain serious issue could arise due to the said decisions, the attention of the Government should be drawn towards the ability of introducing a methodology of reporting to the Executive of conclusions, in taking action to revise/cancel prior decisions taken after a formal study, parties who participated in studies for prior decisions should be consulted and information received from them should be professionally evaluated. Maximum effort should be made to convert the uneconomic nature of expenditure into economic nature by utilizing the unsettled commitments incurred and property vested already for the project or for an alternative programme. Further, effort should be made to reach an agreement necessary for maintaining the repayment of the disbursement of Rs.5,066 million obtained by December 2021 on prescribed concessionary rates even after terminating

the loan agreement unilaterally and in making observations by the General Treasury relating to Cabinet Memoranda, maximum effort should be made to give independent professional observations

beyond extending support for decisions expected through said Memoranda, are several recommendations presented by this report.

Performance Audit

Performance audit reports tabled in Parliament in the year 2022

- **Performance Report on Improving Road Accessibility between Rural Community and Socio-economic Centers under the Integrated Road Investment Programme.**
- **Evaluate the Process of Developing new Renewable Energy Sources.**
- **The Role of Sri Lanka Standards Institute on Quality Product Sales in the Local Market.**
- **Regulatory Process on Non-government Schools.**
- **Regulation of the Prevention and Control of Non-communicable Chronic Diseases in Sri Lanka.**
- **Asses the expected benefits been reaped by the Local Government Enhancement (Puranaguma) Sectorial Project.**
- **Performance of the Project to Provide Housing Facilities to the Estate Sectors Community by the Ministry of Hill Country New Villages, Infrastructure and Community Development.**

Performance Audit

Performance audits are conducted by the Performance Audit Division established at the National Audit Office premises as well as at the branch level as per the provisions of the National Audit Act No. 19 of 2018. Performance audits are conducted with priority given to topics of national importance by the Performance Audit Division established in the National Audit Office and provides necessary instructional support for performance audits conducted at branch level. In addition to that, participating in cooperative audits conducted by the International Organization of Supreme Audit Institutions also are being done by the Performance Audit Division. Likewise, all performance audits conducted are being carried out in accordance with the requirements shown in the standards issued by the International Organization of Supreme Audit Institutions (INTOSAI).

The economy, efficiency and effectiveness of a government agency, program, project or unit of expenditure are evaluated in relation to selected areas by performance audit. In addition to the relevant observations, the necessary recommendations to correct them are also

included in the respective reports. Performance audits require more time than other audits and accordingly, the audit reports tabled in Parliament in the year 2022 in relation to the performance audits initiated in the years prior to the year 2022 are as follows.

1. Performance Report on Improving Road Accessibility between Rural Community and Socio-economic Centers under the Integrated Road Investment Programme.
2. Evaluate the Process of Developing new Renewable Energy Sources.
3. The Role of Sri Lanka Standards Institute on Quality Product Sales in the Local Market.
4. Regulatory Process on Non-government Schools.
5. Regulation of the Prevention and Control of Non-communicable Chronic Diseases in Sri Lanka.
6. Asses the expected benefits been reaped by the Local Government Enhancement (Puranaguma) Sectorial Project.
7. Performance of the Project to Provide Housing Facilities to the Estate Sectors Community by the Ministry of Hill Country New Villages,

Infrastructure and Community Development.

In addition to the above audits, summary reports containing key points of performance audit reports initiated in the years before the year 2022 and tabled in Parliament in the year 2022 and detailed information which has not yet been included in the Annual Report of the National Audit Office are as follows.

Fulfillment and utilization of building requirements for Government Institutions.

Government owned buildings as well as buildings acquired on rent or lease basis are used to meet the building requirements for running the affairs of the government Institutions. The government incurs a huge cost for the construction, maintenance and rent of the buildings obtained on rental basis. Accordingly, a need to use government buildings economically, efficiently and effectively has arisen. Thus, although the government incur a significant annual expenditure for the construction and acquisition of buildings, inadequate and excess space in the buildings owned by the government for running government activities, existing of them at the inappropriate level, failure of maintaining a centralized data system

which is essential in the management of government buildings and the existence of assessment problems had caused to select this audit. The utilization of the buildings belonging to the Central government except buildings of special expenditure units, government school buildings, official residences, hospital buildings, foreign mission offices and buildings maintained in foreign countries, the buildings belonging to the state banks were taken into considering in this audit and the information on valuation of buildings from the Valuation Department and on its performance from the Office of the Comptroller General have been obtained in this audit.

A total capital provision of Rs. 720 billion has been made as per the Budget Estimates from 2016 to 2020 for building purchases, land purchases, building construction and building rehabilitation and improvement, of which only 67 per cent equal to Rs. 482 billion has been spent and it had ranged between 14 per cent to 16 per cent of the total public capital expenditure. Nevertheless, it was observed that the government building requirement has not been utilized with maximum efficiency and the main issues revealed from the information obtained to the calculation of the performance of

building utilization of public institutions about 1,166 building uses of 142 government institutions including Ministries, Departments, Corporations, Statutory Bodies, Universities, Public

Companies and Projects as at 31 March 2021 are explained in the following graph.

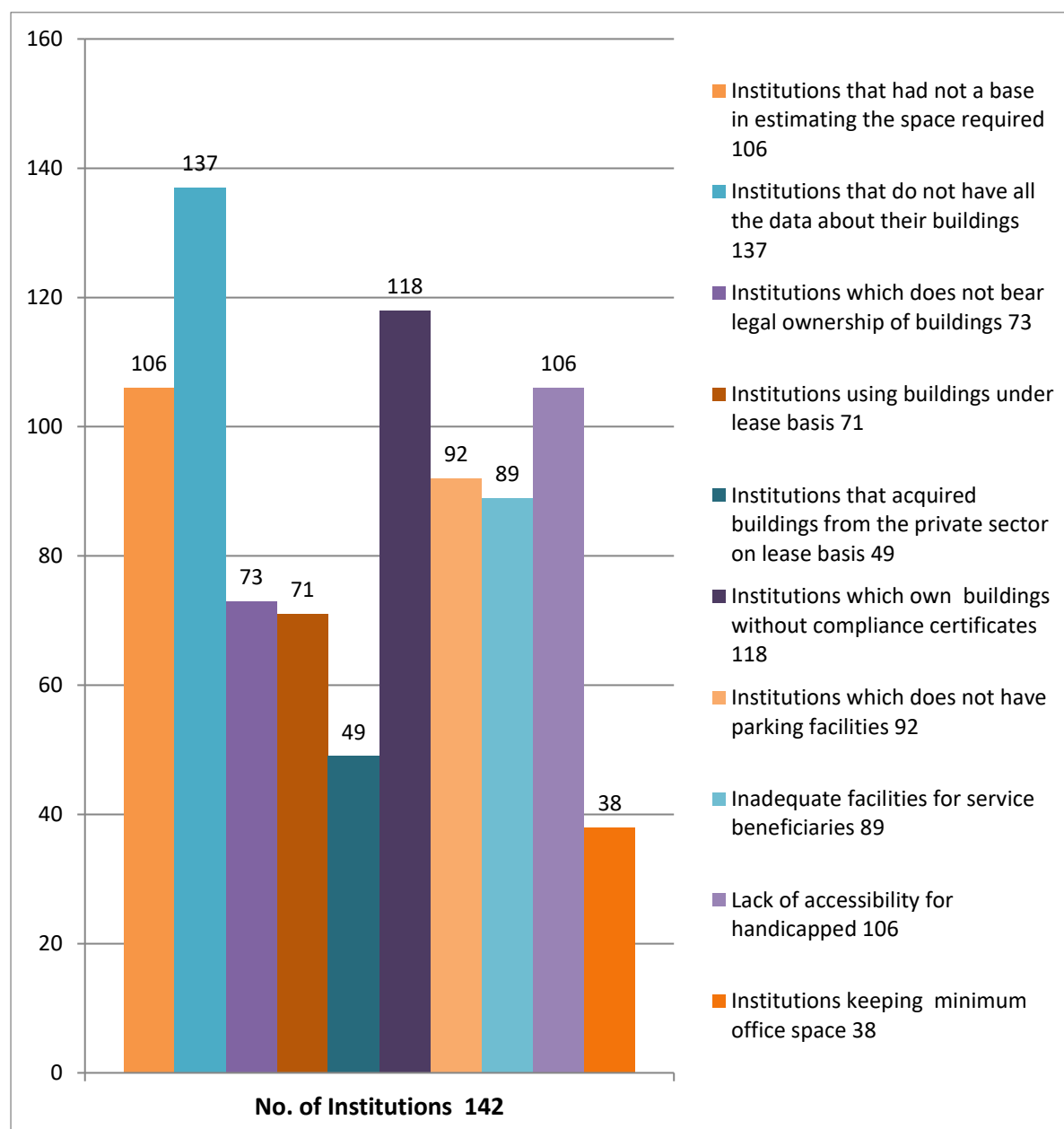


Figure 33 - the main issues revealed from the information obtained to the calculation of the performance of building utilization of public institutions

Likewise, due to failure of properly identifying the building requirement during construction, purchase and leasing

it was observed that their buildings are not used efficiently, effectively and economically to fulfill the objectives of the

institution and that the use of the buildings owned by the institutions is not reviewed in a timely manner. There were no standardized allocation standards in management of space and there was no Government Policy for it.

In receiving buildings for government tasks on lease basis, payment of lease rent without assessment from Government Valuation Department, payment of excess lease rent without considering Government Valuation was observed. In Valuation of government buildings, the matters such as non-assess of government lands and buildings properly due to reasons such as not submitting the necessary documents to the Government Assessor correctly for that and non-accounting of government buildings for at accurate value due to delays in Government Valuation Department have been considered in this report.

Even though the building construction has been commenced with the aim of fulfilling the space requirements of government institutions, there were lack of necessary provisions, construction weaknesses, decisions to terminate construction when carrying out, delays in construction work, changes in building plans from time to time according to the

needs of the institutions and changes in the total expenditure estimate were among the observations made during the audit. Likewise, maintaining a fully centralized information system on non-financial assets, formulating and implementing accepted policies on government non-financial asset management ensuring efficient use were among the things observed in the audit. Nevertheless, inordinate delay in creating such a centralized data system and lack of monitoring of the use and management of government buildings were some notable observations here.

The facts such as establish a National Policy on public buildings, promptly establish the centralized information system of the Comptroller General's Office and conduct periodic surveys of shortages and surpluses of space in buildings by maintaining information and data related to buildings owned by each government agency have been submitted by audit as recommendations.

Likewise, the recommendations such as the role for which the building is used in case of construction, purchase or lease of a building, formulation of guidelines to properly identify the real need of buildings determining by predicting the amount of space required for future needs properly

according to the nature of the staff employed and the equipment used and introducing standards on space utilization are also proposed here.

Evaluation of the role played by relevant Government Institutions to reduce traffic congestion in Colombo city and surrounding access roads.

A proper road system should be an adequate and quality infrastructure spread according to needs out of the essential infrastructure for the development of a country. Likewise, the road system should be improved along with the development works taking place in the city.

For this, although the road systems have been developed to suit the present and the future on the scientific basis of developed countries, it remains an unsolved problem in developing countries like Sri Lanka. It is unique in the Western Province because of occurring of an environment that creates social, administrative, economic and environmental obstacles by this issue within the city limits and within the accesses to it due to being the commercial city of Colombo and the capital of Sri Jayawardenepura Kotte. As a result of the large number of traffic entering Sri Lanka's commercial city of Colombo from 07 access roads including Galle Road, High Level Road, Nava Kandy Road, Low

Level Road, Negombo Road, Kandy Road and Horana Road, there is a large number of vehicles are running.

The main objective of the performance audit was to evaluate the efficiency and effectiveness of the role played and to be played by the government and institutions responsible for transport management in providing short and long-term solutions to manage heavy traffic in and around the city of Colombo.

In this, the performance of government institutions related to transport, traffic management, urban development and road development was examined in accordance with the National Physical Plan as well as urban planning and road planning. The performance of government institutions involved in road development was examined.

The issues such as failure of converting urban development, transport and road development plans into legal documents through gazette announcements, failure of identifying the causes of traffic congestion and measures to be taken to reduce them and failure of identifying their priority, , failure of identifying the responsibilities of government institutions by coordinating all aspects of urban development, road development and transportation were

observed in planning of issues. It was observed that the economy, efficiency and effectiveness of the implementation of the main plans such as Road Development Plan, National Physical Plan and Urban Development Plan have been affected this.

Likewise, as a result of the National Policies related to transport and road development are in the draft stage, lack of uniform system and lack of consistent implementation of measures taken to reduce traffic congestion were observed. It was observed that the action plans of related institutions are not prepared in parallel with these main plans and measures to be taken to reduce traffic congestion had not been covered by those action plans.

Due to lack of proper feasibility study, projects such as bus priority lanes, flexible office hours, water-based transport and the desired objectives of the Sahasara Project, which were implemented in the Megapolis Plan since 2017, could not be achieved. The Light Rail Transit Project from Malabe to Fort was planned to commence with foreign financial support and the preliminary works had been completed and the preliminary feasibility studies of the Western Regional Light Rail project had been completed. Despite of this, these two projects have been stopped by now and

the expenditure of Rs. 11,537 million incurred up to 31 December 2019 had been futile accordingly.

Similarly, non-implementation of proposals such as vehicle park management, intersection control, traffic control, pre-paid card bus fare system, driver improvement marks system and tolling of vehicles entering the city centre which should be implemented simultaneously with these projects, being able to purchase only 9 luxury buses in 2019 and failure of improving office and school transport services as per the necessity were observed. Inadequate follow-up of traffic congestion and impact assessment (TIA) occurred by unauthorized construction and development activities in Colombo and surrounding suburbs and inadequate parking facilities in the Greater Colombo area had caused heavy traffic. Similarly, it was observed that the lack of traffic police staff for the Colombo area, being untrained traffic police staff between 78 per cent and 86 per cent had affected the traffic management.

Therefore, it is recommended to identify the factors that cause traffic congestion, the priority of the measures to be taken and the responsibility of the relevant institutions accurately in this regard and to prepare one plan and enact through a

gazette notification and timely implementation of those plans, assigning a trained traffic police staff to the Colombo area as per the need, speedy implementation of the driver improvement marks system, speedy implementation of the projects proposed to improve passenger transport, preparing a formal

programme for school and office transport services and, to implement a follow-up system for the prevention of further occurrence of unauthorized constructions by merging with the Urban Development Authority and other Local Government Institutions.

Environment Section

Audit Observations

- **Operating the Waste Water Treatment Plant without obtaining an Environmental Protection Licence**
- **Irregular Transactions**
- **Unders Utilization of Assets**

Environment Section

The mission of the Ministry of Environment is to provide leadership for environmental management through sustainable natural resource management with the vision of a sustainable developed Sri Lanka. In order to fulfill that mission, the Ministry of Environment and its 4 statutory bodies/institutions namely the Central Environmental Authority, Geological Survey and Mines Bureau, GSMB Technical Services (Pvt) Limited and Sri Lanka Climate Fund (Private) Limited should have performed the following functions and tasks.

- Identification and analysis of problems in the environment and natural resources sectors with the participation of stakeholders in order to use them in the formulation of sustainable development policies
- To inform and ensure implementation of policies related to environment and natural resource conservation to relevant stakeholders
- Prepare strategies and action plans and implement pilot projects to enable the implementation of policies that are compatible with the environment and natural resources
- Educate the people at the national level about the reform of policies related to the environment and natural resources and the concept of sustainable environment as well as the main environmental processes
- Confirming the fulfillment of international obligations to be fulfilled by Sri Lanka in accordance with multilateral environmental conventions signed by Sri Lanka
- Setting up follow-up methods related to the environment and natural resources sector and applying appropriate strategies for environmental management based on the information obtained from the follow-up
- Conducting research on the effects on the environment during the implementation of the policies, analyzing the information and forwarding the information to the relevant departments including the public
- Creating an enabling environment for the commitment of government, non-government sectors and the public for better environmental management

Net provision amounting to Rs.1,691 million had been made for the Ministry of Environment by Parliament during the year 2022 in order to perform the aforesaid functions and out of that, only a sum totalling Rs.1,510 million had been utilized by the end of the year under review. Accordingly, the savings as at the end of the year was Rs.181 million.

The significant and quantitative audit observations revealed relating to performing the above duties and functions are summarized below.

Operating the Waste Water Treatment Plant without obtaining an Environmental Protection Licence

In terms of Sections 23(a) and (b) of the National Environment (Amendment) Act, No.47 of 1980, it had been cited that waste shall not be discharged, disposed or emitted to the environment which will cause pollution, except under the authority of a licence issued by the Authority and in accordance with such standards and other criteria as may be prescribed under this Act. However, action had been taken to operate the waste water treatment plant of the Ministry of Environment from the date of commencement of its use up to 03 May 2023, the date of audit (for a period over

05 years) without obtaining an environmental protection licence.

Irregular Transactions

In terms of the Procurement Guidelines, a contract agreement should be entered into with the relevant institution after accepting the bid. Nevertheless, the Ministry had signed the contract agreement for supply of security services in the year 2022 on 17 August 2022 and a sum of Rs.5.4 million had been paid without a legal agreement for the period from January 2022 to 17 August 2022.

Under Utilization of Assets

A waste water treatment plant had been installed in the Sobadam Piyasa building premises by spending a sum of Rs.3.5 million and it had been expected to produce and utilize bio gas produced therefrom. However, bio gas generated over a period of 5 years from 14 September 2017, the date of commencement of using the building up to 23 March 2023, the date of audit, had not been utilized and the bio gas produced in the closed waste water plant had been released to the atmosphere without utilizing it for any purpose whatsoever.

Agricultural Sector

Audit Observations

- **Ministry of Agriculture**
 - Utilization of Provisions
 - The loss caused to the country due to the importation of organic fertilizers that failed the National Plant Quarantine sample tests
- **Colombo Commercial Fertilizer Company Limited**
 - Non-recovery of the overpaid amount while importing liquid Nano Nitrogen fertilizers
 - The Fertilizer Company had not remitted the subsidy value that has been reimbursed from treasury
- **Department of Agrarian Development**
 - Utilization of Provisions
 - Payments made by the Assistant Commissioner for the bills without the recommendation of the Engineering and Technology Officer
 - Machines that were purchased as emergencies are remained idle
 - Non-recovery of Amounts Due
 - Delay in project completion
 - Although the payments have been made for a management software system for the Pilot Projects of Agrarian Bank and the Agrarian Development Committees, it had not been fulfilled
- **Hector Kobbekaduwa Agrarian Research and Training Institute**
 - Non-reimbursement of salaries paid to a released Senior Research Officer
 - Non-reimbursement of Foreign Study Expenses

- **Agricultural and Agrarian Insurance Board**
 - Although the Funds have been used to formulate an Agricultural Management Information System, the system has not been utilized
 - Farmers related to compensation for crop losses have not been identified and settled
 - Insurance certificates had not been given to farmers after reducing the Insurance premiums
 - Fishermen's Pension and Social Security Benefit Scheme
 - Delay in disbursement of Pension Benefits
- **Farmers Pension and Social Security Benefit Scheme**
 - Administrative expenses received from the Treasury have been credited to the bank account of the Agriculture and Agrarian Insurance Scheme
 - Non-payment of Pension Benefits
- **Farmers' Trust Fund**
 - Non-disbursement of lottery income to Farmers' Trust Fund as schedule
 - Fund money is continuously invested in Fixed Deposits and Treasury Bills
- **Sri Lanka Council for Agricultural Research Policy**
 - Having a Motor Vehicle in the Project for personal use
 - Non-recovery of Subsistence Allowance
 - Research institutes have not been encouraged in Organic Agriculture
- **Bim Saviya Program**
 - The purpose of the program to settle the rights of land resources and secure land for future generations has not been fulfilled
 - Failure to complete planned Activities
 - Implemented the program only within a limited number of Divisional Secretariats
 - Non-performance of related works even though the payment of building rent and security charges had been made
- **Land Reforms Commission**
 - The main task of preparing the land register has not been done
 - Very low value is stated in Land and Declared Estate Lands
 - Non-settlement of compensation due

Agricultural Sector

The Ministry of Agriculture which is identified as its Vision to create efficient, effective and strong agricultural sectors for food security and national prosperity, and to accomplish an Entrepreneurial agriculture that produces globally competitive products with a socially acceptable and commercial orientation through the sustainable management of natural resources as its Mission functioning at the present as the Agriculture Division, Livestock Development Division, Fertilizer Division and Rural Economic, Crops Cultivation and Promotion Division to accomplish those activities. 03 departments and 14 statutory institutions were functioning to accomplish the following objectives and tasks under this ministry.

- Compilation, follow-up and evaluation of policies, programs and projects related to the subjects of the departments and statutory institutions and state incorporated institutions and state corporations based on the national policies implemented by the government.
- Provide public services under the scope of the ministry in an efficient and public-friendly manner.
- Restoring all methods and procedures using modern management methods and technology to ensure that the ministry accomplishes its role by eliminating waste and corruption.
- Food production to ensure food security.
- Using modern technology to maintain stocks and carry out supply operations in an orderly manner.
- Taking necessary steps to increase agricultural production based on crop diversification.
- Develop necessary strategies to ensure the quality value of local agricultural products to the consumer community.
- Directing traditional farmers, youth and students to agricultural education opportunities with modern technology.
- Encouraging formation of youth agricultural entrepreneurs.
- Regulating the application of chemical pesticides and other chemical compounds with a specified standard.

- Expansion of crop insurance schemes and farmer retirement schemes for agricultural workers.
- Provide higher prices for farmers' produce by strengthening planning relationships between direct producer processing agencies, wholesalers and export companies.
- Mitigation of natural disasters by communicating climate change, daily weather information to farmer.
- Implementation of a system to provide quality seeds and plants to the farmers.
- Water management and management of water supply according to the needs of farmers.
- Promotion of agricultural development zones, agricultural villages and sustainable horticulture development programs.
- Administrative and personnel management of the Sri Lanka Agriculture Service.
- Implementation of programs for the establishment and promotion of small scale agricultural businesses and organizations.
- Expanding and encouraging programs to gradually shift towards the use of organic fertilizers and non-toxic food production.
- Effectively implementing the import and distribution of quality fertilizers within government's subsidy policy.
- Setting up mechanisms for timely distribution of chemical fertilizers and eco-friendly organic fertilizers of the required standard.
- Encouraging production of organic fertilizers conforming to international standards using local raw materials.
- Implementation of a fair price policy and crop diversification program that satisfies the local farmer and consumer.
- Implementation of horticultural programs
- Develop a formal arrangement for storage of surplus products.
- Formulate a work arrangement for value added and export of agricultural products.
- To introduce a local seed policy for the production of international quality seeds.
- Encouraging the private sector to produce quality seeds and planting materials.
- Development of government farms and seed production farms.
- Reducing import of food crops by increasing domestic production.

- Provision of facilities required to increase production in the livestock sector.
- Animal welfare and related activities.
- To expand the research sector related to livestock using modern technology.
- To popularize scientific breeding methods to improve the animal population in the livestock sector and to protect and quarantine them.
- Encouraging the development of small and medium scale farms to suit different geographical needs.
- Promotion of livestock related products and encourage for export.
- Provision of necessary land and investment facilities for the construction of medium and large scale cattle farms.
- Expand local production and consumption opportunities by promoting small and medium scale producers.
- Administrative and Personnel Management in Sri Lanka Animal Production and Health Service.
- Activities related to all other subjects assigned to institutions.
- Supervising all agencies under the Ministry of Agriculture.

Some of the points observed during the audit regarding the fulfillment of the above objectives and functions that should have

been achieved by the agricultural sector are summarized below.

Ministry of Agriculture

Utilization of Provisions

Net provision of Rs.123,052 million has been reserved to the Ministry of Agriculture in the year 2022 and Rs.95,151 million out of that had been utilized and Rs.27,901 million had been remaining saved.

The loss caused to the country due to the importation of organic fertilizers that failed the National Plant Quarantine sample tests

In case of importing organic fertilizers, Phytosanitary certificate and import permit issued by the Director General of Agriculture should be obtained in accordance with the Plant Protection Act No.35 of 1999.

Nevertheless, without giving such approval and knowing that the National Plant Quarantine sample tests failed, 96,000 M.T organic fertilizer required for 500,000 hectares in the 2021/2022 Maha season was imported from a Chinese company and 6.9 million equal to Rs.1,383 million had to be paid to the relevant company uneconomically without landing the fertilizer in the country.

Colombo Commercial Fertilizer Company Limited

Non-recovery of the overpaid amount while importing liquid Nano Nitrogen fertilizers

Rs.50 million that overpaid due to the reduction of the price of a bottle to 10 USD while Colombo Commercial Fertilizer Company Limited had paid Rs.253 million at 12.45 USD per bottle to the supplier for importation of 100,224 bottles of Nano-Nitrogen liquid fertilizer on 18 October 2021 had not been recovered until 30 January 2023 which was the date of audit.

The Fertilizer Company had not remitted the subsidy value that has been reimbursed from treasury

Due to stopping the release of subsidized fertilizers and switching to the method of giving cash to the farmer in the year 2016, the subsidy value of Rs.2,112 million which has been remitted by the Colombo Commercial Fertilizer Company related to the fertilizer stock that was in the company on that date had not been re-remitted to the treasury.

Department of Agrarian Development

Utilization of Provisions

Rs.9, 212 million out of the Provisions of Rs.10,053 million received by the Department of Agrarian Development for the year 2022 had been utilized. Also, the State Ministry of Agriculture, the State Ministry of Rural Paddy field and Related Tanks, Reservoirs and Irrigation Development, the Ministry of Environment and the National Planning Department had provided Rs.3,765 million to the Department of Agrarian Development for various projects and Rs.2,020 million out of that had been utilized.

Payments made by the Assistant Commissioner for the bills without the recommendation of the Engineering and Technology Officer

The Assistant Commissioner had paid for the bills that presented for the restoration of Sagini Lake by spending Rs.2.4 million under the Minor Irrigation and Fallow Paddy Development Program by Monaragala District Office without the recommendations of the Engineer and Technology Officer.

Machines that were purchased as emergencies are remained idle

Although it has been stated that all the projects that have started/to be started should be temporarily suspended according to the National Budget Circular, 04 concrete mixers, 06 concrete poker machines and 06 soil vibrating hammers at a cost of Rs.6 million have been purchased on 28 December 2022 considering as emergency work. Nevertheless these had been kept unused until 15 June 2023.

Non-recovery of Amounts Due

Rs.112 million due for 0 2wheeler tractors given in 2006, 2008, 2010 and 2012 under the Japanese Yen Aid Project, Rs.3 million due for more than 5 years included in the balance of debtors of the Agrarian Development Fund and 04 wheeler tractor installments of Rs.20 million had not been recovered as on 31 December of the year under review.

Delay in project completion

Under the National Program of ensuring food security and obtaining a proper price for crops under the World Bank assistance, although 26 warehouses covering 11 district offices should be completed at a cost of Rs.223 million by the end of 2021 for providing short-term storage facilities under the World Bank loan CERS

(Contingent Emergency Response Component), 15 warehouses had not commence construction as of 31 December 2022 and one warehouse out of the 11 warehouses that had started construction had not been completed. All the 10 completed warehouses remained idle as of the date of this report.

Although the payments have been made for a management software system for the Pilot Projects of Agrarian Bank and the Agrarian Development Committees, it had not been fulfilled

Although the fund signed a contract worth Rs.31 million to prepare management software system for the Agrarian Bank Pilot Projects and Agrarian Development Committees in the year under review and Rs.9 million had been paid, work had not been started.

Hector Kobbekaduwa Agrarian Research and Training Institute

Non-reimbursement of salaries paid to a released Senior Research Officer

Action had not been taken to reimbursed Rs.4 million salary that paid in 2020,2021 and 2022 to a Senior Research Officer who was fully released from 07 February 2020 to the Paddy Marketing Board and had not disclosed as receivable in the accounts.

Non-reimbursement of Foreign Study Expenses

Although a Senior Research Officer who had taken 02 years of paid study leave since 2011 to pursue a Doctor of Philosophy degree course and having taken another 02 years of unpaid study leave, Rs.9 million due for failure to provide the institution with the degree certificate and Rs.5 million to be charged from an officer who had a Doctor of Philosophy degree from a university in China and went for the post of lecturer in Eastern University had not been charged.

Agricultural and Agrarian Insurance Board

Although the Funds have been used to formulate an Agricultural Management Information System, the system has not been utilized

Agreements had been reached with the International Finance Corporation (IFC) to formulate an Agricultural Management Information System to reduce the process of insurance compensation for crop damages to 2½ months. Although the financial facilities of Rs.20 million were given to the board for that as of 31 December of the year under review, and the board had spent Rs.23 million for that, the system has not used for the

compensation process and therefore the desired objectives had not been achieved.

Farmers related to compensation for crop losses have not been identified and settled

Although Rs.70.8 million compensation paid to 8,185 farmers in the years 2017 and 2018 related to the Kethata Aruna insurance scheme run by the Board to provide reparation to farmers for crop damages with the objective of promoting agricultural products, have sent back by the commercial banks due to non-conformity among account numbers, names and ID numbers of farmers, the relevant farmers have not been identified and that balance had not been settled for 05 years.

Insurance certificates had not been given to farmers after reducing the Insurance premiums

An accident insurance premium of Rs.10.77 million was deducted from the compensation amount to be paid to 26,904 farmers for the 2021/22 season and although the accident insurance cover should be provided for a period of one year from the date of reduction, the insurance certificates had not been issued to 14,779 farmers even though 07 months had passed from the date of reduction.

Fishermen's Pension and Social Security Benefit Scheme

Due to the absence of a system for granting pensions for 64,117 Fishermen who had contributed to the Fishermen's Pension and Social Security Benefit Scheme the when they reached the age of 60, Fishermen's Pension Benefit had not been granted to the 22,402 fishermen out of 27,976 people who had contributed to the scheme as of 31 December of the year under review and reached the retirement age by exceeding age of 60.

Delay in disbursement of Pension Benefits

Payment of Rs.6 million of Pension arrears for 137 fishermen who have applied for pension in respect of the period from January 2009 to December 2016 and 83 fishermen who have applied for pension in the year 2022 had been delay from 01 month to 07 years after completing 60 years of age.

Farmers Pension and Social Security Benefit Scheme

Administrative expenses received from the Treasury have been credited to the bank account of the Agriculture and Agrarian Insurance Scheme

Rs.190 million received from Treasury for administrative expenses of Farmers Pension Fund during the year under review was not credited to the bank account of Farmers Pension Fund and had been credited to the bank account of Agriculture and Agrarian Insurance Scheme.

Non-payment of Pension Benefits

871,425 contributors are registered in the existing data system and pension benefits had not been paid for 246,531 contributors out of 439,025 contributors who have completed 60 years of age as on 31 December 2022.

Farmers' Trust Fund

Non-disbursement of lottery income to Farmers' Trust Fund as schedule

According to the financial statements submitted, although 10 per cent of the Govisetha lottery revenue credited by the National Lottery Board to the Consolidated Fund of the General Treasury from 1995 to the year under review was Rs.6,367.3 million rupee During the period of 28 years, the fund

established by a trust deed had been given an amount of Rs.956 million only to carry out the subjects and functions of the Farmers' Trust Fund.

Fund money is continuously invested in Fixed Deposits and Treasury Bills

The funds of the Trust Fund had continuously invested in Fixed Deposits and Treasury Bills without utilizing the money to implement the main objective of establishing the Farmers' Trust Fund. Accordingly Rs.465 million in Fixed Deposits and Rs. 90 million in Treasury Bills were invested and an interest income of Rs.73 million had been earned as of 31 December of the year under review.

Sri Lanka Council for Agricultural Research Policy

Having a Motor Vehicle in the Project for personal use

The motor vehicle received for the project initiated according to the Memorandum of Understanding on "Agroforestry" for Research and Scientific and Technical Cooperation between the International Center for Research in Agroforestry (ICRAF) of the Kenyan government and the Sri Lanka Council for Agricultural Research Policy was not assigned to the policy council after the completion of the project and had been used for the personal

use of a Coordinating Scientist Senior Professor.

Non-recovery of Subsistence Allowance

Rs.10 million subsistence allowance paid for the 25 researchers of the National Agricultural Research System who went abroad for postgraduate studies during the period from 2017 to the year under review and come back to Sri Lanka without informing the Policy Council due to the Covid epidemic situation had not recovered.

Research institutes have not been encouraged in Organic Agriculture

Although the Policy Council has recognized the importance of focusing on organic agriculture and has introduced 07 priority areas in which research should be increased to existing research institutes in Sri Lanka, institutions had not been encouraged in research regarding the organic agriculture policy and the quality of organic food currently available in the market since the year 2017.

Bim Saviya Program

The purpose of the program to settle the rights of land resources and secure land for future generations has not been fulfilled

After the passing of the Title Registration Act No. 21 of 1998, this program has been implemented under the Ministry of Lands since 2007 with the aim of settling the rights of the land resource and securing it for future generations. Even though 15 years have passed by the date of audit, the program is operational in only 18 districts and 66 divisional secretariats. The allocation received by the Ministry for this program on 31 December 2022 was Rs.300 million and the value spent was Rs.275 million.

Failure to complete planned Activities

Under the Bim Saviya program as at 31 December 2022, the Land Commissioner General Department had planned the activities of conducting land Katcheri, issuing permits, issuing grant form, conducting mobile services, holding division days and showing solutions to problems, and other than conducting land Katcheri, progress of other activities was ranged from 03-39 percent.

Implemented the program only within a limited number of Divisional Secretariats

The value of provisions allocated for this project from 2007 to 31 December 2022 to the Department of Land Title Settlement was Rs.5,911 million and this program had been implemented in only 66 Divisional Secretariat Divisions since 1998. A formal implementation plan was not prepared for this, not having completed the work and not issuing title certificates to the respective land owners. In relation to those 66 divisions, the GramaNiladhari have completed the survey work in only 1,468 out of 3,971 divisions.

Non-performance of related works even though the payment of building rent and security charges had been made

Although Rs.271.3 million had been spent on building rent and security expenses for 48 regional offices from the year 2017 until 31 December 2022 and The files that have been resolved was 58,823 out of the 167,322 files set aside for the last 06 years.

Land Reforms Commission

The main task of preparing the land register has not been done

Although the 1972 No.01 Land Reforms Commission has been established for 50 years now, due to the absence of specific

information regarding land, the main task of this institution i.e. the preparation of the land registry has not been done.

Very low value is stated in Land and Declared Estate Lands

According to the Land Reforms Act, the amount of agricultural land and declared estate land was 1,809,495 acres and after deducting the amount transferred by legal obligation and gazettes, the remaining land area was 616,876 acres and after distribution to the Vihara Dewalagam and to the public, the remaining land area to

the Commission was 424,809 acres. As on 31 December 2022, the value of the land was Rs.676.1 million and accordingly the value of an acre was Rs.1,561 and the value of a perch was Rs.9.75 i.e. the very low value.

Non-settlement of compensation due

As per the Land Reforms Act No.01 of 1972, the sum of Rs.216 millions of compensation payable for the land acquired from estate companies and individuals has not been settled even at the end of the year under review.

Fisheries and Aquatic Resources Development Sector

Audit Observations

- **Utilization of Provisions**
- **Accomplishment of the planned tasks and the contribution made to the economy of country from the total fish production.**
- **Decline of Per Capita Daily Fish Consumption and Fish Consumption.**
- **The Peliyagoda Central Fish Market Complex Management Trust.**
- **Ceylon Fisheries Corporation**
 - **Selling fish on credit contrary to internal circular instructions of the Corporation**
 - **Inability to manage bad financial situation**
 - **Non-payment of payable money**
 - **Actions have not taken to settle the land**
- **Ceylon Fishery Harbour Corporation**
 - **More portion from expenditure of Ceylon Fisheries Harbour has been spent on employee salaries**
 - **Non-collected of receivable tax revenue**
- **National Aquaculture Development Authority of Sri Lanka**
 - **Failure of Mud Crabs farming project**
 - **The fish feed making machine was idle without any use**

Fisheries and Aquatic Resources Development Sector

Sri Lanka is located as an island in the Indian Ocean, the protein needs of the people living there could often be met through the fishing industry. But due to the non-existence of fish supply to meet the country's demand, the price of fish products is often very high, so the people of the country have not been able to get the proper benefit from that resource.

The main objective of the Fisheries and Aquatic Resources Development Division was to increase the fish consumption of the people and maintain a high level of nutrition through the creation of a fishing industry that contributes highly to the national economy, to make a special contribution through the export of fish to the national economy and foreign reserves, and to improve the quality of life of the associated communities by using the 517,000 square kilometers of sea area, international sea and 489,000 hectares of lagoons and inland reservoirs belonging to Sri Lanka's unique economic zone with suitable responsibility.

In order to Ministry of Fisheries, the Department of Fisheries and Aquatic Resources and 6 statutory boards/institutions should have performed

the following tasks to achieve those results.

- Introduction of a scientific method to increase the fish population in coastal areas.
- Modernization of fishery harbors and construction of new fishery harbors as required.
- Providing opportunities to local companies to expand fishing in international sea area.
- Encouraging private companies and investors to expand the canned fish industry.
- Expand marketing and development activities for fish production in a way that is fair to the producer and the consumer.
- Elimination of illegal fishing in North and East Seas and strengthening of naval and coast guard units and resolution of conflicts with India.
- Introducing an effective banking and insurance system for the fishing community.
- Implementation of technical and management training programs on

fisheries for youth using Ocean University.

- Expanding the welfare activities of the fishing community.
- Providing necessary facilities for establishment of ornamental fish industry aimed at export market.
- Formulation of necessary strategies to popularize freshwater fish farming in lakes, lagoons and on land.
- Development of fishery harbours for efficient operations of large-scale boats
- Development of refrigeration systems using sea water for multi-day fishing vessels and encouraging use of solar energy.
- Upgrading of all fishery harbours and anchorages with modern communication facilities, refrigeration, fuel supply and sanitation facilities.
- Initiation of programs for extensive breeding of marine and fresh water

fish in collaboration with Fishery Community Associations and National Aquaculture Development Authority.

- Working to increase the harvest of fish by using environmentally friendly modern hi-tech methods.
- Development of knowledge and Professional training of fishermen and those involved in the industry.
- Expansion of community welfare activities.

Utilization of Provisions

In the year 2022, the Parliament had given a total of Rs.7,442 million to the Ministry of Fisheries and the Department of Fisheries and Aquatic Resources to fulfill the above-mentioned tasks, and only Rs.6,216 million had been utilized by the end of the year under review. Accordingly, the provision of Rs.1,226 million was not utilized. Details are shown in Figure 01.

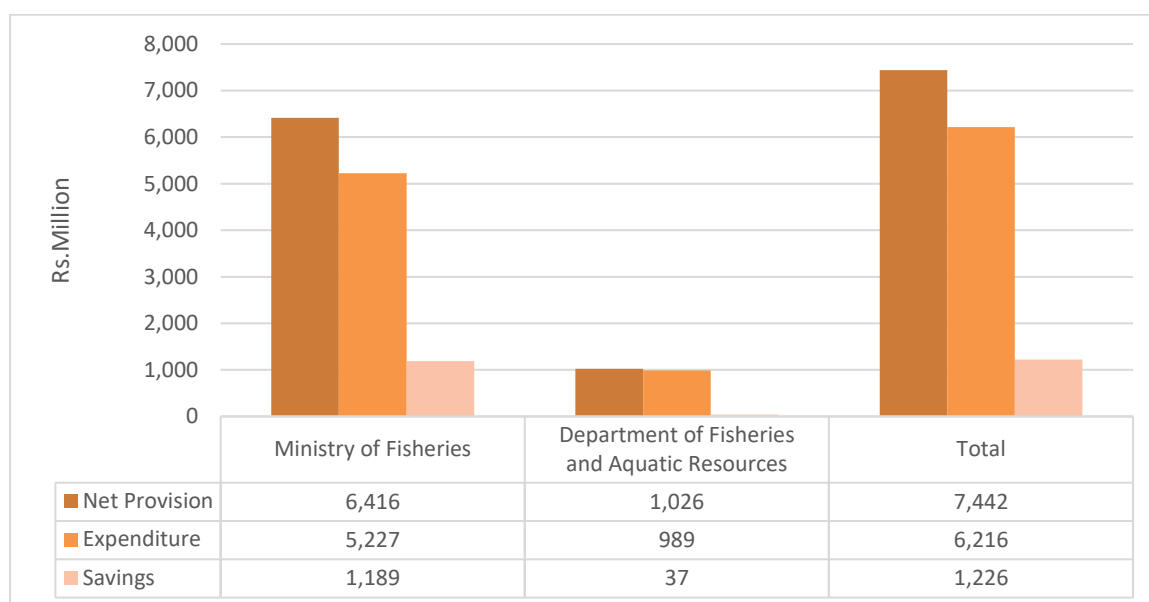


Figure 01: Provisions and actual Expenditure

Source: 2022 Financial Statements

Some of the matters observed in the audit conducted in the Ministry of Fisheries, the Department of Fisheries and Aquatic Resources and the Statutory Institutes regarding the performance of the above-mentioned functions are summarized below.

Accomplishment of the planned tasks and the contribution made to the economy of country from the total fish production.

Although Rs.1,759 million was given to the National Aquatic Resources Development Authority, the National Aquatic Resources Research and Development Agency and the Ceylon Fishery Harbour Corporation in the year under review with the aim of providing infrastructure to the fishing community by

fulfilling the above-mentioned tasks in the fisheries sector. The follow-up and evaluation activities had not been made by the Ministry.

Decline of Per Capita Daily Fish Consumption and Fish Consumption.

The total fish production from 05 sectors of offshore, coastal and lagoon, fresh water, aquaculture and prawn was 321,575 metric tons in 2021 and 290,640 metric tons in 2022. Accordingly there was a decrease of 30,935 metric tons and it was a decline of 10 percent of the overall production. Because of this per capita fish consumption was identified as 36.7 grams per day in the year 2021 and the fish consumption was 31.3 grams per day in the year 2022, so there was a 15 percent decrease in the daily fish consumption.

The Peliyagoda Central Fish Market Complex Management Trust

The Peliyagoda Fish Market Complex Management Trust was established by the Trust deed dated on 10th of August 2010 and started operations in 2011 with the value of Fixed Assets Rs.1,694 million consisting of facilities including wholesale market with 148 units, retail market with 128 units, cold storage, and ice plant for the benefit of wholesale fish traders, fish producers and consumers so that fish can be handled healthily and in accordance with international standards.

Although 12 years had passed since the commencement of fish operations the Fish Market Complex Management Trust had not been legislated through an Act of Parliament at the end of the year under review.

Although the management trust should be introduced the necessary guidelines and rules to ensure that the fish food handled in the fish market complex is handled in a healthy manner, to ensure that the health and quality of the traded fish food is maintained at a proper standard, but the management trust had not done so till the end of the year under review.

Also, at the end of the year under review, an arrears amount of Rs.81 million had to be recovered from the shop owners and of that amount Rs.55 million was dues that had not been paid for more than 03 years but sufficient actions had not been taken to recover the arrears.

Ceylon Fisheries Corporation

Engaging in fishing operations outside the "Resource Zone" related to the fisheries sector and in accordance with accepted international rules, fish processing, fish selling in foreign and local markets, carrying out certain activities of import and export of fish and fish products when deemed necessary, entering into joint venture agreements with domestic and foreign investors and representing local and foreign producers and distributors to carry out any of the above activities were constitutionally assigned to the corporation, but the Corporation had been done only the activities of fish processing and wholesale or retail sale or distribution of fish.

Selling fish on credit contrary to internal circular instructions of the Corporation

According to the internal circular instructions of the corporation, although instructions had been given to immediately

suspend the sale of fish on credit, the total fish sales value to be collected on 31st of December 2021 was Rs.29 million and There were unpaid balance of Rs.17 million due from the sale of fish to the employees and from the hospital's outstanding.

However, the action has not been taken against the officers who sold fish on credit against the circular.

Inability to manage bad financial situation

As at 31st of October 2022 the balance of bank loans on treasury guarantees is Rs.159 million, the interest payable on that date is Rs.35 million and the overdraft bank balance as at 31st of December 2021 was Rs.25 million, but it was not possible to manage this bad financial situation.

Non-payment of payable money

As at 30th of October 2022 an amount Value Added Tax Rs.19 million and

Nation Building Tax Rs.94 million had been withheld without remittance. Furthermore, the Economic Service Tax fees to be paid on that day were Rs.49 million and should be paid contribution to the employee provident fund and employee trust fund was Rs.579 million on that day.

Actions have not taken to settle the land

The settlement had not been done for the land of 04 acres 4 rood and 38.20 perches with 03 holiday bungalows belonging to the corporation and the size of lands in Nuwara Eliya, and Trincomalee resorts had not been identified. Accordingly, buildings for holiday resort had been constructed in lands which has not a legal title.

Ceylon Fishery Harbour Corporation

Ceylon Fishery Harbour Corporation has been got continuous losses from the past few years.

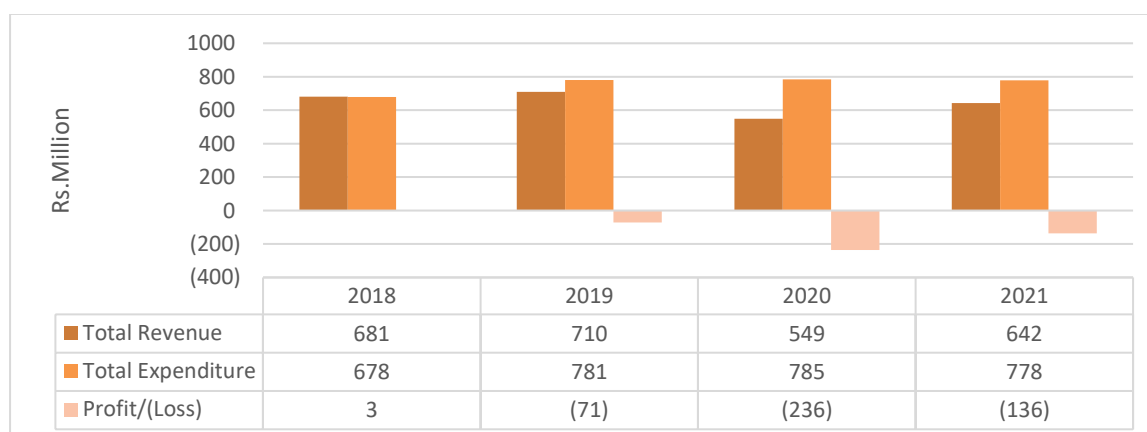


Figure 02 : Revenue, Expenditure and Profit of Ceylon Fishery Harbour Corporation for the period of 2018 - 2021

The basic reason for this loss-making situation is that most of the harbours are in a loss-making situation. Due to this reason the corporation has got losses from the

year 2019 to the year 2021 and the number of harbours getting profit/loss belonging to the corporation and their total losses are as shown below.

Year	Number of Harbours in profit	Number of Harbours in loss	Total loss of the Harbours (Rs.Million)
2018	5	15	(41)
2019	4	16	(34)
2020	4	18	(112)
2021	6	16	(134)

Table 04 : the number of harbours getting profit/loss belonging to the corporation and their total losses for the period of 2018 – 2021

More portion from expenditure of Ceylon Fisheries Harbour has been spent on employee salaries

It is a remarkable feature that more than 50 percent of the annual expenses in all 24 harbours owned by the Ceylon Fisheries Harbours Corporation were incurred for the payment of employee salaries and overtime allowances. Even in harbours that do not perform normal operations such as fuel sales and providing of anchorage services had been incurred 69

percent for salaries and wages from their total cost.

Non-collected of receivable tax revenue

The tax revenue of the corporation is not properly charged from the leasing of the assets owned by the corporation and the tax revenue debtors in the debtor balance from the year 2018 were as Figure 03.

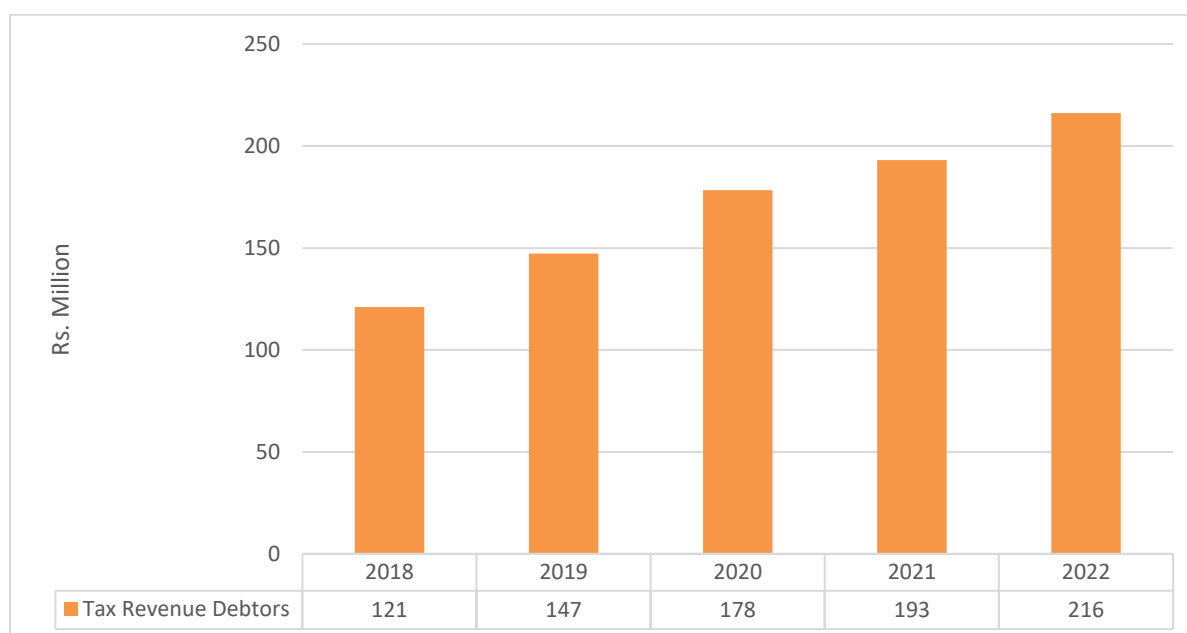


Figure 03: the tax revenue debtors from the year 2018 to 2022

National Aquaculture Development Authority of Sri Lanka

Failure of Mud Crabs farming project

The authority started construction in the year 2017 and Rs.222 million had been spent in the year 2020 on a project to cultivate mud crabs in an area of 42 acres of private paddy land belonging to Rakeva Maha Oya in Tangalle Divisional Secretariat Division in Hambantota District. But, due to the failure of this project, the objectives of the project were changed and a tax agreement was signed with a private investor on 02nd of December 2021 for Rs.193 million for the cultivation of Brackish Prawns (Vanami Prawns).

The fish feed making machine was idle without any use

A fish feed production machine was installed at the Udawalawa fish feed processing center at a cost of Rs.11.8 million on 8th of October 2019 to produce feed for Tilapia fish required for aquaculture development centers and it was expected to produce 127,000 kg of fish meal annually but 36,612 and 36,975 kg were produced in 2021 and 2022. It was a minimum percentage of 28 and 29 percent of the expected production level and it was further observed that the machine will remain idle without any use in the year 2023.

Irrigation Sector

Audit Observations

- **Abandoning of Projects without Completing**
- **Gin Nilwala Diversion Project**
- **Uma Oya Multipurpose Development Project**
- **Uma Oya Lower Valley Development Project (Alikotaara Storage Reservoir and Kuda Oya Storage Reservoir)**
- **Payment had to Be Made Excessively For Installation Of Four Power Generating Machines In The Construction Of Main Wall Of Moragahakanda Reservoir**
- **Construction of Yan Oya Left Bank Cannel**
- **Basnagoda Reservoir Project**
- **Inability to Complete Projects Selected as per The Large/ Medium Scale Projects in Ten Year Plan**
- **Establishment of Information Network on Ground Water Monitoring**
- **Increasing the cost due to non implementing Mahaweli Water Security Investment Programme as expected**
- **North Central Cannel Project – Purchase of a Second Tunnel drilling machine idle**
- **Wewgampubuduwa project /Integrated water Management Project to adapt to Climate Change**
- **Cancellation of cross cheques for encashment**
- **Motor vehicles – Not being of custody of the Department of Irrigation**
- **Unauthorized settlement or cultivation in yanks and reservoirs and reserves**

- **Sri Lanka Mahaweli Authority**
 - **Underutilization of lands for development purposes**
 - **Underutilization of land allotted for grass cultivation**
 - **Inability to collect fees from small scale power plant owners in a systematic manner**
 - **Defaulting on payment of premium to be charged for aggregate mining**
 - **Non achievement of the expected objectives of the project started the objective of ensure quality water supply by installing 30 reverse osmosis machines and provide ancillary facilities**
- **Lanka Mineral sand Limited**
 - **Non implementation of the decision taken to export value added products without exporting mineral sand**
 - **Construction of a new mineral sand plant at Kokilai has not started**

Irrigation Sector

The following functions and tasks had to be executed by the Ministry of Irrigation and One Department, three Statutory Boards and projects under its purview.

Formulating an “optimal irrigation management”, in compliance with the Policy Statement “Vistras of Prosperity” and by being based on other national policies that are intended to be implemented by the Government and the formulation of policies, the National Budget, State Investments and the implementation of projects under the National Development Programme, in compliance with the requisite rules laws and ordinances.

Development of water resources, controlling of drainage and floods, development of reservoirs and irrigation facilities and providing the water necessary for agriculture, drinking water, electricity under proper management.

Net Provisions totaling Rs.73,332 million had been provided by the Parliament in the year 2022 to the Ministry of Irrigation and to a Department under its purview for the execution of the above function and, only a sum of Rs.58,088 million of it had been utilized by the end of the year under review. Details shown in Figure 04.

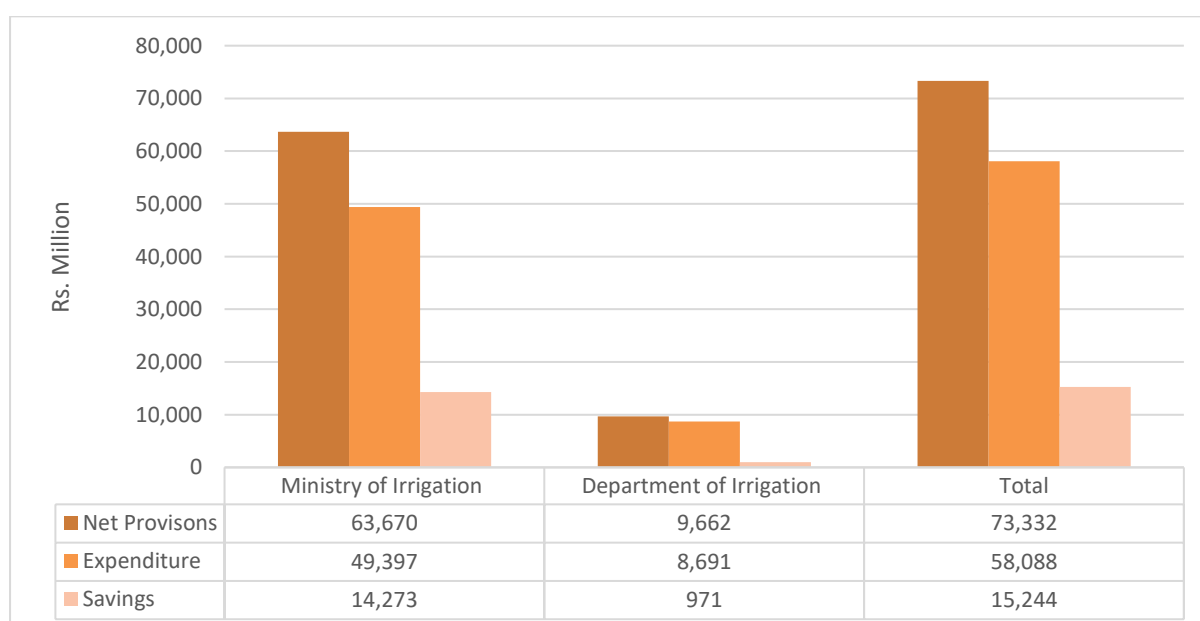


Figure 04 – Provisions and Expenditure

Source – 2022 Financial Statements

Material and significant Audit observations revealed during the course of the audit tests checks in relations to the performance of the above functions and tasks have been summarized.

Abandoning of Projects without Completing

It had been decided not to implement 09 projects from the year 2023 such as Gin Nilwala Diversion Project, Uma Oya Lower Valley Development Project, Thalpitigala Reservoir Project, Kumbukkan Oya Multipurpose Development Project, Mundeni Aaru River Valley Development Project, Kivul Oya Development Project, Moragahakanda KaluGanga Agriculture Development Project, Lower Malwathu Oya Multipurpose Development Project and productivity promotion and Irrigation System Efficient Management Project implemented under Irrigation Ministry and Irrigation Department. These projects had to be abandon without completing as per the targets due to inefficiency management in implementing these projects having incurred a cost of Rs. 203,159 million as at 31 December 2022. Out of them progress of 7 projects were at minimum level of 0 per cent to 13.16 per cent.

Gin Nilwala Diversion Project

Irrigation and Water Resources Management Ministry and Chinese CAMEC Company had entered into a contract agreement with a total value of US Dollars 690 million on 05 November 2014 to implement Gin Nilwala Diversion Project and it had been abandoned after paying of 4.35 per cent of contract amount USD 30 million or Rs. 4,011 million as per works advances. Though the entire cost of project planning had been paid in the year 2014, no economic benefit had been received for the cost of Rs.4,080 million incurred in that regard due to the planning were not completed.

Uma Oya Multipurpose Development Project

Though the project had initially been expected to complete on 15 November 2015 in 07 years having started in the year 2008, the time had been extended up to 30 June 2021 on the approval of the Cabinet of Ministers in 8 instances. It had been engaged in contract agreement under Engineering, Procuring and constructing (EPC) with Iranian Farab Company on 28 April 2008 and amended total cost estimate was USD 529 million or Rs. 74,326 million. Accordingly, the works of USD 503 million had been certified and paid as at 30 April 2023.

The expected benefits could have not been achieved from the project due to the delay of project activities for 7 years and 6 months as at 15 May 2023. Accordingly, a loss of Rs. 150,562 million had been occurred only from the delaying the generation of 120 MW electricity into the National Power Grid Electricity Generation System.

A sum of USD 181 million had been requested from the Government by the contractor for 05 matters including the above delay. An amount of USD 19 million had been recommended to pay by the Committee Appointed in that regard and it is recommended to consider for paying another USD 19 million to contractor on sympathy reasons with the interest of Cabinet of Ministers. The Cabinet Memorandum No. IR/2021/62 and dated on 31 October 2021 had been presented without specifically mentioning in that regard and accordingly, approval had been taken to pay additional USD 38 million to the contractor.

A compensation amount of USD 8 million had been taken from the Insurance Company by the contractor as claim for the water leak occurred in the main tunnel of the project.

Uma Oya Lower Valley Development Project (Alikotaara Storage Reservoir and Kuda Oya Storage Reservoir)

Even though a sum of Rs. 11,877 million or 120 per cent had been spent on the provisions made in this project, more than 50 per cent of the activities expected to be completed under South Bank canal had not been completed. Therefore diverting water from Uma Oya Basin to Kirindi Oya Basin which the main objective was to supply water to the lands situated in Southern Province had been impossible.

Payment had to Be Made Excessively For Installation Of Four Power Generating Machines In The Construction Of Main Wall Of Moragahakanda Reservoir

According to the scope of primary agreement of constructing the main wall of the Moragahakanda reservoir, it had been decided to construct a power station generating 25 MW through 4 power generating machines consisting with 2 power generating machines of 5 Mw and 2 power generating machines of 7.5 MW instead of proposed constructing the power station generating 25 MW through 3 power generating machines consisting with 2 power generating machines of 5 Mw and 1 power generating machine of 15 MW. According to the observations of the Finance Minister for the Cabinet Decision

No. අමප/16/2513/704/067 dated 29 November 2016 which was to be given the approval for paying USD 10,937,960 to contractor as additional charges in that regard, it had been observed that the line ministry officers should be responsible for not taking directions from Ceylon Electricity Board before deciding the project scope. Accordingly it should be reported to relevant appointed officers to take disciplinary actions by identifying officers responsible for poor project planning as stated in Cabinet Decision. However no actions had been taken in that regard. Further the expenditure of USD 11 million, which had additionally to be incurred, was a loss for the Government.

Construction of Yan Oya Left Bank Cannel

The performance certificate had been issued on 28 October 2021 stating that the allrelated works had been completed by the contractor as per the EPC contract agreement engaged with the Chinese Contractor with regarding the construction of Yan Oya left bank cannal. However, 6 activities of USD 3,478,910 had not been implemented which had to be implemented as per the agreement. The entire works had been approved and paid without considering in that regard.

Basnagoda Reservoir Project

This contract had been awarded to Chinese Sinohydro Corporation Limited on fixed price by calling international competitive bidding as per the recommendations of Cabinet Appointed Procurement Committee. Technical Evaluation Committee appointed for that had recommended to award the contract contrary to the 2.6.1(v) procurement guide line for excess amount of Rs. 254 million instead of the bid presented by the contractor mentioning that the lowest quotation presented for Rs. 2093 million should be corrected and calculated as Rs. 2,347 million. Excess amount of Rs. 51 million had been paid as mobilization advance to the contractor in the year 2019 due to awarding the contract into that increased amount as well as payment of advances based on that.

Inability to Complete Projects Selected as per The Large/ Medium Scale Projects in Ten Year Plan

According to this ten year development plan, the approval had been received from Cabinet decision on 28 September 2011 to provide required allocation for implementing 7 projects during the period 2012 to 2017 such as improve Mahagalgamuwa Wewa, construct at lower Malwathu oya resoveior, Ridimaliyedda combined development,

Kivul Oya reservoir, extending Kawdulla left bank main canal upto Damsopura Wewa, Rambakan Oya combined development and development of Maduru Oya right bank in Mahaweli B zone. Even though a sum of Rs. 6,528 million had been spent as at 31 December 2022 for implementing those 7 projects, out of those projects not even 1 project had been fully completed upto date and completing percentage of 3 projects were between 1 and 5 per cent. Though a cost of Rs. 6,902 million had been incurred for 6 projects as at 31 December 2022 such as rehabilitation of Kuda Wilachchi reservoir improvement of productivity promotion and improvement of irrigation system efficiency rehabilitation of Thalpitigala reservoir, diversion of Gin nilwala, Dematagalla Wewa and development of irrigation infrastructure facilities of Himbilyakade Watte Gedara, out of those, not even one project had been fully completed upto the year under review and also percentage of completing of 5 projects were between 0.06 per cent to 13.6 per cent.

Establishment of Information Network on Ground Water Monitoring

A project cost of URO 20,629,921.18 or Rs. 3,628.39 million had been implemented for the establishment of Information Network on Ground Water

Monitoring as pilot project in 4 selected district in which kidney diseases were highly spread. Though the activities of the project had been completed as at 31 December 2022 after extending the 3 years of project period by 2 years, the main activity of establishing the data center which should be under this project had not been constructed.

Increasing the cost due to non implementing Mahaweli Water Security Investment Programme as expected

The contract of digging tunnel length of 8.8 km for transmitting water from Kaluganga reservoir to Moragahakanda reservoir had been awarded to foreign company for total amount of Rs. 7,147 million including USD 21.79 million and Rs.3,797 million to complete during 2018 to 2021 period. Though the contract had been extended up to 30 June 2022 due to non implementing during the relevant period, total progress as at the end of the year under review was 82 per cent and construction progress in the year 2022 was 12 per cent. Though a sum of Rs 275 million had been provided for price variations of the contract, a sum of Rs. 781 million had been paid for that as at the end of the year under review. It had been estimated the construction cost of this contract might be increased upto USD 35 million (approximately RS. 9,383 million).

North Central Cannel Project – Purchase of a Second Tunnel drilling machine idle

The contract was handed over to a foreign company for the construction of a 27.7 km length tunnel to carry water from the Moragahakanda reservoir in the North Central Canal phase 2 project to be completed during 2020-2027 with a total of Rs.40,073 million as US dollar million 106.09 and Rs 21,180 million. Subsequently, the Cabinet of Ministers had approved on 7 October 2021 to purchase second tunnel drilling machine in addition to the used tunnel drilling machine for expeditious completion of the contract by on 7 June 2025. Accordingly a second tunnel drilling machine was purchased for Rs.6,691 million and imported into country in October 2022. Subsequently, due to the ongoing economic crisis in the country and difficulty of finding additional funds quickly, the Cabinet of Ministers had on 3rd of April 2023 approved to continue the contract using only one tunnel drilling machine in the existing provision of US dollar 69.5 (about Rs.22, 240 million) till June 2024 and not to operate the newly imported tunnel drilling machine till March 2024.

Wewgampubuduwa project /Integrated water Management Project to adapt to Climate Change

The Green Climate fund (GCF) was given Rs.6,651 million equivalent to US dollar 30.01 million to the United Nations Development Program (UNDP) during the last 6 years for the project, only Rs.1,465 million equivalent to US dollar 7.99 million was given to the Ministry of Irrigation by 31 December 2022. UNDP had spent US dollar 13.94 million equivalents to Rs.2,777 million to carry out some of the project works out of US dollar 22.01 million equivalents to the remaining Rs.5,186 million. Accordingly, details relating to the expenditure of Rs.8.07 million equivalents to Rs.2,409 were not disclosed.

Cancellation of cross cheques for encashment

In terms of the Financial regulations, at the time payment of Rs.500 or more, it should not be in cash, but on the contrary and without obtaining proper approval, in the year 2022, a total of 1,177 cheques worth Rs.352 million were written in the name of Regional Irrigation Engineer was cancelled the cross and encashed by the Divisional Assistant, Subsequently the Divisional Assistant made payment in cash to recipients without approval.

Motor vehicles – Not being of custody of the Department of Irrigation

According to the date system of the Department of Motor traffic, 2004 vehicles were registered in the name of Irrigation Department, Director General of Irrigation, or under the department address. But, the number of vehicles owned and used by the Department was 1,124 only. As result, 880 vehicles were not in the custody of the Department.

Unauthorized settlement or cultivation in tanks and reservoirs and reserves

Out of 387 water schemes, tanks and reservoirs belonging to the Department of Irrigation, unauthorized settlement or cultivation have been in reserves of 116 tanks and reservoirs, No.08/2014 issued by the Director General of Irrigation on 1 December 2014 for the protection and release of irrigation reserves limits Departmental lands and the provisions of sections 65 of the Irrigation Ordinance No.32 of 1946 and no legal action was taken in this regard.

Sri Lanka Mahaweli Authority

Underutilization of lands for development purposes

The Authority had allotted 7,832 hectares of land to 704 investors for investment project on 31 December 2022. Of these

3,645 hectares of fully developed plots were 377 hectares of underdeveloped land between 5 and 25 percent. Out of the total plots under development, 291 hectares of land were developed between 25 and 50 percent and 821 hectares were developed between 50 and 90 percent. There were 2,697 hectares of completely undeveloped land. Accordingly, 34 percent of land allotted was completely undeveloped and 19 percent was existed developing and undeveloped.

Underutilization of land allotted for grass cultivation

It was planned to start a program with activities related to improving animal nutrition by giving about 2,802 acres for grazing in Mahaweli B, C, D, L and Udawalawa zones to dairy farmers and completing it by 31 December 2020, but on the audited date by 25 May 2023 no land had been distributed to the grass growers.

Inability to collect fees from small scale power plant owners in a systematic manner

Due to non-signing of formal tripartite agreement including the Electricity Board, the investor who owns the power plant and the Mahaweli Authority to collect the watershed management charges charged by the Authority from the small scale

hydropower generation investors., an amount of Rs.242.15 million for the year 2021 and 2022 could not be recovered from the 12 small scale power plants engaged in power generation as on 31st December 2022.

Defaulting on payment of premium to be charged for aggregate mining

The cabinet decision අම/201852/317/012 dated 20th December 2020 approved the deduction of 75 percent of the outstanding amount of Rs 893 million to be charged by 15 businessmen for the excavation of aggregate. After the deduction of Rs. 670 million, the remaining arrears of Rs.223 million were approved to pay in 36 installment. Out of the outstanding amount of Rs. 166 million, 05 businessmen had defaulted on payment of premium as agreed.

Non achievement of the expected objectives of the project started the objective of ensure quality water supply by installing 30 reverse osmosis machines and provide ancillary facilities

In order to ensure a quality water supply as a remedy for the acute kidney disease that has spread in Mahaweli B and L zones, the program which had established 30 reverse osmosis machines Plants and started providing ancillary facilities and could not reach the desired goals due to lack of

proper management and supervision. Furthermore, 14 of the above 30 machines which had been installed at a cost of Rs. 80 million remains inactive by 1 of May 2023.

Lanka Mineral sand Limited

Non implementation of the decision taken to export value added products without exporting mineral sand

As per the cabinet decision dated 12 February 2020 the company should have paid attention on sending value added products abroad without exporting mineral sand in form of raw materials. But, necessary steps were not taken till 31 May 2023 on the date of audit and mineral sand was exported in the form of raw material.

Construction of a new mineral sand plant at Kokilai has not started

The company had been working for several years to construct a new mineral sand plant at Kokilai in Mullativu district and a land of 17.69 hectares was purchased on 13 February 2013 for 2.25 million, before planning the plant operations a spiral machine was purchased for Rs.39 million and kept idle at Pulmude plant. The operation of the plant was not started until year 2022.

Plantation Industry

Audit Observations

- **Ministry of Plantation Industries**
 - Failure of taking measures to recover Lease Income
 - Failure of Recovery of money due from Kurunegala Plantation Company
- **Rubber Research Board**
 - Being terminated the Tyre Inspection Unit while its operation by the Board
 - Failure to achieve the objective of Finite Element Analysis and Simulation Centre
- **Coconut Development Authority**
 - Failure of applying of funds for the relevant purpose
- **Coconut Cultivation Board**
 - Delays in suppression and control of Leaf Wilt and Leaf Rot Disease of coconut trees in the 03 Districts of Matara, Galle and Hambantota
 - Payment of Labour Allowances without obtaining the approval of the Treasury
- **Coconut Research Board**
 - Failure of applying a formal programme to control the "whitefly"
 - Non-recovery of receivables from officers who have gone abroad on study leave
 - Abandonment of Researches

- **Sri Lanka Tea Board**
 - **Existence of Unsettled Deposits**
 - **Failure of establishment of IT system for Tea Industry**
 - **Failure to follow up on Progress of Tea Trade Fairs**
 - **Failure to take disciplinary actions against the officers who had acted recklessly**
- **Tea Research Board**
 - **Failure of Recovery of Receivables from the Officers**
 - **Failure to install Management Information System**
- **Janatha Estates Development Board**
 - **Remaining of lease income in arrears**
 - **Failure of Cultivation of Underutilized Lands**
- **Chilaw Plantations Limited**
 - **Failure of earning income compared to expenditure**

Plantation Industry

Re-orienting overall plantation industry aimed at attracting export market by diversification of value - added production through the adoption of research techniques new technological tools & the optimum utilization of land had been the Scope of this Ministry. There were 02 Departments and 28 State Corporations and Statutory Institutions related to this Ministry. The following tasks assigned to this Ministry should have been performed.

- Formulation, implementation, monitoring and evaluation of policies, programmes and projects, in relation to the subject of plantation industries and all subjects that come under the purview of Departments, Statutory Institutions and Public Corporations based on the national policies implemented by the government.
- Provision of public services under the purview of the Ministry in an efficient and people friendly manner.
- Reforming all systems and procedures using modern management technics and technology, thus ensuring that the functions of the Ministry are fulfilled while eliminating corruption and waste.
- Enhance international competitiveness for productivity in the plantation industry.
- Take necessary steps to foster value added products - related industries based on plantation crops that target the international market.
- Matters relating to the development, promotion and research activities of tea, rubber and coconut industries.
- Limit to the maximum extent, the fragmentation of tea, rubber and coconut estates for human settlements.
- Increase the use of new technology for the plantation crop industry.
- Development of crop based cultivation including lands owned by public and private plantation companies.
- Encouragement of rubber related products aimed at local and foreign markets.

- Formulation and implementation of a plan for proper utilization of lands in the estate sector.
- Issuance of licenses related to fragmentation of tea, rubber and coconut and their control.
- Implementation of a programme to encourage small plantation crop growers.
- Introduction of high yielding varieties to farmers in collaboration with research institutes.
- Expansion of export market opportunities and production of high value items through value addition to local products using modern technology.
- Implementation of policies for promotion of sustainable resource use and bio protection including value added production.
- Optimum utilization of plantation lands through multiple cropping and integrated farming, thereby increasing production and employment.

Ministry of Plantation Industries

Failure of taking measures to recover Lease Income

A total extent of 249,843 hectares of land owned by the government had been transferred to 23 regional plantation companies in the year 1992 on lease basis for a period of 53 years. Although the lease income of Rs. 838 million remains outstanding to the government from those 07 companies as at 31 December 2022, actions had not been taken in terms of F.R.176 (2) together with the Treasury to collect the arrears of revenue without delay.

Failure of Recovery of money due from Kurunegala Plantation Company

Due to underpayment of lease payable to the Ministry in four equal installments in a year for 53 years according to the lease agreement entered into with Kurunegala Plantation Company, a sum of Rs. 278 million should have been received from the Kurunegala Plantation Company by 31 December 2022 and out of which, a sum of Rs. 117 million remained outstanding for more than 05 years.

Rubber Research Board

Being terminated the Tyre Inspection Unit while its operation by the Board

A building had been planned to be constructed by 31 December 2021 to establish a Tyre Inspection Unit by the Board and 03 machineries valued at Rs. 30 million had been purchased for that same purpose in the months of March and May of the year under review. Nevertheless, these equipment remained unused and idle as at 31 December 2022, the date of audit because of failure to construct the respective building.

Failure to achieve the objective of Finite Element Analysis and Simulation Centre

Although a “Finite Element Analysis and Simulation Centre” had been established by incurring Rs. 50 million in the year 2019 to design and evaluate the performance of rubber products as a business model under public private partnership, the objective of manufacturing the desired tyre models by setting up the said Centre had not been fulfilled even by the end of the year under review.

Coconut Development Authority

Failure of applying of funds for the relevant purpose

Asum of Rs. 128 million had been credited to a Nursery Project Fund for the promotion of king coconuts from the year 2019 to the year 2022. There was a balance of Rs.101 million as at 31 December 2022, due to the fact that no other work related to the fulfillment of the intended objectives of the Fund has been done except for providing an amount of Rs. 25 million to the Coconut Cultivation Board for the promotion of king coconuts and payment of Rs. 1.5 million to purchase 20,000 seed coconuts from the Fund. Similarly, the amount of Rs.25 million given to the Coconut Cultivation Board had also invested in a fixed deposit at the end of the year under review without being used in the relevant task.

Coconut Cultivation Board

Delays in suppression and control of Leaf Wilt and Leaf Rot Disease of coconut trees in the 03 Districts of Matara, Galle and Hambantota

Even though a number of 332,075 diseased coconut trees were identified and 309,622 trees had been removed in the diseased areas where leaf wilt and leaf rot coconut trees available in the 03 Districts such as Matara, Galle and Hambantota in the period of time from 2008 to 2021, thus the

14 years had elapsed since the disease was diagnosed, it was impossible to suppress or control this disease from the Southern Province by the end of the year under review and only the cutting off and removal of coconut trees and saplings which had shown symptoms of diseases in the diseased area had been done.

Payment of Labour Allowances without obtaining the approval of the Treasury

Even though Rs. 17.2 million labour allowance had been paid to 27 senior officers including the Chairman of the Board from November 2011 to January 2015 without obtaining the approval of the Treasury, the Board had not taken any action to recover this allowance or take any disciplinary action against the amount paid.

Coconut Research Board

Failure of applying a formal programme to control the "whitefly"

Although one of the main functions of the Board is to conduct further scientific research on coconut cultivation, prevention and cure of diseases and pests, a permanent remedy had not been found up to the year 2022 to control the "whitefly" pest that emerged in late 2019 and measures had been taken to control the pest by implementing suppression projects in 81,176 coconut trees in only 3

Divisional Secretariats by identifying kohomba oil, soap powder mixture identified by late 2022 as a pilot project.

Non-recovery of receivables from officers who have gone abroad on study leave

A sum of Rs. 14 million receivable to the Board as a result of failure of 06 officers who had gone abroad on study leave while working in the Coconut Research Board did not report to the duties of the Board by violating of the service agreements entered into with the Board and, a sum of Rs.37 million receivable to the Board from three persons who had left the service before completing the mandatory service period of time had not been recovered by the end of the year under review.

Abandonment of Researches

Due to reasons such as leaving from service of the research officer, lack of financial provision, damage from wild elephants, decrease in demand of Giliricidia seeds for energy production and decrease in cultivation of Giliricidia, 14 researches which were conducted in 7 Divisions of the Board during the period from 2012 to 2022, had been abandoned by the end of the year under review and the Board had incurred a sum of Rs. 11 million for that.

Sri Lanka Tea Board

Existence of Unsettled Deposits

The amount of deposits made by the tea factory owners in the Board for payment to green leaf suppliers as at 31 December 2022 but not properly settled to the relevant persons even by the end of the year under review was Rs. 92 million and a sum of Rs. 6 million out of that had been the deposits for more than 10 years.

Failure of establishment of IT system for Tea Industry

The approval of the Cabinet of Ministers had been received in the year 2016 to establish an Information Technology System for tea industry and even though a sum of Rs. 220 million had been obtained to the Board on 03 July 2018 for that from the Tea Marketing and Promotion Fund, it had been entered into agreement with a private institution to install the system on 30 September 2020 withholding the money being inactive for more than two years. Accordingly, although the entire system had been planned to be completed in two years and six months for Rs. 53 million, the task had not been completed up to 30 April 2023. Likewise, as a result of the receipt of this amount on an overestimate, an amount of Rs. 166 million had remained dormant.

Failure to follow up on Progress of Tea Trade Fairs

It had been planned to participate in 34 foreign trade fairs and allocated to spend Rs. 200 million from the Budget according to the Annual Plan 2022 and a sum of Rs. 104 million had been spent for participating in 25 trade fairs during the year. After providing opportunities and subsidies to exporters selected by the Board to participate in foreign trade fairs, a follow-up on the progress of the trade fairs had not been carried out.

Failure to take disciplinary actions against the officers who had acted recklessly

Due to the establishment of the Colombo tea sales center called "Tea Moments" in 2014 without carrying out a feasibility study and failure of implementing in an effective manner, the loss occurred to the Board amounted to Rs. 63 million had been written off. Proper actions had not been taken against the officers who acted recklessly in this regard even by the end of the year under review.

Tea Research Board

Failure of Recovery of Receivables from the Officers

Due to the breach of the agreements entered into with the Board from 2005 to

2009 by 04 officers who were on study leave with full pay and did not return to duty from abroad and left service before completion of compulsory service after returning to duty, the relevant bond valued at Rs. 15 million had not been recovered even by the end of the year 2022 .

Failure to install Management Information System

The order had been delivered on 22 April 2020 for an amount of Rs. 4 million to Sri Lanka Telecom Services Limited to design, implement and maintain a Management Information System (MIS) for Sri Lanka Tea Research Board and although an advance amount of Rs. 1 million had been paid to the supplier by the end of the year under review, the progress of this procurement was at 43 per cent.

Janatha Estates Development Board

Remaining of lease income in arrears

The lands and buildings owned by the Janatha Estates Development Board had been released to external parties on the basis of long-term leases a lease income of Rs. 196 million had remained outstanding from those leased properties according to the sample test carried out by 31 December 2022 .

Failure of Cultivation of Underutilized Lands

According to Hectare Register of the Board as at 31 December 2021, the total area in respect of the 15 tea and other crop plantations was 10,126 hectares and out of this, an extent 4,250 hectares had been utilized as 3,545 hectares for tea cultivation and 705 hectares for other cultivations. Even though the rest of the area of 5,876 hectares equal to 58 per cent of the total area had been underutilized, the Board had not taken actions to cultivate or lease out such underutilized lands to external parties.

Chilaw Plantations Limited

Failure of earning income compared to expenditure

Even though a sum of Rs. 57 million had been incurred from the date of commencement to the end of the year 2022 to maintain the 58 hectares of land provided for the Kapruwana Seed Coconut Project established in 2012 as an undergrowth within the matured coconut plantation of Kiniyama Estate of Chilaw Plantation Company, only a sum of Rs. 3 million had earned in relation to Kapruwana Seed Coconut Project. A cost of 54 million had to be covered furthermore, after comparing the income with the cost.

Livestock Sector

Audit Observations

- **Milco Private Company**
 - Production of milk powder unsuitable for human consumption
 - Payment for diesel stock that was not pumped into fuel tanks at the factory
 - Payment for diesel bowser that did not come to the institute
 - There is a difference between the quantity of diesel issued and the quantity of diesel received
 - Liquid milk sales have gradually decreased
 - Buying assets without considering utility
 - Non-utilization of total capacity of factories
- **National Livestock Development Board**
 - Non-taken of insurance claim for cows from a private insurance company
 - Non-recovery of outstanding due to non-removal of coconut stocks during coconut auctions
 - Although the Vehicles used in running obtained from other institutions and not taking action to obtain the legal rights of those vehicles
 - Fodder production machine was remain ideal

Livestock Sector

Sri Lanka is a country where the more rural population lives than the urban population and the rural communities are mostly engaged in primary industries. Accordingly, it should be the role of government institutions to buy agricultural and animal products with a good price which are the main livelihood of these rural people and to provide the necessary infrastructure for the products, and to convert primary products into secondary products and send them to foreign markets. Accordingly, the role related to the livestock sector in Sri Lanka was as follows.

- Conduct research to introduce livestock to suit different geographical areas and encourage small and medium scale farm development.
- Promotion of production related to livestock and encouragement for export
- Introduction of high quality grasses through National Livestock Development Board
- Provision of necessary land and investment facilities in coordination with relevant institutions for the construction of medium and large scale cattle farms.

- Implementation of programmes for maximum utilization of government-owned animal farms
- Encouraging the expansion and export of chicken and egg production
- Expand local production and consumption opportunities by promoting small and medium producers.
- Introduction of international standards and effective monitoring systems for animal farms and production facilities
- Providing facilities to small and medium scale farmers by expanding veterinary facilities.

Some of matters observed in the audit conducted in a government department, a public corporation and two public companies related to this sector to perform the above task are summarized below.

Milco Private Company

Production of milk powder unsuitable for human consumption

After the installation of a new machine plant under the factory modernization projects 771,652 kg of milk powder produced in July 2017 and was sold with test reports that it was free of defects. Due to customer complaints it was brought back to the stores as it was unsuitable for

human consumption. Accordingly, after selling as animal feed from the year 2018 to the year 2022 from 720,000 kilograms of milk powder worth of 475.2 million rupees the remaining 561,264 kilograms were stored at the Ambewela factory on 31st of December 2022. However any investigation had not been conducted against the officers who are responsible for the production of milk powder unsuitable for human consumption.

Payment for diesel stock that was not pumped into fuel tanks at the factory

The Petroleum Corporation has issued the diesel to Ambewela factory belonging to Milko company from the year 2015 to 31st of August 2022, but 165,300 liters of diesel valued at 17 million had not been pumped into the fuel tanks of the relevant factory according to the stock ledgers of Milko company, but the payment had been done for it.

Payment for diesel bowser that did not come to the institute

During the checking of security department's document on receipt of fuel stock to the factory from the year 2017 to 31st of August 2022, it was observed that 14 bowser trucks carrying 92,400 liters of diesel worth 9 million had not arrived to the factory but the payment had been done for it.

There is a difference between the quantity of diesel issued and the quantity of diesel received

In the sample checking conducted regarding the issuing of diesel from tanks for the generator in the factory from the year 2019 to 31st of August 2022 in Ambewela dairy factory belongs to Milko company it is mentioned in the diesel stock books that diesel has been issued to the generator, but according to reports of diesel stock books given by the engineering department, 58,703 diesel liters was missing between the amount of diesel issued and the amount of diesel received.

Liquid milk sales have gradually decreased

The actual liquid milk sales were 17,891,573 liters, 20,705,024 liters and 16,012,534 liters in the years 2020, 2021 and 2022 in respectively. Although the current market trend is the consumption of liquid milk but the amount of liquid milk sales had gradually decreased and the management was not focused on increasing the production of liquid milk.

Buying assets without considering utility

Rs.104 million worth of Yoghourt mixer machine purchased on lease basis on 20th of January 2011 for the Colombo factory belonging to the company remained idle

from a period of 12 years and Rs.2 million worth 4 milk producing machines remained idle from a period of 4 years. The sterilized milk bottles producing machine in Digana Dairy Factory belonging to the company and Rs.15 million valued Ice Cream containers producing Machines in Colombo Dairy Factory were underutilized at 71 percent and 46 percent in respectively.

Non-utilization of total capacity of factories

Although the total capacity of the old and new production plants of Ambewela Dairy Factory is 9,300,000 liters, the average capacity utilization was 3,052,858 liters, 2,675,819 liters and 1,690,560 liters according to the information presented for audit in years of 2020, 2021 and up to August 2022 in respectively, which was a minimum level of 33, 29 and 18 percent from the total capacity respectively.

National Livestock Development Board Non-taken of insurance claim for cows from a private insurance company

The insurance was obtained from a private insurance company for the dairy cattle imported for the National Livestock Development Board in 2013 under the first phase of the project of import dairy cows. But the insurance compensation of 19 million rupees had failed to be recovered

till 31st of December 2022, due for dead imported cows since the year 2013.

Non-recovery of outstanding due to non-removal of coconut stocks during coconut auctions

The chargeable balance was Rs.18 million exceeding 5 years on 31st of December 2022 to the board from the brokers due to the failure to remove the coconut stocks within the prescribed period according to the rules issued by the Authority in the coconut auctions conducted by the Coconut Development Authority and the action had not been taken to recover that balance.

Although the Vehicles used in running obtained from other institutions and not taking action to obtain the legal rights of those vehicles

The vehicles obtained from other organizations were used in running, but the legal rights of those vehicles were not taken care of 42 vehicles belonging to other ministries by the National Livestock Development Board, 01 vehicle belonging to Kovulwewa Private Company, 02 vehicles belonging to the Land Reform Commission, 09 vehicles belonging to the Department of Animal Production and Health, and 05 vehicles belonging to the Sri Lanka Poultry Development Private Company.

Fodder production machine was remain ideal

4 farms of Livestock Development Board have 4 machines capable of producing

3.75 tons of fodder at one time. Therefore 10,800 metric tons per year could be produced at 900 metric tons per month, but the machines remained idle for a year.

Insurance Sector

Audit Observations

- **Insurance Regulatory Commission of Sri Lanka**
 - The total value of the insurance industry as a percentage of gross domestic product is very low
 - Non-payment of Income Tax by the Commission on the surplus on the Policyholders' Protection Fund
 - Payment of performance bonuses to employees without obtaining approval of the General Treasury
 - Failure to achieve the objectives of the Financial Sector Modernization Project
- **National Insurance Trust Fund Board**
 - Making payments for reinsurance to an unregistered insurance broker
 - Running the board without reinsurance cover due withdrawal of the reinsurance broker from the agreement
 - Non-payment of reinsurance premiums to the National Insurance Trust Fund by primary insurance companies due to non-payment of amounts identified as payable to the companies
 - Lack of proper management information system to record reinsurance receivables and reinsurance claims
- **Agrahara Medical Insurance**
 - Delay of payment of claims
 - Losses to the government due to illegal activities of the reinsurance activities
 - The board is not liable to pay surcharge tax under the Surcharge Tax Act but has paid surcharge tax

- **Sri Lanka Insurance Corporation Ltd**
 - **Market share in general insurance segment and life insurance segment of the corporation**

Insurance Sector

The insurance industry in Sri Lanka consists of 28 insurance companies and institutions, 78 insurance brokers, 31 loss adjusters and approximately 45,000 insurance agents. The Insurance Regulatory Commission established under the Regulation of Insurance Industry Act No. 43 of 2000 acts as the regulatory body for this industry.

The important and material audit observations revealed during the audit regarding the performance of tasks and duties by the institutions related to the insurance sector are summarized and given below.

Insurance Regulatory Commission of Sri Lanka

The total value of the insurance industry as a percentage of gross domestic product is very low

The total value of the insurance industry as a percentage of the gross domestic product is about 1.4 percent. It was observed that it is a very low value in regional and international terms. The reasons for this situation were not identified and necessary measures were not taken.

Non-payment of Income Tax by the Commission on the surplus on the Policyholders' Protection Fund

According to the Inland Revenue Act No. 24 of 2017, the Commission should pay income tax for the surplus on the Policy Holders' Protection Fund. However, income tax has not been paid since the year 2018. Accordingly, from the year 2018 to 2022, the tax and the penalty for non-payment of tax is Rs. 909 million should have been paid to the Inland Revenue Department by 31 December 2022.

Payment of performance bonuses to employees without obtaining approval of the General Treasury

Since 2010 one basic salary was paid as performance incentive without obtaining the approval of the General Treasury. Further, it was changed to one and a half months of gross salary from the year 2018. As a result, the total performance bonus payment had increased by 105 percent. Also, no realistic performance evaluation was carried out in relation to the payment of the performance incentive. The total amount of performance incentives paid from the year 2012 to 2022 was Rs. 50 million.

Failure to achieve the objectives of the Financial Sector Modernization Project

Under the Financial Sector Modernization Project USD. 13.8 million was allocated for the insurance sector. But due to various reasons, this project was not able to achieve its objectives and was terminated.

National Insurance Trust Fund Board Making payments for reinsurance to an unregistered insurance broker

Whereas under the provisions of the Regulation of Insurance Act no person shall act or appear to be an insurance broker unless he holds a certificate of registration as a broker granted by the Board and is a member of the Insurance Brokers Association approved by the Board. However, Rs. 1,204 million had been paid from the year 2017 to 2021 to an insurance broker who has not registered under such regulations.

Running the board without reinsurance cover due withdrawal of the reinsurance broker from the agreement

Since the broker company selected for reinsurance for a period of 18 months up to 31 July 2023 unilaterally withdrew from the agreement on 21 April 2022, the board was running without reinsurance cover

from that date to 01 August 2022 and during that period Rs. 516 million had been paid to that institution. However, no action has been taken against that broker company. Due to this, the fund has fallen in a high risk situation.

Non-payment of reinsurance premiums to the National Insurance Trust Fund by primary insurance companies due to non-payment of amounts identified as payable to the companies

Due to the non-payment of finalized reinsurance claims of Rs. 72 million to the primary insurers by the National Insurance Trust Fund, the reinsurance premium amount to be paid by those companies to the fund is Rs. 2,046 million had not been paid to the fund for a period of 15 months from January 2022 to March 2023. Due to this, the interest income lost to the fund is Rs. 568 million.

Lack of proper management information system to record reinsurance receivables and reinsurance claims

Due to the lack of a proper management information system to record the reinsurance balance receivable of Rs. 3,284 million and reinsurance claims, timely collection of reinsurance premiums

and payment of reinsurance claims remained problematic.

Agrahara Medical Insurance

Delay of payment of claims

There was a long delay in the payment of Agrahara benefits due to the lack of an efficient screening system and payment process for applications since non-registration and acceptance of Agrahara claim benefit payment applications in order of date of receipt, not checking its accuracy at the time of acceptance, failure to provide written confirmation of acceptance, deficiencies of computer systems and internal controls. The average delay was 200 to 240 days.

Losses to the government due to illegal activities of the reinsurance activities

In the year 2016, the insurance program was implemented under government funds to cover natural disaster insurance cover. However, due to the illegal activities done during reinsurance activities using the funds, the loss caused to the government was Rs. 4,400 million. As a result, the Chief Executive Officer and Assistant General Manager - Finance were dismissed. However, the management did

not take necessary actions to recover the losses caused to the fund or conduct a formal investigation.

The board is not liable to pay surcharge tax under the Surcharge Tax Act but has paid surcharge tax

The Board had paid Rs.1,196 million as surcharge tax to the Inland Revenue Department from the Strike, Riot, Civil Commotion and Terrorism Fund during the year under review. However, the Board is not liable to Surcharge Tax in terms of the Surcharge Tax Act No. 14 of 2022. Due to this the fund could have been earned the income of Rs. 275 million as investment income had been lost.

Sri Lanka Insurance Corporation Ltd

Market share in general insurance segment and life insurance segment of the corporation

In the year 2021, the market share of the general insurance sector is 18.74 percent and compared to the year 2020, it has achieved a slight growth of 0.34 percent. The market share of the life insurance sector for the year 2021 is 17.62 percent and has decreased by 1.08 percent compared to the year 2020.

Banking Sector

Audit Observations

- **Banking Sector Assets**
- **Banking Sector Liabilities**
- **Composition of Assets and Liabilities of the Banking Sector**
- **Composition of Deposits of the Banking Sector**
- **Central Bank of Sri Lanka**
 - **Loss incurred on Investment in Unsecure Reverse Repurchase transactions**
- **Bank of Ceylon**
 - **Decline in financial result in 2022**
 - **Increase in impairment charges for loans and other losses**
 - **The sum of top 10 non-performing loan balances representing a significant amount of total loan and advance balance**
- **People's Bank**
 - **Loans and advances granted to State -Owned Enterprises constitute a significant share of the bank's total loans and advances**
 - **Discontinuation of Data Warehouse Project due to failure of achieving desired results**
- **National Savings Bank**
 - **Increase of interest expense with compared to increase of interest income of the bank**
 - **The bank's investment in government securities represents a significant amount of the total investments**
 - **Significant increase in total non-performing loans and advances**
 - **Granting loans by the bank to a sector which was not covered by the National Savings Bank Act**

- **Housing Development Finance Corporation Bank**
 - **Loans and Advances granted against Employees' Provident Fund**
 - **Failure of the bank to adopt 5 controls related to the acquisition, development and maintenance of information systems**
- **Regional Development Bank**
 - **Paid the Pay-as-you-earn / APIT tax on behalf of its employees without deducting from the salary of the relevant employees.**

Banking Sector

During 2022, the financial system weathered headwinds from the most profound economic crisis since independence. Sovereign rating downgrade by all rating agencies, high sovereign exposure of the banking sector, economic contraction, acute foreign exchange shortage and high level of inflation along with the announcement of the standstill on external debt servicing on account of bilateral and commercial loans by the Government in April 2022 created a significant and unprecedented adverse impact on the activities of the financial sector and challenged the resilience of the financial system. Nevertheless, the stability of the banking sector was maintained during 2022 despite the looming challenges arising from continuously declining credit quality, acute pressure on liquidity, low level of profitability due to high impairments, and deteriorating capital buffers to absorb unexpected losses.

Banking Sector Assets

The banking sector continued to dominate the financial sector, accounting for 61.9 per cent of total assets at end 2022.

The asset base of the sector increased by Rs.2.6 trillion during the year and surpassed Rs.19 trillion by end 2022, recording a growth of 15.4 per cent compared to that of 15.1 per cent at end 2021. During the months of March and April, the Sri Lanka rupee depreciated by 44.1 per cent against the US dollar, which resulted in an increase in the growth of assets denominated in foreign currency. However, the tight monetary policy stance of the Central Bank led to a deceleration in loans and receivables growth from 14.5 per cent as at end 2021 to 5.7 per cent as at end 2022. Meanwhile, the growth of investments accelerated from 16.4 per cent as at end 2021 to 19.4 per cent as at end 2022.

Banking Sector Liabilities

Deposits continued to be the main source of funding and represented 78.8 per cent of total liabilities, while borrowings accounted for 9.6 per cent of total liabilities at end 2022. Term deposits mainly contributed to the increase in deposits during 2022 while its share in total deposits increased from 61.0 per cent as at end 2021 to 67.9 per cent as at end 2022. Meanwhile, savings and demand

deposits accounted for 24.3 per cent and 6.9 per cent, respectively, of total deposits at end 2022.

Total borrowings of the banking sector decreased by Rs.300,400 million,

recording a contraction of 13.8 per cent during 2022, compared to an increase of Rs. 462.8 billion, which was a growth of 27.1 per cent during 2021.

Composition of Assets and Liabilities of the Banking Sector

Item	2021 (a)		2022 (b)		Change (%)	
	Rs. bn	Share (%)	Rs. bn	Share (%)	2021 (a)	2022 (b)
Assets						
Loans and Receivables	10,726.7	63.8	11,337.9	58.4	14.5	5.7
Investments	4,968.5	29.5	5,934.3	30.6	16.4	19.4
Other (c)	1,131.0	6.7	2,144.3	11.0	15.0	89.6
Liabilities						
Deposits	12,879.2	76.5	15,299.1	78.8	13.3	18.8
Borrowings	2,172.9	12.9	1,872.5	9.6	27.1	-13.8
Capital Funds	1,348.3	8.0	1,593.4	8.2	13.1	18.2
Other	425.8	2.5	651.5	3.4	20.4	53.0
Total Assets/ Liabilities	16,826.2	100.0	19,416.6	100.0	15.1	15.4
(a) Revised						
(b) Provisional						
(c) Includes cash and bank balances, placements, reverse repurchase agreements and fixed assets.						

Source: Central Bank of Sri Lanka

Table 05 - Composition of Assets and Liabilities of the Banking Sector

Composition of Deposits of the Banking Sector

Item	2021(a)		2022(b)		Change (%)	
	Rs.bn	Share (%)	Rs.bn	Share (%)	2021 (a)	2022 (b)
Demand Deposits	888.0	6.9	1,060.0	6.9	25.9	19.4
Savings Deposits	4,011.8	31.1	3,713.0	24.3	19.7	-7.4
Time Deposits	7,860.4	61.0	10,393.0	67.9	8.6	32.2
Other Deposits	118.9	0.9	133.2	0.9	80.0	12.0
Total Deposits	12,879.2	100.0	15,299.1	100.0	13.3	18.8
(a) Revised						
(b) Provisional						

Source: Central Bank of Sri Lanka

Table 06 - Composition of Deposits of the Banking Sector

The important and material audit observations revealed during the audit in relation to performance of activities and functions of the following Financial Institutions belonging to the Banking Sector are summarized below.

Central Bank of Sri Lanka

Loss incurred on Investment in Unsecure Reverse Repurchase transactions

A loss of Rs. 2,586 million was occurred as at 10 December 2018 to the funds managed by four departments of the Bank due to investment in unsecure Reverse Repo with a particular primary dealer. The total amount of investment which was reclassified as receivable from the said primary dealer as at 18 September 2020, was Rs. 2,954 million. The Bank has initiated legal actions to recover the due amount from the particular primary dealer.

Bank of Ceylon

Decline in financial result in 2022

The operating result of the year under review amounted to a profit of Rs.31,972 million and the corresponding profit in the preceding year amounted to Rs.37,590 million. Accordingly, a deterioration amounting to Rs. 5,618 million of the financial result was observed. This deterioration was mainly due to increase of

interest expense by 121 percent and increase of impairment charges for loans and other losses by 99 percent when compared with the preceding year.

Increase in impairment charges for loans and other losses

Impairment charges for loans and other losses had increased by Rs.43,422 million or 99.3 percent during the year under review when compared with the preceding year. Due to adverse economic conditions prevailed in the year 2022 in Sri Lanka, customers facing multiple economic setbacks, including reduced profitability, service and product disruptions and increased provisioning on foreign currency loans and foreign currency investments to the government and state-owned enterprises were mainly caused for above losses.

The sum of top 10 non-performing loan balances representing a significant amount of total loan and advance balance

The aggregate amount of the top 10 non-performing loan balances as at 31 December 2022 was Rs 33,784 million and it represents 1.45 percent of the total loan and advance balance as on that date.

People's Bank

Loans and advances granted to State - Owned Enterprises constitute a significant share of the bank's total loans and advances

By the end of 2022, loans and advances granted to State - Owned Enterprises amounted to Rs. 871,619 million, which was 45.5 percent of the bank's total loans and advances as at 31 December 2022. Investments and other receivables from the government as at 31 December 2022 were Rs. 1,024,096 million, and accordingly State - Owned Enterprises represented 63.79 percent of the bank's total assets.

Discontinuation of Data Warehouse Project due to failure of achieving desired results

Though a cost of Rs.402 million had been incurred for the Data Warehouse Project as at 30 May 2022, the project had been suspended by the Executive Operations Committee due to the failure to achieve the desired results.

National Savings Bank

Increase of interest expense with compared to increase of interest income of the bank

The interest income had not increased with compare to the increase of interest expense of the Bank during the year 2022 due to inability of repricing the loans and advances since, the major portion of the

loans and advances had been granted at fixed rates during the period in which the lower interest rates prevailed and also inability of repricing the investments since 60 per cent of the total deposits of the Bank and interest thereon had been invested in long term treasury bonds with the expectation of getting higher return as per the requirement of the National Savings Bank Act. As a result, the bank's net interest income had decreased by 40.6 percent in the year 2022.

The bank's investment in government securities represents a significant amount of the total investments

The bank had invested Rs. 822,398 million in government securities in year 2022 and the amount was Rs. 835,444 million in the preceding year. Investment in government securities was about 85 percent of the total investments and 50.9 percent of the total assets of the Bank.

Significant increase in total non-performing loans and advances

The bank's total non-performing loan ratio has increased from 2.97 percent in year 2021 to 3.99 percent in year 2022 and the provision for impairment ratio to the total non-performing loans and advances has increased to 75.2 percent in year 2022 when compared with 73.2 percent in the previous year.

Granting loans by the bank to a sector which was not covered by the National Savings Bank Act

Out of the total loans and advances as at 31 December 2022, Rs. 4,178 million was foreign loans and this total loan amount includes USD 9 million loan granted to a private company in Maldives in year 2018 and accrued interest thereon as at 31 December 2022. Granting loans to a private company engaged in the tourism industry in a foreign country for construction activities was not covered by the National Savings Bank Act.

Housing Development Finance Corporation Bank

Loans and Advances granted against Employees' Provident Fund

The total outstanding amount of loans granted against the Employees' Provident Fund was Rs. 13,777 million as at 31 December 2022 from which Rs. 9,100 million was classified as non-performing, by representing 66.05 percent of the total outstanding loans and advances balance granted against EPF. Further, due to the deletion of records in the EPF fund/loan system, the Central Bank had refused to pay the total due amount of Rs.3.4 million relating to 70 EPF customers for the period 2022.

Failure of the bank to adopt 5 controls related to the acquisition, development and maintenance of information systems

As per the instructions of the Banking Act, all licensed banks shall implement the Basic Security Standard for Information Security Management with effect from 01 July 2015. However, it was observed that the bank has not followed 5 controls related to the acquisition, development and maintenance of information systems. Further, out of 95 controls in 14 security domains, the bank complied with only 45 controls in the year 2022.

Regional Development Bank

Paid the Pay-as-you-earn / APIT tax on behalf of its employees without deducting from the salary of the relevant employees

Every employer is required to deduct income tax from income and profits derived from employment at the discretion of each employee liable to pay income tax. However, in contrary to the Public Enterprises Circular dated 29 April 2016, the Bank had paid Rs. 43.3 million of Pay-as-you-earn / APIT tax on behalf of its employees without deducting from the salary of the relevant employees.

State Mortgage and Investment Bank**Decrease in financial result corresponding to the financial result of the previous year**

Loss before income tax for the year under review was Rs.89 million and profit of the previous year was Rs. 405 million. Accordingly, the financial result had been decreased by Rs.494 million. Decrease of net interest income by 16 percent compared to the previous year was the main reason for the loss recorded for the year under review.

Non - Performing Loan Balances

The aggregated amount of the top 10 non-performing loan balances as at 31 December 2022 was Rs.175 million, which was 0.3 percent of the total loan and advance balance on that date. For the year ended 31 December 2022, total non-performing loans constitute with 24 percent of personal loans, 17 percent of mortgage loans and 55 percent of employee provident fund loans.

Government Revenue

Audit Observations

- **Inland Revenue Department**
 - Revenue collected from the Revised Government Revenue
 - Non-receipt of the expected revenue percentage of the Inland Revenue Department in the collection of the state revenue
 - The composition of direct and indirect taxes had not reached the desired level
 - Incurring additional costs for the maintenance of the Revenue Administration Management Information System
 - Non-recovery of the arrears identified by information systems
 - Not taking action to timely remit tax revenue collected by third parties
- **Sri Lanka Customs.**
 - Had to pay Damages owing to a wrong decision
 - Not taking action to finalize the investigations promptly
 - Losing Revenue to the Government by selling coconut oil that were to be re-exported, in the local market
- **Excise Department**
 - Arrears of excise revenue to be recovered from liquor and toddy manufacturing Institutions and Distilleries
 - Existence of weaknesses in the security sticker management system
 - Not utilizing the provision for introducing a newly reformed revenue administration system for the Excise Department
- **Department of Motor Traffic**
 - Alteration of budget estimates in unrealistic manner and without proper forecasting and parliamentary approval
 - Failure to collect luxury income
 - Non-implementation of e-motoring project

- **National Lotteries Board**
 - **Non-crediting of Funds to the Consolidated Fund in contrary to the Provisions of the Act**
 - **Low Remittance of the revenue earned from all the lottery tickets conducted for the Government**
 - **Non-crediting of unclaimed prize money to the Consolidated Fund**
- **Development Lotteries Board**

Government Revenue

According to the original estimate of the annual budget approved by the Parliament for the year 2022, the Government Revenue had been Rs. 2,213 billion, and according to the interim budget of the year, it had been Rs. 2,084 billion. Since the Government Revenue in the previous year had been Rs. 1,961 billion, the government budget had been estimated subsequent to increasing Government Revenue by Rs. 252 billion and by 123 billion or 12.85 percent and 6.27 percent according to the initial budget estimate and interim budget as compared to the previous year. However, the Government Revenue collected in the year 2022 had been Rs. 1,999 billion. Accordingly, the decrease had been Rs. 214 billion and Rs. 85 billion respectively when comparing the original estimate of the annual budget presented to the Parliament and the revenue estimate of the interim budget presented in the year 2022.

As it has been stated in terms of Finance Regulation 85 (2) (b) that the Revenue Accounting Officers shall only report to the Department of Fiscal Policy for revision of the revenue estimate, accountability in the estimation of revenue realistically had weakened as opportunity has been given to revise a revenue estimate

approved by Parliament without the approval of Parliament.

The total of the revenue arrears balance to be recovered as at the closing date of the year under review in relation to the major revenue collecting institutions, such as the Inland Revenue Department, Sri Lanka Customs, Excise Department and the Department of Motor Traffic had been Rs. 971,730 million.

The revenue estimates of the major revenue collecting institutions and the details of the revenue collected are mentioned below.

Inland Revenue Department

To collect taxes in-terms of relevant tax and other related laws, by encouraging voluntary compliance while deterring tax evasion and tax avoidance, and to enhance public confidence in the tax system by administering relevant tax and other related legislation fairly, friendly and expeditiously and thereby facilitate and foster a beneficial tax culture is the mission of the Inland Revenue Department and the functions such as the administering of all the Ordinances, which are under the purview of the Commissioner General, collect state tax revenue, and provide feedback on the implementation of state

fiscal policies are discharged for the achievement of the Mission.

Revenue collected from the Revised Government Revenue

The estimated total revenue of the Inland Revenue Department in the year 2022 had been Rs. 1,067,807 million and it had been again revised up to Rs. 1,131,012 million and a revenue of Rs. 1,045,189 million had been collected out of that revenue.

Non-receipt of the expected revenue percentage of the Inland Revenue Department in the collection of the state revenue

Even though it was expected to collect 54 percent according to the total revised revenue estimate of the Government approved by the Parliament for the year 2022 from the Inland Revenue Department, the revenue collected by the Inland Revenue Department in the year 2022 was 50 percent of the estimated total revenue of the government.

The composition of direct and indirect taxes had not reached the desired level

In the year 2022, the ratio of indirect taxes to the total revenue of the Government had been 70 percent and it is aimed through policy reforms in Sri Lanka to reach to the level of 60:40 as a more appropriate mix from the composition of direct and indirect

taxes, which is currently 30:70. Current tax policy reforms seek higher tax revenue through indirect taxation, and the Government uses indirect taxes to raise short-term revenue. Therefore, as the local tax collector of the government, achieving the direct tax and indirect tax ratio of 60:40 had been a challenge to the Inland Revenue Department.

Incurring additional costs for the maintenance of the Revenue Administration Management Information System

The Department had worked to establish a revenue administration management information system (RAMIS) to increase the efficiency of tax revenue collection, and for that, a cost of Rs. 7,153 million had been incurred up to September 2022. In addition to that, approximately Rs. 3 million each had been paid monthly to 71 officers of the Department in addition to the salary, according to the audit test check carried out on the payments of the project office, which is being maintained for the establishment of the RAMIS system, and a sum of Rs. 44 million had been paid to the staff of the RAMIS project in relation to the period from October 2020 to October 2021. However, it had to continuously incur additional costs for the maintenance of the system owing to non-establishment

of a necessary staff to take over the Phase 1 of the system.

Non-recovery of the arrears identified by information systems

According to the reports on arrears tax of the Department as at 31 December 2022, the arrears tax and penalty interest income related to RAMIS and Legacy computer systems had been Rs. 904,342 million comprised of Rs. 671,774 million and Rs. 232,568 million respectively. Collection of Rs. 740,917 million, out of this total arrears revenue, has been temporarily suspended, and only a sum of Rs. 163,425 million had been identified as the amount recoverable. Rs. 86,802 million i.e. 53 percent, out of the arrears of income, which had been identified as the amount recoverable, had been outstanding balances over a period of 3 years. This situation had been non-attainment of specific performance related to the set functions of the Department.

Not taking action to timely remit tax revenue collected by third parties

A sum of Rs. 114,294 million, i.e. 70 percent, out of the total revenue arrears, which had been identified as the amount recoverable, had been the value added taxes and fines and accordingly it was observed that the Department had not implemented the necessary measures to

timely remit the tax revenue collected by third parties.

Sri Lanka Customs.

The estimated revenue of Sri Lanka Customs had been Rs. 713,426 million in the year 2022 and it had been again revised to Rs. 513,341 million and revenue amounting to Rs. 523,346 million had been collected.

The total arrears of tax revenue to be recovered by 31 December 2022 had been Rs. 61,254 million and Rs. 23,230 million or 38 percent, out of the total arrears of tax revenue on that day, had been import arrears, and Rs. 16,076 million or 26 percent had been the special merchandise tax, and Rs. 10,477 million or i.e. 17 percent had been port and airport development tax, and Rs. 6,138 million or 10 percent had been import cess. The outstanding amount of tax related to the other remaining taxes had been Rs. 5,333 million. Rs. 39,063 million or 63 percent, out of the arrears of tax revenue, should be collected from the Ministry of Finance.

Had to pay Damages owing to a wrong decision

The total loss that had to be paid by the Sri Lanka Customs owing to the wrong decision taken in relation to a seized cigarette stock had been Rs. 69.4 million.

Not taking action to finalize the investigations promptly

There had been 9,754 customs investigations related to the 40 divisions of the Department from the year 2015 to 31 December 2022, and 3,582 investigations, out of the total number of investigations as at 31 December 2022, had been older than 05 years, and 4,720 investigations had been older between 1 and 5 years, and 1,452 investigations had been within one year. Necessary steps had not been taken to finalize those investigations promptly.

Losing Revenue to the Government by selling coconut oil that were to be re-exported, in the local market

A company registered with customs to import, add value and re-export coconut oil had sold 463,065 kg of coconut oil to the domestic market during the period from 2014 to 2017. For that, the Customs had imposed a penalty of Rs.477 million to the relevant company and the penalty had been reduced to Rs.90 million, and only 30 per cent of it had been received by the General Treasury in terms of the Customs Ordinance, the actual revenue received by the Government had been only Rs.27 million. However, the revenue loss to the Government owing to that incident had been Rs.64 million.

Excise Department

The estimated excise revenue in the year 2022 had been Rs. 180,000 million, and it had again been revised to Rs. 185,000 million, and a tax revenue of Rs. 165,188 million had been collected. It had been 89 percent as compared with the revised estimate.

Arrears of excise revenue to be recovered from liquor and toddy manufacturing Institutions and Distilleries

According to the reports on arrears of revenue as at 31 December 2022, the arrears of excise revenue to be recovered from liquor and toddy manufacturing institutions and distilleries had been Rs.5,514 million. It had increased by 17 percent as compared to the last year. An arrears of excise revenue amounting to Rs. 2,389 million of 04 institutions, out of that, had not been collected for more than 5 years. Furthermore, the payment of outstanding installments, related to a sum of Rs. 2,748 million that had to be recovered from a hard liquor manufacturing company that had been approved for resuming production after suspending production, had been defaulted.

Existence of weaknesses in the security sticker management system

There had been various weaknesses in the above system during the audit inspection, and the marking machine had been operated under the supervision of the contract company, and the above system had failed owing to the matters such as 5 million bottles of alcohol had been released to the market without stickers being printed during the period from 11 January 2022 to 31 January 2023 and the non-execution of the directive that should not be issued to the market without digital markings according to the records of the inspection notes of the officers of the Excise Department.

Not utilizing the provision for introducing a newly reformed revenue administration system for the Excise Department

The execution of a newly reformed Revenue Administration System for the Excise Department (RASED) will be started from December 2020 and the functional areas will be identified and although provision amounting to Rs. 100 million had been allocated for activities of establishing a proposed revenue system in the year 2022, any expenditure had not been incurred for that purpose.

Department of Motor Traffic

Registration of motor vehicles in Sri Lanka,, regulation, issuance of driver's licenses, road safety and the use of environmentally friendly vehicles have been identified as the main objectives of the Motor Transport Department to provide an efficient and effective service.

Alteration of budget estimates in unrealistic manner and without proper forecasting and parliamentary approval

Even though the approval of Parliament has been granted by the Annual Appropriation Act that the Department of Motor Traffic should collect tax revenue amounting to Rs.1,050 million and non-tax revenue amounting to Rs. 7,503 million for the year 2022, the approval of the Ministry of Finance had been obtained to reduce the said estimated tax revenue as Rs. 630 million by 40 percent and non-tax revenue as Rs. 5,500 million by 27 percent. However, tax revenue amounting to Rs. 1,374 million and non-tax income amounting to Rs. 6,554 million had been collected during the year and the budget estimates had been changed in an unrealistic manner and without proper forecasting as well as without the approval of the Parliament.

Failure to collect luxury income

Even though a total of Rs.1,497 million comprised of a sum of Rs.1,283 million for the year 2022 and Rs. 214 million, which had been outstanding in the previous year should be collected as per luxury income tax calculations, the Department of Motor Traffic had failed to collect luxury tax revenue amounting to Rs. 165 million, out of that.

Non-implementation of e-motoring project

Even though a total of Rs.360 million had been allocated by the budget estimates for the e-motoring project from the year 2018 to the year 2022, but the expenditure already incurred for the e-motoring project had been Rs. 0.18 million.

National Lotteries Board

The National Lotteries Board was established in the year 1963 under the Finance Act No. 11 of 1963 to increase the contribution to the Government by increasing the level of revenue and profitability.

Non-crediting of Funds to the Consolidated Fund in contrary to the Provisions of the Act

Even though the National Lotteries Board should credit the balance after deducting the expenditure specified in the Act from

the income of the lottery tickets to the Consolidated Fund, Rs. 2,397 million had been retained in the Board as at 31 December 2022 without crediting to the Consolidated Fund in contrary to those provisions.

Low Remittance of the revenue earned from all the lottery tickets conducted for the Government

Although 16.5 percent of the revenue earned from all the lottery tickets conducted for the Government should be remitted to the consolidated fund, the value remitted to the General Treasury in the year 2022 had decreased by 560 million as remittances had been made to the consolidated fund less than the due percentage from 11 lotteries conducted in the year 2022.

Non-crediting of unclaimed prize money to the Consolidated Fund

A sum of Rs. 12 million unclaimed from the prize money provided for the additional sign of the “Hadahana” Lottery even after 06 months from 27 January 2022 to 30 June 2022 had been retained in the Fund of the Board itself without crediting the amount to the consolidated fund as per the provisions of the Act.

Development Lotteries Board

According to the Development Lotteries Board Act No. 20 of 1997, the entire profit from lotteries conducted by the Development Lotteries Board shall be

remitted to the President's Fund.

Accordingly, the total profit after tax in the year 2022 amounting to Rs. 3,211 million had been remitted to the President's Fund.

General Treasury and Public Debt

Audit Observations

- **Government Revenue**
- **Expenditure of the Government**
- **Increase in the Expenditure on Interest**
- **Deficit of Revenue**
- **Budget Deficit**
- **Budget Deficit Indicated in the Annual Report of the Central Bank of Sri Lanka**
- **Financing the Budget Deficit**
- **Growth in the Loan Balance**
- **Public Debt**
- **Exceeding the Maximum Limit on Liabilities**
- **Per capita debt**
- **Increase in the Payment of Loan Installments and Interest as the Government Revenue is on the Decline**

General Treasury and Public Debt

Regarding the control of public finances, Parliament exercises complete authority over public finances as stipulated in provisions in Article 148 of Chapter XVII of the Constitution of the Democratic Socialist Republic of Sri Lanka. In pursuance to Article 149 of the Constitution, the revenues and receipts collected by the government should be credited to the Consolidated Fund, while Articles 150 and 152 of the Constitution outline the prescribed methods for disbursement from the Consolidated Fund. Treasury serves as the primary mechanism responsible for planning, directing and monitoring these functions.

Government Revenue

The Gross Domestic Product for the year 2022 amounted to Rs. 24,148 billion, while the Gross Domestic Product for the year 2021 was Rs. 16,809 billion. Accordingly, the GDP had increased by Rs. 7,339 billion or 43.66 per cent compared to the preceding year. According to the initial annual budget estimate for the year 2022 approved by Parliament, the total of the estimated government revenue amounted to Rs. 2,213 billion and according to the interim

budget presented in the year 2022, the government's revenue was Rs. 2,084 billion, while it was Rs. 1,961 billion in last year. Accordingly, the budget of the government had been estimated increasing the government revenue by Rs.252 billion and Rs.123 billion or 12.85 per cent and 6.27 per cent as per the original budget estimate and the interim budget estimate, respectively than the preceding year.

The government revenue collection in the year 2022 was Rs. 1,999 billion, falling short of the revised revenue estimate by Rs. 103 billion. Accordingly, this reduction amounted to Rs.214 billion and Rs.85 billion when compared to the original annual budget estimate presented to Parliament and the interim budget estimate presented in 2022, respectively. During the period ranging from 2012 to 2022, the revenue collection had declined each year than the revenue indicated in the revenue estimate presented to Parliament and that drop had ranged from 4.08 per cent to 26.06 per cent. During the aforementioned timeframe, the highest percentage was recorded in the year 2021. Details appear in Figure 05.

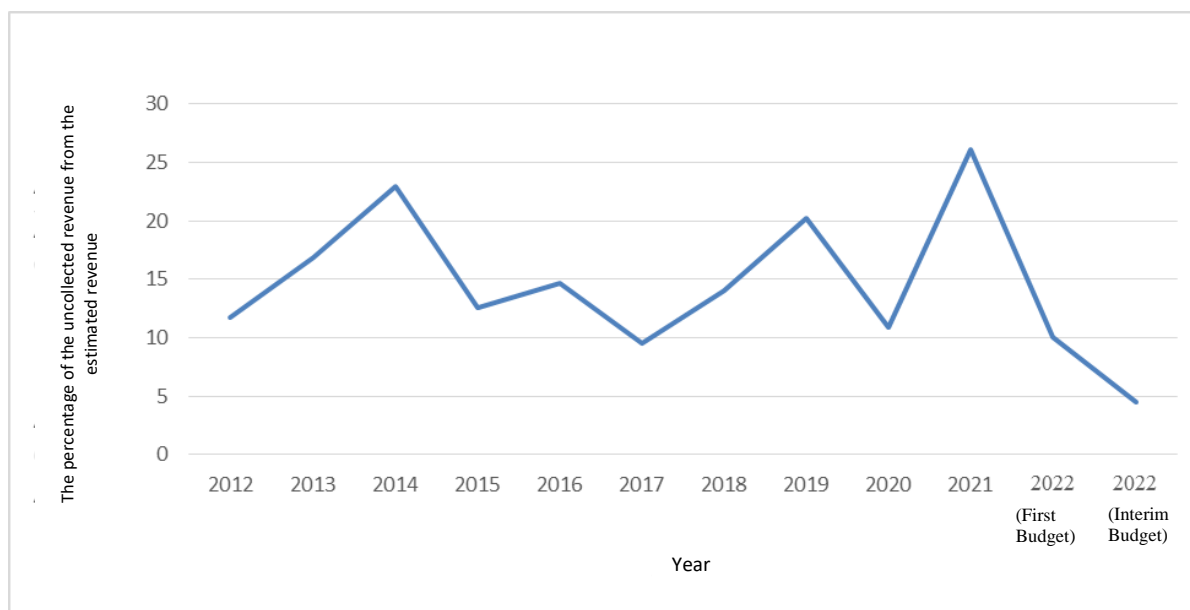


Figure 05 - The percentage of the uncollected revenue from the estimated revenue

Source - Annual Budget Estimates and Financial Statements of the Government

As Finance Regulation 85(2)(b) only states that the Revenue Accounting Officers shall report to the Department of Fiscal Policy for revision of the revenue estimate, the accountability on realistically estimating the revenue had weakened due to allowing opportunity, without the approval of Parliament to revise a revenue estimate approved by the Parliament.

Expenditure of the Government

Legal provisions relating to the Government expenditure for the financial year of 2022 had been made under the Appropriation Act, No. 30 of 2021.

Accordingly, provision totaling Rs. 4,819,569 million was made on supplies and services of the Government including provision for special legal services which were a expensed on the Consolidated Fund and approved through the existing laws and provisions of the Appropriation Act. According to Article 150 of the Constitution, provision amounting to Rs. 251,000 million had been obtained through a warrant on special legal service expenses. Accordingly, a net provision of Rs. 5,070,569 million had been made on the supplies and services of the year under review. Details appear in Table 07.

Financial	Capital Provision	Recurrent Provision	Total
	Rs.Million	Rs.Million	Rs.Million
Provision made through Appropriation Act on supplies and services (Schedule I of the Appropriation Act)	1,090,397	2,239,830	3,330,227
Provision on special legal services which were a expensed on the Consolidated Fund and approved through existing laws. (Schedule II of the Appropriation Act)	1,505,000	1,396,123	2,901,123
Provision made additionally for expenses on supplies and services. (Through supplementary estimates)	-	-	-
Provision made additionally on special legal service expenses.	-	251,000	251,000
Total	2,595,397	3,886,953	6,482,350

Table 07 Provision made on supplies and services of the Government.

Source: Appropriation Act, No. 30 of 2021 and supplementary estimates.

Additional provision amounting to Rs. 73,758 million had been made in terms of Section 06 of the Appropriation Act, No. 30 of 2021 only to be utilized on activities mentioned in Paragraph 3.1 of the annual budget estimate relating to supplementary assistance services and urgent requirements project under the Head 240-development programme of the National

Budget Department. A sum of Rs. 73,079 million out of that provision had been transferred to other Heads of expenditure, thus saving a sum of Rs. 674 million. Details appear in Table 08.

Nature of Expenditure	Through the Appropriation Act	FR 66/69 Transfers	Net Provision	Transfer of Provision to Heads of Expenditure	Saving of Provision
	Rs. Million	Rs. Million	Rs. Million	Rs. Million	Rs. Million
Recurrent	55,600	(31,363)	24,237	23,563	674
Capital	18,153	31,363	49,516	49,516	-
Total	73,753	0	73,753	73,079	674

Table 08 : Provision under the supplementary assistance services and urgent requirements project and transfer of such provision to other Heads of expenditure.

Source : Financial statements of the National Budget Department – 2022.

Provision amounting to Rs. 6,482,350 million had been made on supplies and services of the Government for the year under review, while provision of Rs. 5,420,912 million had been made thereon for the preceding year. Accordingly, the provision made for the year under review had increased by Rs. 1,061,438 million or 19.58 per cent as against the preceding year. As a sum of Rs. 5,985,985 million had been utilized out of the total provision made in the year 2022, eight per cent of that provision amounting to Rs. 496,365 million had been saved. Given below are some of the instances in which savings had occurred out of the provision made on supplies and services of the Government as per the budget estimate of the year under review.

- The net provision made on recurrent expenses totaled Rs. 3,791,498 million. As a sum of Rs. 3,539,237 million had been utilized therefrom in the year under review, provision amounting to Rs. 252,261 million had been saved indicating 07 per cent of the total provision made on recurrent expenses.
- A net provision of Rs. 1,180,382 million had been made on Government investments. A sum of Rs. 1,014,293 million had been utilized therefrom in the year under review. Accordingly, provision amounting to Rs. 166,089 million had been saved indicating 14 per cent of the total net provision made.

- Of the net provision amounting to Rs. 1,510,470 million made for settlement of domestic and foreign loan installments, a sum of Rs. 1,432,455 million had been spent for repaying loans. Accordingly, 05 per cent of the net provision equivalent to Rs. 78,016 million had been saved.

Provision amounting to Rs. 3,791,498 million had been made in the year under review on recurrent expenses, and 93 per cent of that, equivalent to Rs. 3,539,237 million, had been utilized. Provision amounting to Rs. 2,874,192 million had been made in the preceding year on recurrent expenses, and Rs. 2,757,343 million, had been utilized therefrom. Accordingly, 07 per cent of the provision equivalent to Rs. 252,261 million had been saved.

The total of the budgeted expenditure for the year under review amounted to Rs. 6,482,350 million, whereas the actual expenditure amounted to Rs. 5,985,985 million. Accordingly, provision amounting to Rs. 496,365 million out of the estimated expenditure had been saved.

Increase in the Expenditure on Interest

A sum of Rs. 1,565,190 million had been incurred on interest in the year under review, and the same amounted to Rs. 1,048,382 million for the preceding year thus indicating an increase by Rs. 516,808 million or 49.30 per cent. The expenditure on interest in the year 2006 amounting to Rs. 150,778 million had increased to Rs. 1,565,190 million by the end of the year 2022 – an increase of 938 per cent as against the year 2006. The total expenditure on interest represented 26.03 per cent of the recurrent expenditure for the year 2006, and that value increased up to 44.22 per cent in the year under review. Furthermore, 31.58 per cent of the Government revenue equivalent to Rs. 150,578 million had been paid on interest in the year 2006, and the same indicated an increase up to 78.31 per cent by the year 2022. Details appear in Figure 06.

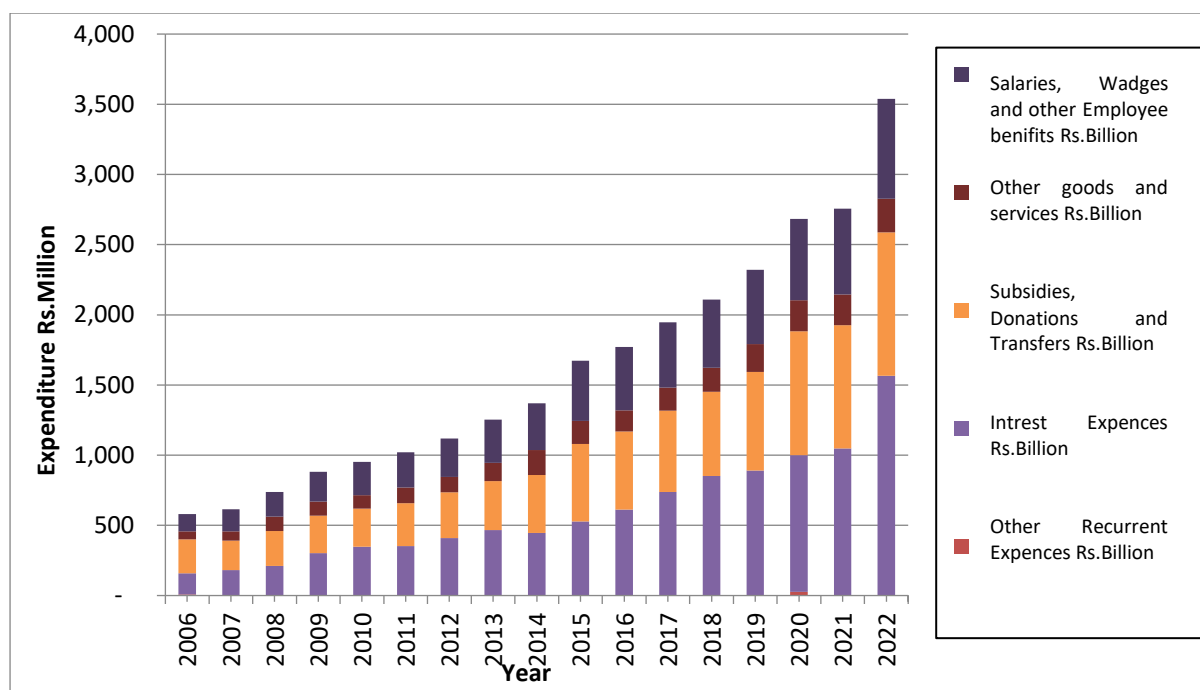


Figure 06 : Total recurrent expenditure and expenditure on interest.

Source : Financial statements of the Government.

Deficit of Revenue

According to financial statements of the year under review presented to Audit, the deficit of revenue amounted to Rs. 1,540 billion as against the corresponding deficit of Rs. 1,290 billion for the preceding year. As for the period of 2006 to 2022, the highest value for revenue deficit was reported in the year 2022. In each year during that period, the collected revenue was insufficient for settling the recurrent expenditure. The minimum of deficit amounting to Rs. 43 billion in revenue was reported in the year 2007 which represented 7.52 per cent of the collected revenue. During the said period, the deficit in the total revenue amounted to Rs. 6,319

billion. Domestic and foreign loans, and foreign grants were obtained to bridge the deficit. Accordingly, borrowings of Rs. 28,218 billion were obtained comprising Rs. 20,484 billion through domestic loans, Rs. 7,487 billion through foreign loans, and foreign grants totaling Rs. 246 billion during that period. Having utilized the loans and grants so obtained in each year, the deficit of revenue was financed in the range of 6.86 to 45.59 per cent. With no investments made by utilizing the loans and grants, 20.25 per cent, 45.59 per cent, 42.39 per cent and 30.59 per cent thereof had been utilized in the years 2019, 2020, 2021 and 2022 respectively for the settlement of recurrent expenses. Details appear in Table 09.

Year	Actual Revenue	Actual Recurrent Expenditure	Deficit in Revenue	Revenue Deficit as a Percentage of the Collected Revenue	Foreign Loans, Grants and Domestic Loans	Revenue Deficit as a Percentage of Loans and Grants
	Rs. Billion	Rs. Billion	Rs. Billion	%	Rs. Billion	%
2006	477	579	102	21.38	514	19.84
2007	572	615	43	7.52	587	7.33
2008	664	736	72	10.84	678	10.62
2009	708	882	174	24.58	1,019	17.08
2010	826	951	125	15.13	918	13.62
2011	943	1,020	77	8.17	998	7.72
2012	997	1,118	121	12.14	1,108	10.92
2013	1,066	1,254	188	17.64	1,289	14.58
2014	1,128	1,370	242	21.45	1,397	17.32
2015	1,394	1,673	279	20.01	1,750	15.94
2016	1,699	1,771	72	4.24	1,623	4.44
2017	1,845	1,946	101	5.47	1,466	6.89
2018	1,935	2,109	174	8.99	1,883	9.24
2019	1,907	2,322	415	21.76	2,049	20.25
2020	1,379	2,683	1,304	94.56	2,860	45.59
2021	1,467	2,757	1,290	87.93	3,043	42.39
2022	1,999	3,539	1,540	77.04	5,035	30.59
Total	21,006	27,325	6,319		28,217	

Table 09 : Utilization of loans and grants on the deficit of revenue with which recurrent expenditure could not be settled.

Source : Financial statements of the Government for the period 2006-2022.

Payment of interest in the year 2006 to the total of Rs. 151 billion had increased to Rs. 1,565 billion by 936 per cent as of the year 2022. Loans had to be obtained to finance the budget deficit and paying interest thereon had increased annually. A sum of Rs. 1,565 Billion or 78.29 per cent

of the Government revenue collected in the year 2022 totaling Rs. 1,999 billion had been spent on paying interest. This scenario was annually increasing during the relevant period, and indicated an exponential growth from the year 2019. Details appear in Table 10.

Year	Actual Recurrent Expenditure	Expenditure on Interest	Expenditure on Interest as a Percentage of Total Recurrent Expenditure	Actual Revenue	Payment of Interest as a Percentage of Actual Revenue
	Rs. Billion	Rs. Billion	%	Rs. Billion	%
2006	579	151	26.08	477	31.66
2007	615	181	29.43	572	31.64
2008	736	212	28.80	664	31.93
2009	882	303	34.35	708	42.80
2010	951	348	36.59	826	42.13
2011	1,020	353	34.61	943	37.43
2012	1,118	409	36.58	997	41.02
2013	1,254	465	37.08	1,066	43.62
2014	1,370	446	32.55	1,128	39.54
2015	1,673	527	31.50	1,394	37.80
2016	1,771	611	34.50	1,699	35.96
2017	1,946	736	37.82	1,845	39.89
2018	2,109	852	40.40	1,935	44.03
2019	2,322	889	38.29	1,907	46.62
2020	2,683	975	36.34	1,379	70.70
2021	2,757	1,048	38.01	1,467	71.44
2022	3,539	1,565	44.22	1,999	78.29
Total	27,325	10,071		21,006	

Table 10 : Incurring a higher percentage of collected revenue on paying for interest.

Source : Financial statements of the Government for the period 2006-2022.

The outstanding revenue balance that remained recoverable as at the end of the year under review from the key revenue collectors, the Department of Inland Revenue, Sri Lanka Customs, Excise Department of Sri Lanka and the Department of Motor Traffic, totaled Rs. 971,330 million. However, revenue of Rs. 904 billion that was to be recovered as of 31 December 2022 by the Department of Inland Revenue, which recorded the highest outstanding revenue, remained uncollected. Had that revenue been collected in the year 2022, the revenue deficit of that year would have been decreased by 41.30 per cent or Rs. 636 billion. That outstanding revenue for the years 2020 and 2021 remained Rs. 698

billion and Rs.620 billion. Had the due revenue been collected in those years as well, the revenue deficit for the year 2020 would have been decreased to Rs. 606 billion by 46.47 per cent and the revenue deficit for the year 2021 would have been decreased to Rs. 670 billion by 51.94 per cent .

Accordingly, the deficiencies in the tax administration management information system, lengthy tax appeal process, and the absence of a specialized court system to implement judicial proceedings regarding the recovery of tax arrears had contributed to delay in the collection of tax arrears by the Department of Inland Revenue.

Details are shown in Table 11.

Year	Outstanding Revenue	Deficit Revenue	of Excess/(Deficit) Revenue had the Due Revenue been Collected	Percentage of Decrease in Revenue Deficit
	Rs. Billion	Rs. Billion	Rs. Billion	%
2019	579	414	165	39.86
2020	698	1,304	(606)	(46.47)
2021	620	1,290	(670)	(51.94)
2022	904	1540	(636)	(41.30)

Table 11 : Revenue due for the Department of Inland Revenue and the impact thereof on the deficit of revenue.

Source : Financial statements of the Department of Inland Revenue for the period 2019-2022 and financial statements of the Government.

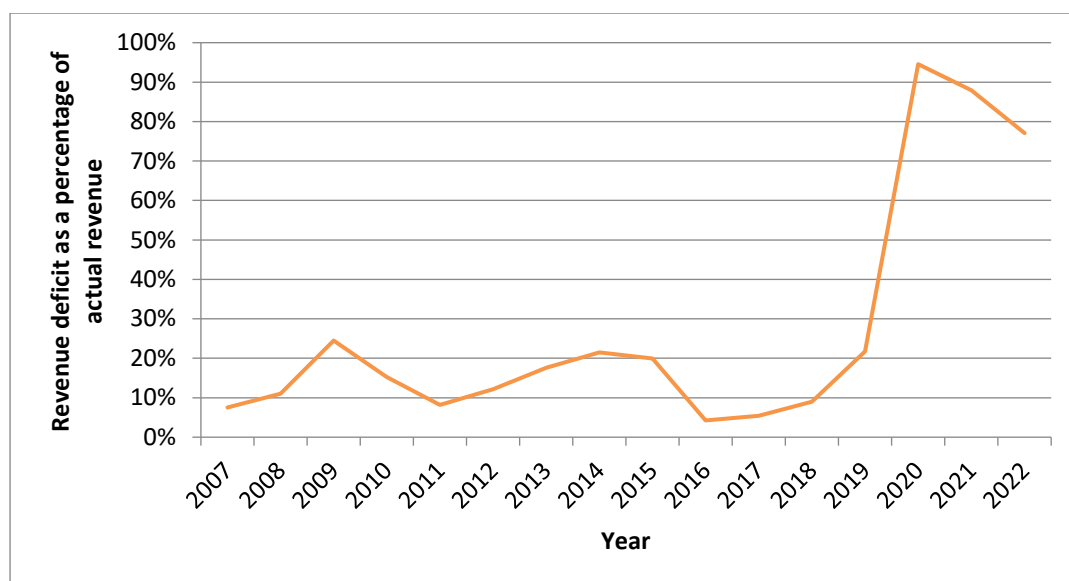


Figure 07 : Revenue deficit as a percentage of actual revenue.

Source : Financial statements of the Government 2006- 2022

Budget Deficit

According to financial statements of the Government, budget deficit of the year 2022 amounted to Rs. 2,555 billion representing 10.58 per cent of the Gross Domestic Product. Budget deficit of the year 2021 amounted to Rs. 2,080 billion and it accounted for 12.37 per cent of the GDP. There existed a budget deficit throughout the entire period from 2006 to 2022, and the budget deficit of Rs. 300 billion in the year 2006 had become Rs. 2,555 billion by the year 2022. The highest value of budget deficit during that period had been reported in the year 2022.

Considering the budget deficit as a percentage of the GDP for the period from 2006 to 2022, that percentage ranged between 5.55 per cent and 14.08 per cent. According to Section 3(a) of the Fiscal Management (Responsibility) Act, No. 03 of 2003, the actual budget deficit should have been maintained at 05 per cent of the actual GDP, but that limit had not been maintained in any year during that period. That limit had been maintained at 5.55 per cent, 5.69 per cent and 5.59 per cent for the years 2016, 2017, and 2018 respectively. Details appear in Figure 08.

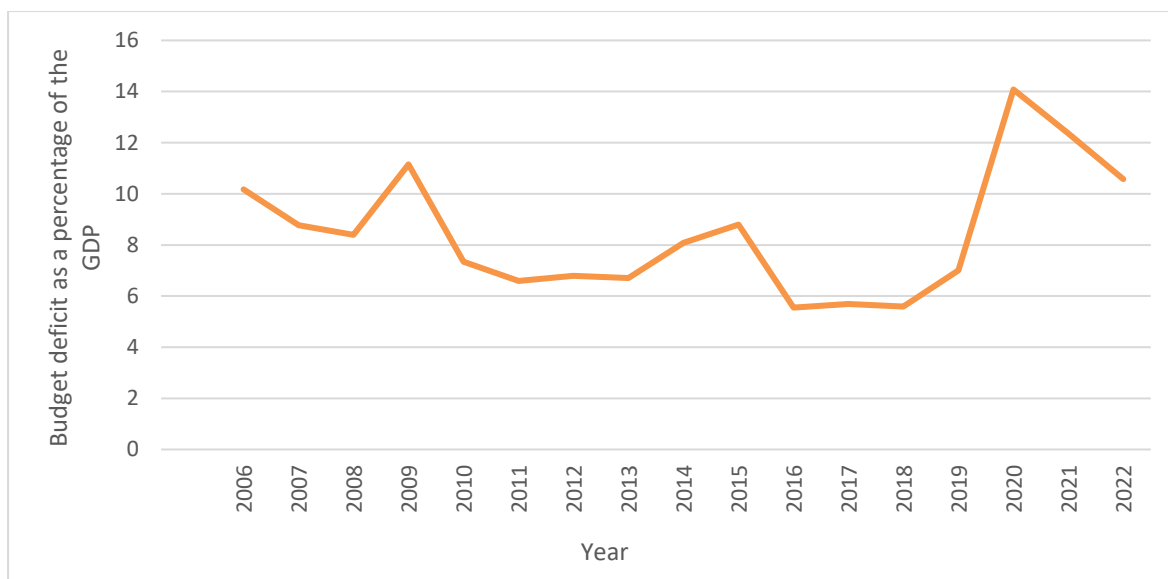


Figure 08 : Budget deficit as a percentage of the GDP

Sources : Annual reports of the Ministry of Finance and financial statements of the Government 2006-2022.

Budget Deficit Indicated in the Annual Report of the Central Bank of Sri Lanka

There were differences between the budget deficit stated in the financial statements of the Government and the annual report of the Central Bank of Sri Lanka. In this connection, the Department of Fiscal Policy had informed that the financial statements of the Government had been prepared based on the classification of accounts, and the budget deficit mentioned in the annual report of the Central Bank of Sri Lanka had been computed in accordance with economic classification. The value of budget deficit amounted to Rs. 2,459,967 million in accordance with the annual report of Central Bank of Sri Lanka for the year 2022, whereas that

value amounted to Rs. 2,554,741 million as per the financial statements of the Government, thus indicating a difference of Rs. 94,774 million.

Financing the Budget Deficit

Considering the financial statements of the Government, the budget deficit of the year under review had increased by Rs. 474,664 million or 22.82 per cent as against the preceding year. In order for the budget deficit to be bridged, net foreign borrowings totaling Rs. 424,821 million had to be obtained in the year under review. Accordingly, a net value of Rs. 3,144,578 million had to be obtained through domestic loans to settle the budget deficit.

Growth in the Loan Balance

In the face of increasing in the budget deficit annually, more borrowings had been obtained. By the end of the year 2022, the financial statements of the Government showed that the loan balance payable by the Government, totaled Rs. 27,379 billion comprising a balance of Rs. 14,360 billion on domestic loans and a balance of Rs. 13,020 billion on foreign loans. The loan balance of the Government

in the year 2021 totaled Rs. 16,827 billion. Accordingly, the loan balance had increased by 63 per cent or Rs. 10,552 billion in the year 2022 as against the year 2021. The loan balance of the year 2006 amounting to Rs. 2,431 billion represented 82.72 per cent of the GDP, and by the end of the year 2022, the loan balance reached Rs. 27,379 billion representing 113.38 per cent of the GDP.

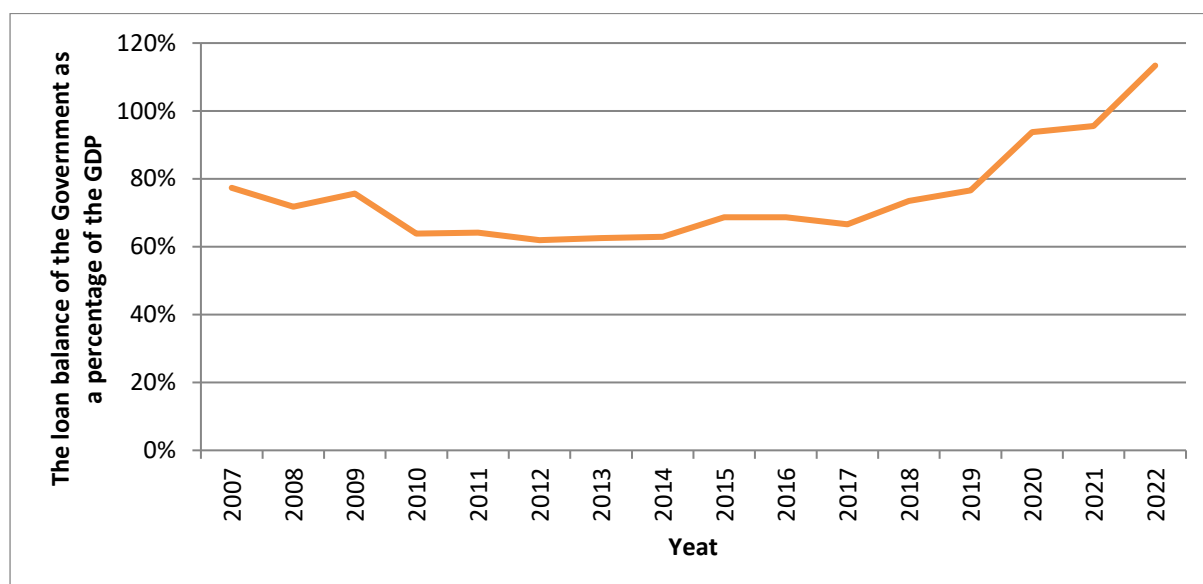


Figure 09 : The loan balance of the Government as a percentage of the GDP.

Sources : Financial statements of the Government from 2007 to 2022 and annual reports of the Central Bank of Sri Lanka

Public Debt

Following the policy decision from the Ministry of Finance, Economic Stabilization and National Policy on 12 April 2022 to temporarily suspend the payment of foreign loans, the payment of loan installments totaling Rs. 671,569 million related to 391 loan agreements was

suspended from 13 April 2022 as at the end of the year under review.

According to financial statements of the Government, loans totaling Rs. 5,001,854 million had been obtained in the year under review comprising foreign borrowing of Rs. 783,326 million and

domestic non-bank loans amounting to Rs. 4,218,528 million (inclusive of net loans obtained through Treasury bills). Comparing this with the total borrowing of Rs. 3,036,026 million for the preceding year (inclusive of net loans obtained through Treasury bills) indicated an increase by Rs. 1,965,828 million or 64.75 per cent. The Government had drawn more attention in the year under review on borrowings made domestically.

Comparison of domestic borrowings made in the year under review with the domestic borrowings of Rs. 2,519,420 million obtained in the preceding year (inclusive of net loans obtained through Treasury bills), an increase of Rs. 1,699,108 million or 67.44 per cent was observed. A comparison between the borrowings obtained in the year under review and the preceding year is shown in Table 12.

Description		2022 Rs. Million	2021 Rs. Million
Foreign Borrowings		783,326	516,606
Domestic Borrowings			
	Treasury Bills (Net)	1,855,672	649,336
	Treasury Bonds	2,373,044	1,761,979
	Foreign Currency Banking Unit (Non-project)	(77,701)	(102,352)
	Development Bonds	67,441	207,504
	Foreign Currency Banking Unit (Non-project)	72	2,953
	Domestic Term Loan Facilities		-
Total Domestic Borrowings		4,218,528	2,519,420
Total Borrowings Made During the Year		5,001,854	3,036,026

Table 12 : Domestic and foreign borrowings made by the Government.

Source : Financial statements of the Government for the years 2021 and 2022.

According to financial statements of the Government, the total debt balance of the Government (excluding the overdraft) payable as at 31 December 2022, amounted to Rs. 27,379,288 million, and a comparison of this value with the total debt balance of the Government

amounting to Rs. 16,826,831 million as at 31 December 2021 (excluding overdraft), an increase by Rs. 10,552,457 million equivalent to 62.71 per cent was indicated. The taking over of the debt liability of Rs. 884,093 million of the Ceylon Petroleum Corporation to the financial statements of

the Government for which the government placed the guarantee, accounting for Rs. 518,293 million debt balance in the government financial statements during the year under review in relation to 08 types of loans which were maintained entirely outside the statement of financial position of the government financial statements, and the exchange loss of Rs.

5,232,909 million incurred in the conversion of foreign loans into local currency as at the end of the year under review had also contributed to a higher value of the total debt balance of the year under review. A description on the total borrowings of the Government by the end of the preceding year and the year under review is given in Table 13.

Description	Balance as at 31 December	
	2022	2021
	Rs. Million	Rs. Million
Treasury Bills	4,126,384	2,270,712
Treasury Bonds	8,692,135	6,937,928
Rupee Loans	24,088	24,088
Sri Lanka Development Bonds	391,737	460,078
Domestic Loans through Foreign Currency	131,372	139,301
Foreign Currency Banking Unit (Projects)	24,500	20,247
Loans on the Construction of “Suhurupaya” Building	4,551	5,120
Treasury Bonds (Active Liability Management Act)	30,000	30,000
Loans on Pensions Gratuity	48,924	52,995
Lease Creditors	1,865	478
Domestic Term Loan Facilities	-	45,000
Loans of the Ceylon Petroleum Corporation, for which the government placed the guarantee	884,093	-
Total Domestic Borrowings	14,359,649	9,985,947
Foreign (Projects)	7,665,019	3,779,702
Term Loan Facilities from foreign currencies	797,589	445,521
International Sovereign Bonds	4,557,030	2,615,661
Total Foreign Borrowings	13,019,638	6,840,884
Total Public Debt Balance	27,379,287	16,826,831
Estimated GDP	23,843,000	16,508,000
Total Public Debt Balance as a Percentage of the Estimated GDP	114.83	101.93

Table 13 : Classification of loan balances by the end of the year.

Source : Financial statements of the Government, 2021 and 2022.

Exceeding the Maximum Limit on Liabilities

According to the Fiscal Management (Responsibility) Act, No. 03 of 2003 as amended by the Fiscal Management (Responsibility) (Amendment) Act, No. 15 of 2013 and No. 12 of 2021, the maximum value of liabilities by the end of a certain year should be maintained under 80 per cent of the GDP estimated for that year.

Nevertheless, taking into account the foreign borrowings not brought to accounts as at 31 December 2022 and the liabilities relating to miscellaneous public enterprises that had been brought to accounts outside the statement of financial position, liabilities had been incurred by exceeding that limit in the year. Details appear in Table 14.

Liability	Value of Liabilities As at 31 December 2022 Rs.Billion
Bank Overdraft	84
Public debt (As per the financial statements of the Government)	27,379
Advances of the Central Bank	235
Liabilities Unaccounted in the Financial Statements:	
Unaccounted Foreign Borrowings	39
Total Liability	27,737
Estimated GDP	23,843
Total Liability as a Percentage of the Estimated GDP	116.33

Table 14 : Exceeding the maximum limit on liabilities.

Source : Financial statements of the Government.

The sum of Rs. 1,292 billion being the value of guarantees and letters of comfort provided for the banks in respect of loans obtained by the public enterprises under guarantees of the Treasury along with the sum of Rs. 106 billion shown in the statement of liabilities in the annual financial statements relating to the

Ministries, Departments and Special Expenditure Units have not been included in the aforesaid liabilities

Per capita debt

Figure 10 illustrates the per capita debt balance in the year under review and in preceding 09 years.

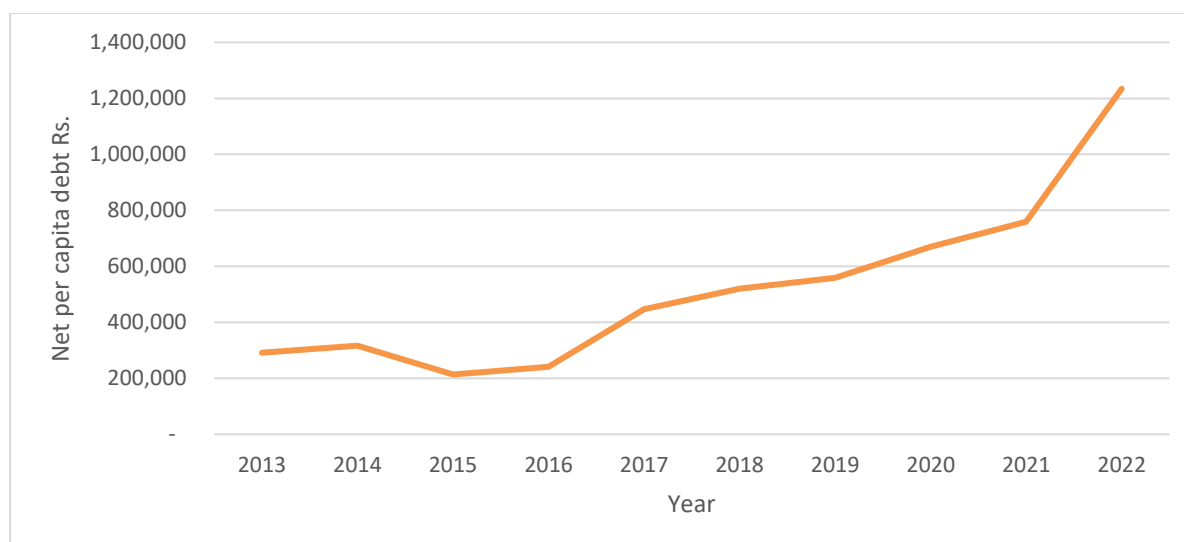


Figure 10 : Net per capita debt.

Source : Financial statements of the Government, 2013-2022 and Annual reports of the Central Bank

According to the aforementioned information, comparison of the total public debt against the median annual population indicated that the value of net per capita debt amounting to Rs. 264,811 as at 31 December 2012 had increased to Rs. 1,234,358 by 31 December 2022. Furthermore, comparing that with the net per capita debt as at 31 December 2021 amounting to Rs. 759,471, an increase by Rs. 474,887 or 62.53 per cent was observed.

Increase in the Payment of Loan Installments and Interest as the Government Revenue is on the Decline

The net borrowings (domestic and foreign) had increased by Rs. 1,865,589 million whilst the payment of interest on loans had also increased by Rs. 516,807 million or 49.30 per cent in the year under review as against the preceding year. The collected revenue remained inadequate for paying loan installments and interest in the year under review as in the preceding years. Details appear in Figure 11.

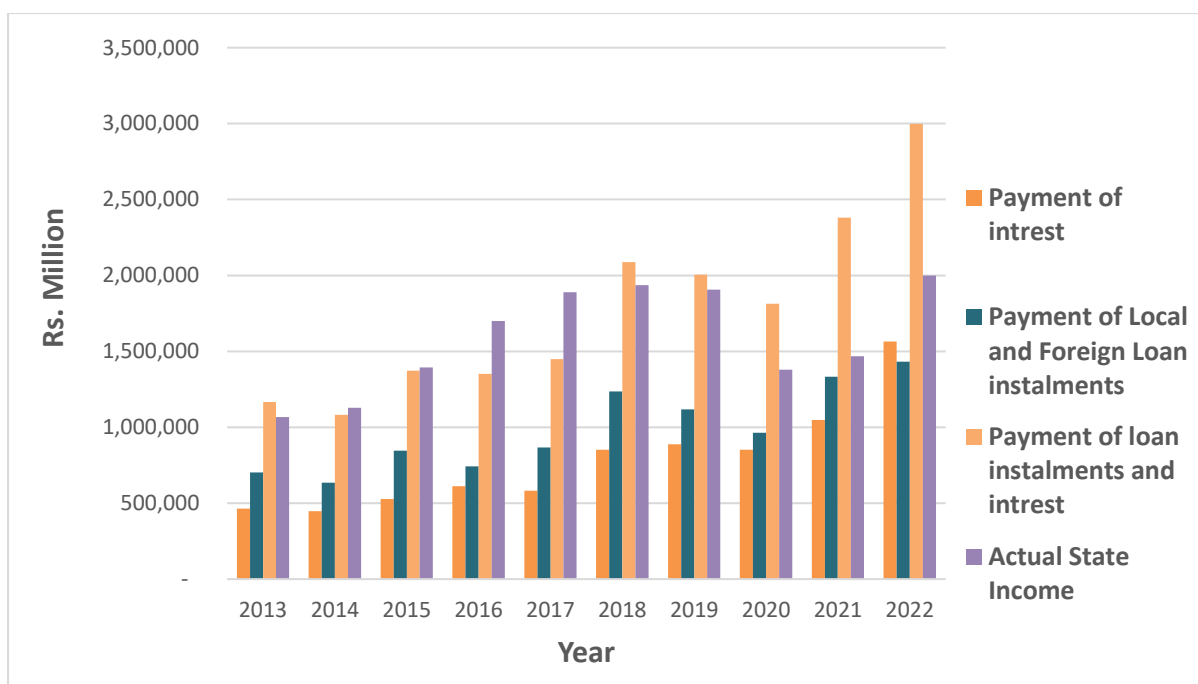


Figure 11 : Inadequacy of collected revenue for paying loan installments and interest.

Source : Financial statements of the Government 2013-2022.

Water Supply and Sanitation Services

Audit Observations

- **Ministry of Water Supply**
 - **Non-use of mobile water quality testing vehicle**
- **Department of National Community Water Supply**
 - **Non-providing the required quantity of 80 Nano filters to provide safe drinking water to the public**
 - **Only one pumping station has been built out of the 4 projects to be completed in a year**
 - **Non-taking advantages from the warranty period of water meters**
 - **Awarding of contracts in excess of engineering estimate values of water supply projects**
- **National Water Supply and Sanitation Board**
 - **Failure to fulfill water supply targets**
 - **Government contribution to National Water Supply and Drainage Board**
 - **Government funded projects of Laggala New Town Water Supply Project**
 - **Water for all Programme**
 - **Purchase of 30 cabs for distribution of water in case of non- availability of water**
 - **Releasing Water Supply Board employees to the Ministry**
 - **Payment of Bonus**
 - **Recovery of Debtor Balances**

Water Supply and Sanitation Services

We hope to ensure access to water and sanitation for all and sustainable management according to the Sustainable Development Goal 06 on water and sanitation in the 2030 Agenda for Sustainable Development of the United Nations. The institutions of the Ministry of Water Supply and the Department of Community Water Supply under it, the National Water Supply and Drainage Board, the Water Resources Board, the Water Supply and Sanitation Improvement Project, the China Sri Lanka Research Grant Project etc. were established to fulfill the role of the government regarding the overall water supply of the country

based on the above goals. The annual budget provisions were received as Rs. 32,223 million under the expenditure head of the Ministry of Water Supply and Rs. 941 million for the Department of National Community Water Supply in the year 2022 and Rs. 31,156 and 787 or 96.69 percent and 83.63 percent respectively had been utilized for this sector.

Piped water coverage is the main part of the safe drinking water coverage of the country and the percentage of piped water consumption among the total population had reached 60.2 percent by the end of the year 2022.

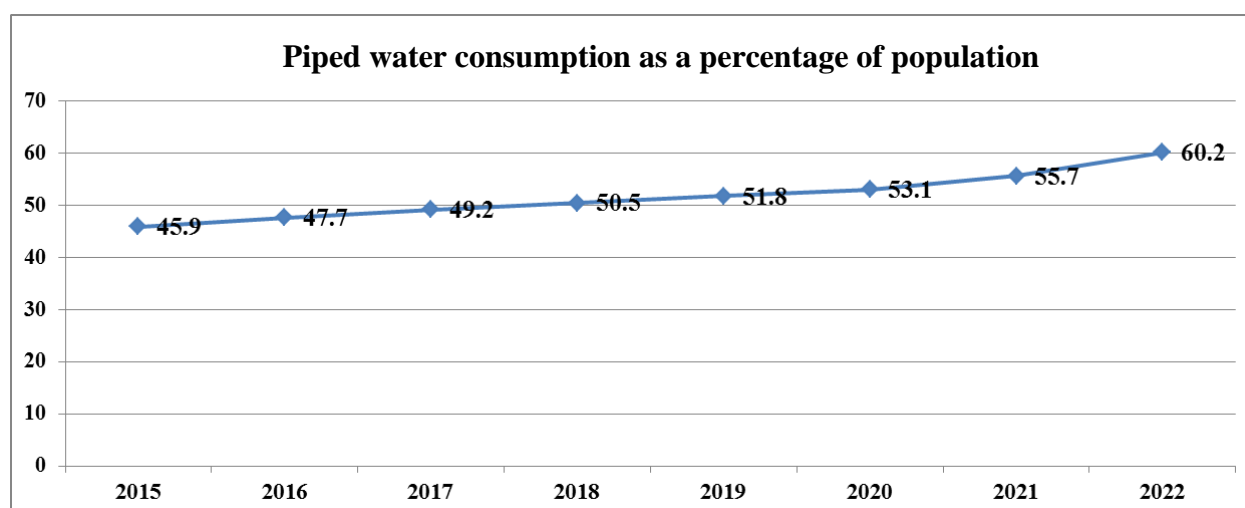


Figure 12 : Drinking piped water supply in the country (From the year 2015 to 2022) - Piped water consumption as a percentage of population

Source: National Water Supply and Drainage Board

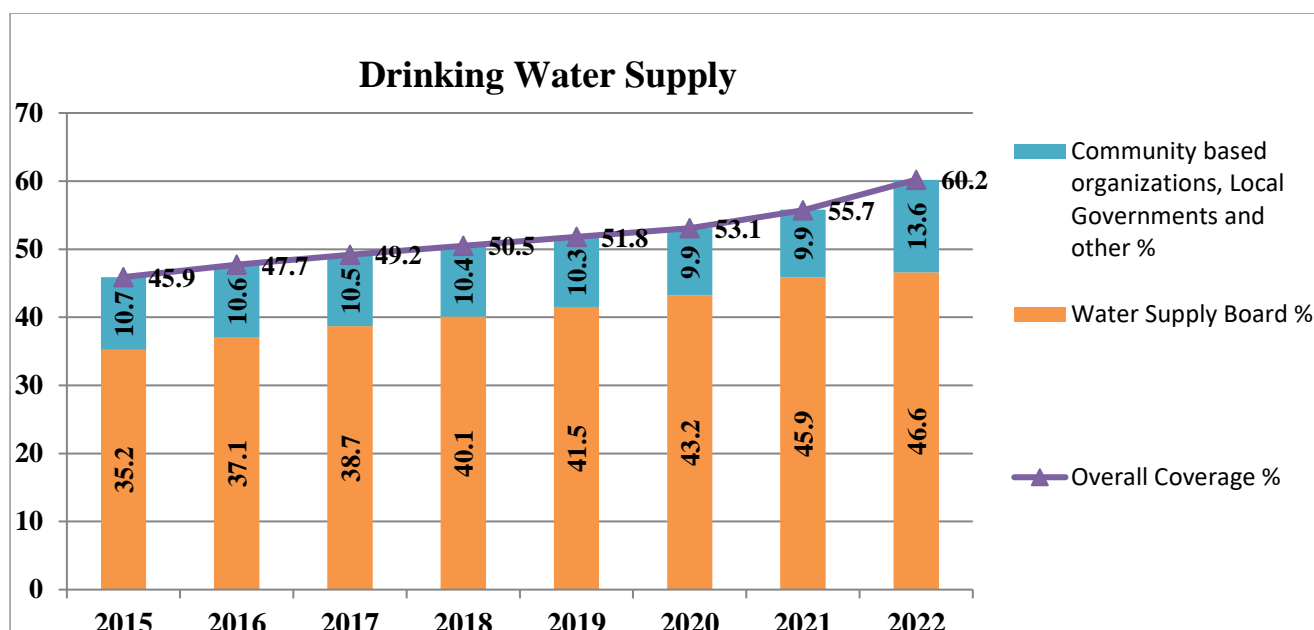


Figure 13 : Drinking piped water supply in the country (From the year 2015 to 2022) - Drinking Water Supply

Source: National Water Supply and Drainage Board

The National Water Supply and Drainage Board act the leading role in the drinking water supply of the country and the board had covered about 46.6 percent of the overall drinking water supply until the year 2022. However, the overall supply of drinking water in the country had increased by 4.5 percent in the year 2022 while compared to the year 2021, but the contribution of the board to that increase was only 0.7 percent. The contribution received from projects carried out by community-based organizations had increased by about 3.7 percent.

Ministry of Water Supply

The main objectives of the Ministry of Water Supply, established under the vision of “Safe drinking water and sanitation for all”, are to ensure access to safe and adequate drinking water facilities for the entire population and to ensure adequate and fair sanitation facilities for all. The Ministry should have performed the following tasks for that.

- Formulation of policies related to drinking water supply and sanitation
- Implementation of projects under national budget allocations
- Preparation, implementation, monitoring and evaluation of policy programmes and projects related to the subjects and tasks of the institutions under the Ministry.

Non-use of mobile water quality testing vehicle

Rs. 39 million worth mobile water quality testing vehicle, which was handed over to the Ministry of Water Supply as a grant by the Government of China, was parked idle in the ministry premises without being used for any inspection purposes until 31 December 2022.

Department of National Community Water Supply

Non-providing the required quantity of 80 Nano filters to provide safe drinking water to the public

The department had awarded contracts to supply and install 80 Nano filters under the provisions of 2021 annual budget for the purpose of providing safe drinking water to the public and the audit was informed that 25 out of that have been built and completed until 31 December 2022 at an expenditure of Rs. 121 million. As revealed in the physical audit inspections conducted in June 2023 in the districts of Puttalam, Kurunegala, Anuradhapura and Monaragala where 30 of these 80 Nano filters were planned to be provided and installed, only 03 of the 30 Nano filters purchased at an expenditure of Rs. 35.96 million were supplied and installed.

Only one pumping station has been built out of the 4 projects to be completed in a year

Contracts related to 4 water projects with an estimated cost of Rs. 53.5 million in Anuradhapura district were awarded to a private company in the year 2021 and the construction should have been completed in about a year. The construction of the pumping station had been completed only for one of these projects, but the remaining work had not been completed for over a year.

Non-taking advantages from the warranty period of water meters

945 water meters were purchased with a warranty period of one year at a total expenditure of Rs. 4.3 million during the year under review and that water meters had been idle more than a year without use until March 2023. Accordingly, the purchase of those water meters at a responsible price had become useless.

Awarding of contracts in excess of engineering estimate values of water supply projects

Contracts were awarded at a value from 24 to 29 percent higher than the engineering estimate values in relation to 5 water supply projects in Batticaloa area and 04 water supply projects in Monaragala area and the total cost increases of the contracts

due to such beyond amounted to Rs. 14.5 million.

National Water Supply and Sanitation Board

Failure to fulfill water supply targets

The corporate plan prepared for the years 2022-2025 for the National Water Supply and Drainage Board, which is the main institution that facilitates the provision of safe drinking water and sanitation in Sri

Lanka, is prepared as include new water connections that expected to be provided under the project of water for all. Accordingly, it was basically planned to provide 327,685 new water connections during the year, but it was reduced to 190,000 water connections later. However, the actual number of water connections by the board at the end of the year under review was only 153,217.

Performance index	Unit	2022	
		Targets	Achieved
Safe drinking water coverage	% from population	-	94.3
Protective tube water cover	% from population	51.3	46.6
New water supply connections	Number	190,000	153,217
Safe piped sewage facilities	% from population	2.1	2.08
Non-revenue water supplies			
Colombo town	% from purified water	18	24.11
All Island	% from purified water	23	25.24

Table 15 : Water supply targets

Government contribution to National Water Supply and Drainage Board

The loan value obtained by the board from local and foreign sources for projects with the intervention of the government is Rs. 334,844 million according to the financial statements as at 31 December 2022. A financial expenditure of Rs. 21,426 million was incurred for that during the year. Further, the audit observed that

commitment charges of Rs. 3, 213.50 million had to be paid by 31 December 2022 for 16 projects that were sample tested. Also, the loans and interest obtained for projects worth Rs. 115,115 million had been turned into government equity by 31 December 2022. Accordingly, the loan and interest should have been paid by the government.

Government funded projects

Laggala New Town Water Supply

Project

It was planned to start this project in the year 2014 with the agreement to provide a local financial contribution of Rs. 4,496 million with the aim of providing improved safe drinking water facilities to the people of Laggala area, which is a dry region where a significant number of chronic kidney patients live. The construction work of the project had started in the year 2016 and it was basically planned to complete the construction work in 02 years. The total of Rs. 2,387 million spent for the project by the end of the year 2022 and the work of this project had been continuously delayed due to various reasons.

Water for all Programme

Rs. 24,568 million, Rs. 29,568 million and Rs. 17,000 million were allocated respectively by the annual estimates of the government for this project which was started in the year 2021 at an estimated cost of Rs. 1,132.5 billion with the aim of providing pure drinking water to all Sri Lankans by the year 2025. Funds (Advances) have not been received by the ministry for the year 2020. According to the project progress reports, due to receiving only Rs. 7,559 million for the

year 2021 and Rs. 5,400 million for the year 2022 from that provisions, 1330 activities out of the planned 2914 project activities had achieved 6 percent and less than 6 percent progress as at 31 December 2022.

Purchase of 30 cabs for distribution of water in case of non- availability of water

The Greater Colombo Water and Waste water management improvement project purchased new 30 crew cabs worth Rs. 228,540,780 to distribute water to consumers in areas of non-water sources, salt related issues and low pressure distribution and Rs. 24 million had been spent for arranging decks for installing water tanks in those cabs and providing water motors and accessories. However, the fixed decks were removed and that cabs were used for other purposes. Accordingly, the expenditure of Rs. 24 million for the installation of decks and accessories was an idle expenditure.

Releasing Water Supply Board employees to the Ministry

Rs. 23 million had been paid as salary and allowances for 15 released employees to the ministry by the board contrary to section 3.5 of the operations manual issued by the Department of Public Enterprises

dated 17 November 2021 and an amount of Rs. 239 million, which is paid as salary and allowances to officers who are released to the ministry, should have been reimbursed by the Ministry of Water Supply to the National Water Supply and Drainage Board.

Payment of Bonus

According to the operational manual issued by the Department of Public Enterprises on 17 November 2021, the payment of bonuses and incentives should be made after sending the profits to the consolidated fund. On the contrary, the National Water Supply and Drainage Board had paid Rs. 269 million to its employees as effective allowance instead

of bonuses for the year 2022 under the approval of the Board of Directors despite the loss of Rs. 3.2 billion by the board.

Recovery of Debtor Balances

The board had a balance of Rs. 1,791.25 million of uncollected trade debtors of more than 2 years, new connection debtors, sewer debtors and disconnected debtors as at 31 December 2022. Also, Rs. 5.6 million water charges for new connections to be recovered in 3 installments have been overdue for 3 years, but that has not been recovered. A credit balance of Rs. 15.6 million new connections still existed at the end of the year, but it had not been settled.

Public Security Sector

Audit Observations

- **Ministry of Public Security**
 - Failure to establish a Special Task Force combat force in Mali
 - Inability to complete the project of establishing an adequate and robust communication network for the Special Task Force.
- **Sri Lanka Police**
 - Non-filling of staff vacancies
 - Utilization of provisions
 - Not amending the Police Ordinance.
 - Not using the money received for the construction of the SAARC Terrorism and Drug Offense Monitoring Center for related purposes
 - Habaraduwa “Nilasevana” housing scheme not being formally completed
 - Renting a building that does not have enough parking space
 - Non-purchase of vehicle speed limit testing equipment.
 - Sri Lanka Police not implementing an information system about the frequency of vehicle offences
 - Lack of information about the total number of vacancies in the police
 - Absence of specific basis for determining payment values under the Police Reward Fund
- **Department of Immigration and Emigration**
 - Earnings in excess of Revised Estimated Income
 - Annual review of the incentive scheme and approval of the National Pay and Staff Commission is not done
 - Non-payment of rent for space provided to outside parties in the rented building
 - Absence of relevant evidence to inform the decisions taken by the Dual Citizenship Recommendation Committee

- **Department of Registration of Persons**
 - **Receipt of income in excess of revised income estimate**
 - **Delay in Issuance of Identity Cards**
 - **Printing of defective IDs**
 - **Issuance of identity cards under general service**

Public Security Sector

Raising the service level of the Sri Lanka Police Service with the aim of ensuring public safety, controlling the use of dangerous drugs, tasks for drug menace control, ensuring internal security of the country, combating anti-social and criminal activities, ensuring the safety and care of women and children, regular traffic control and its modernization, intervention in the activities of non-governmental organizations, registration of persons and immigration Controlling, as the basic tasks of the institutions under this ministry.

To fulfill the above role in the year 2022, the Ministry of Public Security has allocated a total amounting to Rs. 12,095 million net provision was provided and at the end of the year under review, out of which Rs. 11,274 million had been utilized.

The important audit observations revealed during the sample audit tests carried out in relation to the performance of the above mentioned role are summarized and given below.

Ministry of Public Security

Failure to establish a Special Task Force combat force in Mali

Number of 160 officers were selected and trained to establish a combat force of the Special Task Force for UN peacekeeping duties in the state of Mali and Rs. 1,780 million had been spent, but by the end of the year under review, those officers had not been able to join the peacekeeping duties.

Inability to complete the project of establishing an adequate and robust communication network for the Special Task Force.

To establish a sufficient and strong communication network to successfully perform the duties assigned to the Special Task Force, Rs. 196 million project started and for the equipment provided for it in the year 2018 and Rs. 159 million had been spent. Although the project was planned to be established in the period of 2017-2020, the task force had not been able to create the expected strong communication network as the work of this project had not been fully completed by the end of 2022.

Sri Lanka Police

Non-filling of staff vacancies

The Sri Lanka Police consists of 45 regional police divisions and 79 active police divisions, and the number of police stations across the island is number of 607. In these police divisions and police stations, number of 85,144 uniform staff, 1272 police support service staff and 4,279 civil staff totaling 90,695 are working and the total number of vacancies were 24,327.

Utilization of provisions

For Sri Lanka Police an amounting to Rs. 100,779 million had been provided out of which the recurrent provision was amounting to Rs. 94,368 million and 96 percent of provision has been spent and in the capital provision of 70 percent out of Rs.6,411 million had been utilized in the year 2022.

Not amending the Police Ordinance.

The need to amend the Police Ordinance was recognized in 2014. The Act was not amended even though the approval of the Cabinet of Ministers was also received on 19 November 2014 to be updated and amended to suit the current and future social and technological development needs.

Not using the money received for the construction of the SAARC Terrorism and Drug Offense Monitoring Center for related purposes

In the year 2013, India provided Rs. 46 million and remained Rs. 12 million has been retained in the deposit account without being used for the related purpose and there was no further future program to continue this project.

Habaraduwa “Nilasevana” housing scheme not being formally completed

To buy a number 192 houses at the cost of Rs.4 million per house and an agreement was entered on 29 December 2017 for Habaraduwa “Nilasevana” scheme, with the total cost of Rs. 730 million. As at 02 April 2019, an advance of Rs. 500 million had been paid but due to the fact that these apartments were contracted to be purchased without a proper study of the need and demand. The formal acquisition of those 192 houses, including the related public facilities, have not been finished by March 2023.

Renting a building that does not have enough parking space

A building that does not have enough parking space for the use of the Anti-Terrorism and Investigation Division and the newly established 04 Police Divisions at the cost of Rs. 235 million for the rent

per annum and the monthly electricity expenses including moving the cars up and down were about Rs. 3 million had to be paid, but this building has been re rented for 02 years at the cost Rs. 250 million.

Non-purchase of vehicle speed limit testing equipment.

In the last time number of 25 vehicle Speed Limit Testing equipment units were purchase in the year 2016 . Before that, 30 units were purchased in 2014 and 100 units in 2010, and a large number of these equipments were currently inactive. In the period of 2018-2022, number of 500 speed measuring machines (Automatic Speed Trap) have been requested by the Traffic Control and Road Safety Division, but they have not been received.

Sri Lanka Police not implementing an information system about the frequency of vehicle offences

The system of charging fines according to the frequency of motor vehicle offenses introduced by the Motor Vehicles (Amendment) Act No. 10 of 2019 will be implemented from 20 June 2019, but an information system to clearly identify the number of times the offenders commit the same offense in relation to traffic offenses in Sri Lanka due to the lack of enforcement by the police and it was not possible to collect the correct amount of

fine from the convicts who commit the same offence in several times.

Lack of information about the total number of vacancies in the police

Although the total number of vacancies in the police has been calculated as 24,327 by the end of the year 2022, after a study on the nature of duties of police divisions and police stations, it cannot be stated with certainty whether there are vacancies or excess in that division and police stations due to the absence of specifically identified approved staff. it was observed that in this situation, staff placement had been done without proper system.

Absence of specific basis for determining payment values under the Police Reward Fund

The orders made by the Minister of Public Security in relation to the fund under Section 73 of the Police Ordinance Act were published in the Extraordinary Gazette of the Democratic Socialist Republic of Sri Lanka dated 09 March 1990. Those orders should have been updated to suit the present. There was a need to update the clauses related to the fund as the payment of money rewards on a fair basis was not a specific basis for determining the payment values.

Information on the main income, expenses and investment values of the Police

Reward Fund for the period 2015 - 2022 is given in Figure 16.

Particulars	2015	2016	2017	2018	2019	2020	2021	2022
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
	Mn	Mn	Mn	Mn	Mn	Mn	Mn	Mn
Main Revenues								
Court fines	713	845	962	1,014	984	1,017	925	1,312
Traffic fines	438	643	668	945	1, 219	646	698	623
Interest on Fixed Deposits	325	469	819	1,014	1,275	1,198	902	2,045
Total	1,476	1,957	2,449	2,973	3,478	2,861	2,525	3,980
Main expenses								
Reward payments	567	685	715	885	872	1,427	981	1,185
Welfare	-	-	-	-	6	93	125	360
Total	567	685	715	885	878	1,520	1,106	1,545
Percentage of expenses to main income	38%	35%	29%	30%	25%	53%	44%	39%
Fixed deposit value	5,333	6,750	8,123	9,824	12,307	14,071	15,869	17,481

Figure 16 -. Information on the main income, expenses and investment values of the Police Reward Fund

Source - Police Reward Fund Financial Statements 2015 -2022.

Other facts observed in this regard were as follows.

- Except for the two years 2020 and 2021, in the remaining six years, less than 40% was spent on reward payments to police officers and their welfare.
- The total value invested in January and February 2022 was Rs. 1,490 million

in relation to 4 fixed deposits in September 2022. After canceling those deposits and reinvesting them at a higher interest rate, by calculating the advantages and disadvantages and canceling the existing investments and by reinvesting them, an additional amount of Rs. 18 million as interest was identified to be earned. But it had been lost due to delay in decision-making.

Department of Immigration and Emigration

Earnings in excess of Revised Estimated Income

For the year ending 31 December 2022, the preliminary estimated revenue of the Department of Immigration and Emigration was Rs. 8,480 million and the revised estimated revenue of Rs. 23,500 million or 177 percent of the initial estimate. As the actual income for the year under review was Rs.23,834 million, the revised income exceeded Rs. 335 million in earnings.

Annual review of the incentive scheme and approval of the National Pay and Staff Commission is not done

Although the incentive scheme implemented in the Department of Immigration and Emigration should be reviewed annually and approved by the Director General of Institutions on the advice of the National Salary and Staffing Commission, it was not acted upon after the year 2014. Accordingly, the value of the incentives paid in the year 2022 was Rs 192 million.

Non-payment of rent for space provided to outside parties in the rented building

Space facilities of 1st floor to 7th floor of Suhurupaya Building, Battaramulla and part of the “Piyasa” Premises are rented

out and paid rent by the Department and dealing with several banks (BOC, NSB, PEOPLE'S BANK, SAMPATH BANK) on the first floor and two Courier Agencies on the second floor have been allocated for but no rent or other charges have been collected from those institutions.

Absence of relevant evidence to inform the decisions taken by the Dual Citizenship Recommendation Committee

There were number of 2,160 applications received from the year 2015 to 30 June 2022 that were approved by the Dual Citizenship Recommendation Committee and the applicants were notified for payment and no action was taken other than the first automated e-mail message was sent to those applicants to issue the relevant certificate and collect the approved income.

Department of Registration of Persons Receipt of income in excess of revised income estimate

For the year ending 31 December 2022, the department's basic revenue estimate was Rs. 352 million and the revised revenue estimate was Rs. 431 million or 122 percent of the initial estimate. The actual income for the year under review was Rs. 552 million and the revised

income exceeded Rs. 121 million in earnings.

Delay in Issuance of Identity Cards

Although an application submitted to the certifying officer should be handed over to the ID card division within 07 days, but there were cases where a period of 10 to 35 days had passed for the ID card division to receive the application, as well as delays of 13 days to 51 days for the Gramaniladari to hand over the money to the divisional secretariat that there were times that had passed.

Printing of defective IDs

The total number of ID cards printed during the year under review was number of 628,973, of which 22,497 or 4 percent were defective. These defective ID cards were comprised of both PVC and Polycarbonate card types, but the

department failed to submit the total number of defective ID cards separately for the two types of cards, so the information required for the cost calculation related to the defective ID cards was not submitted to the audit.

Issuance of identity cards under general service

The Department of Registration of Persons had number of 650,034 applications for which an identity card was not issued as at 01 January 2022 under the normal service and during the year under review, number of 675,583 applications were received under the normal service, but the department issued only 459,978 national identity cards under the normal service in the year ending 31 December 2022, so the number of identity cards to be issued as at 31 December 2022 was 865,639.

National Security

Audit Observations

- **Ministry of Defence**
 - Inability to complete the contract within the expected time
 - Non-utilization of assets
- **National Defence Fund**
 - Inability to complete the payment of benefits for the housing project
 - Not taking advantage of the increase in interest rates
- **The fund of “Api Wenuwen Api”**
 - Benefiting very few of the selected beneficiaries
- **Sri Lanka Air Force**
- **Defence Services Command and Staff College**
- **Ranaviru Sewa Authority**
- **Sri Lanka Army**
- **Sri Lanka Navy**
- **Department of Sri Lanka Coast Guard**
- **Rakna Arakshaka Lanka Company Limited**
- **General Sir John Kotalawala Defence University**
- **Department of Civil Security**
- **Department of Multipurpose Development Task Force**

National security

The following functions and tasks should have been performed by the Ministry of Defense and 07 departments under it and 16 statutory boards/institution

- Formulation, implementation, follow-up and evaluation of policies, programs and projects related to the subjects of departments and statutory bodies and government corporations related to the subject of public security.
- Provision of public services under the scope of the Ministry in an efficient and public-friendly manner.
- Reforming all methods and procedures using modern management methods and technology to help ensure the fulfillment of the ministry's role by eliminating waste and corruption.
- Ensuring national security.
- Maintain intelligence services related to state and internal security.
- Explosives and affairs of firearms.

- Providing security education and post-service education for security service personnel.
- Administration of rescue operations and coast guard service.
- Activities related to extradition, prevention and control of the use of dangerous drugs.
- Provision of weather and climate services.
- Landslide disaster management and related research and development activities.

Based on the revised estimate of the year 2022, the Parliament had provided a total of Rs.394,477 million to the Ministry and 07 Departments to fulfill the aforementioned role, by the end of the year under review, out of which Only Rs.353,125 million had been utilized. Details are shown in Figure 14.

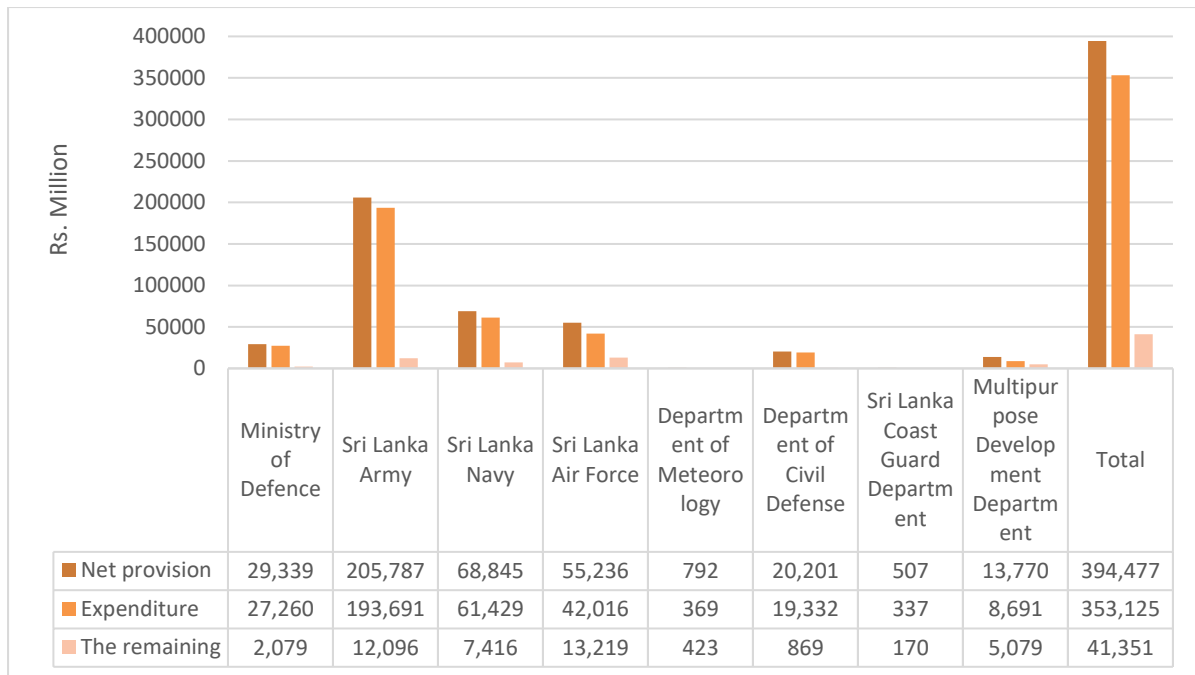


Figure 14 – Provision given and Expenditure.
Source - 2022 Annual Financial Statements.

The significant audit observations revealed during the sample audit tests performed in relation to the performance of the above role are summarized below.

Ministry of Defence

Inability to complete the contract within the expected time

The contract period had to be extended due to the inability to complete the contract within the expected time due to the delay in certain constructions of the Defence Forces Headquarters construction project and delay in opening the letters of credit etc. Due to the extension of such contract period by the end of the year under review, an amounting to Rs. 1,389 million and US dollars 28 claims for extension of time (Claims for EOT) of US dollars 6.21

million had been applied for by 06 supply contractors.

Progress of the Strategic Defence Communications Network project has not reached the desired performance levels

To establish a common communication mechanism between security services, the Strategic Defence Communication Network project was proposed to be completed during the period of 2014-2016 at a cost of Rs. 1,192 million, but due to various delays, the project period has been extended by 06 years on three occasions, but by the end of the year under review, the expected performance levels had not been reached. The procurement work of purchasing a microwave radio

communication system for this project had started in the year 2016, but the recommendation of the procurement committee had been delayed until 20 April 2022 and by that date, the procurement work had been temporarily suspended due to the disruption of the allocation. Thus, the delay of almost 06 years for this procurement work had directly affected to the delay of the project.

Non-utilization of assets

For the strategic defence communication network project, 22 Electric Power Generators that were purchased at a cost of Rs. 38.54 million in the year 2016 and 2017 and 11 Communication Towers that were completed at a cost of Rs. 562 million and 11 Communication Towers and due to the long delay of concurrent actions, the equipment rooms connected to it could not be used for the intended purpose from the year 2020 and so that the cost of Rs.659 million was not utilized effectively.

National Defence Fund

This fund is a fund established under the National Defence Fund Act No. 9 of 1985 to provide funds for national security and the observations of its functions are given below.

Inability to complete the payment of benefits for the housing project

Though it has been planned to complete the payment of Rs.750,000 each to 150 beneficiaries totaling Rs. 113 million in the year 2022 to complete the half-built houses of War Heroes under the ‘Metsewana’ , but failed to pay any premium during that year.

Not taking advantage of the increase in interest rates

Although the interest rates have been increased in May 2022, the decision on reinvestment has been delayed by over two months, so the benefit of the increase in interest rates has not been utilized optimally. Accordingly, the estimated interest income lost for 72 days of delay is was over Rs. 22 million.

The fund of “Api Wenuwen Api”

This fund is a fund established under the Api Wenuwen Api Fund Act No. 6 of 2008 to provide loans to the members of the armed services for building houses or buying houses. The observations of its functions are given below.

Benefiting very few of the selected beneficiaries

Although it is planned to provide housing assistance for 25 full houses and 350 half houses subject to a maximum of Rs.300

million in the year under review and an amounting to Rs.7 million was paid as partial housing assistance for only to 11 beneficiaries selected from the requests submitted in the public days held by Ministry of Defence during the year under review. Accordingly, the financial performance of the reviewed year was at a minimum level of 2.3 percent.

Sri Lanka Air Force

With the vision of the Sri Lanka Air Force is to "Ensuring national security through the effective use of air power", 5 main tasks are performed for the mission of "To train , equip and deploy a professional Air Force exploiting our core competencies to undertake air operations in support of national security" to fulfill this function, the Sri Lanka Air Force administrative structure operates with 05 bases including the Air Force Headquarters in Colombo.

- Rs.16 million of the allocation for purchase of Armored Cars (APC-15) under the Pakistan loan scheme was used for the purchase of spare parts for the Radar System under the indian loan scheme.
- In the year 2022, the Air Force Museum in Ratmalana Air Force base earned Rs. 21 million as revenue, but out of that the lost to the government revenue was Rs. 19 million.
- The Sri Lanka Air Force has 66 Aircrafts out of 110 Aircrafts with a total value of Rs. 53,847 million have been out of the operation for a long time ranging from 1 to 23 years.
- The total value of 31 types of goods in 3 bases of the Sri Lanka Air Force totaling Rs. 29 million, remained idle in warehouses for a period of 01 to 09 years without any use.
- The Land Rover Defender Jeep purchased on 01 April 2022 for Rs. 42 million to be sent to the Peacekeeping Force but was not sent to the Peacekeeping Force as at 19 May 2023, even though more than a year had passed.
- In the year 2018, out of 06 Airplanes purchased by paying Rs. 946 million, 2 Airplanes were completely destroyed in an accident in the year 2020 and in the year 2023. The remaining 04 Aircraft purchased were also not used for training for over 2 years due to delayed engine maintenance. Accordingly, the total expenditure

incurred was an uneconomical expenditure.

- In the year 2021, a compensation of US Dollar 2,875,136.55 should have been reimbursed for contributing to the prevention of the "X Press Pearl" ship accident and due to the fact that the Air Force did not submit further evidence required to obtain the risk allowance of US Dollar 1,149,500 included in it, the relevant indemnifying parties refused to pay it, so the entire amount was lost to the government.

- Number of 50 Aircraft Spare Parts with a total value of US Dollar 179,633 sent to overseas for repairs during the year 2004-2013 and 53 Aircraft spare parts sent for overseas repairs during the year 2016 to 2020. Though it had been spent 2 to 18 years, it had not been returned to the Air Force.

Defence Services Command and Staff College

To prepare and impart knowledge to officers of the armed forces for appropriate appointments and promotions in the respective services, the total expenditure of the Staff College in the year 2022 was Rs. 171 million, whose main mission was

to improve the professional knowledge and understanding of those officials who were selected for training at the Staff College.

Due to the problem of water leakage in the four-storied library and examination hall building built at a cost of Rs. 133 million, the electrical system and walls of the upper floor have been heavily damaged, and from 2019 to the year under review, it was not possible to carry out the renovation works.

Ranaviru Sewa Authority

The primary objective of the Authority was to promote the welfare of disabled members of the armed forces and police and the dependents of members of the armed forces and police killed in the operations or missing. In the year 2022, the total expenditure of the authority was Rs. 464 million.

- At the end of the year under review, the authority had failed to maintain an up-to-date formal and accurate information system on the disabled, missing and deceased or their dependents.
- In the year 2001, a land valued at Rs. 1.5 million of 1 acre 1 rood 09 perches received as a donation for the

construction of houses remained idle without utilization even at the end of the year under review.

- Rs.3,192 million had been allocated for the completion of 1950 full houses and 1700 half houses under the Virusumithuru Housing Project which was started in 2017 and implemented jointly by the Authority and the National Housing Development Authority. But by the end of the year 2022, the number of beneficiaries who have been given assistance was 550, which was as low as 15 percent of the total project.

Sri Lanka Army

The Army is the largest army that has the main task of preserving the unity, sovereignty and territorial integrity of the country through professionalism, trustworthiness and respectability, creating a peaceful environment in the country and making an incomparable contribution to the security of the state and also supporting national disasters and emergency situations.

- The total expenditure for the activities of the army in the year 2022 was Rs. 194 billion, and the Recurrent Expenditure was Rs. 190 billion. Out

of which Rs. 148 billion had been spent for the payment of salaries and allowances. Following are some of the facts revealed by the audit about the Army.

- In the year 2018, the Presidential Secretariat had given an allocation of Rs. 100 million to the Army for the renovation of 11 Tanks in Anuradhapura district and due to the non-completion of the renovations of four Tanks, the rural people of those areas had faced various inconveniences. Furthermore, an amounting to Rs.28 million had been spent on office and machinery equipment not directly related to the Tank renovation, and a stock of Cement worth of Rs.1.6 million given by the Anuradhapura District Secretariat had been used for the construction of Army Camps.
- With the allocation of Rs.205 million for the project for Security and Prevention of Terrorism Planned to be implemented in the year under review was not implemented and under another allocation of Rs. 1,153 million was given to the Army for some development programs of the government, of which Rs. 634 million

were saved at the end of the year so as the percentage of completion of two Access Roads and a Primary School Building under this project were less than 15 percent.

- Number of 15 plots of land and number of 2,163 buildings worth of Rs. 35 billion, which were owned by the Army and were being used by the Army for a long time, were not registered and number of 3201 vehicles owned and used by the Army were not covered by insurance. Furthermore, Tires and Vehicle Batteries worth of Rs. 5 million which bought without looking into the requirement had to be disposed without being used and losses and damages of Rs.13 billion which occurred to various assets of the Army over five years had been recovered or written-off in slowly. The service received by the Army and the civilians from the two medical buses (a bus with a mobile medical examination room and a pharmacy and a bus with mobile laboratory facilities) purchased at a cost of Rs. 39 million to maintain the medical affairs of the Army and the service provided to the Army and the civilians was very low.

- The procurement plan prepared with an estimated cost of Rs.47 billion for the year under review had not been specified the quantities of goods or services to be procured. Limited/Restricted National Competitive Bidding had been used for procurements which worth of Rs.693 million without considering the Procurement Guidelines. Also, Army had failed to get competitive prices due to requesting prices from suppliers without asking the availability of stock and without explaining the specification as required. Furthermore, due to the procurement activities being carried out without Bid Bond, performance Bond and Contract Agreement, the suppliers had failed to supply materials worth Rs. 368 million in the purchase of equipment including Ready-Mix concrete for the Building construction and repairing works of the army, and the procurement had to be repeated at an additional cost.

Sri Lanka Navy

The Ceylon Royal Navy was established by the Navy Act No. 34 of 1950 and the Sri Lanka Navy was established and maintained by the Navy (Amendment) Act No. 11 of 1993. The Navy has 15 naval activities and 07 non-naval activities whose mission is to carry out naval

operations to ensure maritime security in accordance with national policies for national security and national interests. The Navy is divided into 07 naval commands covering the entire island and administered.

- Investigations related to the financial discrepancy of Rs.8 million in the Gunpowder warehouse in 2017 have not yet been completed.
- Naval personnel were deployed to construct a building in a private academic institution in Negombo. On the approval of the Ministry of Defence. Number of 1614 man days was used for the construction work of this project which had started in December 2019 and number of 9901 man-days without the approval of the Ministry of Defence and number of 11,515 man-days as gross salary expenditure of Rs. 28 million had been borne, but it had not been reimbursed.

Department of Sri Lanka Coast Guard

The Coast Guard Department of Sri Lanka was established by the Coast Guard Act No. 41 of 2009 to ensure the security, safety and serenity of the maritime environment and the implementation of effective marine law, management of biodiversity, management of natural and

man-made disasters and protection of life and property, maintaining the balance of the environment and prevention of marine pollution as the mission, and the department consisted of 12 roles.

- To conduct a review of the department's annual activities and submit a detailed report on the same to the Minister due to the fact that an advisory council has not been established in accordance with Sections 11 and 12 of Part III of the Act. and so as it was also not possible to make recommendations to the minister on the policies to be implemented by the department and to give advice to the minister in charge of defence on any matter.
- During the year under review, the department had seized 07 vessels including boats involved in the transportation of prohibited drugs.
- During the year under review, the department had handed over 330 grams of prohibited Drugs and number of 1300 prohibited Tablets to the Sri Lanka Police which had been seized on 14 occasions.

- Value of Rs. 284 million ships and 07 vessels remained idle for a period ranging from 03 months to 3 years, but due to lack of provision, they were not repaired and put into service.

Rakna Arakshaka Lanka Company Limited

This company is a public company wholly owned by the Ministry of Defence of the Government of Sri Lanka and registered under the Companies Act No. 07 of 2007. The role of this company includes business of maritime security, industrial and commercial security services, firefighting services, restaurant and cafeteria business, demining services, providing security for money and credit transactions. Through the above roles, the company had earned an income of Rs. 1,986 million during the financial year 2020/2021 and its expenditure was Rs. 1,872 million. The company has a staff of 220, out of which 181 are working on contract basis.

- A disclaimer of opinion had been issued on the company's financial statements from the financial year 2016/2017 to the financial year 2020/2021.
- Although the debtors amounting to Rs.1841 million had been written off in the books, the Treasury's approval had

not been obtained for the same. Also, the relevant journal vouchers were not prepared and the transaction could not be checked as there were no other relevant evidences.

- According to the financial statements of the company as at 31 March 2021, the confirmations for the trade and other receivable balances sum of Rs. 557 million and a sum of Rs. 170 million of trade and other payables were not submitted to the audit to confirm those balances.

General Sir John Kotalawala Defence University

In terms of the General Sir John Kotalawala State Defence Training Establishments Act No. 68 of 1981 as amended by Acts No. 27 of 1988 and No. 50 of 2007, established to conduct courses of study and provide instruction to officers, bureaucrats and government officials in subjects of study relevant to national security and army management.

- From the year 2011, degrees were awarded to the local and foreign students who were not Cadet Officers or Government Officials on the basis of payment and in the year 2022, number of 31 degree courses were being implemented for the number of

4,376 students who were studying for the degree. Out of these 31 degree courses, 11 degree courses were conducted only for non-cadet officers, enrolled students on the basis of payment.

- Although in the Committee on Public Enterprises held in 2018, informed to amend the University Act to suit for the university to cover the issues of student enrollment and the validity of the decisions of the governing body during the year under review, the work of amending the Act was not completed.

- In the year 2013, loan amounted to US\$ 201.6 million given by the National Savings Bank for the construction of the teaching hospital of the Defence University, Kotalawala. Out of that US\$ 21.5 million equal to Rs. 7,468 million which was spent for the purchase of medical equipment remained unutilized as at 31 December 2022.
- From the year 2017 to the year 2022 number of 90 medical equipment which had been purchased at a cost of Rs. 85 million and a stock of medical equipment purchased at a cost of Rs.77

million were kept idle in the warehouse. Also, since the month of May 2022, the Ward No. 07, which provides inpatient medical treatment in the teaching hospital, was closed and stopped its use, number of 52 items of medical equipment worth of Rs.14 million, due to intensive care units number 02, 03 and 04 had been stopped from being used, number 145 of items worth Rs. 198 million remained idle for more than a year. Accordingly, the value of the total assets not in use was Rs. 374 million.

- The University Teaching Hospital was established on the land of 21.5815 hectares belonging to the Ceylon Transport Board located in Kesbawa Divisional Secretariat and the legal ownership of that land had not been transferred to the University even at the end of the year under review. But the value of the buildings belonging to the Teaching Hospital which was built on that land was Rs. 45,386 million, and for the development of the land, Rs. 1,217 million had also been incurred. At the end of the year under review, more than 06 years have passed since the completion of the construction, the related land acquisition works had not been completed.

- In the year 2018, during the construction of the Kotalawala Defence University Teaching Hospital, a Pneumatic Tube System was established at a cost of US\$ 530,000 for the purpose of transporting laboratory test materials and reports related to 56 departments. But for the year 2022, it was observed that between number of 2 and 100 less amount of data were used for data transport for 24 divisions out of 56 divisions that was only for 47 divisions.
- On 24th January 2022 Defense Ministry Secretary and Amrita Technologies and Thinkcube Systems company spending US\$ 1.3 million in Kotalawala Defense University Teaching Hospital and tripartite agreement was reached to establish a health information management system. As per the agreement, the system was expected to be completed on 24th February 2023, but as at 31st May 2023, the date of the audit, the work of establishing the system had not been completed.

Department of Civil Security

After the war victory, the department was constituted with 7 main objectives under the mission of contributing to the national development process of the country.

- The service provided by the Department by 31 December 2022 for the security and other services to other public and private institutions, but the department had failed to recover the arrears of Rs.334 million from those institution by 24 March 2023.
- Contrary to Section 1.3 of Chapter xxviii of the Code of Establishment of the Democratic Socialist Republic of Sri Lanka, 2569 men/women of the department have been assigned to different sacred places including temples/archaeological sites in various parts of the island for various duties for a long time and an amount of Rs.1,294.78 million was paid as salaries in the year 2022 without formal monitoring of arrival and departure of soldiers.

Department of Multipurpose Development Task Force

The department's main target is to select 100,000 youth from poverty-stricken families with minimum educational qualifications across the island and to impart formal vocational training to them

and employ them as multi-purpose development work assistants for the service requirements of primary category vacancies in government and semi-government institutions. This arduous task is currently being successfully

implemented and those professional level assistants have been appropriately empowered to engage in private sector jobs as needed, and if necessary, to employ them for the needs of the foreign labor market.

Judicial Prisons affairs and Constitutional Reforms Sector

Audit Observations

- **Non-utilization of the provisions made to complete the drafting of a new constitution.**
- **Receipt of compensation in local currency but not in US dollars.**
- **Courts Administration.**
 - **Abundant of the project to automate the judicial system in Sri Lanka.**
 - **Not using the equipment that was bought to change the method of taking evidence of children.**
- **Department of Debt Conciliation Board**
 - **Not appointing approved number of members for branch boards**
- **Department of Prison**
 - **Income of welfare canteens and outlets not credited to government revenue.**
 - **Insufficient space in prison cells for inmates.**
 - **Insufficient space in prison cells for inmates**
 - **Non-segregation of detainees into groups.**
 - **Not referring patients ordered for rehabilitation to rehabilitation centers**
 - **The increase in the number of prisoners who were imprisoned due to non-receipt of test reports.**
 - **Non-use of management information system.**
 - **Non-employment of doctors attached to prison hospitals.**
 - **Running a private business using departmental resources by showing a departmental welfare restaurant.**

- **Attorney General's Department**
 - **Non-introduction of Citizen/Beneficiary Charter.**
- **Department of Government Analyst's**
 - **Weaknesses in Utilization of Provisions.**
 - **Weakness of progress in conducting tests and issuing analysis reports.**
 - **Non-recovery of dues from officers who have gone abroad and left service.**
- **Department of Community Based Corrections**
 - **Lack of adequate facilities for community reform processes.**
 - **Failure to achieve desired objectives by installing fingerprint machines**
- **Judges of the Supreme Court**
 - **Very low Progress in the number of cases resolved**
- **Judicial Service Commission.**
 - **Failure to achieve the Sustainable Development Goals.**
 - **Failure to introduce the Citizen/Beneficiary Charter.**
- **Legal Aid Commission**
 - **Progress in settlement of cases for provision of legal aid.**
- **Office of Compensation.**
 - **Delay in compensation process.**
 - **Performing compensation activities based on non-updated information.**
 - **Keeping money in a current account without any economic benefit.**
- **Office of Missing Persons.**
 - **Underestimating the number of complaints investigated compared to the total number of complaints received.**
 - **Delay in updating files.**
- **National Authority for the Protection of Victims of Crime and Witnesses.**
 - **Failure to prepare, accept and implement a scheme for awarding compensation.**
 - **Non-utilization of Safe House.**

Judicial Prisons affairs and Constitutional Reforms Sector

Under the vision of a legal system trusted by the people of the country and a fair Sri Lanka, the following objectives are expected to be achieved by creating a stable, fair and free environment for the people of Sri Lanka through efficient judicial administration centered on the people.

- Effective and timely law reforms
- Policy development initiatives
- To cooperate and connect with international organizations.
- Community Legal Services

In order to achieve these objectives, the main responsibility of the Ministry is the management, supervision and follow-up of the departments and institutions under the Ministry under a number of key functions. The main functions of all the institutions

established under the Ministry are to reach the relevant objectives. Accordingly, 08 departments and 11 statutory boards/institutions have been established to perform 28 functions under the judicial and prison affairs, and the law college has been published in the gazette under this ministry, but no provision has been made.

The facts revealed during the audit regarding the performance of those tasks were summarized as follows.

To fulfill the above role in the year 2022, an amounting to Rs.32,138 million had been approved by the Parliament to the Ministry of Justice and 09 Departments and by the end of the year under review, the total was Rs. 27,114 million had been utilized. The details are shown in the Figure 15.

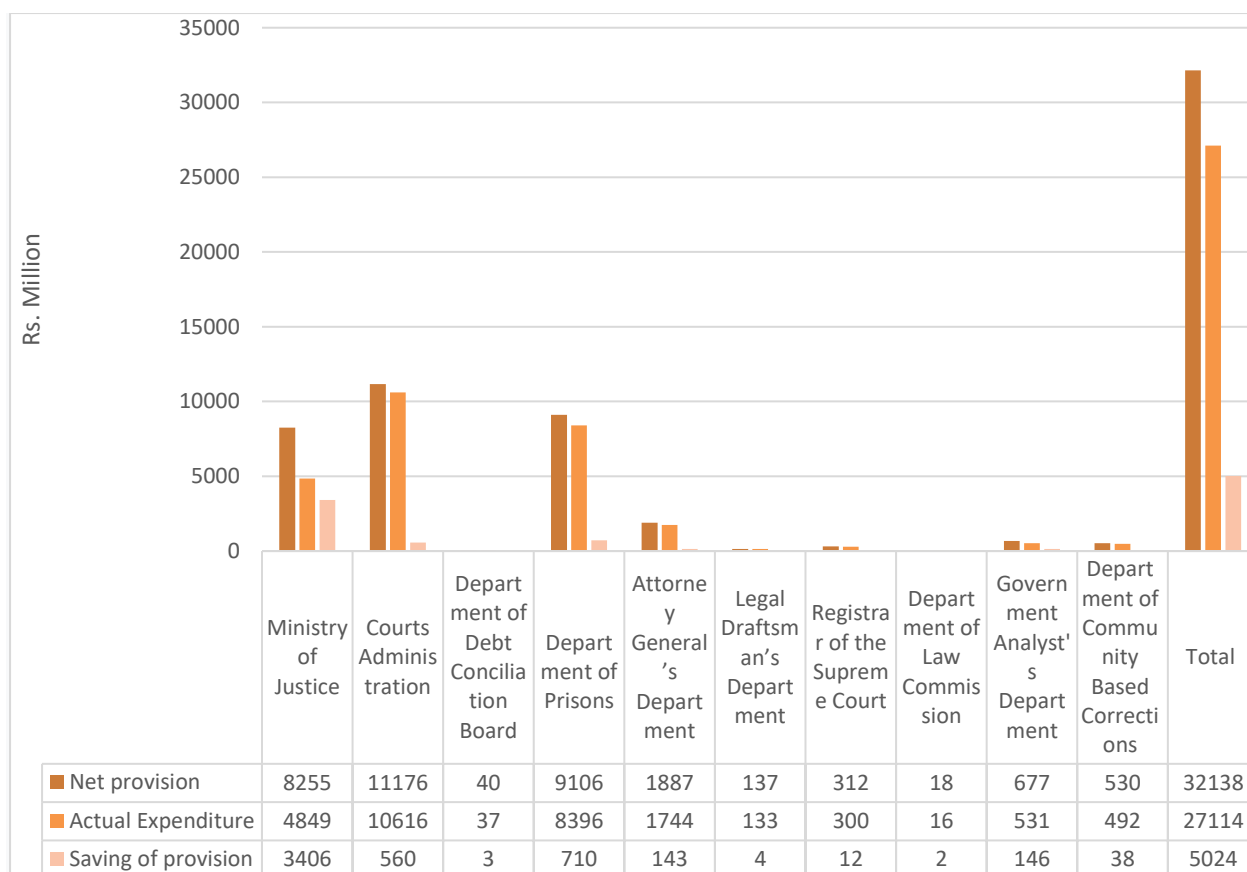


Figure 15 – Provision given and Expenditure.

Source - 2022 Annual Financial Statements.

Non-utilization of the provisions made to complete the drafting of a new constitution

Although a total of Rs. 155 million has been made in the annual estimates of the years 2020, 2021 and 2022 in the form of Rs. 50 million, Rs. 100 million and Rs. 5 million respectively in order to identify a specific time frame to complete the drafting of a new constitution, out of which, in the years 2020, 2021 and 2022, Rs. 41 million, Rs. 88 million and Rs. 4 million or 78 to 88 percent of the provisions were saved without spent.

Receipt of compensation in local currency but not in US dollars

For the compensation of the damage caused to the coastal system and the fishing community to the land system due to the marine hazard caused by the burning vessel MV X – Press Pearl, and to take legal action a charge of Rs. 77 million had been paid to an Australian law firm. Although the services of an international law firm had been paid at a high price, the compensation was not paid in US dollars but acceptance of compensation worth Rs.912 million as internal remittance was problematic in the audit.

Courts Administration

Abundant of the project to automate the judicial system in Sri Lanka

An amount of Rs. 79 million was contracted to provide consultancy services for the project of automating the judicial system of Sri Lanka which was planned to be implemented from the year 2016 and for that Rs. 36 million had been paid to that institution from the year 2017 to the year 2022. Although expenses of Rs.49 million had been incurred, but by the end of the year 2022 only a contractor had been selected for the project. Out of the money paid to Sri Lanka Information Technology Agency for providing consultancy services, Rs. 27 million was remitted to the Ministry of Justice and the Ministry had decided to suspend the project.

Not using the equipment that was bought to change the method of taking evidence of children

For getting 26 sets of Equipment for the project of providing evidence of children

through audio-visual communication without taking it from open court, an amounting to Rs.49 million had been spent, but the objectives had not been achieved by the date of audit.

Department of Debt Conciliation Board

Not appointing approved number of members for branch boards

Although the composition of the branch boards should consist of the chairman and not more than four and not less than two other members, the Kurunegala branch board had only consisted of the chairman and one other member since September 2022. Furthermore, since the Kurunegala branch board has been entrusted with the functions of 14 out of 34 judicial service jurisdictions, the ability to achieve the desired objectives by establishing regional branch boards was problematic.

Progress in resolving requests for loan relief.

	2022	2021	2020	2019
Total number of applications	1881	1406	1268	1237
Number of settled during the year	822	230	222	416
Balance of non settled applications as at 31 December	1059	1176	1046	821
Balance of non-settled as a % of total applications	57	84	82	66

Table 17 - Progress in resolving requests for loan relief.

By the year 2022, the total number of applications held by the department was 1881. The number of pending applications as of 31 December 2022 were 1,059, of which 192 applications were from the head office, and 177, 106, 281 and 303 applications from Colombo, Galle, Gampaha and Kurunegala branch boards respectively.

Department of Prison

The objectives of the Department of Prisons are to contribute to the creation of a civilized society by turning prison inmates into law-abiding humanitarians through formal rehabilitation and building the motivation of prison officers and departmental team spirit. For that, the department of prison performs 09 main functions.

Income of welfare canteens and outlets not credited to government revenue

Department officials were assigned to work in the welfare canteens and shops operating in the prison department and the cost of water and electricity are borne by the department of prison. But their rentals were not credited to the government

revenue as rental income. In the first six months of the year 2022, for number of 27 prison officers assigned to the canteens and Department of Prison had to paid an amount of Rs. 8 million for this staff. In addition to the number of 5,581 man-days of prison labor were used, by only of sale of food items and hygiene items to the inmates an amounting to Rs. 105 million had been earned.

Insufficient space in prison cells for inmates

Although there should be adequate space and facilities in accordance with the accepted international standards and the provisions of the Prison Ordinance and in accordance with the internal circulars in such a way as to suit the mental and physical fitness of the inmates, As at 01 July 2022, there was a shortage of 108,689 square feet of space for male inmates in 14 prisons.

During the period from 31 December 2015 to 31 December 2022, the number of inmates exceeding prison capacity was shown in Figure 16.

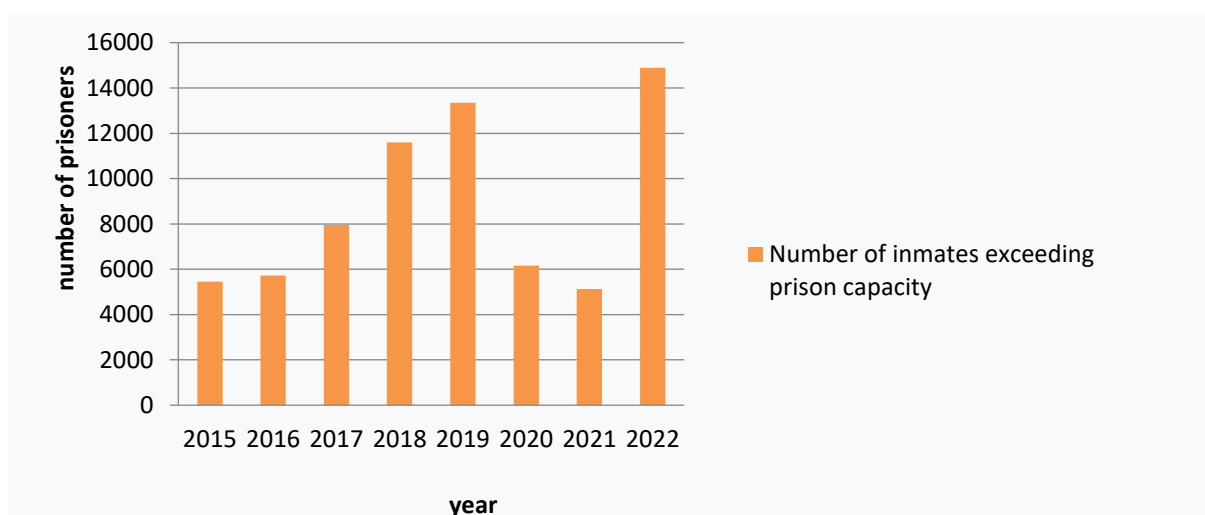


Figure 16 – Number of inmates exceeding prison capacity

Source - Statistics Division of Prisons Department

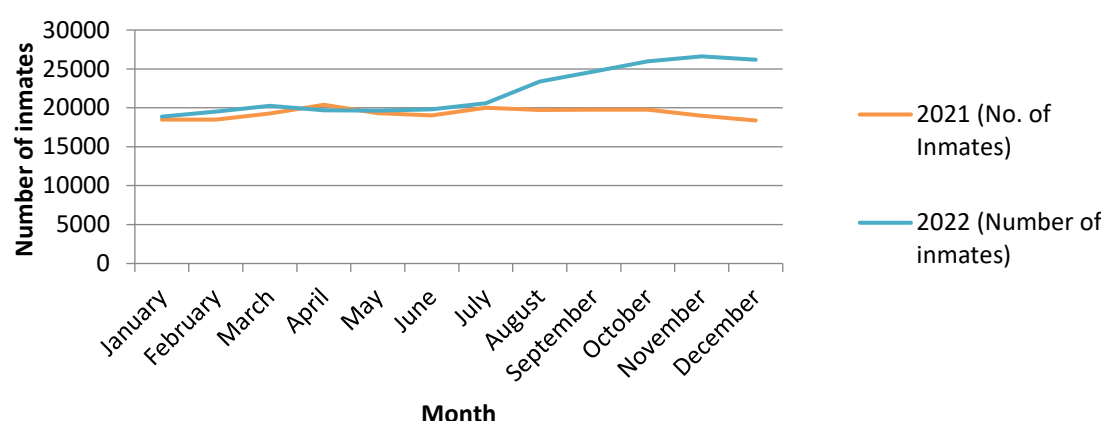


Figure 17 - Number of inmates in prison in each month of 2022 compared to 2021

Source - Statistics Division of Prisons Department

As at 31 December 2022, the prison capacity was 11,291, but the number of inmates was 14,885. As at 31 December 2022, figures for each of the 27 prison institutions ranged from 62 to 1,907 inmates have been observed as overcapacity.

Non-segregation of detainees into groups

Inmates shall be segregated and detained in accordance with the provisions of the Prison Ordinance. But during the physical checks conducted by the audit in the prisons, 2,222 numbers of inmates have been detained without classification observed in 04 occasions.

Not referring patients ordered for rehabilitation to rehabilitation centers

By 01 November 2022, the number of inmates detained in Welikada prison for more than 06 months were 1,271 who were ordered for rehabilitation by the court and expected to be sent to rehabilitation centers.

The increase in the number of prisoners who were imprisoned due to non-receipt of test reports.

As at 31 December 2022, the number of remanded suspects was number of 5,676 due to the non-submission of the test reports related to the drug samples submitted by the police to the Department of Government Analyst's in relation to the suspects who have been remanded by the court.

Non-use of management information system

Department of Prison an amounting to Rs. 221 million have been allocated for the project to establish the management information system by 31 December 2022, out of that Rs. 152 million had been spent. But the desired objectives were not achieved through the establishment of management information system.

Non-employment of doctors attached to prison hospitals

According to the circular instructions of the Secretary to the Ministry of Health, doctors in prison hospitals should work for a minimum of 06 hours a day on weekdays and 04 hours on Saturdays, accordingly, 33 doctors attached to prison hospitals should work for a total of 4,570 man-hours for a period of one month, however, only 1,296 man-hours were worked.

Running a private business using departmental resources by showing a departmental welfare restaurant

Due to the weaknesses in the internal control system related to welfare outlets in Anuradhapura prison, a Prison Sergeant had been running a large-scale restaurant as a private business by using the resources of the prison department under the guise of a restaurant run by the welfare association for a long time.

Attorney General's Department

Non-introduction of Citizen/Beneficiary Charter

According to the instructions of the Public Administration Circular to make public sector activities more efficient and to improve mutual understanding and mutual trust between the parties involved, the introduction of the Citizen/Client Charter should be done by every government

institution, but the Citizen/Client Charter of the Department so far had not been made.

Department of Government Analyst's Weaknesses in Utilization of Provisions

In addition to the provision made for 5 expenditure votes in the budget in the year under review, Rs. 19 million had been transferred under F.R. 66. The percentage of such transfer among the votes had ranged from 13 percent to 333 percent. Also, there were savings from 24 percent to 68 percent in three votes from the allocations obtained under the F.R.66 transfers of allocations. But the entire allocation of Rs.5 million of a capital vote was saved without spent.

Weakness of progress in conducting tests and issuing analysis reports

At the beginning of the year under review, numbers of 7700 cases for 12 divisions of the department were left to be investigated and analytical reports were issued, and in the year 2022, another 45,245 cases were received. The numbers of reported cases in the year 2022 were 40756 and at the end of the year, numbers of 12,189 cases were left for analysis and submission of reports.

Non-recovery of dues from officers who have gone abroad and left service

To be collected from three officers of the department who went abroad on leave without pay Rs. 3 million in total penalty and an amounting to Rs. 9 million due from an Assistant Government Analyst who went abroad but not reported to work had not been recovered. Also, a Senior Assistant Government Analyst who had gone abroad had returned to Sri Lanka due to illness, and the officer incurred for course fees and other expenses including Rs. 6 million had been lost to the department.

Department of Community Based Corrections

Lack of adequate facilities for community reform processes

Although the officers engaged in the community correction process should be given sufficient space and office facilities to carry out their work without hindrance but due to the lack of sufficient space in the 49 community correction offices established in the 9 provincial magistrates' courts, there had been an obstacle to the effective implementation of the community correction process.

Failure to achieve desired objectives by installing fingerprint machines

Although number of 97 Finger Print Machines has been provided at a cost of Rs. 3 million for the regional offices of the department in the year 2018, the desired objectives of installing those machines have not been achieved due to lack of development of information retrieval data system in the regional offices as controlled by the head office.

Judges of the Supreme Court

The purpose of the Supreme Court was to secure the trust of the Sri Lankan people and thereby provide for the betterment of the people through efficient administration of justice by implementing the powers that have come from the Constitution.

Very low Progress in the number of cases resolved

Although the total number of cases to be resolved in the Supreme Court from January to December 2022 was number of 6,678 and the number of cases to be resolved by 31 December 2022 were 5,482 due to the number of cases resolved during that period only being number of 1,196 cases. That is, compared to the cases that were to be resolved at the beginning of the year and so the number of resolved cases was as low as 18 percent.

Judicial Service Commission

Failure to achieve the Sustainable Development Goals

According to the letter issued by the Ministry of Sustainable Development and Wildlife, the necessary measures have not been taken to achieve the Sustainable Development Goals.

Failure to introduce the Citizen/Beneficiary Charter

According to the instructions of the Public Administration Circular, to make public sector activities more efficient and to improve mutual understanding and mutual trust between the parties involved, every government institution should introduce the citizen/client charter, but so far the Commission has not introduced the citizen/client charter.

Legal Aid Commission

Progress in settlement of cases for provision of legal aid

According to the 2022 Draft Annual Report of the Commission, the cases brought forward for the provision of legal aid as at 01 January 2022 was number of 38,099, and the number of newly filed cases from January to December 2022 was 11,380, while making the total number of cases to be dealt with during that period were 49,479. Of these, number of 10,740 cases had been settled by 31 December

and 38,739 cases were still to be settled on that day. Accordingly, it was 78 percent of the total number of cases to be served.

Office of Compensation

Delay in compensation process

As revealed in the audit inspection related to the compensation payment process of the Office for Compensation, under 04 compensation schemes, in respect of number of 4,770 compensation applications worth of Rs. 653 million, but no compensation had been paid by 31 December 2022.

Performing compensation activities based on non-updated information

During the year under review, although cheques were issued for compensation payments, the process was not carried out properly due to the fact that compensation activities were carried out based on the information which was not updated at the time of issuing cheques to the beneficiaries. Out of the cheques given to the compensation beneficiaries for the year 2022, the bank had rejected 150 checks worth of Rs. 18 million due to incorrect information. Also during the year under review Rs. 448 cheques worth of Rs.30 million had been extended.

Keeping money in a current account without any economic benefit

Out of Rs. 115 million worth of investments under the Joint Credit Relief Scheme, an amount to Rs. 20 million have been realized by 21 October 2022. Along with those money, and which amounted to Rs. 5 million received from the treasury by 21 October 2022 and for capital expenses retained as at 22 March 2022, have been kept in the current account of the office of Compensation till the date of audit without any economic benefit.

Office of Missing Persons

Underestimating the number of complaints investigated compared to the total number of complaints received

Although the main functions of the Act related to the establishment of the Office of Missing Persons include the submission of recommendations to the relevant authority to take appropriate action on incidents related to missing persons and protecting the rights and obligations of missing persons and their relatives. The office had received until 31 December 2022 the total number of complaints was number of 14,988, accordingly, the number of complaints resolved on that day was 2389 and compared to the total number of complaints received, the

number of investigated complaints were at a low level of 15 percent.

Delay in updating files

In the year 2022, it was planned to spend Rs. 9 million to conduct investigations and update number of 9000 files with the support of the investigation unit and by the end of this year only number of 2389 files were updated at a cost of Rs.21 million. Accordingly, the actual amount had increased by 226 percent over the estimated amount and accordingly the money estimation was not done properly.

National Authority for the Protection of Victims of Crime and Witnesses

Failure to prepare, accept and implement a scheme for awarding compensation

Although a scheme should be prepared and accepted and implemented for awarding compensation from the fund of victims of Crime and witnesses of a crime, it has been passed 7 years since the establishment of the authority, but it has not been acted upon. In this fund as at 31st December 2022 there was a balance of Rs.16 million.

Non-utilization of Safe House

Land and building from Waskaduwa area for running a safe house have been purchased at the cost of Rs. 21 million and to buy the necessary furniture and other equipment for that purpose spent an amount of Rs. 1 million, but this safe house remained idle without being used.

Women and Child Affairs

Audit Observations

- **Failure to collect the insurance indemnity for a burnt vehicle**
- **Failure to Reap Benefits Expected from the Digital Marketing Platform**
- **Progress of the Foreign-funded Projects**
- **Non-utilization of the Information System Installed for Providing Timely Data and Reports to the Relevant Institution**
- **National Child Protection Authority**

Women and Child Affairs

In view of a society, favorable and sensitive for safety and rights of children and women, the following duties should have been performed by the institutions such as Women and Child Affairs Division, Department of Probation and Childcare Services, and National Child Protection Authority under purview of the Ministry of Women, Child Affairs and Social Empowerment.

- Rendering services to the public efficiently in a people-friendly manner within the purview of the Ministry.
- To bring reforms to all of the areas using state-of-the-art management techniques and technology to ensure that duties of the Ministry are executed by avoiding waste and corruption.
- Implementation of the Women's Charter.
- Formulation and implementation of strategies to promote participation and representation of women in political and state affairs
- Taking measures to empower women affected by conflicts and poverty.
- Implementation and strengthening of legal frameworks relating to the prevention of violence against women and children.
- To amend existing laws and formulation and implementation of new laws and policies to ensure gender equality on women.
- Formulation and implementation of policies and programs to empower women-based housing units.
- Achievement of sustainable development goals relating to women and child affairs.
- To formulate and implement a national policy for preschools.
- Formulation and implementation of programmes and projects on par with international standards in view of physically and mentally strong children.
- Implementation of Children's Charter.
- Regulation of daycare centers for children.
- To provide financial assistance to improve special skills of children.

Provision totaling Rs. 33,394 million had been granted by Parliament in the year 2022 to the Ministry of Women, Child Affairs and Social Empowerment and the Department of Probation and Childcare

Services in order to execute the said duties. By end of the year under review, only a sum of Rs. 19,385 million had been utilized therefrom. Particulars are given in the Figure 18.

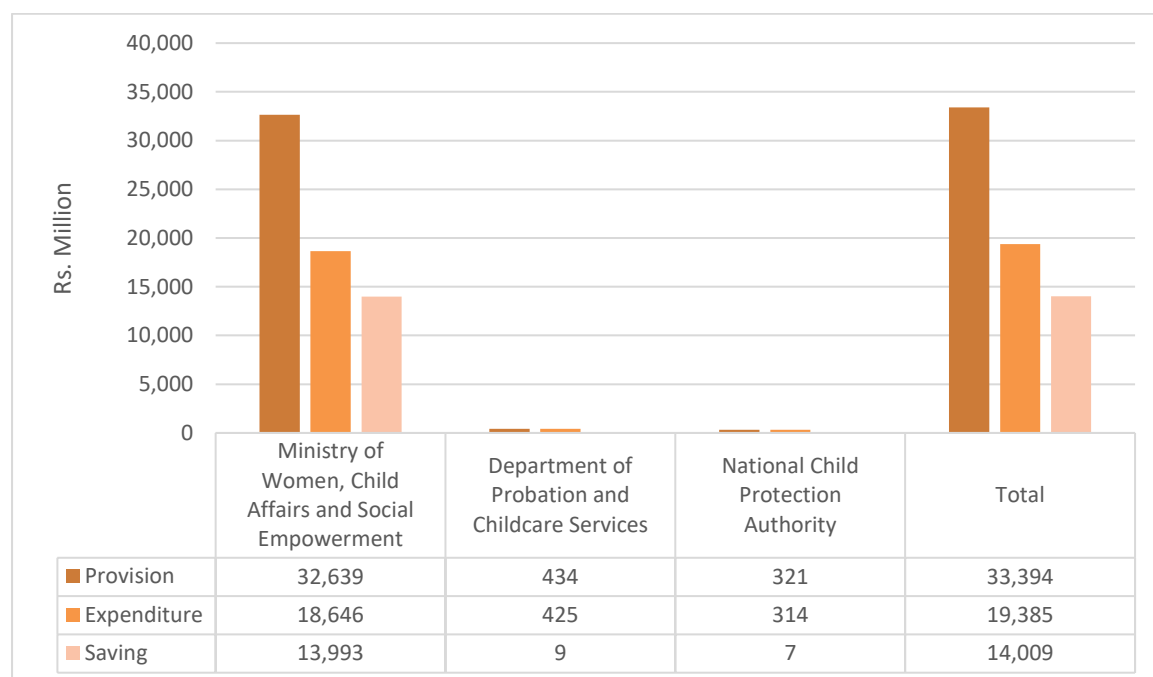


Figure 18 - Provisions and actual Expenditure

Source: 2022 Financial Statements

Failure to collect the insurance indemnity for a burnt vehicle

It was mentioned in the final report issued after a period of 07 months since a vehicle of the Ministry insured to the value of Rs. 22 million, had caught fire, that an insurance indemnity of Rs. 17 million would be recovered from the insurer. Nevertheless, action had not been taken to recover that amount.

Failure to Reap Benefits Expected from the Digital Marketing Platform

Establishment of a digital marketing platform (E-Pola) for women entrepreneurs had been scheduled in the Action Plan of the State Ministry of Women and Child Development, Pre-School and Primary Education, School Infrastructure and Education Services for the year 2020. A sum of Rs. 4.4 million

had been spent thereon by the Ministry of Finance by the end of the year under review. However, marketing activities had not been conducted although 143 women had registered under this system, an online marketing platform for sale of products of the women entrepreneurs.

Progress of the Foreign-funded Projects

A provision of Rs. 1,895 million had been made through annual estimate and supplementary estimates of the year under review under World Bank assistance relating to the early childhood development project. Nevertheless, construction works of 20 early childhood development centers the contract value of which amounted to Rs. 37 million, had been cancelled.

Non-utilization of the Information System Installed for Providing Timely Data and Reports to the Relevant Institution

Considering the difficulty in storing data to be provided for the Committee on the Rights of the Child relating to the progress in implementing the United Nations Convention on the Rights of the Child, an information system had been installed incurring a sum of Rs. 2 million with the objective of providing accurate and timely data and reports for the relevant institutions. Nevertheless, due to complexity in inputting data into the system, the information system remained idle without being used.

National Child Protection Authority

The land adjacent to the National Child Protection Authority had been obtained on lease for a period of 30 years in the year 2016 at a value of Rs. 18 million, but that land remained idle without being used for any activity thus far.

Foreign Employment Sector

Audit Observations

- Showing a growth in migrating for foreign employments
- Failure in updating the agreement on deploying Sri Lankan workers for employment in Korea
- Formulation of a formal procedure for recruitment of staff for labour welfare units in foreign missions
- Payment of Distress Loan exceeding approved limit
- Financial irregularities committed in the Abu Dhabi Embassy and Bureau
- Unauthorized Transactions
- Labour Welfare Fund
 - Inadequate progress of the programme to build a house worth Rs.1 million each for migrants
 - Compensation for those who lost their employments due to the Gulf War
 - Retaining funds received by the Bureau without using for relevant purposes
 - Non-implementation of combined Rataviruwo housing loan scheme
- Performance of Sri Lanka Foreign Employment Agency Pvt Limited
 - Failure to direct a sufficient number of workers for job vacancies

Foreign Employment Sector

Despite Sri Lanka's abundant natural resources, it is compelled to maintain its status as a primary goods exporting country due to the absence of requisite technology and capital for products with inflexible demand in the foreign market. Similarly, the country's import and export gap persisted unfavorable due to its reliance on the foreign market for all its energy needs, except for limited supply of hydroelectric power, which was necessitated by the shortage of mineral resource within the country. The optimal approach to overcome this position is to establish a foreign labor market with inflexible demand. However, to achieve this, efforts should be made towards developing a suitable trained workforce for foreign employments. To meet this requirement, the Sri Lanka Foreign Employment Bureau, operating under the supervision and direction of the Ministry of Labor and Foreign Employment, serves as the leading organization responsible for fulfilling the government's role in the field of foreign employment and its service provisions have been extended through the following organizational structure.

- Establishment of labour welfare sections in 15 Foreign Missions.
- Maintenance of 05 safe house under these welfare sections for temporary detention of migrant workers who have faced various problems after their leaving for foreign employments.
- Maintenance of 10 training centers throughout the island for familiarizing and training of migrant workers.
- Establishment of 06 regional offices of Foreign Employment Bureau.

The Bureau had earned a total income of Rs. 11,470 million from its services in the year 2022, with a total expenditure of Rs. 3,680 million. The total investment value of the Bureau as at 31 December 2022 was Rs. 23,251 million.

According to the information of the Sri Lanka Foreign Employment Bureau, the number of individuals who registered with the Bureau and left for employment in the year 2022 was 311,046. Among them, 183,649 (60%) were domestic workers, semiskilled and nonskilled workers. The number of persons who left for the jobs in professional and skilled categories was 14,307 and 40,174 respectively.

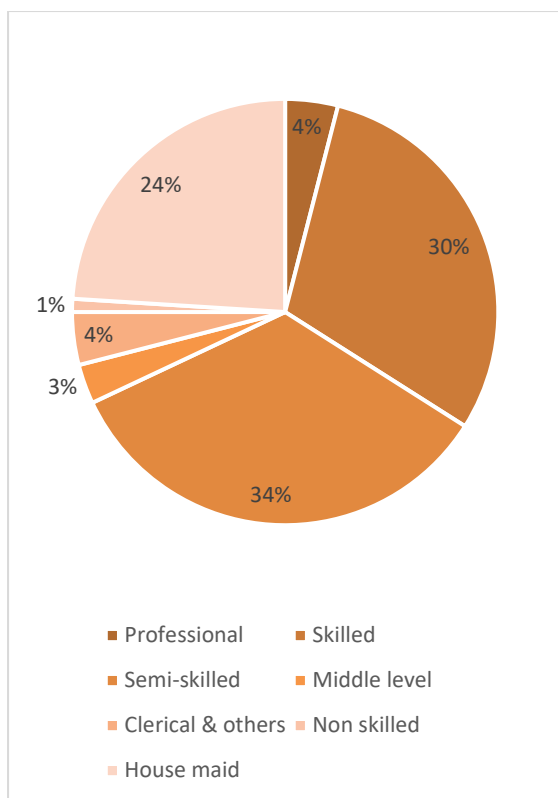


Figure 19 - Expatriation as per the Service Classification – 2022

Source: Sri Lanka Bureau of Foreign Employment

Showing a growth in migrating for foreign employments

Over the past few years, the number of people migrating for work had been on a gradual decline, primarily attributed to the global pandemic situation. However, as compared with the year 2021, the year 2022 witnessed a remarkable growth of 154 per cent.

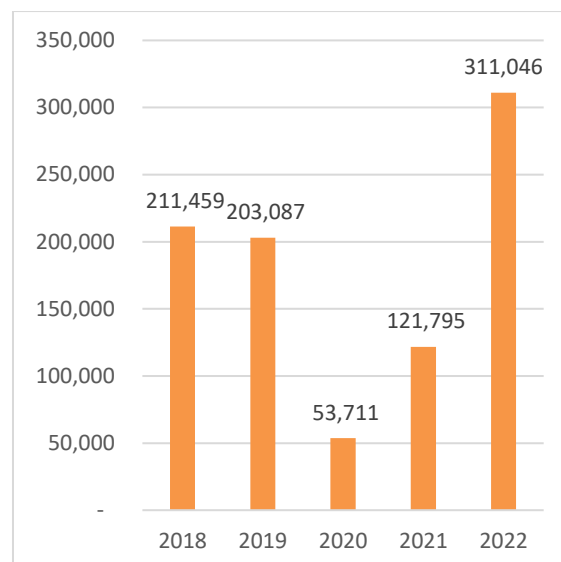


Figure 20 - Leaving for foreign employments after being registered with the Bureau - from 2018 to 2022

Source: Report of the Central Bank of Sri Lanka, 2021.

The audit observations revealed during the course of sample audit tests carried out by the Ministry of Labour and Foreign Employment and the statutory bodies functioning thereunder it in relation to the performance of the aforementioned duties and functions are summarized below.

Failure in updating the agreement on deploying Sri Lankan workers for employment in Korea

In pursuance of the agreement entered into between the Ministry of Foreign Employment and the Korean Government on 29 November 2017 for a period of 02 years in relation to deploying Sri Lankan workers for employment in Korea, there is a possibility to suspend or terminate the

agreement if a period of 06 months expires after the cancellation of the agreement to update the agreement again without a reasonable grounds. Under this arrangement, the process of sending workers to that state should be done solely by the Bureau, and during the last 6 years, a total of 20,667 individuals had been referred for employments. However, the update of the agreement started in 2020 was not completed even by July 2023.

Formulation of a formal procedure for recruitment of staff for labour welfare units in foreign missions

Despite making recommendations at the meeting of the Committee on Public Enterprises held on 18 January 2023 to develop a formal procedure for the selection of officers for the foreign missions by seeking guidance from the Department of Management Services, the procedure that had been approved on 17 January 2023 was rejected by the Bureau, citing that it contained certain deficiencies.

Payment of Distress Loan exceeding approved limit

Due to the payment of Distress Loan to the officers of the Bureau contrary to the instructions of the Public Administration Circular, an overpayment of Rs.68 million had been made to 525 officers as the Distress Loan during the year under

review, and Rs.4 million had been paid as instant loans for 107 officers under an interest rate of 4.2 per cent as at 31 December 2022.

Financial irregularities committed in the Abu Dhabi Embassy and Bureau

Despite 09 years passing since the discovery of a financial irregularity of Rs.1 million committed by a staff member of the Labour Welfare Division of the Abu Dhabi Embassy and the misappropriation of Rs.4 million committed by a manager of the Bureau, no action had been recovering the dues.

Unauthorized Transactions

The balances in foreign bank current accounts of the Labour Welfare Fund, established according to Section 45 of the Sri Lanka Foreign Employment Bureau Act for the benefit of Sri Lankans employed outside Sri Lanka, stood at Rs.395 million. Contrary to the provisions in Sections 17 (2) and 45 (2) of the Act, an income of Rs. 3,494 to be collected to the Bureau Fund had been collected to the Welfare Fund and sums totaling Rs. 684.35 million had been spent by the Labour Welfare Fund in respect of salaries, allowances and other facilities to be paid by the Bureau Fund for 60 officers attached to the service in foreign missions.

Labour Welfare Fund

Inadequate progress of the programme to build a house worth Rs.1 million each for migrants

For the construction of houses worth one million rupees each for the totally disabled migrant workers, the Labour Welfare Fund had allocated Rs.10 million for 04 houses and started constructions during the period from 2019 to 2022. Nevertheless, the works of 03 houses had not been completed by 31 December 2022 and Rs.2 million alone had been spent.

Compensation for those who lost their employments due to the Gulf War

Although the grant of compensation in the compensation fund provided to Sri Lanka by the United Nations Compensation Commission to compensate those who lost their employments during the Gulf War in 1990 and 1991 should be completed by 31 December 1994, a sum of Rs. 251 million was to be paid as compensation for 948 persons even by 31 December 2022. By investing this compensation funds in fixed deposits, an income of Rs.4,961 million has been earned during the period from 1997 to 2022 and the compensation fund had grown up to Rs.5,212 million by 31 December 2022. However, these compensations had not been disbursed to the receivable persons even by 31 December 2022.

Retaining funds received by the Bureau without using for relevant purposes

A balance totaling Rs.189 million, including Rs.22 million for the payment to the complainants of the Bureau relating to the period from 2012 to 2022, insurance indemnity of Rs.48 million received from Sri Lanka Insurance Corporation in respect of 157 deceased migrants, Rs.82 million deposited in the Safe Account Deposit in respect of migrant workers, and Rs.37 million remained from the money deposited in the Bureau by family members of migrant workers to bring them back to the Sri Lanka, had been retained in the account of the Bureau without making relevant payments.

Non-implementation of combined Rataviruwo housing loan scheme

According to the Cabinet decisions dated 24 January 2013, the Bureau had signed a memorandum of understanding for 05 years for the implementation of a Rataviruwo housing loan scheme in collaboration with the Sri Lanka Samurdhi Authority. The Bureau had paid Rs.100 million to the Samurdhi Authority on 08 March 2013 and that money had been deposited in a fixed in the name of Samurdhi Authority. Despite the expiry of validity of the memorandum of understanding on 07 March 2018, the

information about the disbursement of loan as per the project was not submitted to the Audit. An interest income also had not been received for that deposit from the year 2014 up to the year under review. Although statements had been made indicating that the loan schemes were in progress, with 07 fixed deposits totaling Rs. 397 million of the Bureau including the above deposit serving as the bank guarantees, those schemes were not functioning.

Performance of Sri Lanka Foreign Employment Agency Pvt Limited

According to the objectives of the Articles of Association dated 04 October 1996, the objective of the establishment of the company is to provide Sri Lankan workers for all sectors and act as an agent, consultant, conduct awareness programmes and training programmes, and to meet the job demand.

Failure to direct a sufficient number of workers for job vacancies

Although this company initiated with the full ownership of the government has the capability to direct Sri Lankan workers for

employments without limit at a relatively low cost on the government security, the number of individuals who proceeded abroad for employments was 155 and 333 despite receiving 2561 and 2860 job offers in the years 2021 and 2022, respectively. It accounted for 4 per cent and 13 per cent from the total number of received job offers. Accordingly, it was observed that efforts had not been made to achieve the prime objective of the company.

By including the task of issuing air tickets of migrant workers as a business activity of the agency company through the special resolution dated 28 September 2017 of the Articles of Association 1996, the company had established an air ticket issuing unit. However, posts had not been approved within the relevant approved cadre and the company had not recruited a trained staff for that purpose. Similarly, due to the Agency carrying out the service of issuing air tickets without legally obtaining *International Air Transport Association licence (IATA)*, the migrant workers had to pay excessive charges for purchasing air tickets.

Education Sector

Audit Observations

- **Failure to Bring National Educational Reforms**
- **Failure in Successfully Implementing the Programme to Increase the Number of National Schools up to Thousand.**
- **Failure of the Ministry of Education to Complete the Policy on Preschool Education**
- **Center for Special Education not Constructed to be Suitable for Requirements of Children with Special Needs**
- **Failure to Address the Excesses and Vacancies in the Posts of Teachers Trained in Special Education**
- **Failure to Enter into Agreement on Suraksha Insurance for 2023.**
- **Failure to Prepare a Programme for Special Education System and Take Follow Up Action**
- **Inefficient Follow Up Action on the Encroachment of Lands of the College of Education.**
- **Failure to Promote Officers of the Sri Lanka Education Administrative Service**
- **Sports Schools Established to Produce Athletically Talented Sportsmen of National and International Level, not Functioning as Expected**
- **Lack of Regulation on the Education for Students Aged 05-14 Years**
- **Failure to Achieve the Progress Expected from Construction Projects**
- **Non-utilization of Web Digital Printer as Expected**
- **Deficiencies in the Contract for Construction of the 06- Storied Multipurpose Building of the Department of Examinations**
- **Abandonment of Activities of the Pirivena Education**
- **Failure to Broadcast Educational Programmers as per the agreement Entered into by the National Institute of Education with the Selacine Institution**
- **Inefficiencies in Distributing School Textbooks to the Students**

Education Sector

The investments made by a country in education sector will define the future prosperity of that country. Although the rate of literacy in Sri Lanka surpassed many of the developed countries, the existing system of education has been unable to produce professionals skilled enough to be on par with demand of the world due to conventional methods followed in education sector. As such, it is the responsibility of the education sector to pave way for a society equipped with technical skills and knowledge through modern means of education. The following duties had been performed by the education sector in exercising that responsibility.

- Formulation, implementation, taking follow up action, and evaluation of policies, programmes and projects relating to the Departments, statutory institutions, and Government Corporations under purview of the Ministry of Education and the subject of education in line with the national policies implemented by the Government.
- Rendering services to the public under scope of the Ministry in an efficient and people-friendly manner.
- To bring reforms for all the aspects using modern management techniques and technology so that waste and corruption would be prevented while executing duties of the Ministry.
- Formulation and implementation of sectorial policies ensuring proper coordination between early childhood, and primary, secondary and tertiary sections.
- To create a national system of education in view of a generation of children and adolescents facing the global challenges with confidence.
- To provide policy guidelines for a well-defined roadmap with respect to preschool education and higher education.
- To ensure every child's rights to education.
- To promote extra-curricular activities and curricular activities within schools.
- To provide human and physical resources for national schools.
- Regulation of international and private schools in accordance with national policy on education.
- To take measures for ensuring quality of education, disciplines, and ethics of children.

- Taking measures to ensure rights of children with special needs, to education.
- Taking measures to promote the education of national and linking languages.
- Promoting the studies of Buddhist and Pali studies, and promote education provided through Pirivena thereby ensuring achievement of objectives expected from religious education.
- Staff management in the services of Sri Lanka Education Administrative Service, Principal's Service, And Teachers' Service and other services of education. Development and promotion of school libraries.
- Implementation and operation of programme to facilitate school textbooks, uniforms, and other requirements of students.
- Improvement of sanitation, child-friendly classrooms, and hostel and rest rooms of teachers, and other physical resources.
- Implementation, promotion, and development of modern technical facilities for learning and teaching process.
- Formulation and implementation of strategies to promote vocational education.
- Making opportunities to gain vocational education irrespective of academic qualifications.
- To modernize technical and technological education in view of a labor force to be on par with local and foreign job market.
- To revise syllabuses thereby linking the relevant institutions under "One TVET" concept to award degrees in technology.
- To formulate policies and facilitation of school dropouts with increased opportunities for vocations education.
- Taking measures to promote opportunities on training for apprentices.
- To increase the stages of National Vocational Qualifications (NVQ) from 07 to 10, and revise the Sri Lanka Qualifications Framework (SLQF) accordingly.
- To revise syllabuses by including entrepreneurship, Information Technology, English and other languages into vocational training courses.
- To broaden the opportunities for vocational training through mobile education services on technology.
- Taking measures to ensure a vocational training oriented towards local and foreign job market.

- Taking measures to establish city universities in the capacity of higher educational institutions awarding degrees in accordance with employment opportunities.
- Facilitating research institutions to ensure cooperation with their international counterparts.
- To formulate an efficient mechanism to utilize innovations and research results.
- Taking measures for establishment of National Innovation Center.
- Taking measures to broaden scientific, technical, social, and economic researches and development activities.
- Encouraging the community for new inventions.
- Management and development of state universities under purview of the University Grants Commission.
- To promote coordination and affiliation with international intellectual institutions with the objective of improving the quality of higher education in Sri Lanka.
- Identification of criteria for broadening access to higher education.
- To revise syllabuses along with the policy of educational reforms to produce graduates targeting local and foreign employment opportunities.
- Facilitation of researches and innovations within the university education.
- Taking measures to establish smart universities.
- Taking measures to secure higher positions for all the state universities in world rankings.
- To grant scholarships to qualified students in order for them to enroll for international universities.
- Accreditation and regulation of private & international universities and higher educational institutions in Sri Lanka.
- Promoting the Buddhist and Pali education, and facilitating the higher education of Buddhist monks.
- To introduce educational reforms to entire system of education to be on par with global standards.
- To bring the recommendations of the Presidential Task Force and special committees relating to educational reforms for public discussion, and formulate a process for implementing such recommendations for betterment of education.
- Increasing the opportunities for distance learning with the use of Information Technology.

- Producing, training and skills development of teachers to ensure an effective learning –teaching process.
- Execution of all the responsibilities assigned to the Departments and institutions under purview of the Ministry of Education.
- Supervision of Departments and all the institutions under purview of the Ministry of Education.

A summary of some of the observations made on the performance of Ministry of

Education, 02 Departments, and a Commission relating to the responsibilities under this sector, is given below.

A net provision of Rs. 143,904 had been granted by Parliament in the year 2022 to the Ministry of Education to discharge the said functions, and only a sum of Rs. 127,173 therefrom had been utilized by the end of the year under review thus resulting in a saving of Rs. 16,731 million. Particulars are given in the Figure 21 below.

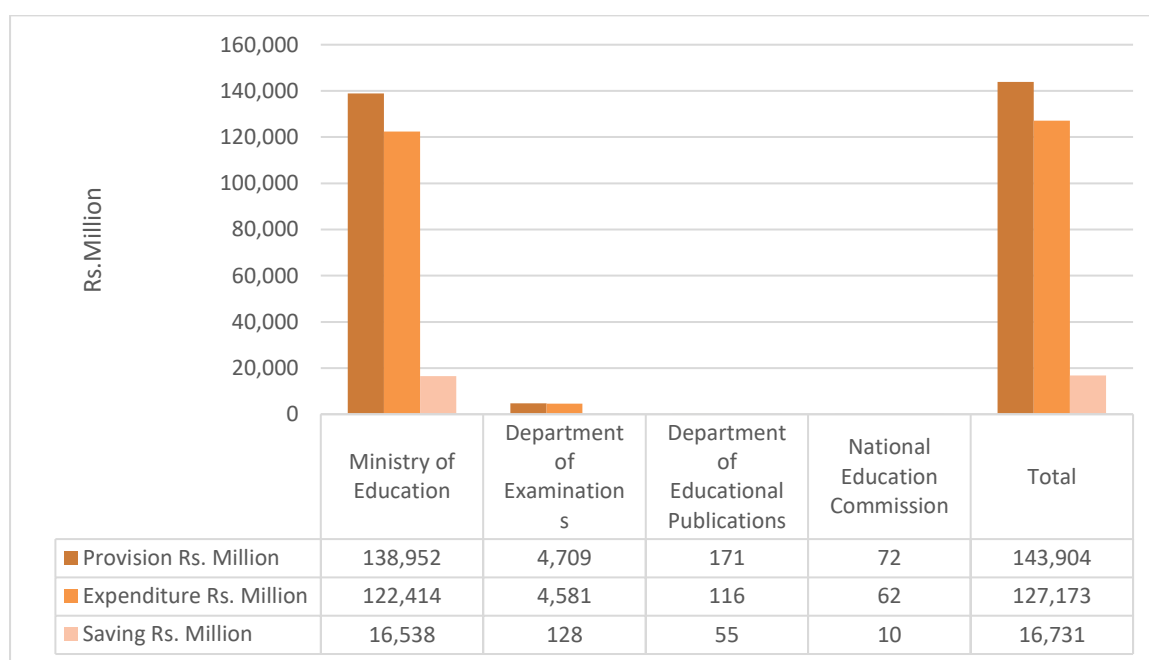


Figure 21 - Provisions and actual Expenditure

Source: 2022 Financial Statements.

Failure to Bring National Educational Reforms

The State Ministry of Education Reforms, Open Universities and Distance Learning Promotion had been established in the year

2020. Although an expenditure totaling Rs. 5,219 million had been incurred in the 03 years of 2020, 2021, and 2022, the national educational reforms could not be brought in as planned. The State Ministry

had been revoked in the year 2022 thus transferring the duties and functions thereof under scope of the Ministry of Education. As such, there existed the risk of expenditure totaling Rs. 351 million incurred by the State Ministry on educational reforms during the 03 preceding years becoming fruitless.

Failure in Successfully Implementing the Programme to Increase the Number of National Schools up to Thousand.

A sum of Rs. 2,285 million had been spent in the year 2021 by the State Ministry of Women and Child Development, Preschool and Primary Education, School Infrastructure and Education Services under the programme introduced to increase the number of national schools from 353 to 1000. In addition, an expenditure of Rs. 2 million had also been incurred on name boards and naming schools as national schools, but the programme had been abandoned halfway.

Failure of the Ministry of Education to Complete the Policy on Preschool Education

The Ministry of Education could not complete the activities planned under the preschool education policy formulated by the State Ministry of Education Reforms in the year 2021.

Center for Special Education not Constructed to be Suitable for Requirements of Children with Special Needs

A contract valued at Rs. 247 million had been awarded to a contractor to construct a special education center in Vehiwekola, Kahathuduwa to be suitable for children with special needs. It was later found that the center had not been constructed to be suitable for children with special needs but the requirements had not been taken into consideration before awarding the contract.

Failure to Address the Excesses and Vacancies in the Posts of Teachers Trained in Special Education

Students and teachers in the schools with special education units should be in the ratio of 5:1, but there were 66 excess teachers in 55 schools of 09 provinces whereas 349 vacancies existed in 212 schools. Furthermore, it was observed that there were 147 teachers 135 schools assigned to other subjects despite being trained in special education, but action had not been taken on those teachers in terms of Circular No. 37/2020 of the Secretary to the Ministry of Education dated 31 December 2020.

Failure to Enter into Agreement on Suraksha Insurance for 2023.

An agreement had not been entered into for the year 2023 with respect to Suraksha student insurance that had been established in the year 2017 with the objective of insuring every student.

Failure to Prepare a Programme for Special Education System and Take Follow Up Action

Having spent a sum of Rs. 3,444 million, 96,919 Tabs and charging racks had been purchased in the year 2019. Those Tabs had been disbursed among students of 6-11 grades in 184 national schools and 1,217 schools under purview of Provincial Councils at the end of the year 2020 by deviating from the intended purpose. At the time of distribution, the warranty period had already expired by one year. The rest of the 3,892 Tabs had been given to 03 institutions. A programme to be implemented with respect to a special education system to be implemented using those Tabs had not been formulated, nor had follow up action been taken as well. Some of the Tabs so distributed, remain idle at the present day, and there were misplaced Tabs as well.

Inefficient Follow Up Action on the Encroachment of Lands of the College of Education.

An extent of 55 acres and 05 perches belonging to 21 national schools, an extent of 07 acres 01 rood and 25 perches belonging to 03 Teachers' Colleges, and an extent of 91 acres and 24 perches belonging to a college of education had been encroached without being approved by the Ministry of Education. However, follow up action of the Ministry in that connection remained inefficient.

Failure to Promote Officers of the Sri Lanka Education Administrative Service

Grade 1 officers of the Sri Lanka Education Administrative Service had not been appointed as Principals to 64 national schools in accordance with service minute of the Sri Lanka Education Administrative Service as per Gazette Extraordinary No. 1928/28 dated 21 August 2015.

Sports Schools Established to Produce Athletically Talented Sportsmen of National and International Level, not Functioning as Expected

Twenty two sports schools established in the year 1989 with the objective of producing sportsmen and sportswomen of national and international level had become non-functional during the 05

preceding years. Hence, the hostels, sports items and gymnasium equipment in those schools remained underutilized. Due to reasons such as, management inefficiencies, lack of proper training, and non-functionality of sports schools, 293 sports scholarship holders had left the schools during the 05 preceding years. As students to intermediate grades had been admitted using quota meant for athletically talented students, the scholarship holders could not be admitted due to lack of space.

Lack of Regulation on the Education for Students Aged 05-14 Years

According to Section 25 of the Assisted Schools and Training Colleges (Supplementary Provisions) Act No. 08 of 1961, private schools should not be established to provide education for students in the ages of 05-14 years. Nevertheless, international schools, Madrasa schools as religious schools and private schools had been established as business entities without involvement of the Ministry of Education. However, it is one of the key functions of the Ministry of Education to regulate the international and private schools though, no regulation had been done by the Ministry in that connection.

Failure to Achieve the Progress Expected from Construction Projects

The project to improve infrastructure facilities of the estate schools implemented under Indian assistance received by the Ministry of Education as at 31 December 2022, had achieved no progress whatsoever. The projects to construct a new national school with multi-ethnic and trilingual education in Polonnaruwa district and construction of a national college of education for technology, had achieved progress of 42 per cent and 15 per cent respectively.

Non-utilization of Web Digital Printer as Expected

With the objective of ensuring higher quality in question papers, promoting confidence of applicants, and ensuring confidence, the Department of Examinations had installed a web digital printer in November 2018 at an expenditure of Rs. 546 million. However, that printer had been used to print only 8 per cent of the question papers for the G.C.E. (OL) examination conducted in the year 2019, and 5 per cent, 10 per cent and 3.5 per cent of the question papers relating to all the examinations conducted by the Department in the years 2020, 2021, and 2022 respectively.

Deficiencies in the Contract for Construction of the 06- Storied Multipurpose Building of the Department of Examinations

The contract for construction of the 06 storied multipurpose building of the Department of Examinations costing Rs. 564.3 million had been awarded to the State Engineering Corporation in order to commence in the year 2017 and complete by 02 February 2019. Works had not been completed even by 31 December 2022, and by that date, a sum of Rs. 369 million comprising Rs. 64 million paid to the Central Engineering Consultancy Bureau and Rs. 305 million paid to the State Engineering Corporation.

Abandonment of Activities of the Pirivena Education

Even though a sum of Rs. 1 million had been spent by the bilingual Department of the Ministry of Education on education provided through Pirivena, the activities planned had been halted halfway.

Failure to Broadcast Educational Programmers as per the agreement Entered into by the National Institute of Education with the Selacine Institution

The National Institute of Education had entered into an agreement with the

Selacine institution on 24 December 2021 to apprise the general public of new educational reforms. According to the agreement, an expenditure of Rs. 15 million had been incurred to broadcast 05 television programs. The trailers in that connection should have been completed before 29 December 2021, but the relevant programs had not been aired even by the end of the year under review.

Inefficiencies in Distributing School Textbooks to the Students

Although the first term of the year 2022 had begun on 18 April, textbooks had not been distributed to the schools until December 2022, and the number of textbooks relating to 1-11 year distributed during May –December, was 22,082,941. As such, 67 per cent of the textbooks equivalent to 22,082,941 out of the textbooks of 32,831,750 printed for the year 2022, could not be distributed on time before the commencement of the first term. Furthermore, the Department had entered into agreements with 23 printers in the year 2022 in order to print 32,890,400 textbooks for the year 2023. Although the first term had begun on 20 March 2023, the Department had been unable to supply 15,645,654 textbooks to the distribution centers.

Higher Education Sector

Audit Observations

- **Failure to Recover the Funds due to Violation of Bonds**
- **Delay in Completing the Projects already Commenced**
- **Unutilized Funds Being Maintained under the Development Fund**
- **Non-completion of Researches despite the Grant of Research Allowances**
- **Termination and Withdrawal of Research Proposals Approved by the University**
- **Payment of Research Allowances to the Officers of the Non-academic Staff of the University of Peradeniya**
- **Implementation of a Medical Benefits Scheme Sans Treasury Approval**
- **Failure in the Installation of new Management Information System**
- **Failure in the Installation of new Management Information System**
- **Failure in Filling Vacancies to Enroll Students for Universities**

Higher Education Sector

The education system in Sri Lanka dates as far back as 02 millennia, and education is deemed a fundamental right in the Constitution of Sri Lanka as well. A literacy rate of 92 per cent is observed in the population of Sri Lanka, a value higher than what is expected from a third world country. Sri Lanka boasts the highest literacy rate in South Asia. Education plays a pivotal role in the tradition and culture of Sri Lanka since 543 BC. The new system of education took root as Ceylon became a British colony in the 19th century. The education system of Sri Lanka comes under purview of both the central Government and Provincial Councils so that each entity has certain responsibilities.

The University Grants Commission, should have reached the following objectives through 17 Universities and 19 higher education institutions functioning thereunder.

- Coordination and planning of university education in compliance with the national policy.
- Disbursement of funds allocated by Parliament in respect of university education, among the higher educational institutions, and control of expenses incurred by each of such higher educational institutions.
- Maintenance of academic standards followed by the higher educational institutions.
- Regulation of administrative procedure of the higher educational institutions.
- Regulating the enrollment of students to each institution of higher education, and execution of duties, functions and activities assigned to the Commission in terms of the Universities Act, No. 16 of 1978.

Provisions amounting to Rs. 19,096 million and Rs. 61,564 million had been allocated in the year 2022 by Parliament for the higher education sector and the University Grants Commission respectively for execution of the said duties and functions. By the end of the year under review, sums of Rs. 17,623 million and Rs. 58,017 had respectively been utilized therefrom.

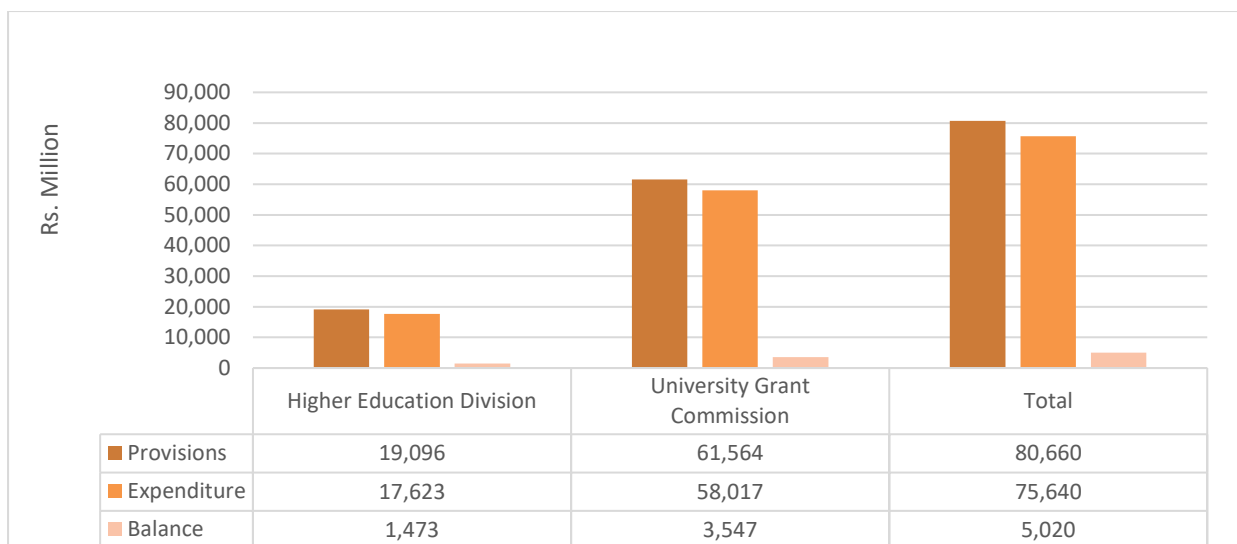


Figure 22 - Provisions and actual Expenditure

Source: 2022 Financial Statements

A summary of observations made in the audit conducted on the utilization of provision mentioned above, is given below.

Failure to Recover the Funds due to Violation of Bonds

A sum of Rs. 2.332 billion remained recoverable by the end of the year under review from 526 members of the academic and non-academic staff of 12 universities and a higher education institution who had violated bonds after proceeding abroad on academic affairs. Nevertheless, the University Grants Commission had not taken follow up action thus failing to taken necessary action for recovery of those monies.

Delay in Completing the Projects already Commenced

- Provision amounting to Rs. 313 million had been spent on the contract for construction of a multipurpose building to be used by the Faculty of Engineering in order to facilitate the enrollment of an additional number of students under Cabinet approval given in June 2013. Although extensions had been obtained in 04 instances and such periods of extension had expired, the project could not be completed and delivered even by 30 June 2023.
- A contract valued at Rs. 674 million had been awarded on 08 August 2018 for construction of a multipurpose auditorium at the University of Trincomalee. The contract should have been completed by 08 February 2021

in accordance with the agreement though, the physical progress thereof remained 09 per cent as at 23 May 2023.

- Following the budget proposals for the year 2018, such as, increasing the number of medical undergraduates by 300, improvement of national health service, increasing the number of post graduate medical trainees, and improvement of the quality in teaching on clinical practice, the project for establishing a professorial unit at the Karapitiya Hospital had been awarded to the Central Engineering Services Private Limited in the year 2019 at the value of Rs. 1,300 million. Even by 15 February 2023, only the preparation of internal structure up to 06 stories, had been done.
- The contract for construction of 03 buildings to establish the Faculty of Allied Health Sciences at the University of Ruhuna had been awarded to a private company on 03 December 2020 at a contract value of Rs. 1,501 million expecting to complete the project by 02 June 2023. However, an extension had been given to the company by the Vice Chancellor up to 14 July 2023. Physical progress

of this project remained 59 per cent as at 30 June 2023.

- Consultancy service fees totalling Rs. 15 million had been paid to a consultancy firm in the years 2020 and 2021 with respect to the contract for constructing a 10 storied building to be used by the Faculty of Commerce and Management of the University of Kelaniya. Nevertheless, construction works of the building had not been commenced even up to 31 December 2022.

Unutilized Funds Being Maintained under the Development Fund

There existed a sum of Rs. 252 million in 89 accounts of miscellaneous Heads of expenditure relating to each Department and course under the Development Fund of the University of Moratuwa. However, the percentage of unutilized funds was 91.5 per cent in the year under review equivalent to Rs. 228 million.

Non-completion of Researches despite the Grant of Research Allowances

A sum totalling Rs. 434 million had been given as research allowances to 335 officers of the academic and non-academic staff of the University of Peradeniya during the Period 2018-2022. However, progress of the researches conducted in

that connection, had not been made available to the Audit.

Termination and Withdrawal of Research Proposals Approved by the University

Due to withdrawal and failure in obtaining funds, 34 of the 459 research proposals approved by the University of Jayawardhenapura had been terminated during the 06 preceding years whereas 193 researches worth Rs. 454 million had not been completed as at 31 December 2021. By 15 March 2023, the number of such researches, was 229.

Payment of Research Allowances to the Officers of the Non-academic Staff of the University of Peradeniya

Research allowances totalling Rs. 84 million had been paid to 59 officers of the non-academic staff of the University of Peradeniya relating to the period from 01 November 2014 to 31 August 2022 without being approved by the Research Management Committee and an interim research report or any other report contrary to Management Services Circular No. 02/2014.

Implementation of a Medical Benefits Scheme Sans Treasury Approval

An insurance account payable by the Open University with contributions of 65 per cent from Government funds and 35 per cent from the employees, had been established, and Government funds amounting to Rs. 30 million had been used during 2020-2022 without being approved by the Treasury for payment of medical benefits on applications from the University under recommendations of a Committee comprising members from the internal staff.

Failure in the Installation of new Management Information System

As the maintenance companies could not resolve deficiencies in the Management Information System (OMIS) installed as modular subsystems facilitating the affairs of 05 divisions in the Open University at a cost of Rs. 58 million, a sum of Rs. 45.76 million had been spent to install a new internal Management Information System (New OMIS) from the year 2018. However, no module whatsoever had been created by the year 2022, and the management had failed to install the new Management Information System even by the end of the year under review.

Receiving Foreign Grants Directly in Violation of Instructions in the Letter of the Director General of the Department of External Resources

Contrary to instructions given in the letter sent by the Director General of the Department of External Resources, foreign grants valued at Rs. 72 million for the Uva Wellassa University, University of Colombo School of Computing, and Institute of Biochemistry, Molecular Biology and Biotechnology of University of Colombo, had directly been received by the institution.

Failure in Filling Vacancies to Enroll Students for Universities

Although vacancies had been filled in four rounds to enroll students for the Universities for the academic year 2020/2021, there still existed 3,008 vacancies. As no action had been taken to fill those vacancies, 3,008 students had been deprived of admission to Universities for the academic year 2020/2021 only. A methodology had not been put in place by the Commission to minimize the deprivation of university entrance.

Skills Development, Vocational Education, Research and Innovations Sector

Audit Observations

- Failure to increase student enrollment for courses in line with the increasing demand
- Non-recognition of the Needs of the Foreign Job Market
- Failure to improve the quality in the subject area due to non-recruitment of adequate staff
- Lack of related data base to employ students on completion of their period of training
- Non-provision of training to any apprentice by the tourist hotel
- Non-renewal of registration of the vocational training institutions with expired registration
- Retaining the temporarily suspended vocational institutions in the field of vocational education
- Inadequacy in the implementation of the Self-Employment Promotion Initiative Loan Scheme
- The failure of the Ministry to mediate in granting loan
- Failure to establish a National Science Centre
- Failure of the project for facilitating the production of solar panel structures
- Non-completion of the constructions of the hostel by the end of the year under review
- Retaining funds allocated to the Vocational Training Authority for the execution of a special project without implementing the intended purpose.
- Idle payment of interest
- Idle or underutilized assets
- Implementing the project before assessing its success
- Failure to conduct a supervision or follow-up on the project
- Uneconomic expenditure incurred in the project for the Establishment of Bio-Technology Innovation Park

Skills Development, Vocational Education, Research and Innovations Sector

It is of utmost important to be the current and future work force equipped with the modernized education, competency, skills, and a research-friendly, innovative and smart society that can adapt to highly complex economic pattern. In order to achieve the above objectives, it is essential to significantly expand the higher and tertiary educational opportunities within the economy to bridge the gap between the skills and the knowledge. Accordingly, to turn that expectation into a reality, following functions should have been performed by a department in the Skills Development, Vocational Education, Research and Innovations sector and 20 statutory institutions under the purview of the Ministry of Education.

- Formulation and implementation of strategies for promoting the trend for the vocational education.
- Providing access to vocational education disregarding educational qualifications.
- Modernizing the industrial and technical education in order to form a work force to suit to local and foreign job market.
- Revising vocational curriculum and networking relevant institutions under the One TVET concept, and accordingly, converting them into technological degree awarding institutions.
- Formulation of policies and providing facilities to expand the access to vocational education for students who are not qualified for university education after dropping out of the school.
- Taking measures to promote the apprenticeship training opportunities.
- Increasing the present scheme of 7 levels of National Vocational Qualification (NVQ) to level 10 and correspondingly revising the Sri Lanka Qualification Framework (SLQF).
- Amending the curricula by including Entrepreneurship, Information Technology, English and other languages in the Vocational Education courses.
- Expanding vocational training opportunities by mobile technological education services.

- Taking necessary measures to provide vocational education focused on domestic and foreign job markets.
- Taking measures to inaugurate city universities as institutions of higher education that offers degrees tailored to meet employment needs.
- Providing facilities to research institutions to collaborate with the international research institutions.
- Formulating an efficient mechanism to harness the full potential of the innovations and research results.
- Taking necessary steps to establish national institutions of innovation.

- Taking necessary steps to expand scientific, industrial and social, economic research, and development activities.
- Channeling new innovations to the community and inspiring them towards such discoveries.

The provision made by Parliament for the discharge of the above functions for the year under review was Rs. 14,486 million and Rs. 11,481 million thereof had been utilized. Accordingly, Rs. 3,005 million or 21 per cent of the provision made by Parliament had not been utilized. Details appear in Figure 23.

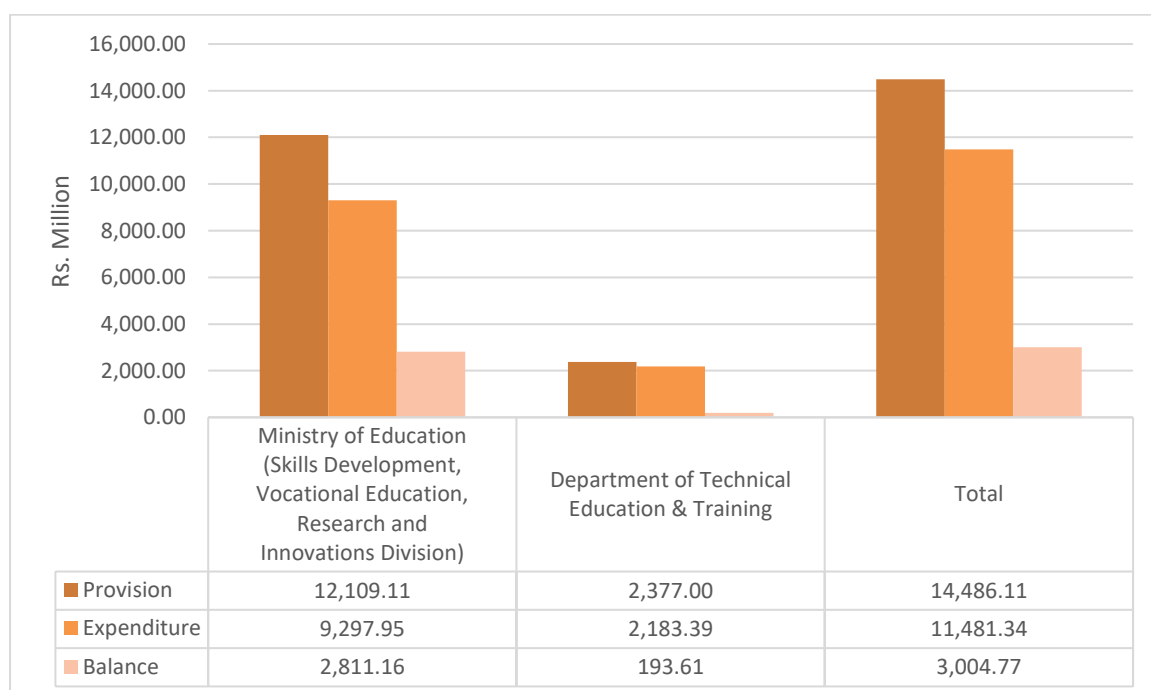


Figure 23 - provision made by Parliament and utilization

Source – Final accounts statements of the Central Bank of Sri Lanka

Audit observations made during the audit test checks carried out relating to performance of above functions are summarized below.

Failure to increase student enrollment for courses in line with the increasing demand

Despite the consistent annual increase in student demand for full-time courses of the Ceylon -German Technical Training Institute over the past five years, rising from 3,075 to 4,683 students, which is an increase of 412 per cent to 681 per cent, the management had not taken measures to increase the enrollment in keeping with the augmenting demand and instead, arrangements had been made to limit the student enrollment to a fixed number of 600 or 20 per cent of the students annually. Similarly, no attention had been drawn to increase the enrollment of students in 03 regional centres as well. Therefore, the students who missed the university access after the Advanced Level examination had been restricted the opportunity to receive training for employments.

Non-recognition of the Needs of the Foreign Job Market

Since the requirement of the foreign market had not been properly identified due to the lack of proper coordination between the vocational training institutions

in this sector and the Sri Lanka Bureau of Foreign Employment, the introduction of courses aiming at strengthening the skilled workers for the foreign job market remained at a poor level, and the contribution of these institutions for the initiative to reduce the unemployment position in Sri Lanka also remained at an extremely minimum level.

Failure to improve the quality in the subject area due to non-recruitment of adequate staff

Although it is essential to recruit an adequate staff to enhance the quality of vocational training programmes and providing opportunities to involve in the sufficient number of training programmes related to the subject area to improve the standard of the academic staff, the production of trained workers needed for the domestic and foreign job market remained minimum due to the shortage of experienced instructors and the absence of adequate training programmes.

Lack of related data base to employ students on completion of their period of training

Any training institution in this sector has not maintained an updated data base inclusive of information from the enrollment of the students up to the

employment on completion of their period of training in the relevant field.

Non-provision of training to any apprentice by the tourist hotel

Despite the renovation of Ahangama Hotel School at a cost of Rs.149 million in the year 2019 with the intention of providing a more quality training to boost the further training activities of the students following the training courses in the Vocational Training Authority, any apprentice had not received practical training in this hotel school up to 30 June 2023.

Non-renewal of registration of the vocational training institutions with expired registration

The total number of registered institutions in the tertiary and vocational education by 20 April 2022 was 3386 of which the registration of 2154 institutions had expired. Despite making requests by 371 institutions for renewal of their expired registration from the year 2017 up to the year under review, no action had been taken to renew such registration even by April 2023.

Retaining the temporarily suspended vocational institutions in the field of vocational education

Although 81 institutions that had illegitimately carried out their activities had been temporarily suspended, legal

action had not been taken against them by cancelling their registration. As a result, those institutions also engaged in the vocational education field deviating from the regulation by the Tertiary and Vocational Education Commission.

The failure of the Ministry to mediate in granting loan

All the applications related to the grant of loans should be submitted through the Ministry. However, despite the grant of loans amounting to Rs.491 million for 1,127 beneficiaries out of 1,308 beneficiaries registered from 2016 to 2022, such beneficiaries had been selected and loans had been granted by the lending banks themselves without any mediation of the Ministry.

Failure to establish a National Science Centre

Even though Rs.280 million had been paid to the Urban Development Authority for the acquisition of a parcel of land to establish a National Science Centre, the ownership of the land had not been vested in the Ministry even by the end of the year under review. A sum of Rs.60 million had been allocated targeting 07 occasions under the detailed targets during the year under review and it had been proposed to complete the construction of the centre within 24 months. Although the estimated

amount for this purpose was Rs.2,820 million, the constructions had not been initiated.

Failure of the project for facilitating the production of solar panel structures

Under the Science, Technology and Research Education Training Programme that facilitate the production of solar panel structures, approval had been granted for the aforesaid project with 06 years project period upon Rs.240 million financial contribution of the Sri Lanka Government. Nevertheless, only 43 per cent of the estimated cost had been utilized despite the lapse of 06 years and the project had been unsuccessful, failing to achieve its desired objectives.

Non-completion of the constructions of the hostel by the end of the year under review

The constructions of the 06 storied hostel in Attidiya that was scheduled for the completion by 25 October commencing in the year 2018 by the Sectorial Skills Development Project for the students of the Ceylon- German Technical Training Institute was not completed even by the end of the year under review.

Retaining funds allocated to the Vocational Training Authority for the execution of a special project without implementing the intended purpose

Provision of Rs.45 million granted to the Vocational Training Authority by another institutions to execute a specific project had been retained in the Authority without being utilized by the end of the year 2022. This amount included a sum of Rs.27 million received from the Ministry of Education before 03 years, in the year 2019, in respect of 13 years continuous education.

Idle payment of interest

The construction of Dehiwala Higher Technology Institutions had been initiated on 26 August 2015 also with the intention of housing the head office as well. The building had been handed over to the Institution on 21 February 2017 upon completion of 03 stories at a cost of Rs.20 million. As the work of the remaining 02 stories was not completed, it remained idle from the date of handing over the building. An expenditure on rent of Rs.55 million had been paid for the period from March 2017 to December 2022.

Idle or underutilized assets

Despite the dire need for the supply of services in the Technical Incubator Division, 14 higher technological

machines with higher capacity, a machine worth Rs.13 million and another machine of unidentified value acquired by the Sri Lanka National Engineering Research and Development Centre for the advancement of the field of local industries had not been included in the register of fixed assets, and they remained idle or underutilized.

Non-implementation of major functions included in the Action Plan

The number of sub-activities in the 05 main activities included in the Action Plan, 2022 by the National Science and Technology Commission was 15 and 02 of the said activities had been completed. The physical progress of 07 activities with the estimated cost ranging from Rs.100,000 and Rs.2.3 million and planned to be implemented within the year as per the Action Plan ranged from 0 per cent to 56 per cent.

Implementing the project before assessing its success

The Sri Lanka National Research Council had commenced the SP 21-02 Special Project in July 2021 to identify the microorganisms that accelerate the decomposition of solid waste and Rs.8 million had been spent thereon. While the final stage of a multi-disciplinary project (TO 18-21) aimed at targets and started in the year 2018 at a cost of Rs.49 million

was in progress for addressing this issue, this new project had been stated even before the evaluation of its success.

Failure to conduct a supervision or follow-up on the project

The Sri Lanka National Research Council had discovered a new larva variety through the TO-14-04 research project aimed at controlling dengue vectors, with an investment of Rs.46 million, in an effort to prevent dengue disease. Although the outcome of the project was intended to be used until the eradication of dengue disease from Sri Lanka by distributing that larva variety throughout the country, no supervision or follow up had been conducted thereon.

Uneconomic expenditure incurred in the project for the Establishment of Bio-Technology Innovation Park

The Sri Lanka Institute of Bio-Technology Limited had incurred an expenditure totalling Rs.144 million on the project for the Establishment of Bio-Technology Innovation Park as the direct cost and administrative expenses, of which Rs. 125 million had been spent solely for salaries and building rents. Despite not achieving any desired outcome, the company had made a significant contribution, that is, 87 per cent of the total cost for personnel administration and building facilities.

Health Sector

Audit Observations

- **Ministry of Health**
 - **Payment of salary, overtime and other allowances for in and out not verified by fingerprint machines**
 - **Unlawful allowances paid to Intern Medical Officers**
 - **Non-recovery of amount dues from Nurses, Professions Supplementary Medicine and Paramedical who have not duly completed their training**
 - **Non accounting of Assets**
 - **Weaknesses in Vehicle Management**
 - **Default to pay taxes payable to the government**
 - **Posts that is essential in maintaining the Health Sector**
 - **Not properly managing employee surpluses and shortages**
- **Sri Lanka Thripasha Company Limited**
 - **The company does not have adequate storage facilities**
 - **Having a Biscuit making Machine in idle**
- **Teaching Hospitals**
 - **Preparation of raw food material estimates in favor of pre-identified suppliers**
 - **Existence of weaknesses in the control of the stock of surgical consumables in the operating theatres**

- **Medical Supplies Division**

- **Medical supplies, failure of condition**
- **Inadequate facilities of National Pharmaceuticals, Quality Assurance Research Laboratory**
- **Non-recovery of insurance coverage related to damage to a medical supply stores in Kotikawatte**
- **Expiration of Pfizer Vaccines**
- **Installation of a Comprehensive Management Information System for the medical supply sector**
- **Not storing medicines at proper temperature.**

Health Sector

The well-being and productivity of any organization is determined by the efficiency of the human resource belonging to that organization. And one of the main factors that determine the well-being and development of a country is the efficiency of the people living in that country. The main factor that determines the efficiency of the people of a country is the good health of its people. In order to produce healthy people in a country, a very high quality health service should be maintained in that country.

With a vision of creating a healthy nation that contributes to the economic, social, mental and spiritual development of the country, the Ministry of Health should have performed the following subjects and functions.

- Formulation of policies, programs and projects
- Conducting monitoring and evaluation of health and nutrition subjects and institutions/funds, departments, statutory boards under the Ministry and subjects under state corporations.
- Formulation of policies and standards related to public health services
- Formulation and implementation of programs to improve public health and nutrition
- Implementation of international quarantine and sanitation regulations
- Regulation and monitoring of quality, standards and prices of private hospitals and medical centres
- Regulation and monitoring of the work of non-profit community medical care institutions
- Launching operations for quality control, prevention and treatment of pandemic, communicable and non-communicable diseases
- Implementation of medical and oral health services related to school health program
- Work on health services for estate sector
- General sanitation
- Implementation of Thriphosha distribution programs
- Administration of all hospitals and hospital employees (except hospitals under Provincial Councils)
- Administration and organization of all training departments and services and coordination with other institutions of higher medical education.

- Work on National Blood Transfusion Services
- Work on Pharmaceutical Manufacturing, Import and Distribution
- Administration and personnel management related to the Sri Lanka Medical Service
- Creating training opportunities to improve the quality and skills of medical and paramedic services.
- Introducing new strategies to expand research related to the health sector
- Work on National Health Insurance Programs

The Ministry of Health had been provided provision of Rs.256,586 million in the year 2022 to accomplish the above mentioned role and only Rs.240,852 million out of that had been utilized by the end of the year under review.

The important and quantitative audit observations revealed during the sample audit conducted regarding the performance of the above subjects and functions are summarized and presented below.

Payment of salary, overtime and other allowances for in and out not verified by fingerprint machines

Without the use of fingerprint machines which should be kept records of the in and out of officers in all government institutions according to the Public Administration Circular, A total amount of Rs.79,548 million had been spent for payment of Rs.43,356 salary and Rs.36,192 million overtime and leave allowances based on the current salary. Also, the total amount spent on overtime and leave allowance was about 72 percent of the cost of salary.

Unlawful allowances paid to Intern Medical Officers

According to a sample audit conducted, the Intern Medical Officers who were assigned to 22 central government hospitals for training from January 2016 to March 2022 had been paid Rs.47 million unlawful allowances. Information about the value of unlawful allowances paid in excess from 2016 to December 2022 in respect of other hospitals was not submitted to the audit.

Non-recovery of amount dues from Nurses, Professions Supplementary Medicine and Paramedical who have not duly completed their training

432 Nurses, Medicine and Paramedical trainees enrolled in 23 training schools between 01 January 2018 and 15 August 2022 had abandoned the training without completing the training as scheduled and only the value of the guarantees to be collected from them was about Rs.116 million.

Non accounting of Assets

Although it was confirmed that various local and foreign institutions, organizations and individuals have given 1,339 million worth of goods and medical supplies and 2,444 units of goods and equipment of unknown value to the Ministry and the hospital institutions and various departments under that in the year 2020, their values had not been included in the financial statements. Furthermore, the expenses incurred for the acquisition and development of non-financial assets included in the expenditure of Rs.7,603 million incurred under 54 foreign aid projects implemented by the Ministry during the period from 2010 to 2020 were not accounted under non-financial assets and the cost of financial assets worth Rs.6,326 million purchased by Covid 19

Emergency Response and Health System Preparedness Project by 31 December 2022 had also not accounted under the non-financial assets of the Ministry.

Weaknesses in Vehicle Management

According to the special audit report on the vehicle management of the Ministry of Health issued by the National Audit Office on 22 April 2019, it was stated that 679 vehicles owned by the Ministry had been missed. Although it was stated that 240 vehicles were identified, sufficient information was not submitted to the audit to confirm that and it was not possible to find information about 439 vehicles until 30 June 2023 even though 04 years have passed since the issuance of the said special audit report. 805 motorcycles had been purchased at a cost of Rs.239 million in the year 2020 and they were not included in the Ministry's Asset Register and the Ministry had not enter into written agreements until 30 June 2023 with the officers who provided these motorcycles.

Default to pay taxes payable to the government

the Ministry and the hospitals had not followed the provisions of the tax announcement that had been issued in relation to the period from 01 January 2020 to 31 March 2020 according to the

tax announcement dated 15 April 2020 and according to the information submitted to the audit, the tax revenue that would have been lost to the government for the period of aforesaid 03 months in relation to the ministry, hospitals and 24 institutions was about Rs.8 million.

Posts that is essential in maintaining the Health Sector

Among the vacancies in this sector, 1,331 Medical Officers, 77 Dental Surgeons, 1,759 Nurses, 275 Sisters, 136 Medical Laboratory Technicians, and 68 Occupational Therapists, 126 Pharmacists and 270 Radiologists who essential to maintain the health sector had been vacant.

Not properly managing employee surpluses and shortages

According to the information submitted to the audit, a shortage of 15 Specialist Surgeons in 12 hospitals while there is a surplus of 03 Specialist Surgeons in 02 hospitals, a shortage of 97 Specialist Dental Surgeons in 24 hospitals while there is a surplus of 20 Specialist Dental Surgeons in 13 hospitals, a shortage of 43 Medical Administrators (Senior grade) officers in 40 hospitals and institutions while there is a surplus of 05 Medical Administrators (senior grade) officers in 05 hospitals and institutions, a shortage of

156 Specialist Doctors in 38 hospitals while there is a surplus of 146 Specialist Doctors in 23 hospitals and a shortage of 1613 Medical Officers in 89 hospitals and institutions while there is a surplus of 282 Medical Officers in 21 hospitals and institutions had been existed as of 31 December 2022.

Sri Lanka Thriposha Company Limited The company does not have adequate storage facilities

Enough storage facilities had not been existed by the Thriposha Company and it had been purchased in different rates due to this. Although the sum of Rs.192 million had been given on several occasions in the year 2021 for the construction of the Silo System proposed by the World Food Program (WFP), the relevant work had not been completed in the year 2022 also.

Having a Biscuit making Machine in idle

A machine worth Rs.209 million had been purchased by the company in the year 2020 for making the nutritious biscuit and even though Rs.19 million had been spent to establish the machine and Rs.5 million spent for the training of officers, biscuit production had been done in the year under review.

Teaching Hospitals

Preparation of raw food material estimates in favor of pre-identified suppliers

Raw food requirements for catering to hospital inpatients and junior staff were included in the prepared estimates in favor of pre-identified suppliers. Therefore, some contractors who have gained an understanding it, had taken steps to misuse the open tender process based on their experience by offering lower unit prices for materials that the hospital does not order and low order materials and higher unit prices for materials that are ordered more. Due to this, every competitor had lost equal opportunities, however the relevant hospital administration had not decided to prepare rational estimates to reduce this situation.

Existence of weaknesses in the control of the stock of surgical consumables in the operating theatres

During the sample audit conducted in relation to the surgical consumables stock in the Genitourinary Surgical Room of the Colombo National Hospital, a stock of 1,555 units of surgical consumables worth Rs. 9 million was fraudulently hidden in polythene bags in the ceiling of the sewing room of the adjacent surgery room B. Also, as 7 units related to 3 types of

surgical consumables were irregularly and fraudulently disposed from the urology surgery room to surgery room G and then to surgery room D, the stock control had to be further strengthened. It was observed that during the in depth inspection in this regard, the Genitourinary Surgical Clinic had issued 3 types of surgical consumables worth Rs. 5 million more than the surgeries performed in that surgery.

Medical Supplies Division

Medical supplies, failure of condition

Among the medical supplies issued to government hospitals, Medicines, surgical and laboratory materials valued at Rs.349 million were removed from use due to failure in condition in the year 2022. Another medicines valued at Rs. 32 million were temporarily suspended due to the failure of the condition.

Inadequate facilities of National Pharmaceuticals, Quality Assurance Research Laboratory

The National Drug Quality Assurance Laboratory, operating under the National Medicines Regulatory Authority, did not have the ability to check the quality of the drugs before the Medical Supply Division issued them to the hospitals. As a result, by the time it was reported that the drugs

failed, most of the drugs had been used by the patients.

Non-recovery of insurance coverage related to damage to a medical supply stores in Kotikawatte

Kotikawatta drugs stores No. 53, which belonged to the Medical Supplies Department, after being flooded on 18 May 2016, the damage caused was Rs. 405 million, and the amount to be recovered or written off is Rs. 199 million. The insurance to be claimed in respect of this damage is Rs. 320 million, the amount received is Rs. 206 million. Accordingly, the further amount to be received from the insurance company amounting to Rs. 114 million had not been recovered.

Expiration of Pfizer Vaccines

Implemented by the World Bank Loan, the COVID 19 Emergency Care and Health System Preparedness Project (Third Supplemental Financing) will procure drugs through the State Pharmaceutical Regulatory Commission to combat the Covid 19 pandemic during the period December 2021 to January 2022 and provide the Epidemiology Unit with 13,999,050 doses of Pfizer vaccines worth Rs.16,102 million had been given. From these vaccine doses, Rs. 7,951,710 doses of vaccine valued at 10,736 million had expired by 31 July 2022.

Installation of a Comprehensive Management Information System for the medical supply sector

In order to better organize the medical supply management process and provide continuous supply of essential drugs to the government hospitals, for the overall contract of developing, providing, installing, implementing, training and maintaining a management information system that was identified as necessary for the medical supply sector, Rs. 633 million had been spent, however the work was stopped in the middle and the contract value was given to another private company to establish a new information management system called Swastha for Rs.102 million.

Not storing medicines at proper temperature

In Gampaha and Anuradhapura Regional Medical Supply Departments and Merigama Base Hospital, Anuradhapura Teaching Hospital premises, 17 items of medicine that should be kept at a temperature below 25 degrees Celsius were stored at temperatures above 30 degrees Celsius, and medicines used for allergies and hypertension and Antibiotics were also present in it.

Indigenous Medicine Sector

Audit Observations

- **Provision and Utilization**
- **Payment of allowances without verification by fingerprint machines**
- **Failure to formally hand over the Motorcycles**
- **Not utilizing the funds for providing and installing a diesel Generator for related purposes**
- **Non-establishment of herbal porridge Shops**
- **Human Resource Management**
- **Department of Ayurveda**
 - **Utilization and Savings of Provisions in the Department**
 - **Regulation of Panchakarma Centers**
 - **Control of Overtime Payment**
 - **Failure to perform Duties**
 - **Purchasing Machines without properly identifying the requirement**
 - **Failure to comply with the terms of the Code of Guidelines**
 - **Failure to develop and implement a proposed Management Data System**
- **Ayurvedic Medical Council**
 - **Ayurvedic Doctors not being regulated**
 - **Failure to keep accurate information about deceased hereditary doctors up to date**
 - **Non-regulation of Performance of Ayurvedic Doctors**
- **Sri Lanka Ayurvedic Drugs Corporation**
 - **The capital grants received from the Treasury were kept in a bank account without being used**
 - **The construction of a flavoring medicine has been stopped midway**
 - **Non-implementation of the project proposal to create an International Medical Zone**

Indigenous Medicine Sector

The vision of the Indigenous Medicine Sector is to treat everyone healthy through traditional indigenous medicine. The mission of the institute is to contribute to the achievement of national economic and Sustainable Development Goals by making the entire community healthy and developing human strengths by using research and modern technology in a way that preserves the Sri Lankan identity.

The main subjects to be implemented in order to accomplish that mission are

- Making policies to uplift the practice of traditional indigenous medicine
- Popularizing indigenous medicine to build a healthy Nation
- Preservation and promotion of indigenous medicine
- Increasing the production of medicines by implementing indigenous herbal cultivation on a large scale
- To improve the tourism industry by creating a safe practice of Ayurveda medical and contribute to the development of the country
- Promotion of homeopathic medicine

To accomplish this subjects, the Department of Ayurveda, Sri Lanka Ayurvedic Drug Corporation, the Homoeopathic Medical Council and the Homeopathic Hospital are functioning under the direct supervision of the

Ministry, and there are 10 Ayurvedic teaching and research hospitals, 07 herbal gardens, the Bandaranaike Memorial Ayurvedic Research Institute, National Institute of Ayurveda and Ayurvedic Medical Council are also functioning under the Department of Ayurveda.

Provision and Utilization

In order to accomplish the above role during the year under review, Rs.12 million for the capital expenditure of the Indigenous Medicine Sector and Rs.356 million for recurring expenditure had been allocated under the expenditure head of Ministry of Health, and 78 percent of the capital allocation i.e. Rs.9 million and 91 percent of recurring allocations i.e. Rs.323 million had been spent.

Payment of allowances without verification by fingerprint machines

Rs.8 million had been paid as overtime and leaves allowance during the year under review on the basis of attendance register only without verification by fingerprint machines contrary to the Public Administrative Circular instructions.

Failure to formally hand over the Motorcycles

According to the list of vehicles submitted in 2021, although it was stated that 48 motorcycles belonging to the herbal farming project would be formally handed over to the Department of Ayurveda and the Ayurvedic Drug Corporation, the said motorcycles had not been even identified by 31 December 2022.

Not utilizing the funds for providing and installing a diesel Generator for related purposes

The State Ministry of Indigenous Medicine had given Rs.05 million to the Ayurvedic Drug Corporation in the year 2020 for the provision and installation of a new diesel generator. Nevertheless the corporation had not used the money for that purpose by 16 May 2023.

Non-establishment of herbal porridge Shops

Although Rs.05 million as Rs.3 million per quarter had been allocated to prepare and establish 18 mobile stalls for the sale of herbal porridge under the Suva Dharani Herbal Porridge project at the Divisional Secretariat level during the second and third quarters of the year under review, a single herbal porridge had not been established by the end of that quarter.

Human Resource Management

Due to the appointment of new state ministers effective from 08 September 2022, although the State Ministry of Indigenous Medicine Promotion, Rural and Ayurvedic Hospital Development and Community Health (Head No.416) has been abolished, 345 staff of actual cadre as of 31 December 2022 from 403 approved cadre for that state ministry had been further employed under the Ayurveda Division of the Ministry of Health without any staff review.

Department of Ayurveda

Utilization and Savings of Provisions in the Department

Rs.0.66 million out of Rs.one million allocations for the 02 capital expenditure subjects in the year under review had been transferred to other capital expenditure subjects without being spent on the purposeful tasks of those expenditure subjects and Rs.0.34 million provision remained save. Rs.4 million or between 40 percent and 63 percent of the provision out of Rs.7 million provisions made for 07 capital expenditure subjects remained save. 26 percent to 67 percent of the provisions that had been transferred to 05 recurring expenditure subjects from other expenditure subjects had been remained save due to the transfer of allocations

without properly identifying the need and a provision of Rs.10.29 million remained saved including Rs.0.90 million that was transferred to the recurrent expenditure subject which had been allocated the Rs.412.00 provision from the original estimate.

Regulation of Panchakarma Centers

As per the section 10 of the Ayurveda Act No.31 of 1961, although the registration by the Commissioner of Ayurveda is required for running an Ayurvedic Clinic, an Ayurvedic drug factory, an Ayurvedic drug store or an Ayurvedic medicine store, since the Act did not include provisions for the registration of Panchakarma and Massage Centers, the practice of Panchakarma medicine could have not been regulated.

Control of Overtime Payment

As per Paragraph 2 (iv) of Public Administration Circular No. 09/2009 dated 16 April 2009, when the payment of overtime and leave allowances pay based on time, although the relevant time should be verified by fingerprint machines, Rs.63 million had been paid as the overtime and leave allowance during the year under review only based on the attendance register without the use of fingerprint machines.

Failure to perform Duties

Although the Ayurveda Community Health Promotion Program should be implemented as a pilot project in Anuradhapura district from 2001 to 2005 and the services should be extended to other districts from 2005 onwards depending on its success, the project had been implemented only in Anuradhapura district. Additional provision had not been made in the year under review for this project which had spent Rs.877 million from the year 2005 to the year 2021 and under the patient treatment service project of the development program, provision was made only for recurring expenses including salaries, allowances, contracted services and totaling Rs.153 million had been spent to Rs.148.3 million as salaries and allowances for 218 officials and Rs.5 million for other expenses. Accordingly, it is a matter of controversy to continue the Ayurvedic Community Health Promotion Program by covering only the recurrent expenses related to this project which was not implemented successfully enough to cover other districts and be extended by the expenditure subjects of the department.

Purchasing Machines without properly identifying the requirement

14 machines and equipment were purchased by spending Rs.28 million for the Bandaranaike Memorial Ayurvedic Research Institute on 16 March 2015 without properly identifying the requirement and without carrying out a feasibility study and 08 machines out of that worth Rs.21 million had not been installed as of the date of this report. A committee appointed on 05 October 2020 had identified that 06 machines worth Rs.15 million were not needed for the factory. As this contract was executed without entering into a proper contract agreement and agreements for service and repair, the installed machinery and equipment also remained unusable by the year under review. Thus, the total amount of Rs.28 million rupees spent on this project was an uneconomical expenditure.

Failure to comply with the terms of the Code of Guidelines

Regarding the Rs.75 million contract for the provision of security services to the Department of Ayurveda and its 18 affiliated institutions from June to December of the year under review, the provisions of the Government Procurement Guidelines had not been complied with.

Failure to develop and implement a proposed Management Data System

Although it was planned to prepare and implement a management data system for the department, the relevant data system had not been established by the end of August 2023. Accordingly, it was difficult to efficiently obtain updated management information related to the department and its affiliates, the entire system of institutions including hospitals, medical centers and, in and out of the department's staff recording control, performance control, salary control, overtime cost control, personal file control, etc. had also at a weak level.

Ayurvedic Medical Council

Ayurvedic Doctors not being regulated

According to Ayurvedic Medical Council rules published in Extra Ordinary Gazette No.1884/36 dated 15 October 2014, although all the doctors registered in the Council must renew their registration once in 05 years, due to the fact that the Council has not identified and implemented a formal system for renewing the registration, 18,516 doctors whose registration exceeded 05 years had not renewed their registration by 31 December 2021.

Failure to keep accurate information about deceased hereditary doctors up to date

Although it was reported that the number of registered doctors in the Medical Council was 26,650, and the number of deaths was 3,827 as of 31 December 2022, system was not implemented to obtain accurate information about the deceased hereditary doctors. Furthermore, since there was no system in place to announce the cancellation of the registration of deceased doctors to the public, there had opportunity to misuse of the relevant registration certificates.

Non-regulation of Performance of Ayurvedic Doctors

Performance reviewed to evaluate the work of registration of Ayurvedic Doctors, Hereditary Ayurvedic Doctors, Ayurvedic Nurses and Dispenser, conducting examinations for them, issuing examination results etc. had not been done by implementing Performance indicators.

Sri Lanka Ayurvedic Drugs Corporation

The capital grants received from the Treasury were kept in a bank account without being used

Rs.30.92 million or 41 percent of the Rs.75.50 million received from the treasury as capital grants in the years 2018, 2020 and 2021 had been retained in a bank account without being used even by 23 August 2023.

The construction of a flavoring medicine has been stopped midway

The construction of a flavored medicine manufacturing plant with an estimated cost of Rs.46 million was started on 25 August 2018 with a treasury allocation of Rs.37.00 million with the aim of meeting the patients' need for flavored medicine and building a healthy society. Even though 30 percent of the construction had been completed until 02 January 2020 spending Rs.12 million, the construction had been temporarily ceased since that day due to weaknesses in planning and supervision. Although 05 years had passed by 23 August 2023, the related construction had not been restarted and the amount spent on the project had become unprofitable.

Non-implementation of the project proposal to create an International Medical Zone

A project proposal had been submitted to the Ministry of Indigenous Medicine on 10 January 2022 to create an international medical zone so that local people as well as foreigners can get treatment and medicines of their own accord by combining traditional medical methods in Asian countries and, Rs.40 million was

proposed to be borne by the treasury and Rs.60 million by the corporation Out of the total project cost of Rs.100 million. Nevertheless, in a situation where the approval of the General Treasury and the provision of Rs.40 million had not been given for the project, it had been arranged to pay Rs.02 million to an informally employed planner without preparing a total cost estimate for the project.

National Authority on Tobacco and Alcohol

Audit Observations

- The new taxation formula has not been enacted into law
- Inability of authorized officers to regulate the places where the relevant products are kept for sale to the public
- Failure of the authority to maximize the effectiveness of changing health warnings

National Authority on Tobacco and Alcohol

The new taxation formula has not been enacted into law

The present taxation structure for tobacco products in Sri Lanka is informal and complex and it consists of a combination of several types of taxes according to the reports of the Authority and the excise tax revenue on cigarettes in the year 2016 was 7.3 percent of the total government revenue, however due to it has decreased to 3.1 percent by the year 2020, the authority will spend Rs. 994 million by the authority in the years of 2020 and 2021 for the introducing of new taxation formula for tobacco and although expected to increase the excise revenue of Rs. 92 billion on cigarettes in the year 2021 to Rs. 125 billion till the year 2026 and it would result in a 1.1 percent decline in tobacco consumption and an increase in government revenue from about 6 percent annually, the new taxation formula had not become law as at the date of this report.

Inability of authorized officers to regulate the places where the relevant products are kept for sale to the public

Although permission has been given to display an advertisement of a certain size in a place where tobacco products or alcohol products

are for sale to the public with introducing the availability of those products for sale and indicting their prices according to the terms of the National Authority on Tobacco and Alcohol Act no. 27 of 2006, the orders applicable to the said section had not been made and the approval of the Parliament had not been obtained. Accordingly, the authorized officers under the Act had not been able to regulate the advertisements displayed in the places where the related products were sold to the public.

Failure of the authority to maximize the effectiveness of changing health warnings

According to National Authority on Tobacco and Alcohol Act, cigarette and tobacco manufacturers can change the health warnings in every six months and display them on cigarette packets, packs or cardboard boxes to expand the pool of 08 health warnings published by the above gazette and identify 10 health warnings in the year 2022, but they were not classified or gazetted and the authority had failed to maximize the effectiveness of health warning changes by using only the pool of 08 health warnings from the year 2015 till the date of this report.

Labour and Foreign Employment Sector

Audit Observations

- **Ministry of Labour and Foreign Employment**
 - **Failure of preparation of National Policy on Regulation of Employment and National Manpower and Employment Policy.**
 - **Distribution of Defective Prizes to Winners**
- **Department of Labour**
 - **Retention of money related to Employee's Provident Fund in a General Deposit Account without being credited to personal accounts**
 - **Failure of being registered as a factory owner or resident**
 - **Lack of Regular Monitoring of Private Provident Funds**
 - **Failure of taking positive steps to use the Trade Union Sector for the development of the country**
- **Department of Manpower and Employment**
 - **Weak progress in the establishment of a Human Resources Data Bank Project**
- **Shrama Wasana Fund**
 - **Failure of achieving the objectives shown in the Act**
- **Employees Provident Fund**
 - **Existence of balances without being credited to individual accounts of members**
 - **Non-payment of benefits receivable on behalf of deceased members**
 - **Being inactive of issuance of Identity Cards to Members of Employees' Provident Fund**

- **Ministry of Women, Child Affairs and Empowerment.**
- **Samurdhi Development Department**
 - **Failure of being empowered Samurdhi Beneficiaries**
 - **Withholding of Subsidy money in bank accounts for long term**
 - **Divinaguma Community Based Banks and Community Based Bank Societies**
- **Divineguma Development Fund**
 - **Failure of establishment of Divineguma Development Fund**
 - **Failure of implementing Data System Development Module in relation to Management Module**
- **Employees' Trust Fund**
 - **Retention of money in other accounts without being credited the membership fee into members' individual accounts**
 - **Retention of money received from court proceedings in other accounts without being credited to individual accounts of Members**
 - **Failure of payment of death benefits**

Labour and Foreign Employment Sector

The lifeblood of the country is the working people. Being able to perform their tasks in a satisfactory work environment leads to a healthy workforce and through that, it is possible to develop the production of the country and their quality.

The following tasks should have been performed by the Labour and Foreign Employment Division aimed at encouraging effective programmes based on employee friendliness by reviewing all the circulars, laws, ordinances and legal regulations that fall under the scope of labour and making the necessary amendments to match with the present and making necessary amendments so that employee rights are secured, introducing a contributory pension scheme which safeguard the aged lifetime of employees in addition to the Employees' Provident Fund by developing the skills and abilities of workers, maintaining high standards of hygiene and worker safety in workplaces.

Accordingly, some of the facts observed in the analysis carried out regarding the above tasks performed by the Ministry of Labour and a Department related to this sector and the 05 Statutory Boards and

State-owned Enterprises are summarized below.

The Ministry of Labour and Foreign Employment had given an allocation of Rs.1,775 million for the year 2022 and a sum of Rs.1,671 million had been spent. Out of that, a sum of Rs. 104 million had been saved.

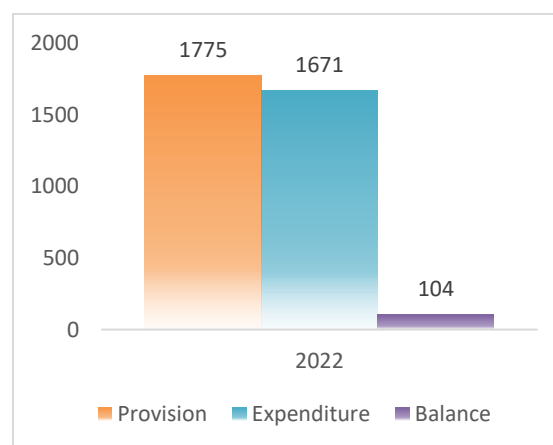


Figure 24 - Provisions and actual Expenditure

Ministry of Labour and Foreign Employment

Failure of preparation of National Policy on Regulation of Employment and National Manpower and Employment Policy

A National Policy on Regulation for Employment and a National Manpower and Employment Policy had not been prepared and implemented even by the end of the year 2022.

Distribution of Defective Prizes to Winners

A payment of Rs. 4.5 million had been made for 685 award trophies to be presented to the winners of the National Productivity Awards 2020 and the awards had been handed over to the stores on 15 June 2022. A report had been called a month after receiving the awards, to check whether these were the correct specifications or not. It had been reported that the except for the 33 awards handed over to the store, the rest are defective. Despite, the arrangements had been made to award these trophies to the winners.

Department of Labour

Retention of money related to Employee's Provident Fund in a General Deposit Account without being credited to personal accounts

A total of Rs. 283 million in relation to the Employee's Provident Fund of the Department of Labor and District Labour Offices in the year under review had been retained in the General deposit Account without being credited to the respective individual accounts.

Failure of being registered as a factory owner or resident

Although it is required to be registered as a factory owner or resident, the number registered under the new rules was 3,153

out of 32,948 files maintained in the District Factory Engineer Office by the end of the year 2022. Accordingly, the Department had lost at least Rs. 30 million from the registration fee that could be obtained for unregistered factories when considering the minimum registration fee of Rs.1,000 .

Lack of Regular Monitoring of Private Provident Funds

Even though the Department of Labour had established a Private Provident Fund Division to administration and supervision of the provident funds and approved contributory pension schemes under the Employees' Provident Fund Act, a proper supervision on them had not been made by this Division. A number of 291 complaints had been received regarding these funds from the year 2017 to 2021 and, 68 complaints out of these had not been resolved. Although the contributions of a particular month should be paid on the last day of the following month as per the Act, the payment of surcharge amounted to Rs. 108 million related to the period of 2019-2021 had been defaulted due to failure of crediting of contributions for private employee provident fund maintained by one company.

Failure of taking positive steps to use the Trade Union Sector for the development of the country

Although the registration of trade unions, introduction of positive measures to use the activities of Trade Unions in all public and private sectors for the development of the country should be implemented as functions and tasks under the Ministry of Labour and Foreign Employment as per the Gazette of the Democratic Socialist Republic of Sri Lanka dated 22 July 2022, it was not observed whether such measures were taken.

Department of Manpower and Employment

Weak progress in the establishment of a Human Resources Data Bank Project

The objectives of installing the software had not been achieved because of the system cannot achieve the desired objectives as per the observations included in the examination report made by the University of Moratuwa regarding the progress of establishing a Youth Human Resource Data Bank sent to the Department by the Presidential Secretariat based on the collection of labour market information. The Department had incurred an expenditure of Rs. 84 million in the years 2021 and 2022 for these projects by the year under review and a sum of Rs. 84 million had been spent under the

above projects for the purchase of computer accessories, household appliances and furniture.

Shrama Wasana Fund

Failure of achieving the objectives shown in the Act

Out of Rs. 38 million receivable from the Consolidated Fund for the welfare of dependents for the year under review, only Rs. 5 million had been received and, the amount receivable from the Consolidated Fund for welfare purposes was Rs.379 million. Accordingly, as sufficient money cannot be obtained from the Treasury, it had been impossible to achieve the objectives shown in the Act for the welfare of employees and their dependents.

Employees Provident Fund

Existence of balances without being credited to individual accounts of members

Out of the balance of Rs.3,380,617 million of Member Account of Employee Provident Fund as at 31 December 2022, a sum of Rs.63,571 million had remained without being credited to individual member accounts due to various reasons.

Non-payment of benefits receivable on behalf of deceased members

The number of unpaid death benefit applications held at the Head Office as at 20 June 2022, was 1,101 and out of that, 220 applications between 10 and 15 years from the date of submission of applications, 27 applications between 4 and 13 years and 8 applications between 6 and 10 year are remaining and 210 applications had been rejected. The value of these unpaid death benefits had not been disclosed in the financial statements.

Being inactive of issuance of Identity Cards to Members of Employees' Provident Fund

A number of 15000 cards by incurring Rs.13 million for the Project commenced for issuing new identity cards and re-registration of the members of the Fund and 35 Account Balance Checking Machines (KIOSK) at a cost of Rs.18 million had been purchased. These 15,000 cards purchased were not used for the relevant purposes and had been kept in idle in the Information Technology Division even by the date of audit and 2 machines out of 35 machines had been disposed. Twenty five of the 33 inactive machines had been brought to the Head Office for disposal. The money of the Fund had been futile due to failure of operating of these machines at present.

Ministry of Women, Child Affairs and Empowerment.

Samurdhi Development Department

Failure of being empowered Samurdhi Beneficiaries

Even though the government has spent Rs. 1,260 million for various Samurdhi Development Programmes to empower the Samurdhi Beneficiaries during the period from 2019 to 2022, a specific goal of empowerment had not identified. Even though 29 years had elapsed by the year 2023, a number of 312,307 Samurdhi Beneficiaries identified in 1995, have been receiving subsidies without being empowered furthermore.

Withholding of Subsidy money in bank accounts for long term

Subsidy money of Samurdhi Beneficiaries remitted monthly to Community Based Banks had been withheld in their bank accounts for a long time without being withdrawn monthly by some of the beneficiaries. In the audit test check conducted in this regard, the amount so withheld in the savings accounts of 2,433 beneficiaries in 41 Divisions of 10 Community Based Banks was Rs. 60 million.

Divinaguma Community Based Banks and Community Based Bank Societies

Being operated with the view of profit apart from the objective of empowering the Samurdhi Beneficiary.

The total deposit amount of 4,115,100 Members of 1,089 Community Based Banks is Rs. 155 billion and out of which, the outstanding balance of the loans given to the beneficiaries was Rs. 68 billion only. A sum of Rs. 149 billion had been invested under high interest rates as at 31 December 2022 and a low interest rate of 03 per cent was paid for the savings of the Samurdhi Beneficiaries. Accordingly, although the Community Based Banking System had been commenced with the aim of empowering the Samurdhi Beneficiaries, at present, it had been operated with the view of profit rather than empowering Samurdhi Beneficiaries.

Divineguma Development Fund

Failure of establishment of Divineguma Development Fund

The Divineguma Development Fund should be established as per the Divineguma Ordinance and although all grants and prizes received by the Department, gifts and other contributions received by banks and banking societies established under the Act, all receipts as a percentage of money determined by the Minister from the profits of banks should

be credited to the Consolidated Fund and then credited to the Divineguma Development Fund with the approval of the Parliament, the Divineguma Development Fund had not been established up to now.

Failure of implementing Data System Development Module in relation to Management Module

A sum of Rs. 4 million had been spent in the year 2016, to the “e”-Samrudhi Project of Data System Development in relation to the Management Module which includes the information of Samurdhi Beneficiaries and low income earners created by the Sri Lanka Institute of Information Technology in the year 2012 and a sum of Rs. 4.07 million had been spent for the CRM module again in the year 2019. Nevertheless, the Module had not been implemented even by the year 2023.

Employees' Trust Fund

Retention of money in other accounts without being credited the membership fee into members' individual accounts

The total amount of contribution collected as at 28 April 2021 by the Board amounted to Rs.581 million pertaining to 3,912 employers during the period from 1981 to 2021 Held in other temporary accounts had retained in other temporary accounts without being credited to the

personal accounts of the respective members in terms of Section 16 (3) of the Employees' Trust Fund Act No. 46 of 1980. Within this, the outstanding balance between 7 and 41 years was Rs. 91 million.

Retention of money received from court proceedings in other accounts without being credited to individual accounts of Members

An amount of Rs.71 million out of contributions and surcharges valued at Rs.1,511 million recovered from 1985 to 2022 by court proceedings by the Board in respect of a particular employee interms

of the Employees' Trust Fund Act had not been credited to the employee's personal accounts even by the end of the year under review.

Failure of payment of death benefits

A sum of Rs. 21 million was payable for 1,207 members as unclaimed death benefits at the end of the year under review. The amount of death benefit payable to 786 beneficiaries belonging to the period of time ranging from 07 to 20 years was Rs.9 million within the age analysis of the death benefits payable in respect of persons who had died between the year 1995 and the year 2022.

Industry, Manufacturing and Technology

Audit Observations

- **Ministry of Industries**
 - Utilization of Provisions
 - Utilization of lands in Buttala Industrial Estate
 - Construction progress of Raigama Green Industrial and Technical Development Super Industrial Zone Project
 - Maintaining manufactures in Industrial Estates at less than expected capacity
- **Industrial Development Board of Ceylon**
 - Being inactive of the Center of Excellence in Robotics
 - Being inactive of Bamboo Wood Manufacturing Center
- **Ceylon Ceramic Corporation**
- **Sri Lanka Cement Corporation**
 - Failure of recovery of lease rent income
- **Paranthan Chemicals Company**
 - Futile purchase of Caustic Soda Bags
- **National Crafts Council**
 - Destruction of Flax Plants due to lack of maintenance
 - Failure of utilization of Hela Art Village
- **Sri Lanka Handicrafts Board**
 - Dormant money in current accounts
 - Failure to receive legal title of the property
 - Indicating of a stock that does not physically exist in the accounts
- **National Gems and Jewellery Authority**
 - Failure of recovery of deposits
 - Failure of remittance of collected money to Inland Revenue Department

- **Gems and Jewelry Research and Training Institute**
 - **Underutilization of Lands**
- **Institute of Industrial Technology**
 - **Failure of utilization of Pharmaceuticals Laboratory**
 - **Failure of using equipment to carry out inspections on third party petroleum product**
- **Sri Lanka Standards Institute**
 - **Release of Sugar to the warehouse without obtaining documents of personal guarantee from the importer**

Industry, Manufacturing and Technology

Ministry of Industries

As Sri Lanka is a country with a high potential for primary export, the country has become a country with a continuous Foreign Trade Deficit due to the matters such as unavailability of a fixed price for them in the foreign market, fluctuation their productions due to weather and climate effects. Therefore, the country is facing a continuous foreign exchange crisis because of the cash outflows from the country more than inflows into the country. Nevertheless, this challenge can be overcome by encouraging local industrial products that can compete with the international market. Accordingly, the Ministry of Industries is executing to ensure to create a conducive environment which is technology intensive, knowledge and innovative thinking driven in order to encourage diversified, high value added and innovative products, green practices, better market access and inclusive industrial development. Two Departments, 12 Statutory Bards and 11 Corporations and 11 Companies are functioning under the Ministry. The Ministry of Industries expects to achieve the objectives such as

- To establish a conducive structure to provide an efficient service delivery for all stakeholders in the manufacturing sector.
- To augment the application of technologies, value addition, product diversification, usage of local resources and sustainability in the manufacturing sector.
- To promote regional industrial development and expand investment opportunities to ensure inclusive industrial development.
- To enhance local and global market access in manufacturing industry sector.

Utilization of Provisions

A net provision of Rs. 4,287 million had been given to the Ministry of Industry to fulfill the aforesaid roles in the year 2022 and only Rs. 3,327 million had been utilized by the end of the year under review and, a provision of Rs. 960 million had been saved by the end of the year.

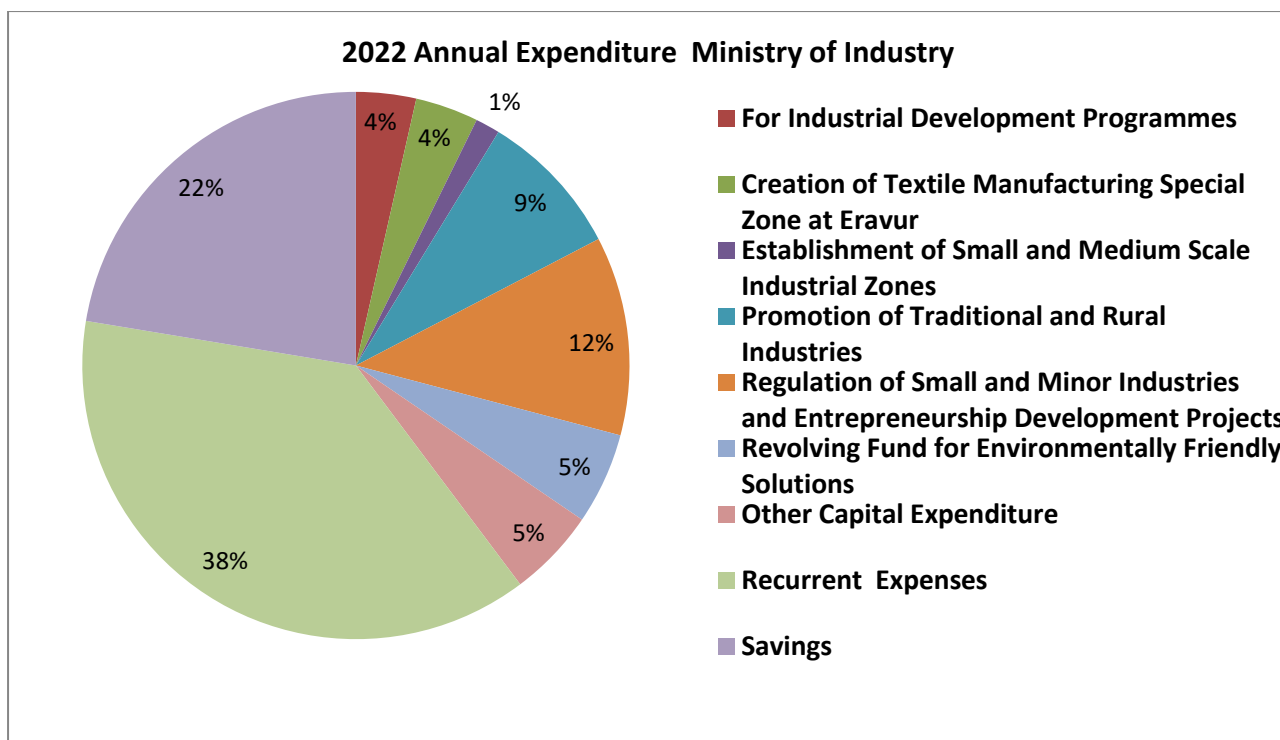


Figure 25 - 2022 Annual Expenditure Ministry of Industry

Utilization of lands in Buttala Industrial Estate

Forty three plots of land had been allocated in Buttala Industrial Estate and 41 plots had been given to 15 industrialists from 2016 to 2021 and to two more industrialists in 2022. Out of that, the manufacturing activities are carried out by 5 industrialists and 7 industrialists are doing building construction works. The total land area of 340.8 perches allotted to three industrialists had remained in idle because no construction whatsoever had been commenced.

Construction progress of Raigama Green Industrial and Technical Development Super Industrial Zone Project

An amount of 97 million had been allocated by the Revised Estimate of the year 2022 to establish Raigama Green Industrial and Technological Development Super Industrial Zone and the construction works therein and a sum of Rs. 48 million had been incurred for that. Although the construction works of it should be completed by the end of the year under review, the financial progress was 49 per cent. Although a sum of Rs. 29 million had been spent for water supply out of the aforementioned expenditure, the physical progress was only 20 per cent.

Maintaining manufactures in Industrial Estates at less than expected capacity

Due to the closure of 07 factories in 5 Industrial Estates located in the Western Province without doing any production activity, an extent of 1535.7 perches of land remained underutilized and 57 factories in 07 Industrial Estates, including the above 05 Industrial Estates, had been functioning their production activities at a lower capacity than expected.

Industrial Development Board of Ceylon

Being inactive of the Center of Excellence in Robotics

The Nawabima Business Incubator Centre of Industrial Development Board of Ceylon had been chosen to set up a Center of Excellence for Robotics by the approval Cabinet of Ministers on 17 August 2016 with government contribution Rs. 80 million. A sum of Rs. 40 million had been incurred for the construction, repair and renovation of the first and second floors with 5 rooms of a Nawabima building. Business Incubator Centre Likewise, robotic technical machinery purchased for this Project valued at Rs.34 million had been established in this Center in the years 2018 and 2019. However, the machinery and air conditioners installed in

this Center had remained in idle even by 30 July 2023 .

Being inactive of Bamboo Wood Manufacturing Center

A bamboo wood training center had been commenced on temporary basis in a building where the Laksala Carpentry Factory is located jointly with the Industrial Development Board of Ceylon and UNIDO institution. It had seemed that the UNIDO institution is in idle without being utilized from May 2020 .

Ceylon Ceramic Corporation

Even though the Action Plan for the year 2022 had been prepared including activities to achieve 10 tasks such as increasing production, reducing total cost including production cost, increasing sales volume and market share and the Budgeted Provisions related to that had not been mentioned and the progress had not been evaluated identifying key performance indicators for performance measurement .

Sri Lanka Cement Corporation

The Corporation does not currently manufacture cement or any cement related products and only the lease rent of Rs.64 million received from the lease of the Aruvakkalu limestone deposit owned

by the Corporation and Rs. 4 million received from the lease of the land in Kollupitiya for a vehicle park had been the main source of income of the Corporation in the year 2022.

Failure of recovery of lease rent income

Two oil tanks and pipe systems belonging to the Corporation located in Kankesanturai had been handed over to Ceylon Petroleum Storage Terminals Limited without entering into a written agreement and although it had been estimated that an amount of Rs. 201 million should be received to the Corporation from the year 2010 to the end of the year 2022, based on the assessment report dated 22 December 2015 of the Valuation Department the amount had not been recovered up to the end of the year under review.

Paranthan Chemicals Company

Futile purchase of Caustic Soda Bags

A number of 5,997 bags of 25 kg caustic soda valued at Rs. 39 million were purchased from Bangladesh on two occasions and 2,894 bags valued at Rs. 23 million had remained by the end of the year. Out of this stock, another 2,277 bags valued at Rs.18 million had remained even by 12 July 2023 and the expiry date had been appeared as 26

August 2023. Despite a stock of 2,894 bags had remained, a number of 7,998 bags of Caustic Soda had been purchased from India on 2 occasions. The total number of remained bags of Caustic Soda as at 30 June 2023 was 10,034 and its value was Rs. 79 million.

National Crafts Council

Destruction of Flax Plants due to lack of maintenance

Out of 44,000 flax plants purchased at a cost of Rs. 35 million in the year 2022 for the Mahaweli B Project, even though only 36,000 plants had been planted, lack of proper monitoring and maintenance of the Project had directly affected to the failure was the reason for the destruction of 95 per cent of the cultivation by the date of audit.

Failure of utilization of Hela Art Village

Even though 14 stalls had been built at a total cost of Rs. 15 million in the Hela Art Village near Muniyandi Lake belonging to the National Crafts Council by incurring Rs. 10 million in the year 2021 and Rs. 5 million in the year 2022, had not been utilized even by the date of audit.

Sri Lanka Handicrafts Board

Dormant money in current accounts

Since large sums of money have been kept daily in current and savings accounts

in certain branches of the Board, by developing an appropriate methodology, for automatic transfer to head office current account by monthly or on a certain day or a certain amount or keeping cash in dormant in current and savings accounts is minimal. Thus a sum of Rs. 44 million had been retained in 9 bank accounts in dormant without being invested in an effective way of investment.

Failure to receive legal title of the property

The land and buildings of 01 acres 30.6 perches that belonged to Salusala Institution of Unawatuna, Galle had been vested to the Board by the Decision of Cabinet of Ministers dated 11 October 2012. Accordingly, even though the Board had paid Rs.15 million on 12 December 2012, considering it as the purchase amount. Actions had not been taken to get the legal title to the property even in the year under review.

Indicating of a stock that does not physically exist in the accounts

A physically unavailable stock totaled to Rs. 120 million was shown in the accounts as Rs. 12 million in stock allocation account and Rs. 108 million in non-movable stock account mentioned in the financial statements.

National Gems and Jewellery Authority

Failure of recovery of deposits

Even though the lease agreement between the Authority and the World Trade Center Company for providing shops to small and medium scale gem and jewellery businessmen in the World Trade Center had been terminated from 31 October 2021, the security bond amounted to Rs. 16 million had not been recovered by 28 February 2023.

Failure of remittance of collected money to Inland Revenue Department

Although the withholding tax collected within a month should be remitted to the Inland Revenue Department before the 15th day of the following month, withholding tax levied up to 30 November 2022 valued at Rs. 483 million equal to 2.5 per cent had not been remitted.

Gems and Jewelry Research and Training Institute

Underutilization of Lands

Due to failure of performing of relevant works in the land acquired on lease basis of 30 years, for the construction of Ratnapura District Office of the Institute to a value of Rs. 14 million in the year 2016, the land had remained underutilized for more than 6 years.

Institute of Industrial Technology

Failure of utilization of Pharmaceuticals Laboratory

Even though an accredited very new pharmaceutical laboratory has been functioned in the Institute since 2019 including GLP status with facilities in parallel with advanced pharmaceutical laboratories in developed countries by incurring Rs. 99 million from the Treasury Provision, actions had not been taken to obtain extensive services from the above Laboratory by the National Medicines Regulatory Authority in the supply and distribution of all western drugs including the hospital system in the island.

Failure of using equipment to carry out inspections on third party petroleum product

Because of a method of obtaining petroleum samples had not been developed for the Mineral Oil and Lubricant Laboratory which was installed at a cost of Rs.118 million to acquire and install

equipment to carry out third-party testing of mineral oil production in accordance with the Public Utilities Commission of Sri Lanka (PUCSL) regulations as per the Decision of Cabinet of Ministers dated 31 August 2016, the preliminary tasks of setting up the Laboratory had not been achieved.

Sri Lanka Standards Institute

Release of Sugar to the warehouse without obtaining documents of personal guarantee from the importer

A total of 10,986,250 kg of sugar had been released to the warehouse of the importer on 58 occasions without obtaining the documents of personal guarantee from the importer before receiving the sample test reports as per the guidelines formulated to carry out the objectives of the Act as per the objective 03(d) of the Sri Lanka Standards Institutions Act No. 06 of 1984 and the No. GL-II-04 of Code of Guidelines for Inspection of Import Goods dated 01 April 2010 issued by the Institute.

Public Administration Sector

Audit Observations

- The action had not been taken to collect arrears of building rent
- Deficiencies in asset management
- Underutilization of the provision of E- Grama Niladhari Project
- Underutilization of foreign aid project funds
- Non-utilization of the foreign loan for the intended purpose
- Under Utilization of foreign loan
- Kurunegala District Secretariat
- Puttalam District Secretariat
- Kandy District Secretariat
- Matale District Secretariat
- Nuwara Eliya District Secretariat
- Galle District Secretariat
- Monaragala District Secretariat
- Badulla District Secretariat
- Anuradhapura District Secretariat
- Polonnaruwa District Secretariat
- Mullaitivu District Secretariat
- Jaffna District Secretariat
- Mannar District Secretariat
- Vavunia District Secretariat
- Kilinochchi District Secretariat

- **Registrar General's Department**

- **The e-Land project has not achieved its objectives due to non-fulfillment of the scanning of Extracts.**
- **Information of civil registration related to births, marriages and deaths has not been included in the data system.**

Public Administration Sector

In order to create a "work culture for the country" based on the national policies expected to be implemented by the government, the policy guidance for the relevant government ministries and public administration, policy formulation related to the Home Affairs, Provincial Councils and Local Government, implementation of projects under the National Budget, the State Investment and National Development Program and the programmed and functions of the departments, public corporations and statutory bodies belonging to the Ministry and related policy formulation, implementation of programs and projects, follow-up and evaluation, Establishment, Administrative and Personnel Management in Sri Lanka Administrative Service, Sri Lanka Accountancy Service, Sri Lanka Planning Service, Sri Lanka Engineering Service, Sri Lanka Scientific Service, Sri Lanka Architect Service, Sri Lanka Technology Service and Integrated Services, perform the tasks to be performed by the government related to the parliament and the affairs of the members of parliament are the main tasks of this ministry.

In order to achieve the objectives of the Ministry, various programs, projects and tasks have to be implemented under the National Budget, Public Investment and National Development Program. Meanwhile, in the year 2022, to fulfill above role total of Rs. 64,096 million had been allocated to the Ministry and at the end of the year only Rs. 56,150 million had been utilized. Accordingly, Rs.7,946 million had not been utilized.

All District Secretariats, all Divisional Secretariats, all local government bodies, 04 departments, 05 corporations/boards, one commission and one company are functioning under this ministry.

The material and important audit observations relating the sample audit examinations conducted on the performance of the above functions of the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Government are summarized and presented below.

The action had not been taken to collect arrears of building rent

According to the Fiscal Policy Circular instructions, the Revenue Accounting Officers should have taken steps to collect the arrears and prevent further accumulation of arrears. However, the arrears of building rent to be collected from 29 institutions as at 31 December 2022 was Rs. 342 million and 22 percent or Rs. 74 million of that arrear of rent was due from government bungalows, tourist bungalows and quarters under the control of the ministry. The arrears of rent due from the years prior to 31 December 2019 was Rs.195 million. An increase of Rs.19 million was observed in the arrears of rental income compared to last year's amount.

Deficiencies in asset management

Rs. 322 million had been allocated for demolish and remove the Summits Flats at the Kappatipola Road. In the year 2008, however the project had not been implemented. 11 houses proposed to be demolished in that housing complex had been given to the Presidential Security Division officers on a temporary basis since 2009 and the administration of these houses remained outside the control of the Ministry. Rs. 459 million, which was the value of the Nilamadura building, had

been taken into account, however the process of handing over the land to the ministry had not been completed. Furthermore, the acquisition of 35 tourist bungalows and their lands under the Home Affairs Division and their assessment and shown in the financial statements had not been completed.

Underutilization of the provision of E-Grama Niladhari Project

The first phase of the E-Grama Niladhari project, which includes the data needed to collect and consult the daily information for the services provided by the Grama Niladaree, will be implemented as a pilot project in 04 Divisional Secretariat Divisions and 133 Grama Niladhari Division at an estimated cost of Rs. 57 million. Based on its success, the second phase was planned to cover 7,000 Grama Niladaree Division at an estimated cost of Rs.1,689 million. For this, only Rs. 3 million had been spent out of the provision of Rs. 750 million for the year 2022. Although Rs. 332 million had been spent on the project from 2017 to 31 December 2022, various deficiencies such as suspension of procurement after signing the contract with the supplier, delays in the implementation of the procurement process, and delay in sending Cabinet memos were caused by this.

Underutilization of foreign aid project funds

Rs. 200 million allocated by foreign grants and Rs. 40 million allocated under the Government of Sri Lanka to introduce a software system to operate a Business Center in Jaffna, Rs. 10 million allocated under the JICA grant for the project to develop the dairy industry in the Northern Province and Rs. 50 million allocated under the United Nations development project grant to increase local governance, for the implementation of the project of adding value to waste, Rs. 270 million were allocated under the German government grants and Rs. 5 million were allocated under the Sri Lankan government. A total of Rs. 625 million was left as at 31 December 2022 due to non-implementation of those projects.

Non-utilization of the foreign loan for the intended purpose

Rs. 110 million or 55 percent of Rs. 200 million allocated under the Asian Development Bank (ADB) loan to implement under 03rd part of the investment program for the improvement of water and wastewater management in Greater Colombo, in this program, ADB for infrastructure development. Rs. 576 million which was 58 percent of the provision of Rs. 1,000 million made under

the loan. Rs. 157 million which was 79 percent of the allocation of 200 million under the Government of Sri Lanka, was not utilized for the intended purpose. The provisions made by the Government of Sri Lanka, Rs. 8 million had been transferred to other expenditure head and spent.

Under Utilization of foreign loan

For the implementation of the Regional Development Support Project, Rs. 1,900 million under World Bank loans and Rs. 1,400 million under grants, and Rs. 50 million have been provided by the Government of Sri Lanka. However, 56 percent or Rs 778 million of the allocations made under the World Bank grants were left. 69 percent of the Rs. 300 million provided under the Netherland government loan for infrastructure development of the rural bridge project had been spent, 64 percent of the Rs.12 million provided by the Sri Lankan government remained Rs. 8 million.

Kurunegala District Secretariat

Due to non-fulfillment of the project objectives as per the action plan, a total of Rs.1,239,453 million of allocations from 13 Ministries and 14 Departments had not been utilized as at the end of the year under review.

Although a minimum of 50 percent of the total allocation of a member of parliament should be allocated for physical infrastructure development projects that can be implemented locally and help improve economic activities, the total allocation allocated for the decentralized budget program of 18 Divisional Secretariats is Rs. 88 million for infrastructure development which was 24 percent or only Rs. 21 million had been allocated.

A over payment of Rs. 53 million for 259 had been made for widows and pensioners receiving pensions from 17 Divisional Secretariats, further Rs. 30 million for that should have been recovered from May to December 2022.

The amount allocated for capacity development under the Grama Shakti Movement in the Divisional Secretariat Divisions of Kurunegala District is Rs. 52 million, and the amount spent as at 31

December 2022 was Rs. 15 million, however the planning, implementation and management of rural development activities were at a minimum level.

The amount allocated under the Micro Finance Loan program is Rs. 115 million, of which Rs. 68 million had been spent on loan programs, Rs. 47 million of the allocation was saved. Also, although for 74 Grama Niladaree division located in 19 divisional secretariat divisions, Rs.21 million had been allocated for providing a loan, the related loan program had not been implemented.

Rs. 11 million as compensation in relation to 03 Divisional Secretariat Divisions, the total as elephant damage in the period of last 03 years for property, physical and life damages, however during the implementation of development projects in the previous period, there was no focus on development projects that could solve the problems of elephants.

According to the decisions of the Cabinet of Ministers dated 21 November 2022, it was stated that the payments for the fertilizers provided by the selected environmentally friendly fertilizer suppliers for the respective districts should be settled by the Ministry of Agriculture

on the recommendations of the relevant District Secretary / Governor by introducing an appropriate program. Accordingly the District Secretary had been given of Rs. 823 million for payment. However, Rs. 205 million had been paid for 12 supplies by the Kurunegala district secretary, contrary to above cabinet decision.

There were 4,990 houses without electricity, 2,314 houses with pit toilets, 2,961 temporary houses and 2,851 families without a house to live in 17 Divisional Secretariat Division. However, only 01 percent of the allocation of Rs. 88 million under the Decentralized Finance Programme had been utilized.

Puttalam District Secretariat

Under the basis of buying paddy and providing rice through small and medium scale rice mill owners, the government had given Rs. 100 million for 14 rice mill owners for rice and 422,502 kg of rice valued at Re. 33 million should have been received in the 2020/21 Maha season and 19 paddy mill owners were given Rs. 78 million in the 2021 Yala season for 1,006,687 kg of rice received for the amount. Even on 30 May 2023, this stock of rice had not been received by the government.

The payment had been rejected for the 14th bill of the constructing district secretariat main building, and due to the settlement process, late interest of Rs. 10 million had to be paid. Also, to correct defects in the construction, Rs. 34 million was guaranteed by an engineering estimate, however by ignoring it in the settlement process, the government had incurred a loss of Rs. 18 million.

Kandy District Secretariat

Although 1,070 families were identified as living in landslide and high-risk areas in 09 Divisional Secretariats, they were allowed to live in the high-risk area without being resettled in other places or directed to an alternative opportunity.

The aggregated balance of the Jehoopya Revolving Loan Fund account was Rs.177 million as at 31 December of the year under review, out of which Rs. 116 million loan balance was outstanding, Rs. 5 million from 128 borrowers had overdue loans and from 105 borrowers of Rs. 6 million was uncollectible.

Loans of Rs.62 million were given to 1,779 borrowers under the Grama Shakti Janata Business Program in Kandy district. Out of these 319 borrowers, Rs. 9 million in loans had become inactive. Loans of

Rs.62 million had been given to 1,779 borrowers under the Grama Shakti Janata Business Program in Kandy district and out of these 319 borrowers, Rs. 9 million loans had become inactive.

Matale District Secretariat

About 04 years ago, Rs. 20 million had been given for the Gramashakti campaign in Ratthota, Laggala, Wilgamuwa, Ambangagakorale and Naula divisional secretariats and it had been remained idle in bank accounts without being used for the intended purpose.

Nuwara Eliya District Secretariat

In relation to the project of installing solar power systems for religious places in Nuwara Eliya district under the Gamperalia Rapid Rural Development Program in the year 2019, the Ambagamuwa Regional Secretariat has installed a solar power system in 14 religious places at a cost Rs. 17 million however the action had not been taken to add the national grid the electricity generated by the solar power systems even at the end of the year.

Under the provision of the Disaster Management Center, Rs. 19 million had been paid for minimized the ambiguity of rolling stones, however due to non-

completion of the project, it was not possible to achieve the objective and results expected by the project.

In order to increase the income of flower growers in Nuwara Eliya district under the Grama Shakti program in the year 2019, Rs. 29 million had been spent for build safe houses in the Nuwara Eliya Divisional Secretariat at a cost of 9 million were removed and given to the Walapane Galkadapathna Grama Shakti Janata Society, however they are remained idle without being used for any effective work.

Galle District Secretariat

In relation to the construction of the 2,000-seat auditorium, which was started in the year 2019 at an estimated cost of Rs.3,155 million, the total bill value recommended by the project consultant as at 16 March 2023 was Rs.967 million, which is about 30 per cent of the estimated value, however in the construction Physical progress was about 15 per cent. The advance amount of Rs.426 million given to the contractor was also unable to be collected and the advance bond had also expired and the project was stopped midway.

Monaragala District Secretariat

During the examination of the funds under the Gram Shakti Janata Movement, there were 125 Gram Shakti Janata Samiti in 11 Divisional Secretariat areas in the district as at 31 December 2022, and an amount of Rs. 82 million remained idle in the bank accounts of those societies.

Appropriate action had not been taken regarding 08 vehicles belonging to the District Secretariat which were not in documented running condition and whose repair was not economically effective.

Badulla District Secretariat

A memorandum of understanding was entered into on 14 October 2019 to select a land belonging to the Dambethenna Estate to resettle 65 families living in Haputale Dambethenna Estate as a high risk area in 2014 and to carry out the construction of houses for the beneficiaries by the Housing Development Authority. Accordingly, Rs. 22 million had been spent on 01 January 2022, however the project was left unfinished.

The agreement had been entered for construction of the new building of Mahiyangana Divisional Secretariat for Rs. 141 million with a private company on 18 December 2017, and by March 31,

2023, Rs. 139 million had been spent. According to the contract agreement, the work should be completed in 546 days from the agreed date, however the work was not completed by 31 March 2023. By that date, the work delay was 1,928 days, which was almost four times the estimated time.

Anuradhapura District Secretariat

Under the provisions of the Ministry of Women, Child Affairs and Social Empowerment, the Sri Lanka Women's Bureau had implemented 06 schemes under the supervision of the Women's Development Officers of the Divisional Secretariats. By the end of the year under review in 18 Regional Secretariat areas, the total value of outstanding loan balances for more than 03 years was Rs. 2.8 million. By the end of the reviewed year, The government charges to be collected from sixty licensees for stone quarry in 09 Regional Secretariat Divisions for the period 2020 to 2022 is Rs. 147 million.

According to the rules published in Gazette No. 1618 dated 06 May 2009, the government charges to be collected from seven licensees for gravel mining in two Divisional Secretariat areas during 2019 to 2022 is Rs. 10 million.

Polonnaruwa District Secretariat

The Land Reclamation and Development Corporation of Sri Lanka had done the land preparation for the construction of a Tri-Lingual Mixed School in Kaduruwela using Indian foreign aid, and the consultancy for that was done by the Central Consultant Bureau of State Engineering. Rs.187 million had been spent on initial expenses. For the second part of the construction of the school, out of the contract value of Rs.246 million, Rs.136 million had been spent and the project had been abandoned.

The government fee to be charged for the period 2017 to 2021 from 41 licensees for granite mining in 04 Regional Secretariat Divisions is Rs. 139.5 million at the end of the year under review.

Mullaitivu District Secretariat

A “Green Country” National Horticulture Revolution and related development schemes had been given Rs. 201 million during the year under review, Approved Beneficiaries, Selection applications, Selection criteria, Crop Germination Test Report, Rural, Progress reports on regional and district activities,. Crop yield or results, expected assessment level from crops and commodity survey report of agricultural equipment supplied to 139 units of government agencies have not

been submitted for audit so far, so they could not be accepted and certified satisfactorily.

Jaffna District Secretariat

The Chunnagam sewerage treatment recycling project had to be fulfilled by total cost of Rs. 75 million in the year 2019, the total amount had been paid to the contractor so far is Rs. 9 million however the work had not been completed and the sewage could not be recycled.

Mannar District Secretariat

According to the World Food Program of the year under review, for the beneficiaries belonging to Musali Divisional Secretariat Division, the District Secretariat office should have purchased and provided 74 beneficiaries with 2 horse power dual irrigation equipment instead of 1.5 horse power equipment, so the beneficiaries cannot carry out cultivation activities at their maximum capacity.

750 liters per hour water treatment plant should be provided purified water to the people of the Sinhala village, Rs. 3 million had been paid and purchased in the year under review, however due to the purchase and delivery of a 500 liter per hour water purifier, the people of the village could not

get the required amount of purified water per day.

Vavunia District Secretariat

Out of the 2,610 houses built and given to 2,610 families under the Rural Housing Revival Program of the State Ministry, 64 houses had been left unused for residence up to now.

According to the budget proposals of the year 2018, the Vavunia Economic Center, which was built at a cost of Rs. 292 million, has not yet been opened for public use. However, the sum of security services, cleaning and water charges etc. on behalf of the center is Rs. 6 million had been paid since last 05 years.

Kilinochchi District Secretariat

The market complex, which was built at a cost of Rs.3 million according to the Prosperity Production Village Program, at the Karachi Divisional Secretariat in the year 2021, had been abandoned since last year without being opened to the public to be used for the relevant purposes.

The coconut oil production center, 04 types of machinery for local manufacturing industries built at a cost of Rs. 55 million and handed over to 03 cooperative societies and community-based

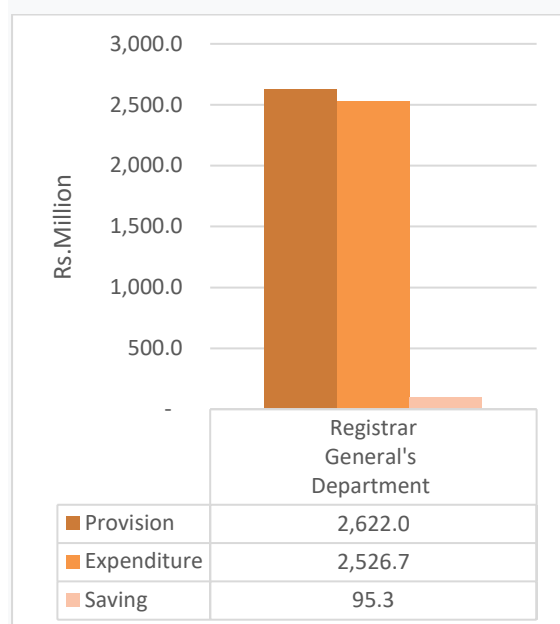
organizations, from the financial allocations given by two other ministries, the District Secretariat and Poonkari Divisional Secretariat had been left unused for the past 03 to 04 years.

Registrar General's Department

Inheriting a proud history of 160 years, the main functions of the department are the ; registration of legal documents relevant to immovable and moveable properties in the country, registration of land titles in Sri Lanka and registration of marriages, births and deaths which are important events of the human life, conservation of those documents and issuance of the certified copies of those documents upon the requests and help to protect the rights of the public through the mission of the Department. Document registration and title registration are done by 07 Zonal in charge Deputy Registrar General Offices, 14 District Assistant Registrar General's Offices, 50 Land Registrar Offices, 4 Central Record Rooms and 334 Additional District Registrar Offices established throughout the island.

In the year 2022, the Parliament had allocated amounting to Rs.2,622 million to the Registrar General's Department to fulfill the above role, of which Rs.2,527

million had been utilized. Accordingly, Rs.95 million was not utilized.



The important audit observations revealed in the performance of the above task are summarized below.

The e-Land project has not achieved its objectives due to non-fulfillment of the scanning of Extracts

Although the scanning of documents related to the e-Land project was started in 2013 but only 20 out of 50 land registrar offices with the aim of online registration of land documents, number of only 11,595,197 Extracts related to the year 2018 was scanned. Due to non-scanning of registered papers after 2018, the project did not achieve its intended objectives. Accordingly, this program was introduced only to Colombo and Homagama land

registrar offices. Machines, equipment and other accessories worth of Rs.99 million provided for the program had been distributed among the departments of the head office and among the land registrar offices, but only the first phase had been implemented in the Colombo and Homagama land registrar offices where the program had been implemented.

Information of civil registration related to births, marriages and deaths has not been included in the data system

Under the public sector restructuring program, number of 331 Laptops and Devices were distributed to maintain the software system created by the year 2010/2011 in order to prepare a data system that includes information and updates of civil registration related to births, marriages and deaths, only 01 out of 53,739 registered births and 04 out of 23,467 registered deaths were entered into the data system in relation to the year 2021 in 44 Divisional Secretariat offices belonging to 14 districts. Also, the information about marriages was not maintained in any Divisional Secretariat offices.

Foreign Affairs Division

Audit Observations

- **Payment of compensation to Sri Lankans who died/ victims in abroad**
- **Non-settlement of Imprests**
- **Assets Management**

Foreign Affairs Division

Promoting and safeguarding Sri Lankan national aspirations in accordance with the foreign policy of the Government of Sri Lanka in order to become a responsible country in the international community by maintain friendly relations with all countries of the world by affirming the Sri Lankan identity on a friendly and non-aligned foreign policy, advising the government on managing international relations in accordance with Sri Lankan aspirations is the Mission of the Ministry.

A network of sixty (60) Sri Lankan missions/ embassies in abroad is administered by the Ministry of Foreign Affairs and the Laxman Kadirgamar Institute of International Relations and Strategic Studies is also supervised by this Ministry.

The Parliament had given an allocation of Rs. 17,860 million in the year 2022 to the Ministry of Foreign Affairs to fulfill the aforementioned role and only Rs. 14,798 million had been utilized by the end of the year under review.

The significant audit observations revealed during the audit performed on the

performance of above role are summarized below.

Payment of compensation to Sri Lankans who died/ victims in abroad

An employee in Saudi Arabia suffered an accident on 24 October 2012 and became fully disable, but no compensation had been paid even though it had been passed 10 years. A female employee working in Kuwait died on 29 January 2012 and although it was revealed that her internal organs had been removed 10 years after her death, but Embassy officers had failed to investigate the possibility of receiving any compensation. Also, a female employee who had been working as a domestic worker in Kuwait from about 17 years had died in a safe house on 17 October 2011. It is alleged that a kidney was removed by the employer while the deceased were alive, although they were told to carry out related investigations and obtain a report, as well as obtain an autopsy report and a judicial medical report, the embassy had failed to get the records even after 11 years since the death. An employee who died in Jeddah in the year 2011 had not even get police reports to confirm whether the cause of death was suicide or an accident

Non-settlement of Imprests

There was an unsettled advance balance of Rs. 450.49 million in total of Rs. 86 million and Rs. 365 million respectively in two imprest accounts of the Ministry of Foreign Affairs. Out of this, the balance of Rs. 56.10 million from the imprest balance of Rs. 86 million was consisted with 243 security deposits for houses provided to staff who had gone abroad for foreign mission service. Apart from one security deposit, the 242 housing security deposits

worth Rs. 56 million were security deposits for housing currently not used by foreign mission staff. Out of Rs. 365 million outstanding advance balance in the imprest account, Rs. 319 million was the security deposit for the houses provided to the staff who went abroad for foreign mission service. Out of that, Rs. 63 million consisted with 108 deposits kept for houses where the mission staff had not settled.

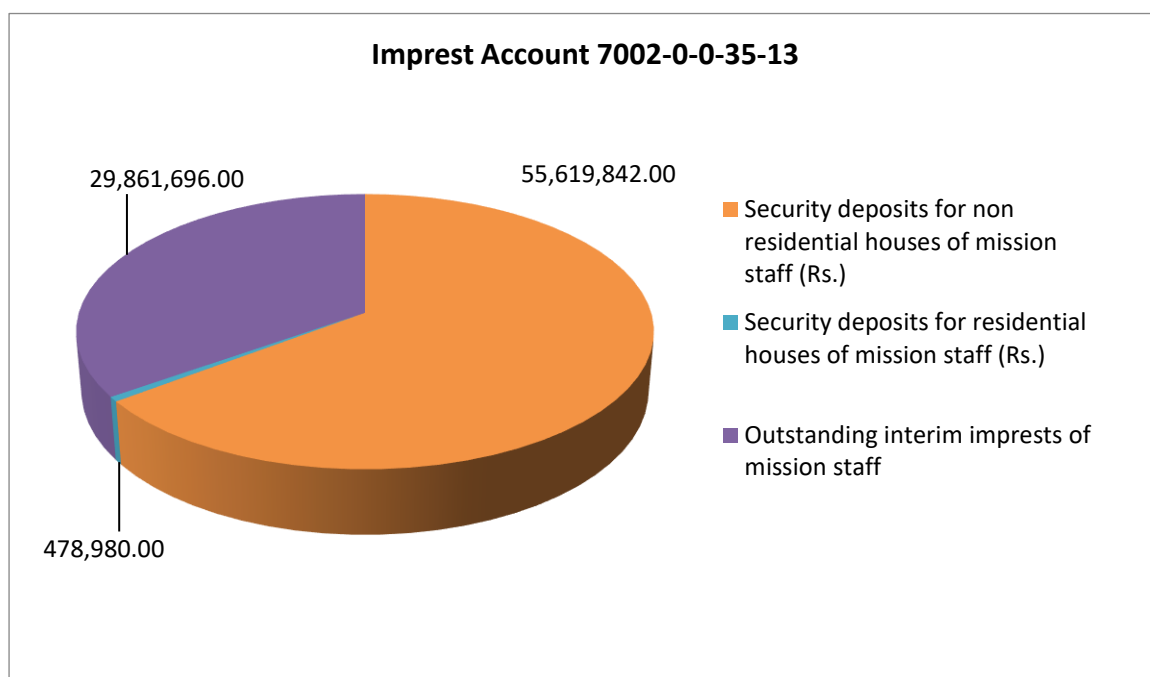


Figure 26 - Imprest Account 7002-0-0-35-13

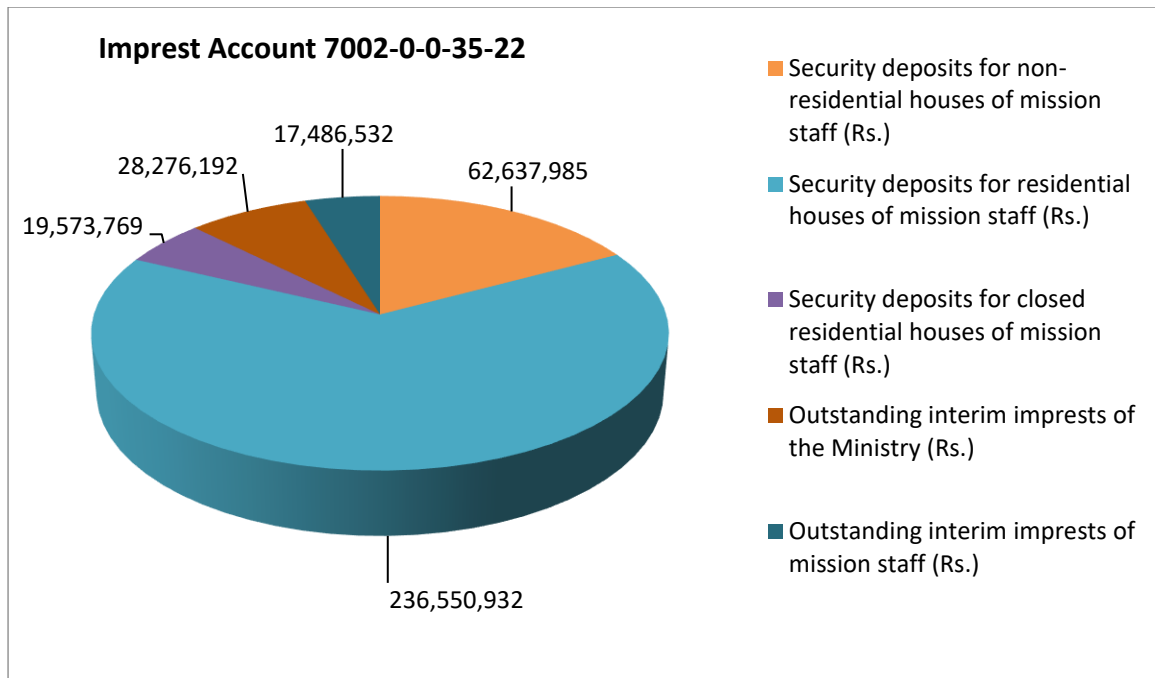


Figure 27 - Imprest Account 7002-0-0-35-22

Assets Management

The Sri Lankan Ambassador's residence building in Sweden, which was purchased in the year 1972, has been out of use since the year 2012 and the residence of the High Commission of Sri Lanka in Kenya,

which was purchased in the year 1976, has been out of use since the year 2014 and Rs. 55.58 million had been paid as office rent during the year under review due to the buildings being renovated and not in use.

Trade Sector

Audit Observations

- **Ministry of Trade, Commerce and Food Security**
 - Failure to perform the supervisory actions of the Ministry in relation with maintaining Buffer Stock
 - Failure to commence the Projects which were planned to be commenced under the Mahapola Higher Education Scholarship Trust Fund
 - Failure to complete the project to build the Batticaloa Rajavasa Lanka Sathosa Mega Outlet
- **Food Commissioner's Department**
 - Distribution of Indian Aid
 - Delay in construction of Dambulla Temperature Controlled Warehouse Complex
 - Remaining of the Canteen Building in Idle
- **Department of Co-operative Development**
 - Failure of recovery of Loan granted from Cooperative Surplus Fund
 - Failure of recovery of loans given to Building Materials Corporation
- **Co-operative Development Fund**
 - Failure of recovery of loans given to Co-operative Education Service Employees' Society and Co-operative Public Service Sanasa Societies
 - Failure of recovery of loans given to the Co-operative Wholesale Establishment
- **Sri Lanka State Trading (General) Corporation Limited**
 - Remaining of Higurakgoda and Pannegamuwa Rice Processing Complex owned by the Cooperative Wholesale Establishment in idle
 - Failure of Completion of Warehouse Renovations
 - Loss of lease rent income due to lease out the properties without entering into written agreements
 - Failure of taking actions to settle accounts receivable and payable

- **Lanka Sathosa Company**
 - **Performance of the Lanka Sathosa Chain of outlets**
- **Lalith Athalamudali Mahapola Higher Education Scholarship Trust Fund**
 - **Implementation of Millawa University Village Project**
 - **Awarding Mahapola Scholarship to all students enrolled in the University and eligible to receive a Scholarship**
- **Consumer Affairs Authority**
 - **Failure of Completion of Investigations on Complaints**
 - **Malfunction of software for immediate presentation of customer issues and make aware customers on market prices**
 - **Failure to meet Raid Targets**
- **National Intellectual Property Office of Sri Lanka**
 - **Expenditure made to construct a building on a land which was not acquired**
 - **Weak Progress in Issuance of Patent and Trademark Registration**

Trade Sector

The following tasks and functions had to be performed by the Ministry of Trade, Commerce and Food Security, 04 Departments under it and 09 Statutory Boards/Institutions established in order to provide necessary consumer items to the people through a competitive local trade network ensuring the rights of consumers.

- To apply the tariff policy as a tool for the control of the market in order to ensure the rights of the local producers and customers through a national trade policy and encourage the exports by way of providing tariff concessions to local manufacturers aiming at their motivation.
- To maintain the cost of living at a lower level controlling the prices of essential goods including vegetables, fruits etc. whenever the prices of consumer items escalates drastically in the market.
- To provide necessary directions and guidelines for the implementation of relief programme for the benefit of consumers through institutions such

as Lanka Sathosa Ltd, Sri Lanka State Trading (General) Corporation etc. in an open competitive market.

- To ensure the proper implementation of measurement units and standards for the benefit of trade community and customers.
- To improve the legal framework and the infrastructure facilities required to maintain the buffer stocks of essential food items within the country in order to ensure food security.
- To maintain and update a data system for the institutions, which are governed under the Ministry and to make a mechanism for making links to disseminate such data with external institutions, which provide information.
- To provide legal assistance and, consultancy services etc. for the encouragement of exports at national level.
- To provide directions for the formulation of provisions, which are required to protect the proper standards of local productions and export items.

- To ensure contribution for the maintenance of welfare processes with a view to motivate children for higher education.
- To provide direction for the implementation of a conservation methodology in order to protect national intellectual properties.
- To provide necessary directions for Conformity assessment accreditation services certification, which is carried out in consistent with national and international standards.
- To ensure the institutional background, which is required to safeguard and promote economic and commercial interests of Sri Lanka and encourage exporters to look for opportunities in the international market and further

encourage the institutions connected to the field.

- To provide directions and guidelines and coordination when entering into bilateral, multilateral and regional agreements with other countries
- To provide directions for the coordination in legal aspects in respect of Generalized System of Preferences (GSP), Non - Mutual Trade Agreements (NMTR), Free Trade Agreements (FTA) and Regional Trade Agreements (RTA).

The Parliament had allocated a provision of Rs. 10,064 million, for the year 2022 to fulfill the above tasks and out of which Rs. 9,008 million had been utilized by the end of the year under review. Details are shown in Figure 28.

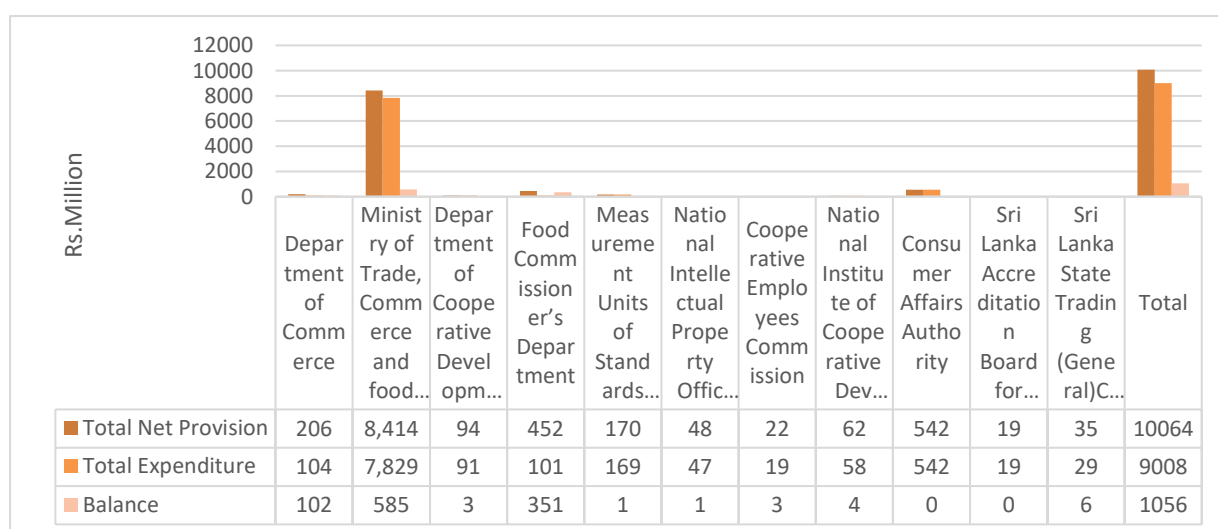


Figure 28 – Provisions and actual Expenditure

Source – 2022 Financial Statements

Observations revealed in audit test checks in performance of above tasks are summarized and given below.

Ministry of Trade, Commerce and Food Security

Failure to perform the supervisory actions of the Ministry in relation with maintaining Buffer Stock

Even though a sum of Rs. 50 million in the year under review and Rs. 200 million in the preceding year had been given to the Food Commissioner's Department as provision for maintaining a buffer stock of 8,000 metric tons of rice in Sri Lanka which was the major task planned by the Action Plan of the Ministry to be accomplished, no work whatsoever in this regard had been completed during the year under review and the preceding year. Further, the supervision actions in this regard of the Ministry had not been properly done.

Failure to commence the Projects which were planned to be commenced under the Mahapola Higher Education Scholarship Trust Fund

Even though it had been stated in the Action Plan of the Ministry that the 3 projects of Trading Hub Project Mihintale, University of Bio-systems Technology and the establishment of

Foreign Language University in Nuwara Eliya should be commenced under the Mahapola Higher Education Scholarship Trust Fund, these Projects had been abandoned as per the decision of the Mahapola Board of Trustees due to failure of handing over of land related to the Project and lack of the approval of the Ministry of Education. Further, an amount of Rs. 2 million had been spent so far for the preliminary works related to the Commercial Trading Hub Project, Mihintale.

Failure to complete the project to build the Batticaloa Rajavasa Lanka Sathosa Mega Outlet

The estimated cost for the Rajawasa Lanka Sathosa Mega Outlet construction projects which is being constructed in Batticaloa by Sri Lanka State Trading (General) Corporation (Company) Limited was Rs. 48 million and an amount of Rs.23 million had been given by the Ministry for this Project by 31 December 2021 and although the construction should be completed by 06 December 2021 as per the agreement, the works had not been completed even by May 2023 .

Food Commissioner's Department

Distribution of Indian Aid

The programme to provide 40,000 metric tons of rice, 500 metric tons of milk powder and 50 metric tons of medicines to Sri Lanka in the year 2022 as humanitarian aid under the coordination of the Indian High Commission had been implemented under 03 phases. A provision of Rs. 481 million had been given to the Food Commissioner's Department by the Ministry of Trade and Food Security for the distribution these aids. Despite there was an huge space in both Maradana Railway Warehouses to store these Indian aids, due to storage of rice stocks in Orugudawatta Warehouse instead of being kept in Maradana Warehouse, a futile expenditure of Rs. 2 million had been made between 04 July to 18 July 2022 for transport back to Maradana Warehouse.

Delay in construction of Dambulla Temperature Controlled Warehouse Complex

Although the contract for the construction of the Dambulla temperature controlled warehouse complex that had been entered into had passed 03 years from the date to be completed, actions had not been taken to complete the construction contract. The total net provision of Rs. 205 million under domestic funds and foreign grants

and 99 per cent of the foreign allocation that is Rs. 39 million had also been saved.

Remaining of the Canteen Building in Idle

The canteen building had been leased out on a monthly rent and a sum of Rs. 5.12 million should have been received as rent for that, for 3 years. Invoices amounted to Rs. 2.97 million had been issued from 01 December 2020 to 30 November 2022 only and out of which, Rs. 2.44 million had remained as arrears of rent and due to breach of contract, actions had not been taken to cancel the agreement.

Department of Co-operative Development

Failure of recovery of Loan granted from Cooperative Surplus Fund

Out of the Rs. 129 million loan amount provided to 69 co-operative societies from the Fund during the period from 1989 to 2006 as per dormant loan schedule, there was a balance of Rs.89 million to be received as at 01 January 2022 and out of the outstanding active loan balance of Rs. 507 million as at 01 January 2022, only Rs. 25 million had been recovered in the year 2022. Actions had not been taken even by the end of the year 2022 to recover any amount out of loan balance of Rs. 125 million included in this loan

balance given to various co-operative societies and companies 07 years ago. Even though a loan interest of Rs. 217 million to be received on loan balances as at 01 January 2022, only Rs. 10 million had been received in the year 2022. Further, due to the failure of the Management to recover the annual loan interest and loan installments related to the loans given in the years 2010, 2012 and 2013, an interest of Rs. 49 million had been written off from the profit in the year 2022.

Failure of recovery of loans given to Building Materials Corporation

Out of Rs.75 million of loan given to Building Materials Corporation on 08 May 2013 , an amount of Rs.62 million was receivable by 31 December 2022 and the interest to be recovered for that was Rs. 76 million. Even though 10 years had elapsed, actions had not been taken to recover the sum of loan amount and the interest totaled to Rs. 138 million even by 31 December 2022.

Co-operative Development Fund

Failure of recovery of loans given to Co-operative Education Service Employees' Society and Co-operative Public Service Sanasa Societies

The contribution balance receivable as at 31 December was Rs. 119 million and out of which Rs. 61 million and Rs.17 million, totalled to Rs. 79 million that is a high percentage of 66 per cent was receivable from the Cooperative Education Employees Cooperative Society Limited and the Cooperative Public Service Sanasa Limited. No contribution had been received from 12 societies within the balance of contributions receivable from the year 2009 to the year under review and, that balance was Rs. 5 million.

Failure of recovery of loans given to the Co-operative Wholesale Establishment

A sum of Rs.153 million had been given to the Cooperative Wholesale Establishment from the Cooperative Development Fund in the year 2011. Only a sum of Rs. 60 million had been recovered from that amount in the year 2012 and the outstanding loan balance furthermore was Rs. 93 million as at 31 of December 2022.

Sri Lanka State Trading (General) Corporation Limited

The outstanding balance of the trade debtor balance as at 31 March 2022 was Rs.995.27 million. Within that balance, the balances for the years 2, 3, 4, 5 and for more than 5 years had been Rs. 2 million, Rs. 7 million, Rs. 16 million, Rs. 11 million and Rs. 138 million respectively. Further, the sales were repeatedly made on credit basis to the debtors who had not settled money for previous sales as well.

Remaining of Higurakgoda and Pannegamuwa Rice Processing Complex owned by the Cooperative Wholesale Establishment in idle

The Higurakgoda and Pannegamuwa Rice Processing Complex owned by the Corporation had remained underutilizing for nearly 18 years and both the rice processing complexes have a processing capacity of 2000 kg of rice per hour. However, the respective two rice processing complexes had remained in idle without carrying out any rice production in the year 2022 and, a number of employees from 03 to 12 had been employed in the two rice processing complexes in the year 2022 and employee cost including wages, overtime and allowances had been Rs. 11 million.

Failure of Completion of Warehouse Renovations

The renovation of 13 warehouses owned by the Corporation had been commenced in the year 2019 under the provisions of the Ministry and a sum of Rs. 83 million had been spent by Corporation by 31 December 2021 for renovation. The Ministry had reimbursed expenses of Rs.62 million as at 31 December 2020. Although all the renovation works should be completed in the year 2020, only 9 warehouses had been completed by the year 2022.

Loss of lease rent income due to lease out the properties without entering into written agreements

The properties of 71,464 square feet with a rent income valued at Rs. 86 million had been leased out by the Corporation in the year 2022 without entering into written agreements. As the Lanka Sathosa Company had paid less than the lease rent value of Rs. 142 million mentioned in the invoice due to failure of entering into written agreements, the revenue lost in the year 2022 had been Rs. 29 million.

Failure of taking actions to settle accounts receivable and payable

The amount to be collected from the Lanka Sathosa Company and the Paddy Marketing Board to the Corporation was Rs. 2,152 million and Rs. 94 million respectively as at 31 December 2022 and the amount to be paid by the Corporation to Lanka Sathosa Company and to the Paddy Marketing Board was Rs. 89 million and Rs. 967 million respectively.

Lanka Sathosa Company

Performance of the Lanka Sathosa Chain of outlets

In considering the profit and loss situation of the all outlets of the Company in the year 2022, it was observed that out of 452 outlets, 193 outlets that is 43 per cent are making losses. Losses had been incurred ranging from Rs. 0.005 million to Rs. 5.25 million at those outlets and the total amount of loss had been Rs. 288 million. Remaining of the average gross profit ratio of the outlets as low as 12 per cent and the daily sales as low as Rs. 0.2 million and incurring high overhead costs had mainly attributed for this.

Lalith Athalamudali Mahapola Higher Education Scholarship Trust Fund

Implementation of Millawa University Village Project

Even though the preparation of the Millawa University Village Project Report and entering into agreements with investors should have been completed by the end of 2022, it had not been so done and it had failed to complete the acquisition of the ownership of the land entrusted on 30 December 2021 by incurring Rs. 340 million under the 99-year lease basis by 30 June 2023.

Awarding Mahapola Scholarship to all students enrolled in the University and eligible to receive a Scholarship

Although it had been aimed to offer a Mahapola Scholarship to all students who are enrolled to the Universities and are eligible for a scholarship, due to the criterion of annual income earned by parents below Rs. 0.5 million was based, the Mahapola Scholarships were awarded to only 16,000 students equal to 61.5 per cent by the Board of Trustees of the Fund out of the 26,000 students who were qualified by the University Grants Commission to award Mahapola Scholarships for the 2020/2021 Academic Year.

Consumer Affairs Authority

Failure of Completion of Investigations on Complaints

The Authority can investigate in respect of complaints received about the sale of goods or the provision of services in accordance with the facts or other matters related to the license or warranty given by the manufacturer or vendor by intervening on customer complaints in terms of Sections of the Consumer Affairs Authority Act to provide relief to consumers affected by unfair trade practices. However, the investigations had not been completed by 31 December 2022 in respect of 284 complaints received to Districts and 1078 complaints received to Head Office during the period of time from 2018 to 2022.

Malfunction of software for immediate presentation of customer issues and make aware customers on market prices

A sum of Rs. 5 million for the 1977 Interactive Mobile Service software in the year 2015 and a sum of Rs. 4 million to advertise this Project to the public had been incurred for immediate submission of customer issues and market prices to customers. However, due to various deficiencies, the expected tasks of the Project had not been met.

Failure to meet Raid Targets

It had been planned to carry out 23,280 raids throughout the island in the year 2022 and, out of that, a number of 13,980 raids equal to 60 per cent had been carried out. Less than 50 per cent of the targeted raids were carried out in 06 Districts of Colombo, Kandy, Kalutara, Galle, Badulla, Nuwara Eliya.

National Intellectual Property Office of Sri Lanka

Expenditure made to construct a building on a land which was not acquired

Despite a sum of Rs. 22 million had been spent for the construction of an Intellectual Property Sales Promotion Center without taking over the ownership of the land, the related land had been acquired by the Urban Development Authority. The amount spent for the construction of the said building could not be recovered even in the year 2022.

Weak Progress in Issuance of Patent and Trademark Registration

A number of 431 people had applied for patents during the year under review and the licenses had been issued to only 5 persons by 30 April 2023. Likewise, out of 9,465 applications received for trademark registration, only the primary and secondary testing had been carried out on 531 applications equal to 5.6 per cent.

Disaster Management

Audit Observations

- **Department of Meteorology**
 - Utilization of Provision
 - Incurring Money Idly to Install Gongala Radar System
 - Not utilizing the Automated Meteorological Systems Properly
 - Non-installation of Radar Systems in Meteorological Centres
- **National Building Research Organization**
 - Payment of Incentives without Obtaining the Approval
 - Not passing an Act to Establish the Legal Status
 - Automatic Rain Gauges had been Inactive
 - Non-Utilization of the Allocation made for the Construction of District Offices
 - Delay in the Issuance of Reports for Applications Submitted for Obtaining Landslide Survey Reports
 - Tsunami Early Warning Signal Towers had been Inoperative
 - Not preparation of a National Emergency Operation Plan
 - Non-payment of Compensation
 - Awarding the Contract to the Same Contractor, Who Had Failed to Successfully Complete a Project

Disaster Management

The weather and climate conditions of a country strongly influence the upgrading of health and living standards of the people of that country as well as the variations in the production of the country. Moreover, it is possible to save the country and its citizens from strong disasters that are going to happen in the future by identifying the changes in weather and climate conditions in advance and preparing clear plans for such disasters. Accordingly, the disaster management division of a country makes a strong contribution to improve the living standards of the people in the country.

Strengthening the institutional structures by coordinating disaster risk management centres for early identification of natural disaster risks of the country, prevention of disasters, mitigation of damages and to make the uplifting of the victims efficient, strengthening the Meteorological Department with the modern technology and knowledge for enabling it to accurately predict disaster situations. The Disaster Management Division was working with the objective of establishing a "National Disaster Database", which includes all information about disaster affected areas, areas prone to frequent disasters, people affected by disasters,

properties, businesses and agricultural lands. Accordingly, one department and 04 statutory institutions were functioning under that Division.

The audit observations revealed in the performance of their duties by the above institutions are summarized below.

Department of Meteorology

Utilization of Provision

After making all adjustments for the year under review, the net provision had been Rs.791.7 million and the total expenditure had been Rs.369.2 million, and as a result, the balance had been Rs.423 million. Accordingly, 53 percent of the provision had not been utilized. The total allocation of Rs. 378 million that had been allocated for 03 capital objects and provision in the range of 39 to 91 percent of 04 capital objects had been saved.

Incurring Money Idly to Install Gongala Radar System

Even though 13 years had passed since incurring a sum of Rs. 403 million to install a radar system in Gongala by the Department, the work had not yet been completed. Equipment worth Rs. 9 million, out of the equipment that had been brought for the related work, had been

misplaced and the officers responsible for this misplacement had not been identified and action had not been taken against the said officers.

Not utilizing the Automated Meteorological Systems Properly

Parameters such as temperature, humidity, precipitation, wind speed and direction, pressure, amount of solar radiation are measured using 38 automated meteorological systems worth Rs.570 million received under Japanese aid (JICA) in the year 2008. Expenditure amounting to Rs. 123 million had been incurred for these spare parts of these equipment systems from the year 2010 to the year 2019 and files with formal approvals for purchases related to the installation had not been properly maintained in the procurement division. Twenty (20), out of these equipment systems, had been installed in the Regional Meteorological Office premises and the remaining 16 had been installed in the premises of other institutions such as Tea Research Institute and 02 systems had not been installed.

Non-installation of Radar Systems in Meteorological Centres

Even though provision amounting to Rs. 514 million had been allocated for the

installation of doppler radar systems in the sites of Puttalam and Pothuvil Meteorological Centres from the year 2019 to the year 2022, only a sum of Rs. 370,161 had been incurred on that. Even though the construction works should have been reached the final stage by the end of the year 2020, the radar systems had not been installed even though 06 years had passed since the contract had been signed.

National Building Research Organization

Payment of Incentives without Obtaining the Approval

The organization had paid incentives amounting to Rs. 9.02 million from January to April in the year 2022 without obtaining the approval of the Cabinet of Ministers or the Ministry of Public Administration or the General Treasury as per paragraph 02 of the Public Finance Circular dated 11 January 2000 and Public Enterprises Circular No. 05 dated 14 June 1994.

Not passing an Act to Establish the Legal Status

The Organization had not been able to pass an Act to establish the legal status to it even though about 30 years had passed since the establishment of the National Building Research Organization.

Automatic Rain Gauges had been Inactive

Three hundred and thirty (330) automatic rain gauges had been installed in 14 high-risk districts on 15 September 2022 to issue landslide warnings and 72, out of those rain gauges, remained inoperative. Blockages in data transmission of automatic rain gauge systems had affected the issuance of advance landslide warning notices.

Non-Utilization of the Allocation made for the Construction of District Offices

Allocation amounting to Rs. 143 million had been provided from the General Treasury from the year 2019 to the year 2021 to construct Ratnapura and Kalutara

district offices, and Rs.61 million, out of that, remained unutilized. Ratnapura district office had been completed and the construction of Kalutara district office had not been commenced.

Delay in the Issuance of Reports for Applications Submitted for Obtaining Landslide Survey Reports

There was a significant delay in the progress of issuing reports by the National Building Research Organization for the applications submitted to the offices of the National Building Research Organization established in the District / Divisional Secretariat offices for obtaining landslide survey reports. Details shown in table 18.

Year	Applications as at 01 January	Number of applications received during the year	Number of certificates issued	Applications, for which examinations are not required	Number of applications remaining as at 31 December
2020	2773	5098	3717	0	4154
2021	4154	7607	5783	1208	4770
2022	4770	4231	5260	2397	1344

Table - Details of the applications submitted to obtaining landslide survey reports

Tsunami Early Warning Signal Towers had been Inoperative

Tsunami early warning signal towers, which had been built at a cost of Rs.32

million, located in 05 locations in Mullaitivu district, remained inoperative.

Not preparation of a National Emergency Operation Plan

According to Section 04 of the Sri Lanka Disaster Management Act No. 13 of 2005, monitoring the implementation of the National Disaster Management Plan and the National Emergency Operation Plan and to submit such plans to the Cabinet of Ministers for its approval had been stipulated as a task of the Disaster Management Centre. However, the approval of the Cabinet of Ministers had not been obtained for the National Disaster Management Plan even by the end of the year and the National Emergency Operation Plan had not been prepared.

Non-payment of Compensation

In the year 2022, 441 houses had been damaged due to sudden disasters in 28 Divisional Secretariats of Kurunegala

district and compensation had not been paid even by 30 June 2023 for 192 houses that had been damaged.

Awarding the Contract to the Same Contractor, Who Had Failed to Successfully Complete a Project

Since the contract of constructing the rock fall and landslide risk mitigation project in Gangaragolla village of Nuwara Eliya district had been awarded to the same contractor, who had failed to complete Akurana flood mitigation project in Kandy, the project had also been stopped midway. Therefore, it had not been possible to obtain benefits from the project and the amount of Rs. 19 million that had already been spent had been idly incurred and it had not been possible to achieve the objective expected from the project.

Mass Media

Audit Observations

- **Ministry of Mass Media**
 - Non-utilization of the provision made for the project of digitalization of terrestrial television broadcasting.
 - Non-preparation of the regulatory mechanism for electronic media.
- **Sri Lanka Broadcasting Corporation**
 - Payments had been made to the officers, who had been recruited on assignment basis, before the accomplishment of the work.
 - Non-utilization of the funds owned by the Corporation prudentially
 - Leasing out of property without following an adequate procurement process
 - Carrying out day-to-day operations of the Corporation through the allocation of the General Treasury.
- **Sri Lanka Rupavahini Corporation**
 - Deterioration of the Financial Position of the Corporation
 - Defaulting the Payment of Income Tax
- **Independent Television Network Limited**
 - Deterioration of the Financial Position
- **Selacine Television Institute**
 - Not Taking Legal Action to Recover the Debt
- **Associated Newspapers of Ceylon Limited**
 - Deviating from the normal disciplinary procedures in relation to a financial fraud
- **Sri Lanka Press Council**
 - Not Amending the Provisions of the Act regarding the Registration of Newspapers

- **Government Printing Department**
 - **Losses occurred as procurement activities had not been carried out on the proper time**
 - **Making payments to printing officers in contrary to the instructions of the Director General of Establishments**
- **Sri Lanka Foundation Institute**
 - **Not making arrangements to get maximum service from the permanent lecturers of the institute**
 - **Poor Financial Management**
- **Sri Lanka Institute of Printing**
 - **Not completing the Board of Governors**
- **Department of Posts**
 - **Vehicles had not been physically present in the Department**
 - **Weaknesses in Asset Management**
 - **Non-recovery of Revenue Arrears**
- **Telecommunications Regulatory Commission of Sri Lanka**
 - **Had to pay compensation and arbitration costs idly**
 - **Colombo Lotus Tower Project**

Mass Media

The following roles and specific priorities should have been fulfilled by the Ministry of Mass Media, which is consisted of the scope of creating an appropriate media culture for a balanced communication of information knowledge and ideologies that affirms the right of the public to get correct information including freedom of speech and expression, as well as the formulation of policies related to the subject of mass media in accordance with the laws and ordinances prescribed to "introduce a transparent media culture" based on the national policies implemented by the Government, and implementation of projects under the national budget, public investment and national development programme, and formulation, implementation, follow up and evaluation of policies, programmes and projects related to that, and by the fifteen institutions under the purview of the Ministry of Mass Media.

- Establishing the media standards that adhere to the national and international laws and regulations in order to introduce a transparent media culture for journalists and media organizations for functioning without exceeding the framework of socio-cultural values and social values.
- Introducing and implementing the necessary methods for digital mail related services by expanding the postal service into a service aimed at people-centric needs.
- Restructuring of Sri Lanka Press Council.
- Introducing a social education system to provide professional knowledge and understanding of the use and handling of new media including social media.
- To create opportunities for the promotion of professional skills in higher education in mass media in compliance with the international standards.

Parliament had made provision totalling Rs.21,262 million to the Ministry and three Departments to perform the above tasks and Rs.20,302 million had been utilized by the end of the year under review.

The observations revealed by the sample audit tests carried out in the Ministry and the Departments and Statutory Institutions under the purview of the Ministry in relation to the fulfilment of the above-mentioned role and specific priorities are summarized and given below.

Ministry of Mass Media

Non-utilization of the provision made for the project of digitalization of terrestrial television broadcasting.

Even though the project of digitalization of terrestrial television broadcasting in Sri Lanka was started in 2014, it was not implemented and it was updated again in 2021 according to a decision of the Cabinet. The approval had been granted to implement it with the technology. Even though it had been scheduled to establish 16 broadcasting stations scattered all over the country through it, it had not been possible to establish even one broadcasting station by 30 June 2023. Even though a sum of Rs.120 million had been received for the year 2022, only a sum of Rs.9 million had been utilized. Accordingly, Rs.111 million had been underutilized.

Non-preparation of the regulatory mechanism for electronic media.

The Broadcasting Authority Act for Electronic Media with the objective of ensuring optimum journalism while securing maximum freedom of speech and expression had not been prepared until the date of audit. Moreover, the system for regulating the mechanism of issuing television and radio broadcasting licenses had not been finalized. Furthermore, a common model for unanimity in radio and

television broadcasting licenses had not been introduced until the date of audit.

Sri Lanka Broadcasting Corporation

Payments had been made to the officers, who had been recruited on assignment basis, before the accomplishment of the work.

Even though the payments related to the recruitment of the officers, who had been recruited on assignment basis should be made after the accomplishment of the relevant work and on the personal approval of the Secretary of the Ministry, The Corporation had paid a sum of Rs.2 million per month for 07 officers, who had been recruited on assignment basis, only till September 2022 before the accomplishment of the work.

Non-utilization of the funds owned by the Corporation prudentially

While the funds of the Corporation amounting to Rs. 56 million had been deposited at an interest rate less than 2.5 percent, interest amounting to Rs.5 million had been paid for a bank overdraft amounting to Rs.52 million as at 31 December 2022. Furthermore, Rs. 18 million had been maintained in dormant manner in a current account of a private bank prior to the year 2012 onwards.

Leasing out of property without following an adequate procurement process

The new building in front of the Corporation had been leased out for the value of Rs.1,014 million on 01 September 2022 for a supermarket complex for a period of 20 years by a deed of lease. Advertisements had been published only in one newspaper for this. The area of the building and the car park had been understated in the valuation report obtained for this building and the car park, which had already been given at an initial rent of Rs.3 million, and entered in to the Agreement.

Carrying out day-to-day operations of the Corporation through the allocation of the General Treasury.

The Corporation had been incurring continuous losses after the year 2012 before receiving the treasury allocation and the Corporation had the opportunity to minimize those losses as treasury provision had been allocated for recurrent expenditure. The loss amounting to Rs.334 million before getting the treasury allocation in the year 2021 had been a profit of Rs. 12 million due to receiving provision amounting to Rs. 345 million and the loss had increased up to Rs. 236 million due to non-receiving treasury allocation in the year 2022.

Sri Lanka Rupavahini Corporation Deterioration of the Financial Position of the Corporation

The net assets of Sri Lanka Rupavahini Corporation had deteriorated to a negative value of Rs. 351 million during the year under review and the negative balance of accumulated funds amounting to Rs. 572 million as at 01 January 2022 had been deteriorated up to a negative value of Rs. 1,112 million as at the end of the year under review after the loss of the year under review amounting to Rs. 538 million and after making previous year adjustments during the year. The working capital position of the Corporation amounting to Rs. 69 million in the year 2020 had fallen to a negative working capital position amounting to Rs. 254 million in the year 2021 and the negative working capital position during the year under review had further grown to Rs. 568 million. The bank overdraft in relation to two current accounts had been Rs. 231 million and Rs.114 million respectively as at the closing date of the year under review. The Corporation had paid overdraft interest of Rs.21 million for that. Moreover, the approved overdraft limit had exceeded from time to time for 08 months in the year under review in relation to one current account.

Defaulting the Payment of Income Tax

The value added tax liability payable by the Corporation to the Inland Revenue Department had been Rs. 314 million from the year 2019 to the closing date of the year under review and Rs. 45 million, out of that amount, had been the value added tax liability payable in the year 2022.

Independent Television Network Limited

Deterioration of the Financial Position

The equity capital of Independent Television Network Limited amounting to Rs. 3,199 million in the year 2015 had continuously decreased to Rs. 654 million in the year 2022. The loss of the Independent Television Network Limited amounting to Rs. 107.2 million in the year 2016 had grown up to Rs. 362 by the end of the year 2022. Furthermore, the media network had continuously sustained losses during that time. The loss of Independent Television Network Limited had been Rs. 285 million in the year under review and the losses of Vasantham TV, ITN FM and Vasantham FM, which had been under the purview of Independent Television Network Limited had been Rs. 27 million, Rs. 45 million and Rs. 5 million respectively. The working capital of the media network amounting to Rs.621 million in the year 2020 had decreased to

Rs.399 million in the year 2021 and it had decreased to Rs.117 million in the year under review.

Selacine Television Institute

Not Taking Legal Action to Recover the Debt

The balance of trade debtors had been Rs. 296 million as at the closing date of the year under review, and Rs. 200 million, out of that, or 68 percent of the debtor balance consisted of debtors, who had exceeded 4 years. The debtor balance that had exceeded one year included in the total debtor balance had been Rs. 231 million or 78 percent and the institution had not taken any legal action to recover those balances even at the initiation.

Associated Newspapers of Ceylon Limited

Deviating from the normal disciplinary procedures in relation to a financial fraud

Any action had not been taken regarding a financial loss amounting to Rs. 23 million as the Management had functioned by deviating from the normal disciplinary procedure regarding the financial fraud committed to the institution by the former Marketing Head of the Institution through dereliction of responsibilities.

Sri Lanka Press Council

Not Amending the Provisions of the Act regarding the Registration of Newspapers

Regulations should be made for the registration of newspapers and also for charging of fees for such registrations according to Section 25 of the Sri Lanka Press Council Law No. 5 of 1973, the Council had not taken action to amend the provisions of the Act regarding the registration of newspapers although the publication of e-newspapers has grown gradually with the development of the technology.

Government Printing Department

Losses occurred as procurement activities had not been carried out on the proper time

The Department had incurred a loss of Rs. 10 million as one kilogram of scrap paper thrown away in the last three months of 2021 had been sold to the previous buyer for Rs.26.50 per kilogram despite the possibility of selling the scrap paper to a new buyer for Rs.65.00 per kilogram as procurement activities had not been carried out in the proper time.

Making payments to printing officers in contrary to the instructions of the Director General of Establishments

It was revealed in an examination carried out in a Division of the Department that 07 different types of allowances had been paid monthly for the employees of the Printing Department from 85 percent to 366 percent by exceeding 65 percent of their monthly salary in contrary to the instructions of the Director General of Establishments. A total of Rs. 12 million had been paid to the officers in that Division in 8 months of the year under review.

Sri Lanka Foundation Institute

Not making arrangements to get maximum service from the permanent lecturers of the institute

Lecturer fees amounting to Rs. 16 million had been paid for 10 permanent lecturers of the Institute and a sum of Rs. 17 million had been paid for visiting lecturers. During an audit test check carried out, it was revealed that only visiting lecturers had been employed for 29, out of 45 courses and workshops and resource contribution of visiting lecturers in 06 courses had exceeded 75 percent. Although there was a course coordination unit in the institute, the permanent lecturers of the Foundation had carried out only the co-ordination activities of these courses.

Poor Financial Management

A balance of Rs.55 million had been maintained in a current account as at 31 December 2022. Action had not been taken to invest this amount effectively in a short-term investment to get a benefit to the Institute.

Sri Lanka Institute of Printing

Not completing the Board of Governors

According to the provisions of the Sri Lanka Institute of Printing Act, the management and administration of the affairs of the Institute shall be vested in a Board of Governors. However, apart from the four (04) members, who were mentioned as ex-officio members, five members to be appointed by the Minister had not been appointed after the date of 31 March 2022.

Department of Posts

Vehicles had not been physically present in the Department

When comparing the information obtained from the Department of Posts and the Department of Motor Traffic regarding the vehicles registered under the name of Postmaster, the Department had no information related to 42 vehicles and although the bus bearing No. 60 Sri 7256 had been removed from the use, necessary further action had not been taken in that regard.

Weaknesses in Asset Management

There had been 565 post offices that had not been formally taken over by the end of the year under review, and while there had been lands owned by the Department of Posts, 08 post offices had been maintained in rented out buildings without taking any action to construct office buildings. It was observed that there had been underutilized lands in extent of 83,152.61 square metres (3,286.66 perches) in 43 post offices and 02 official quarters owned by the Department as at 31 December 2022.

Non-recovery of Revenue Arrears

The outstanding balance of revenue prevailing for more than one year had been Rs. 93.4 million by the end of the year under review, and the Department had failed to recover that revenue during the year under review. A sum of Rs. 75 million, out of that amount, had been prevailing from the year 2019 and from the previous years. Even though the Department had submitted the reports on arrears of revenue to the foreign postal administrative institutions as at 31 December 2022, the arrears of revenue scattered over a period of 01 to 09 years amounted to Rs. 486 million as the reports on the arrears of revenue had not been approved by those institutions. The Department had not made a sufficient influence to recover the arrears amount

and had not investigated the reasons for not approving the arrears of revenue.

Telecommunications Regulatory

Commission of Sri Lanka

Had to pay compensation and arbitration costs idly

Since the agreement entered in to with the Commission and the contractor on 28 July 2014 for the construction of the Telecommunication Media Centre at the Hambantota Information Technology Park had been terminated by the Commission on 10 August 2016 on the instructions of the Board of Investment and the Presidential Secretariat, the Commission had paid an amount of Rs. 427 million as total arbitration expenses including the compensation to the contractor in the year under review as per the complaint submitted by the contractor against that decision.

Colombo Lotus Tower Project

China National Electronics Import and Export Corporation had failed to submit a valid performance bond, retention certificate and professional indemnity insurance as per the contract agreement of the Lotus Tower Project in Colombo and the amount of USD 10.43 million, which

had been deducted as liquidity losses and the remaining amount of the adjusted contract value amounting to USD 4.115 million had been withheld until those obligations had been fulfilled as per the approval of the Cabinet of Ministers bearing No. 22/0132/331/001 dated 31 January 2022. Although it had been planned to pay loan instalments from the income of the project, loan instalments and interest amounting to Rs.12,762 million had been paid from the money of the Commission by 31 December 2022. Ice maker machine (S/N G01423B) costed at USD 15,747 had been inoperative and there had been a shortage of 32 items costed at USD 100,744 in the physical verification of kitchen appliances in the Colombo Lotus Tower. According to the Cabinet Memorandum dated 13 October 2010, the primary objective had been to use the tower for television, telecommunication and broadcasting services, and radio, television and telecommunication services had not been implemented until 31 December 2022. The consultancy fee paid for the Colombo Lotus Tower project as at 31 December 2022 had been Rs.336.4 million and the amount paid in excess of the contract value had been Rs.138 million.

Power and Energy Sector

Audit Observations

- **Ministry of Power and Energy**
 - Delays in execution of projects result in idle bond fees and weaker physical progress
 - Unavailability of adequate steps taking to increase the contribution of renewable energy
 - Failure to adequately fulfill the responsibilities related to achieving the expected goals and milestones that should have been achieved
- **Lanka Coal Company (Private) Limited**
 - Low Supply of Coal
- **Ceylon Electricity Board**
 - Rising the electricity generation cost
 - Purchase of power contrary to the provisions of the Electricity Act
 - Non-payment of interest on consumer deposits
 - Non-compliance to the Long-Term Generation Expansion Plan
 - Non-compliance with the implementation plan of renewable energy plants
 - Paying of Delay Interest due to delaying payment
 - Non-recovered of electricity bills from Parliament quarters
 - Payment of various allowances to employees without obtaining proper approval
 - Non-acquisition of private power plants in favor of the government
 - Purchasing electricity from a power supplier who has not obtained a license for power generation
 - Non-completion of the repair works of electricity lines necessary to strengthen the electricity supply in the southern region

- **Ceylon Petroleum Corporation**
 - **Local Petroleum Market**
 - **Financial Results and the Net Assets Position of the Ceylon Petroleum Corporation**
 - **The loss incurred by the country due to Hedging Transactions**
 - **Charging of Monthly Utility Fees**
 - **Payment of Commission to Dealers contrary to board decision**
 - **Non-up-grading the SAP system**
 - **Additional cost incurred when procuring Crude Oil**
 - **Incurring an additional estimated demurrage cost when procure Fuel Oil**
 - **Failure to avoid additional costs that could have been avoided**
 - **Additional cost incurred due to using Super Diesel price for pricing when purchasing Auto Diesel**
 - **Write-off the receivable balances without due consideration**
- **Sri Lanka Sustainable Energy Authority**
 - **None of necessary steps to accelerate the development of renewable energy projects**
 - **Non-preparation of renewable energy resource development plan according to the potential of renewable energy resources**
 - **Non-promotion of off grid renewable energy projects**
 - **Failure to provide guarantees for investors who apply for loans to run a project related to energy efficiency**
- **Sri Lanka Atomic Energy Regulatory Council**
 - **Import or export of radioactive Sources**
- **Ceylon Petroleum Storage Terminal Limited**
 - **Utilization of Company own Bowsers**

Power and Energy Sector

The following duties and functions had to be performed by the Ministry of Power and Energy and 12 statutory boards/institutions under it.

- Formulation, implementation, monitoring and evaluation of policies, programmes and projects, in relation to the subjects of power and energy, and those subjects that come under the purview of Departments, Statutory Institutions and Public Corporations under the Ministry based on the national policies implemented by the government.
- Provision of public services under the purview of the Ministry in an efficient and people friendly manner.
- Reforming all systems and procedures using modern management techniques and technology, thus ensuring that the functions of the Ministry are fulfilled while eliminating corruption and waste
- Exploration, planning, development and supervision of activities relating to generation of renewable energy, electricity and other energies from sources such as solar, water, thermal, coal, waste and wind.
- Meeting the electricity needs of Sri Lanka and safeguarding energy security and Management of demand to ensure energy efficiency.
- Implementation of a power generation plan based on long term requirements.
- Making the power transmission and distribution processes efficient.
- Creation of a smart network to ensure efficient use of generated electricity.
- Reduction of costs for generating electricity and removal of uncertainties during generation
- Controlling greenhouse gas emissions.
- Rural electrification.
- Coordination and implementation of import, refining, storage, distribution and marketing of petroleum-based products and natural gas.
- Petroleum production and refining.
- Exploration of petroleum and natural gases and related activities.
- Matters relating to production of gas and by-products from petroleum production sources, maintenance of stocks, production and distribution.
- Development of infrastructure facilities in relation to the supply and distribution of fuel.
- Formulation of an appropriate energy policy for the control, regulation and utilization of energy resources.
- Development of Renewable Energy.

- Encouraging the use of solar power systems and solar battery systems to ensure the availability of low-cost energy for households, office and factories.
- Encouraging the private sector and entrepreneurs to undertake renewable energy projects.
- Increasing energy generation using industrial waste.
- Supervision of the Matters relating to all other subjects Comes under the Ministry and assigned to Institutions Comes under the Ministry.

In order to carry out the said functions, provision of Rs. 274,955 million had been made by Parliament in the year 2022 to the Ministry of Power and Energy and out of that, only a sum of Rs. 267,444 million had been utilized by the end of the year under review and Rs.7,511 million had been remained.

Significant and material audit observations made during the audit test checks carried out on the performance of the said duties and functions by the Ministry of Energy and Statutory Boards/Institutions under purview of the Ministry, are summarized below.

Ministry of Power and Energy

Delays in execution of projects result in idle bond fees and weaker physical progress

The construction project of Moragolla hydro power plant with an estimated cost of Rs.19,288 million implemented by the Ceylon Electricity Board under the loan assistance of the Asian Development Bank had been planned to commence in the year 2014 had been commenced in the year 2018. As a result of this delay, uneconomic payment of Rs.28 million had to be made as Commitment Charges. Even though this project had been spent Rs. 9,737 million as at 31 December 2022, its physical progress was as low as 45 percent.

Unavailability of adequate steps taking to increase the contribution of renewable energy

Matters such as reducing the long delays encountered in renewable energy development through a centrally coordinated project approval process to enhance the share of the renewable energy and introducing the effective forecasting technologies for wind, solar and rainfall for optimal use of renewable resources, were set out in the National Energy Policy and Strategies of Sri Lanka. However, adequate measures had not been taken

therefor even by the end of the year under review.

Failure to adequately fulfill the responsibilities related to achieving the expected goals and milestones that should have been achieved

The Ministry had not adequately fulfilled the responsibilities related to achieving the desired goals and milestones that should have been achieved by the Ministry in terms of ensuring energy security, providing energy supply services at an optimal cost for the national economy, increasing the contribution of renewable energy, strengthening the good governance of the energy sector and securing land for future energy infrastructure.

Lanka Coal Company (Private) Limited Low Supply of Coal

An outstanding coal balance of Rs.590 million relating to a supply made by a coal company, remained over a period of eight years, had not been recovered even by the end of the year under review by an arbitrating procedure agreed by Lanka Coal Company (Private) Limited.

Ceylon Electricity Board

Rising the electricity generation cost

The average cost per kilowatt hour of electricity in the year 2022 was Rs. 33.65

and compared to last year it was Rs.19.42. Also, in the year 2022, the average selling price per kilowatt hour of electricity was Rs. 21.24 and compared to last year it was Rs.16.37. Accordingly, the average gross loss per kilowatt hour of electricity in the year 2022 was Rs. 12.41 and it was an increase by 307 percent compared to the average gross loss per kilowatt hour of Rs. 3.05 in the previous year. The main reason for this was the significant increase in fuel prices including coal in the year 2022.

Purchase of power contrary to the provisions of the Electricity Act

Without obtaining the authorization from the regulator, 60.33 Gwh of energy valued at Rs.5 billion had been purchased during the year under review from 3 retired Independent Power Producers (IPPs) whose generation license had been expired which contrary to the provisions of the Sri Lanka Electricity Act.

Non-payment of interest on consumer deposits

The Board had not paid interest on consumer deposits as specified in the Act. According to the computation made in audit based on the rate reported by the Public Utilities Commission of Sri Lanka for the year 2022, the interest to be paid thereon was Rs.976 million, and

accordingly, the unpaid accumulated interest as at 31 December 2022 was Rs.9 billion.

Non-compliance to the Long-Term Generation Expansion Plan

According to the Least Cost Long Term Generation Expansion Plan of 2018 – 2037, new generations of 500MW, 657MW, 445MW and 430MW were planned to be implemented in the years of 2018, 2019, 2020 and 2021 respectively. However, out of the planned new additional capacity of 2,032 MW, power plants with aggregating capacity of 661.6 MW had only been commissioned.

Non-compliance with the implementation plan of renewable energy plants

According to the Least Cost Long Term Generation Expansion Plan of 2022 – 2041 which the conditional approval had been given by the Public Utilities Commission, an addition of new renewable energy power plants with a capacity of 544MW was planned to implement in the year 2022. However, new renewable energy power plants with aggregating capacity of 211 MW had only been commissioned. As this plan was not implemented, an additional power of 60.33 Gwh valued at

Rs. 5 billion had to be purchased during the year under review.

Paying of Delay Interest due to delaying payment

A sum of Rs.7 billion and a sum of Rs.9 billion had been incurred in the year 2022 as delay interest on power purchases and fuel purchase (Ceylon Petroleum Corporation) respectively due to delay in making payments on time. Further, an amount equivalent to Rs.11 million had also been incurred as default interest due to delay in repayment of loan instalments by the Board in respect of local bank loans.

Non-recovered of electricity bills from Parliament quarters

As per the random test check carried out it was observed that a sum of Rs.16 million in respect of 74 electricity supply connections given to quarters of parliamentary representatives remained without being recovered as at the end of the year under review. Out of that a sum of Rs.5 million relating to 29 connections remained outstanding over six years without being recovered and another Rs.3 million relating to the 30 connections remained outstanding without being recovered more than one year.

Payment of various allowances to employees without obtaining proper approval

Contrary to the decision of Cabinet of Ministers dated 09 April 2008 and without obtaining the recommendation of the Salaries and Cadres Commission and approval of the Department of Management Services, a sum of Rs. 418 million had been paid as allowances such as Engineers Allowance, Incentive Allowance, Temporary Allowance etc. for the year 2022

Non-acquisition of private power plants in favor of the government

After termination of the 10 years validity period of the agreement with the ACE Power Embilipitiya (Pvt) Ltd which was effective from 06 April 2005 to 06 April 2015, it had been decided by the Cabinet of Ministers (Cabinet) on 23 March 2016 to consider the said power plant being purchased by the Ceylon Electricity Board. The Government Valuer had assessed the value of this power plant to be Rs. 2,370 million and the owners of the plant had agreed to sell it to the Board at a bid price of Rs.2,446 million. Further, the value of the plant was nearly 4,192 million when the value is estimated by discounting the average of the net profit brought to account during the initial contract period

of 10 years at a discount factor of 9.5 per cent for the next 8 years. However, it had been decided to extend the validity period of the initial agreement for a period of 05 years and 06 months in 04 instances from 06 April 2016 to 08 September 2022 without purchasing the power plant. As such, the possibility of maintaining the power plant in a manner favorable to the Government after being acquired by the Board, had been lost due to the fact that the value assessed by the Government Valuer had been less than the bid value of the owners of the Company.

Purchasing electricity from a power supplier who has not obtained a license for power generation

In terms of the provisions of the Sri Lanka Electricity Act No. 20 of 2009 as amended, licenses for power generation should be obtained from the Public Utilities Commission of Sri Lanka. Accordingly, in accordance with Section 43 (1) of the above Act, the generation and supply of the electricity should only be done by licensed companies. Nevertheless, Cabinet approval had been obtained to purchase electricity from the year 2016 to 2022 from the Ace Power Embilipitiya (Pvt) Ltd that had not obtained the generation licence.

Non-completion of the repair works of electricity lines necessary to strengthen the electricity supply in the southern region

According to the Transmission Development Plan - 2013, the work on New Polpitiya - Hambantota 220 KV transmission line, Kothmale - New Polpitiya 220 KV transmission line and Horana - Padukka 220 KV transmission lines needed to strengthen the power system in the southern region had not been completed.

Ceylon Petroleum Corporation

Local Petroleum Market

The Ceylon Petroleum Corporation had met over 86 per cent of the demand for petroleum at the local market in the year 2022. A sum of US \$ 4,532 million had been spent for overall importation of petroleum in the year under review. As a result of fluctuations in the overall petroleum market, the average price of a barrel of crude oil in the year 2022 had increased up to US \$ 100.11 by 45.4 per cent as compared with the price of the preceding year amounting to US \$ 68.86. The Sapugaskanda Refinery had to be shut down regularly as inability to import crude oil regularly due to lack of foreign exchange. As a result, overall petroleum refinery production had recorded a

remarkable decline of 55.4 percent in the year 2022.

Financial Results and the Net Assets Position of the Ceylon Petroleum Corporation

According to the financial statements presented to Audit, the Corporation had reported a gross profit of Rs. 39,849 million in the year under review while the said gross profit was an increase of Rs. 43,917 million as compared with the gross loss of Rs. 4,068 million reported in the preceding year. However, a net loss of Rs. 615,053 million had been reported in the year under review while the net loss of the corporation was an increase of Rs. 533,237 million as compared with the net loss of Rs. 81,816 million reported in the preceding year. This was caused mainly due to the situation of unfavorable fluctuations in the exchange rates of Rs. 33,220 million prevailed during the preceding year had increased to Rs. 527,010 million by Rs. 493,790 million in the year under review.

The Financial Result of the Corporation for the year under review and 05 preceding years (After Tax Profit) appear in Figure 29.

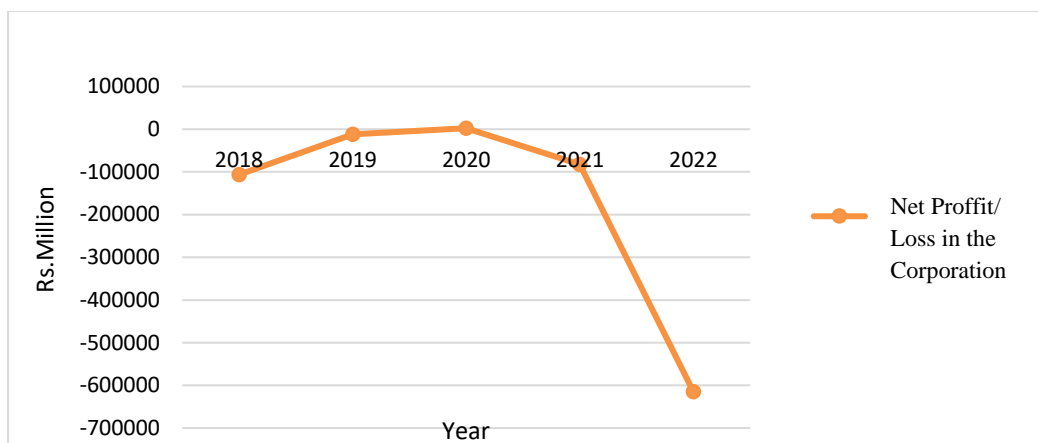


Figure 29 - Net Profit/ Loss in the Corporation

Source – The Audited Financial Statements of the Corporation -2015-2020

The loss incurred by the country due to Hedging Transactions

As per the audit examination carried out pertaining to the hedging transactions taken place in respect of procurement of oil during the period of 2007 to 2009, the total loss incurred to the country on those transactions as at 31 December 2022 had been Rs. 14,028 million. Moreover, the Commercial Bank had filed a case at the Commercial High Court, Colombo against the Corporation by claiming US\$ 8.6 million and the case was pending till the end of the year 2022.

Charging of Monthly Utility Fees

According to the Board Decision No. 38/1140 dated 29 October 2013, the Board had approved to charge a Monthly Utility Fee (MUF) from all Corporation Owned Dealer Operated (CODO) Filling Stations and Treasury Owned Dealer Operated

(TODO) Filling Stations with effect from 01 January 2014. However, decision had not been fully implemented and MUF had been charged only from 11 dealers out of more than 220 CODO and TODO dealers. Accordingly, Corporation had failed to recover the recoverable amount of Rs. 3,416 million as at 31 December 2022.

Payment of Commission to Dealers contrary to board decision

According to the decision of the board of directors dated 30 July 2019, the percentage of dealer's commission had been determined subject to the following upper and lower limits, in order to exclude the adverse effect on the corporation and the dealers due to the fluctuation of the amount of commission paid to the dealers due to the influence of the local market price fluctuations of petroleum products.

	Petrol		Diesel	
	92 Oct	95 Oct	LAD	LSD
Upper Cap	Rs.162	Rs.170	Rs.121	Rs.145
Lower Cap	Rs.117	Rs.128	Rs.95	Rs.110

Table 19 – Upper and Lower cap

However, Dealers' commission has been paying disregarding the upper cap on dealers' commission as per the above-board decision. Accordingly, over paid dealer commission of Rs. 12,410 million during the year 2022 had been recorded as selling and distribution expenses and the total overpaid dealer's commission as at 01 September 2023 was Rs. 23,576 million.

Non-up-grading the SAP system

The ERP which is an initial version (SAP ECC 6.0) of SAP ERP system released in 2005 has been using by the Corporation from the date of 01 April 2010 without any up-grading and Corporation had not taken prompt action to upgrade SAP system up to date. Therefore, it was observed a serious risk of the oil supply in the entire country being inoperable due to an interruption in this system.

Additional cost incurred when procuring Crude Oil

A price index representing a relatively high price in the market had been used to decide the price (cost) in relation to

2,023,509 barrels of crude oil (Siberian Light and Ural) imported by the Corporation in 03 occasions during the year under review instead of using the related price index for those products published on Singapore PLATTS. As a result, the Corporation had to incur an additional cost of USD 49 million or equivalent to Rs. 17,876 million which was calculated based on the exchange rate in the related custom declaration.

Incurring an additional estimated demurrage cost when procure Fuel Oil

An additional estimated demurrage cost of Rs. 336 million had to be incurred by the Corporation due to the Stock Review Committee had taken decision to procure fuel oil on emergency basis subject to the covering approval of the Procurement Committee without properly evaluate the financial viability of the Corporation.

Failure to avoid additional costs that could have been avoided

During a period in which the Singapore PLATTS had predicted that the price of petroleum in the world market would show

a gradual rising trend, without a proper evaluation, a tender of fuel oil was rejected for non-compliance with the specifications and recall the tender under the same specifications by changing the Laycan date and purchased from the same supplier. As a result, an additional avoidable cost of USD 368,837 or Rs. 73 million had to be incurred by the Corporation.

Additional cost incurred due to using Super Diesel price for pricing when purchasing Auto Diesel

The Corporation had procured 1,820,012 barrels of Lanka Auto Diesel (LAD) (Gas Oil 500 ppm) which comprises 8 shipments from four suppliers during the year under review. However, it was agreed to make the payments based on the PLATTS price relating to the Lanka Super Diesel (FOB Singapore Price Method of Gas Oil 10ppm) which having a relatively higher average PLATTS price. Accordingly, the Corporation had to incur additional cost of USD 10.5 million which was equivalent to Rs. 3,873 million.

Additional cost incurred when procured Petroleum under Indian Credit Line

The Corporation had procured 599,722 barrels of Lanka Auto Diesel (LAD) (Gas Oil 500 ppm) in two occasions under the Indian Credit Line and it was priced based

on the PLATTS price relating to the Lanka Super Diesel (FOB Singapore Price Method of Gas Oil 10ppm) which having a relatively higher average PLATTS price. Accordingly, the Corporation had to incur additional cost of USD 4.6 million which was equivalent to Rs. 1,669 million.

Write-off the receivable balances without due consideration

According to the board decision No. 08/1252 dated 22 July 2021, approval had been granted to write-off the receivable balance amounting to Rs.1,516 million from the books of accounts of the Corporation due to lack of sufficient information. However, it was unable to ascertain in audit whether the Board had taken proper action to check any possibility of occurring fraudulent activities in relation to such transactions or events before taking a decision to write-off the receivables.

Sri Lanka Sustainable Energy Authority

None of necessary steps to accelerate the development of renewable energy projects

The directives issued to the chairman of the authority to accelerate the development of renewable energy projects by the minister in accordance with the Sri Lanka

sustainable Energy Authority Act No. 35 of 2007 had not properly enforced by the Authority. According to section 16 of that circular, the management board had not prepared a special program for the development of the projects not recommended by the project committee. Also, according to the power of the act, government had to take over the powers of the Small Hydropower Projects of expired the Special License period and call for open bids in order to select suitable investors and develop them jointly with the Electricity Board, necessary measures were not taken in relation to 30 such small hydropower projects.

Non-preparation of renewable energy resource development plan according to the potential of renewable energy resources

Even though a Renewable Energy Resources Development Plan according to the potentiality of renewable resources in each area should be prepared by the Authority according to the Sustainable Energy Authority Act, such plan had not been declared in a Gazette even after 15 years of commencing the Authority as at January 2023. Therefore, the Renewable Energy resources development tasks had been become slowly in energy development areas. Even though the

Authority had been Gazetted about 269,562 hectares as Wind Power Development areas by dated 31 December 2021 only 206 hectares of land had been started initial development of Renewable Energy Project.

Non-promotion of off grid renewable energy projects

Even though according to the Section 5 of the Sustainable Energy Authority Act No.35 of 2007 the Authority should encourage off grid renewable energy projects and promote them as a solution to the issue of the scarcity of the available grid capacity of the Ceylon Electricity Board but the Authority had not been taken actions on it. Therefore, nor Energy permit could be issued for off grid according to the Section 25 of the Act as at January 2023 on any project on Renewable Energy.

Failure to provide guarantees for investors who apply for loans to run a project related to energy efficiency

According to the Sri Lanka Sustainable Energy Act, the Sustainable Energy Guarantee Fund had been established in order to provide guarantees for investors who apply for loans to run a project related to energy efficiency. However, the necessary steps to fulfill those objectives

have not been completed so far and the fund had a balance of Rs. 127 million as at 31 December 2022.

Sri Lanka Atomic Energy Regulatory Council

Import or export of radioactive Sources

According to section 48 of the Sri Lanka Atomic Energy Act No. 40 of 2014, requirements and procedures to be followed for approval by the Council to import or export radioactive sources should be based on the regulations made in compliance to the internationally accepted guidelines. However, the Sri Lanka Atomic Energy Regulatory Council had not prepared the regulations using the international guidelines appropriately and

had not obtained the approval of the Parliament.

Ceylon Petroleum Storage Terminal Limited

Utilization of Company own Browsers

According to the vehicle performance report in the SAP (ERP system) for the month of December 2022, a significant number of browsers owned by Ceylon Petroleum Storage Terminal Limited were not optimally utilized. According to the audit test carried out in relation to the month of December 2022, out of the 130 Company own browsers, 68 browsers had not been used/distributed for a single trip during the month and 18 browsers were used only for one day in the month.

Urban Development and Housing Sector

Audit Observations

- **Ministry of Urban Development and Housing**
 - **Housing and Construction Sector**
 - **Estate Housing Sector**
- **Development projects implemented under the Ministry**
 - **Metro Colombo Urban Development Project**
- **Urban Development Authority**
- **Sri Lanka Land Development Corporation**
- **LRDC Services (Private) Limited**
- **Land Reclamation & Development Co. Ltd**
- **Urban Settlement Development Authority**
- **National Housing Development Authority**
- **National Physical Planning Department**

Urban Development and Housing Sector

The following functions and duties should be performed by the Ministry of Urban Development and Housing and the State Ministries, Departments and Statutory Boards/Institutions under it.

- Formulation, implementation, monitoring and evaluation of policies, programs and projects, in relation to the subjects of urban development and housing, and those subjects that comes under the purview of Departments, Statutory Institutions and Public Corporations under the Ministry based on the national policies implemented by the government.
- Provision of public services under the purview of the Ministry in an efficient and people friendly manner.
- Reforming all systems and procedures using modern management techniques and technology, thus ensuring that the functions of the Ministry are fulfilled.
- Planning and development of metropolis and suburbs.
- Systematic promotion and regulation of integrated economic, social and physical development of urban areas.
- Construction and development of housing complexes, providing land for housing projects, providing financial assistance for housing.
- Management of Urban Solid Waste.
- Ensure that all urban construction projects provide for vehicle parks and access facilities for disabled persons.
- Preparation of National Physical Plans and Regional Physical Plans.
- Management and regulatory affairs of condominium property.
- Matters relating to development of low lying areas.
- Establish standards and norms for government quarters and other buildings.
- Provide guidance to rural communities on environmental friendly and cost effective techniques for housing construction.
- Provide mechanical engineering services to government institutions.
- Regulatory registration, regularization and standardization of activities in the construction industry sector.
- Provide training on heavy construction equipment operation and maintenance.
- Develop building material industry.
- Strengthen local construction personnel.
- Prevention of marine pollution.
- Coast Conservation and Protection.

- Creating of new villages and township aimed at developing housing and infrastructure for landless employed in government and privately owned plantation companies.
- Adopting necessary measures for the provision of basic facilities, livelihood generation and community development projects including other requirements for empowerment of plantation community economically, socially and culturally.
- Development of basic infrastructure in rural estate sector.
- Establishing “People-Centric Boards and People-Centric Centers” giving pride of place to estate sector related

community leadership and community participation.

- Implement a special program to ensure primary education and healthcare for children in estate communities.

The Parliament had made provisions of Rs.27,147.75 million to the Ministry of Urban Development and Housing and 03 Departments including 04 State Ministries in order to fulfil the aforementioned role in the year 2022. A sum of Rs.24,205.05 million had only been utilized by the end of the year under review and a sum of Rs.2,942.7 million had not been utilized. The details are shown in the Figure 30.

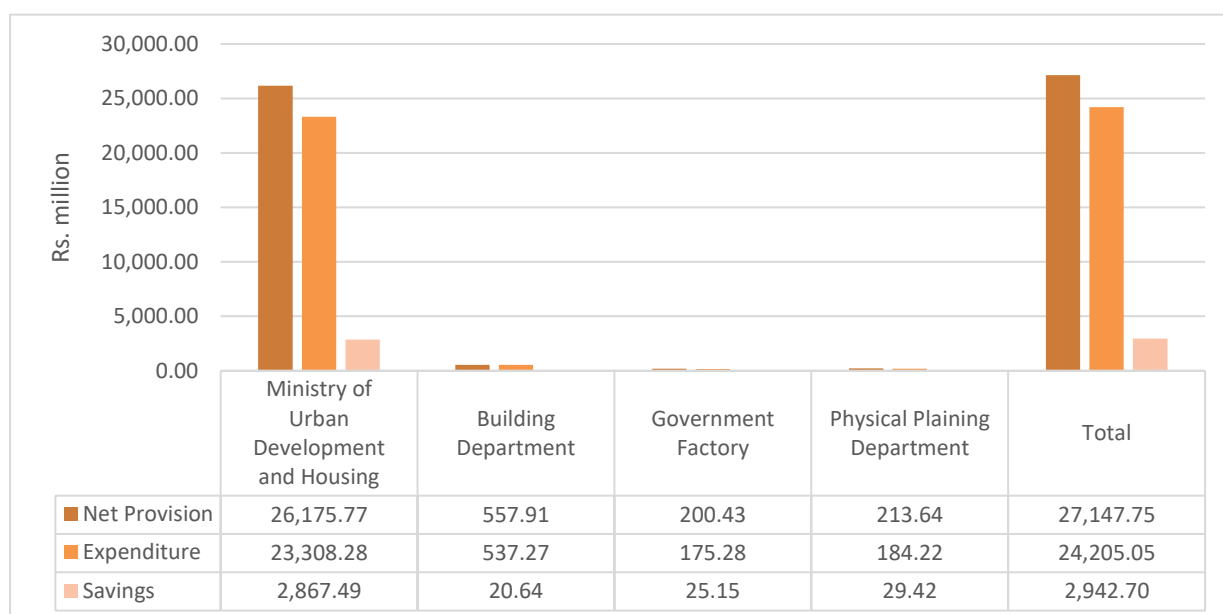


Figure 30: provision and the actual Expenditure

Source: Annual Financial Statements 2022

The following State Ministries which were included in the Appropriation Act No. 30 of 2021 were abolished from Appropriation (Amended) Act No. 21 of 2022 dated 30 September 2022 and the roles under those State Ministries were absorbed into the Expenditure Codes under the Head of Ministry of Urban Development and Housing.

- State Ministry of Urban Development, Waste Disposal and Community Cleanliness.
- State Ministry of Rural Housing and Constructions & Building Materials Industries Promotion.
- State Ministry of Estate Housing & Community Infrastructure.
- State Ministry of Coast Conservation & Low-Lying Lands Development.

Quantitative and significant audit observations revealed during the sample audit test conducted on the performance of the above functions and tasks are summarized below.

Ministry of Urban Development and Housing

- With the loss of 32 lives in the Meethotamulla Garbage Landslide on 14 April 2017, although it was proposed to be implemented in the year 2014, approval had been sought on 09 May 2017 for an unlaunched project via submitting a cabinet memorandum for the implementation of a project to dispose of 1200 metric tons of solid waste accumulated daily in the Western Region by build a garbage collection centre in Aruwakkalu area in Puttalam with an extent of 266 acres. Further, it was proposed to dispatch the garbage through railway line. Although this was proposed to be done with foreign aid, this project was implemented with local funds as the agreed aid amounting to US \$ 700,000 was not received due to the inability to implement the recommendations of the World Bank. The estimated cost of the project was Rs.19,127 million and a sum of Rs.85 million had been incurred on feasibility studies. This project was planned to be started on 1 January 2018 and completed by 30 June 2019 and implemented under 04 packages. Although 03 years had passed by the importation of 04 sets of

locomotives at a cost of Rs.8.27 million as on 31 December 2019 under the required machinery purchase package, the locomotives had been used by the Railway Department for other purposes as it couldn't be used for the intended works. However, a sum of Rs.21,045 million been incurred on this project by 31 December 2022, the expected benefits from the project had not been achieved as the activity plan had not been completed.

- The 15 projects, including 02 road improvement project and 04 city beautification project, which were completed by 30 June 2022, incurring Rs.496 million under the Hundred Cities Project had not been handed over to the relevant institutions by the Ministry at the end of the year under review.
- The contract for the construction of the Bulathsinghala Egaloya multi-modal building was awarded to the Central Engineering Consultant Bureau on 16 August 2016 at a contract value of Rs.41 million under the Sukhita Purawara City Development Project. But after awarding the contract, the construction work was done by

dividing it into 03 phases and the contract value was increased by 272 per cent up to Rs.153 million. The usage of the building was handed over to Bulathsinhala Pradeshiya Sabha on 20 October 2018. However, although around 04 years had passed since the building was constructed, the building was not used for any intended purpose.

- 7 projects valued at Rs.113.93 million started by the Ministry in the year 2021 had been suspended as per the Circular dated 26 April 2022 issued by the Ministry of Finance. Expenditure ranging from 25 per cent to 53 per cent were incurred for some of these projects and it was observed that, if those projects are suspended, the amount of Rs.49 million incurred will be an uneconomical expenditure.
- A sum of Rs.202 million and Rs.837 million had been allocated respectively for constructing 145 and 602 houses for 12 and 30 housing projects implemented in 2020 and 2021. An amount of Rs.110 million and Rs.228 million respectively had been paid to the Plantation Human Development Trust to pay the respective contractors for the construction by the end of the year under review and for that,

management fees were also paid to that institution. However, although the contractual periods of the respective projects had also expired, the necessary actions were not taken to complete the projects and hand them over to the home beneficiaries and recover the respective loan installments.

- The Housing Division of the Ministry had planned to construct 27,555 houses under 10 housing projects with an estimated cost of Rs.4,989 million during the period 2017-2020. A sum of Rs.4,025 million had been incurred for that by 31 December 2022 and only 5,604 houses had been completed from it. According to progress reports as at 31 December 2022, there were 07 housing projects with less than 25 per cent construction progress, 02 projects with between 25 per cent and 50 per cent construction progress and one project with more than 75 per cent construction progress. The outstanding works on other houses to be built under these projects were suspended without completion.
- Adequate safe housing and habitat improvement for all was identified as a Sustainable Development Goal by the

year 2030 and the progress achieved for that by the end of the year was only 8 per cent of the target for the year under review.

Housing and Construction Sector

- Any house had not been fully completed out of 256 houses targeted to be built at a cost of Rs.32 million in the "Valioya Houses" scheme started in the year 2019 by the Housing and Construction Sector. Although Rs. 530 million was incurred on the Mullaitivu, Kilinochchi housing improvement project which was started in 2019, any house improvements were not fully completed.
- A contract amounting to Rs.481 million was awarded to a private company through the National Community Water Supply Department for the establishment of 115 water treatment plants for people in areas where kidney disease is prevalent in the Northern and Eastern provinces. 50 treatment plants were to be established under the initial phase of the contract and the estimated cost was Rs. 209 million. Although a sum of Rs.111 million was paid out of it to the contractor through the Community Water Supply Department in the years

2021 and 2022 irrespective of the physical progress of the contract, it was observed that any water treatment plant was not in operational condition until 31 December 2022 to be able to provide water to kidney patients.

- A sum of Rs.106 million had been paid to the contractor and a sum of Rs.3 million had been paid to the consultant by 31 December 2022 out of Rs.384 million allocated by the Rural Housing and Construction & Building Materials Industries Promotion Division for the construction of 300 units of concrete panel houses for families in the Northern and Eastern provinces. Although the amount paid is 28 per cent of the total cost, physical progress was only 4 per cent. 12 houses were only completed and the agreed total amount had been paid to the contractor without correcting the deviations from the specifications and errors mentioned in the final evaluation report given on 12 January 2022 by the Technical Consultancy Institute regarding those 12 houses. Further, although the contract is terminated with immediate effect due to breach of contract, the necessary initial actions were not taken to include the contractor's name in to the blacklist according to F.R.507.

- The beneficiaries had been settled by building the houses without transferring the ownership of private and government owned lands and the beneficiaries of the houses did not get the legal rights to the houses due to the delay in awarding the deeds to the residents. Further, even though the lands were acquired and houses were built 20 years ago from the applicants who have applied for compensation, the compensations were not paid to the respective land owners even at the end of the year under review.

Estate Housing Sector

- According to the Action Plan of the plantation Housing Sector, although Rs.65 million has been allocated to complete 466 houses that were in the final stage by 31 December 2022 under the Green Gold Housing Programme, 282 houses only had been completed as at 31 December 2022 and it was only 61 per cent compared to the expected output. Also, although Rs.2.5 million had been allocated to confirm the land ownership of 1,000 families in the plantation sector under granting of title deeds programme, ownership of lands had been confirmed only in 300 families as at 31 December 2022. It

was only 30 per cent of the expected output.

- Although a sum of Rs.227 million or 50 percent was released to the Human Development Trust out of the Rs.451 million allocated for housing construction in 06 zones namely Hatton, Nuwara Eliya, Kandy, Ratnapura, Kegalle and Galle which should start construction in 2021 and be completed in November 2021, the constructions were not completed even at the end of the year under review.
- Although a sum of Rs.400 million had been allocated under the Indian grant for selection of beneficiaries, completion, release of land and establishment of work teams for the construction of 3,525 houses during the year under review under the 10,000 Indian Houses Programme implemented under the plantation sector, the programme was not implemented during the year under review. Also, although Rs.95 million had been allocated for the completion of 180 houses under the 4,000 Indian Aid Houses programme, 26 houses only had been completed at a cost of Rs.35 million as at 31 December 2022. Thus, the financial progress of the

project was 37 per cent while the physical progress was 14 per cent.

- As per the Guideline for Implementation of Housing Construction for Plantation Community, the Plantation Human Development Trust was entrusted with all activities of executing the projects and collecting the loans as per the agreements and it was decided to pay a management fee of 7 per cent of the estimated value of the housing project for the implementation of the related activities. Accordingly, under constructing the houses for the plantation community and recover the amount of housing loan due from the respective house owners in installments, although a sum of Rs.271 million had been paid as management fees to the Plantation Human Development Trust for 4202 houses which were constructed at a cost of Rs.3,867 million in the years 2016, 2017 and 2018, the Plantation Housing and Community Infrastructure Sector had failed to collect loan installments of Rs.1,998 million.

- Although a sum of Rs.31 million or 20 per cent of the estimated amount of Rs.160 million had been incurred for the implementation of housing projects in 06 plantations in Zone 02 of Hatton and Nuwara Eliya, any physical progress had not been achieved.

Development projects implemented under the Ministry

Metro Colombo Urban Development Project

- The Norris Canal improvement project with an estimated cost of Rs.353 million had been suspended due to the residents of the nearby apartment units had taken legal actions and further action had not been taken in this regard by the end of the year under review.
- Although the Real Time Control System Center had been established at a cost of Rs.77.4 million to establish an Integrated Flood Management System, the Supervisory Control and Data Acquisition System had not been installed in the centre by the end of the year under review.

Urban Development Authority

- Although according to Section (i) of Paragraph 8 of Part II of the Urban Development Authority Act No. 41 of 1978, the Urban Development Authority should prepare the urban land use policy to be implemented by the relevant local authorities, those activities were not completed even as at the end of the year under review. Although the authority had declared 273 urban development areas as local authorities and their sub areas by 31 December 2022, Land-use Plans had been prepared and hand over to the relevant local authorities only for 85 declared areas.
- Although 12,325 housing units were assigned to people between 2013 and 2021 out of 14,542 housing units constructed for low-income families under the construction of 22 Urban Revitalization Projects, the ownership of the houses couldn't be granted to more than 50 per cent of the residents due to the failure to obtain the Condominium Management Certificate. Therefore, the authority had to incur a cost of Rs.231 million for electricity, security costs, water, cleaning and maintenance of these

housing units. Further, 271 of these housing units remained idle as at August 2023 without being given to anyone. Also, the rent and water charges of Rs.953 million should be collected from housing units given to low-income families.

- The main auditorium of the Magam Ruhunupura International Conference Hall was constructed with the assistance of the Korea International Cooperation Agency (KOICA) at a cost of US\$ 6.4 million (Rs.851.2 million) under the Hambantota Development Project and a sum of Rs.3,831 million had been incurred from government funds for other construction of the conference hall. Although a sum of Rs.93 million had been incurred by the Authority as recurrent expenditure from 2017 to 2020 to maintain the conference hall, a sum of Rs.21 million only had been earned as income from that project relating to that period.
- According to Cabinet Decision No. 22/0970/502/019 dated 16 July 2022, 101 housing units had been given on an annual rent of Rs.69 million to the Honorable Members of Parliament from the housing project of 500 houses

located in Weeramawata, Pannipitiya on an one year rental basis. But the Authority had not received the rent for this even as at July 2023 and a sum of Rs.10 million had to be received to the Authority for the maintenance costs to be paid by each house owner and the electricity, gas and water charges to be paid for the housing units by August 2023.

- The land extent to 2 acres 2 rood and 21.4 perches situated on the border of DR Wijewardana Mawatha in Colombo Fort owned by the Authority remained idle until August 2023 without being used for any development purposes.
- Action had been taken by the Authority to acquire land with a house, agriculture and commercial activities extending 16 acres, 3 roods and 0.57 perches for the construction of Aloysius College Stadium, Galle International Cricket Stadium and a sports complex under the Galle City Development Plan in 2006. A sum of Rs.400 million had been requested from the Treasury to settle the compensation for these lands and a sum of Rs.281.57 million had been paid as compensation and interest as at

13 July 2021. However, a considerable area of the land out of the total area of 16 acres and 03 roods acquired as such was remained idle.

- The Authority had acquired 03 plots of land extending 04 acres and 43 perches from the lands located at Sri Jayawardenepura Mawatha, Rajagiriya as a suitable location for the construction of a financial and administrative institution complex providing services to the general public on 09 October 2013. But 02 plots of land extending 02 acres, 03 roods and 01 perches out of the lands acquired were divested to the original owners in the years 2015 and 2016 and a sum of Rs.213 million had been paid as compensation for the remaining land extent of 01 rood and 02 perches as at 31 December 2021. However, that land lot had not been used for the originally intended purpose or for any other development purpose even as at June 2023.

Sri Lanka Land Development Corporation

- The 02 acre plot out of the land in Muthurajawela which was given by the government on a free hold basis was

sold to a government own company in the year 2019. Although it was informed to the corporation to return the balance amount to the Government's Consolidated Fund after deducting the development expenses incurred for it from the sale value of the land, the balance amount of Rs.252 million after deducting the development expenses of Rs.21 million from the sale value of Rs.277 million of the land had not been credited to the Consolidated Fund.

- The difference between the amount charged on court orders for the construction of the D.A.Rajapakse Memorial Centre in Medamulana and the value in the accounts of the Corporation was Rs.47 million. It was observed that this amount couldn't be recovered due to that was stated as an expenditure incurred out of the project. It should be recovered from the responsible parties after conducting an investigation on expenditure incurred additionally to the project expenditure. However, the approval was given by the Board decision No.MRW/5404 dated 28 June 2021 to write off these losses from the books without obtaining the approval from the Treasury according to F.R.113.

- Although the Corporation should take steps to protect the reservation lands of the canals located in the Western Province as per Gazette Notice No.1662/17 dated 14 July 2010, the positive steps had not been taken by the end of the year under review to identify the reservation lands or remove the unauthorized residents living in the reservation lands even after 10 years from the Gazette was issued.
- The project to construct a linear park and improve drainage in connection with the expressway interchange in Athurigiriya Kothalawala, which was not included in the annual Action Plan, had been implemented under the Vision of Prosperity Programme. A comprehensive Feasibility Study was not conducted for the project proposal to approve the Treasury allocations. The project was started on 15 December 2020 and a sum of Rs.213.95 million had been incurred from the funds of the Corporation for this by September 2022. The Corporation had failed to reimburse any amount out of it from the Treasury and the value of the work done at the end of the year under review had been stated as Rs.129 million under the work in progress as per the certification of the technical committee.
- Although the activities of the project to remove the sediment and clean the Beira Lake on the Treasury allocation of Rs.800 million should be started and completed in the year 2019, the progress achieved was as low as 21 per cent by the end of the year under review. The Cabinet had approved to furnish Treasury funds of Rs.283.50 million for the procurement of machinery and equipment required for this project. However, 3 machines valued at Rs.403.99 million were purchased in August 2019 without getting the approval of the Cabinet of Ministers for exceeding that limit. Out of this, the two machines that were purchased at a cost of Rs.245 million and Rs.76 million remained idle even as at 31 March 2023.
- The Corporation had entered into an agreement on 10 April 2018 with a foreign private contracting company to mine, pump and store 4 million cubic meters of sea sand. However, the foreign company referred to an arbitration due to the termination of the agreement before the end of the

contract period by the Corporation and according to the arbitration decision issued on 28 April 2023, it had to pay a total sum of Rs.753 million as US\$ 1.74 million equivalent to Rs.633 million and Rs.120 million on behalf of expenditure incurred by the contractor for the arbitration procedures. Also, a sum of Rs.49 million had been incurred by the Corporation for the legal proceedings related to this dispute. Thus, the Corporation should take necessary measures regarding the officials responsible for informal termination of the contract.

Subsidiaries operated under the Corporation

➤ LRDC Services (Private) Limited

- The nation building tax payable by the company was Rs.9.2 million and the value of VAT payable on accrual basis was Rs.526 million by the end of the year under review and accordingly, the value of VAT to be paid on cash basis was Rs.345 million and there was also a risk of pay fines on it. It had to pay an income tax amounting to Rs.81 million to be remitted on a self-assessment basis and a surcharge including 21.5 per cent interest on the

unpaid value out of it as at the end of the year under review. It was failed to send any of these payments to the Inland Revenue Department until December 2022.

- 835 units valued at Rs.3.6 million remained at the end of the year under review due to technical obsolescence and inability to sell out of 1669 CCTV camera equipment purchased at a value of Rs.9 million in the year 2018. Also, 506 units out of 1000 Hand Held Metal Detectors with chargers imported for Rs.2 million in 2018 and 731 units of security equipment related to 8 items imported at a cost of Rs.11 million could not be sold in the year under review and it was observed that these equipment were purchased without predicting the requirements accurately.

➤ Land Reclamation & Development Co. Ltd

- It had been decided on 4 October 2018 that the Land Reclamation and Development Company should start the project of packing and selling sea sand as a commercial business by the Board of Directors of the Sri Lanka Land Development Corporation and The corporation had given a loan of Rs.200 million to the company on 07

May 2019 to construct the buildings for that purpose. A land owned by the Corporation was given to the company without signing a lease agreement between the two parties to carry out the related construction. However, the Corporation had decided to terminate the project without a formal cost benefit analysis by the end of the year under review and the building which had been built by the Land Reclamation and Development Company at a cost of Rs.331 million was taken over to the Corporation for Rs.326 million on the government's valuation and given to the government owned company of Litro Gas Terminal Lanka (Pvt) Ltd.

- The agreement was entered into with the company on the basis of loan repayment in 10 years at a monthly installment of Rs.1.67 million under 12 per cent interest for the loan given by the Corporation to the company and the company was unable to pay the loan and interest due to the suspension of the business. The total amount due to the Corporation was Rs.191 million at the end of the year under review as the loan amount to be paid by the company was Rs.141 million and the interest to be paid was Rs.49 million.

Further, the amount incurred by the company for the project was Rs.383 million according to the accounts of the subsidiary. It was observed that there was a negative impact on the company's operations and a financial disadvantage due to the informal decisions taken by the Corporation from time to time.

- The company operates 05 cement brick manufacturing factories and a sand washing factory and among them, all the other factories, except Nawala factory are now running in loss condition and the total loss incurred from those factories was Rs.13 million in the year under review and the total loss incurred in the last 5 years was Rs.75 million. Further, the Higurakgoda factory had stopped its production since the end of 2019 and further, the factory and its equipment remained underutilized without any use even at the end of the year under review.

Urban Settlement Development Authority

- 356 housing units were built and 353 housing units had been disposed on the basis of sale in the Moratuwa Lunawa

government owned land which was received to the Authority as a free grant at a cost of Rs.1,392 million at the end of the year under review and cost of the land was not taken into consideration while determining the cost of the housing unit and deeds were not given to the house owners.

National Housing Development Authority

- Although the provision of Rs.2,589 million was allocated for the construction work of 8,153 houses brought forward from the year 2021 under the "Obata Geyak Ratata Hetak" aid programme among the housing loan and assistance programmes that were implemented in the year under review, 5,878 houses were built at a cost of Rs.388 million in the year 2022. Although the construction of 6353 houses had been commenced, it was not completed. It was planned to provide assistance for 1485 new houses under this program in 2022 without completing the old constructions and out of it, the constructions had completed only in 19 houses. Although a sum of Rs.600 million had been allocated for the housing loan program under the newly started internal financial allocation in the year 2022 and it was planned to

build 1000 houses, only 391 houses had been constructed by incurring a sum of Rs.147 million out of it.

- Although it was planned to complete the construction of 557 houses brought forward from the year 2021 under the "Mihidu Niwasa" programme in the year 2022 at a cost of Rs.92.23 million, the constructions were completed only in 210 houses. Although Rs.39.5 million had been allocated to start construction on 77 new houses in the year 2022 and complete the construction of 21 houses, 08 houses were only constructed at a cost of Rs.17.83 million. Also, although it is planned to construct 100 houses by allocating Rs.75 million in the year 2022 under the Sewana Aid Programme, the constructions had started on 94 houses by incurring a sum of Rs.32 million and the construction of only one house had been completed.
- It was planned to construct 2400 houses under the Indian Housing Assistance Program which was started in 2017 and 2019 with an allocation of Rs.1200 million and although 820 houses were planned to be constructed on the allocation of Rs.242 million

under that in the year 2022, 138 houses only were constructed at a cost of Rs.42 million. Further, a sum of Rs.76 million had been allocated to repair the sewage system of the Gampaha Himbutu Uyana housing complex under the renovation of old housing complexes and 5 per cent of the repairs out of it were only completed at a cost of Rs.51 million.

- The construction of a mixed development project with housing and commercial complex on the 01 acre and 26.5 perches land located at Darley Road Colombo 10 owned by the Authority was given without an open bidding procedure to the foreign company of BAY SAT MBH (Pvt) LTD on Cabinet approval dated 09 November 2005. According to the agreement dated 23 June 2006 with that company, it was agreed to charge a sum of Rs.650 million as the value of the land based on the assessment of the government valuer and to grant a dividend of Rs.162 million to the Authority after the completion of the project in 06 years. But BAY SAT MBH (Pvt) LTD had left from it in the year 2006 without completing the proposed development works and that task was assigned to L & T

Infrastructure Development company. The Authority had entered into an agreement with this new company without obtaining a new valuation report for the land and assigned the work at a value of Rs.650 million which was obtained in 10 years ago. The ownership of this land was transferred to the company on the same date by deed number 983 before paying the money under the agreement dated 05 May 2016 and a sum of Rs.712 million was to be paid in foreign currency according to the agreement. However, contrary to that, the relevant payment was made to the Authority from two Sampath Bank cheques dated 05 May 2016 by obtaining a sum of Rs.800 million by mortgaging the 3 plot of lands No.2,3 and 4 to the Sampath Bank.

- The L&T Infrastructure Development Company had not completed the proposed development works until 31 October 2017.

National Physical Planning Department

- The Department was continuously employ 64 employees for cleaning the shrines and other activities outside of their mission as at 31 December 2022

and the Department had incurred a sum of Rs.25.35 million for salary and overtime for that.

- According to Section 7 of the Town and Country Planning Ordinance No.13 of 1946 (Authority 269) and the Town and Country Planning (Amendment) Act No.49 of 2000, it should be prepared the national physical design principles and national physical plan and according to the Action Plan, although the necessary amendments should be made in the National Physical Plan prepared in 2019 by 31 October 2021, the activities

had not been completed even as at 31 December 2022.

- Although it is not the role of the Department to restrict the expansion of settlements and remove unauthorized constructions from the Anuradhapura Puja town site, it was decided to carry out the Lolugaswewa city design project under the Department according to a Cabinet Decision. The project was started in 2016 and the provision of Rs.634.7 million had been made till 2022. A sum of Rs.13 million or 2 per cent only had been incurred by the year 2022 and the project office only had been constructed.

Highway Sector

Audit Observations

- **Current progress of Government funded projects**
 - **Baseline Road Development Project Phase III**
 - **Programme of Developing 100,000 km of Alternative Roads**
 - **Central Expressway Project – IV**
- **Rural Roads and Other Infrastructure Sector**
- **Road Development Authority**
- **Subsidiary Companies of the Road Development Authority**

Highway Sector

The highway network is considered as one of the most valuable and vast social assets of a country and it has recognized as a very important element for social welfare in terms of economic, socio-cultural as well as environmental. Accordingly, development of the transport network for an efficient and environment-friendly public transport system has been identified as a basic requirement in order to remedy the disparity in urban and rural development by providing equal services and infrastructure to the economic sectors through the main policies of the government. The government is constantly making investments in order to improve the living conditions of the people living in the country, and a very high investment is being made in the highway sector as a whole in order to meet the growing demand for transportation needs. Accordingly, it has been observed that the investment made in this sector will generate a very high economic value due to the factors such as easy access for the passengers to their destinations, fuel savings, reduction of travel costs and reduction of traffic congestion by improving the country's road network including national, provincial and rural roads. Sri Lanka's national highway

network was approximately 12,536 km by the end of the year 2022 and it consists of 4,217 km of 'A' grade highways, approximately 8,007 km of 'B' grade highways, approximately 312 km of toll highways and 4,254 bridges.

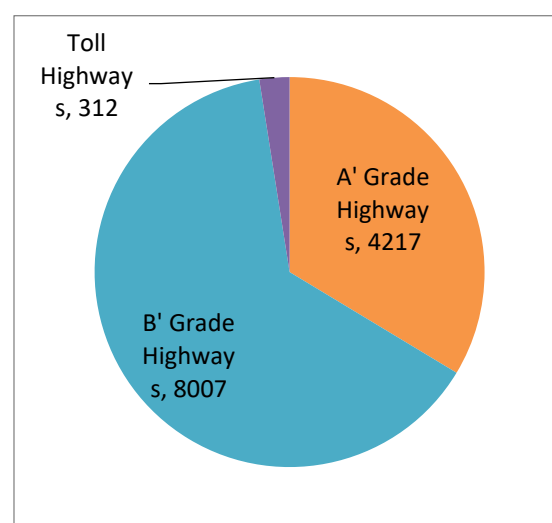


Figure 31 -National Highway Network of Sri Lanka

The scopes of the Ministry of Transport, the State Ministry of Transport, the State Ministry of Rural Roads and Other Infrastructure and the Ministry of Highways were merged and implement from that date as the Ministry of Transport and Highways by Extraordinary Gazette No.2289/43 dated 22 July 2022.

The following tasks should have to be performed according to the annual estimates of each sector in the year 2022.

Highway Sector

- Formulation, implementation, direction of policies, programmes and projects in relation to the subject of roads, highways and the statutory institutions.
- Improve national highway systems to be high standard in order to ensure people centric economic and social development thereby expanding rural townships and urban area connectivity and taking necessary measures for maintenance of the highway system at optimal level.
- Stipulation, collection and monitoring of highway user charges.
- Preparation of programmes and projects, based on national policy and government priorities for roads belonging to provincial and local authorities and co-ordination and monitoring of such programmes and projects.
- Supervision aforesaid institutions and matters relating to all subjects assigned to such institutions.

Transport Sector

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 the above mission, the following functions had to be discharged.

- Formulation of policies, rules and regulations required to ensure an ecofriendly transport system.
- Taking necessary steps to establish a high standard road facility to build the public trust on the public transport system.
- Introduction of guidelines, laws and rules to be followed to reduce traffic congestion and road accidents
- Introduction of a futuristic e-ticketing system for public and private transport services and rail services to operate as a single mode of transport under a common format.
- Development of infrastructure facilities required to ensure common amenities and security associated with railway and bus stands.
- Maintenance of trains and buses required for train and bus service.
- Introduction of procurement systems essential to build a local industrial system relevant to the field of bus production and transportation.
- Establishment and expansion of facilities necessary for transporting goods by trains to Colombo,

Hambantota, Kankesanthurai and Trincomalee ports.

- Making motor vehicle registration a people friendly, efficient and corruption free process through the application of information technology.
- Modernization of the Sri Lanka Transport Board into a profit generating institution and development of common facilities at the major bus stands.
- Rehabilitation of existing bus fleet and thereby introduction of new ecofriendly buses for operation in Colombo and major city limits and formulation and implementation of programmes to comply the private passenger transport with green transport concept.
- Establishment of a transport service that encourages investors to manufacture, repair and upgrade railway compartments, buses, and motor vehicles locally.
- Strengthening school bus services and student safety under the proper standards.
- Direction of the Sri Lanka Transport Board towards the transportation of passengers and goods to formalize the provision of public transport facilities to rural areas.

- Regulating the transport services to a high standard to ensure the safety of passengers and transport services.
- Eradication of various malpractices being committed in the issuance of driving licenses and registration of motor vehicles and providing an efficient service.

Rural Roads and Other Infrastructure Sector

Rural road development programs are implemented under this sector with a broad vision and targeted approach. For that, identifying, planning, implementing, operating and following up on new projects and programs was the aim of this sector. Accordingly, it is expected to fulfill the following main objectives by this sector.

- To identify the necessary strategies for the development of rural roads, bridges and other related infrastructure.
- Introduction of new methodologies, technologies and machineries for rural infrastructure development.
- To promote and enhance employment and business opportunities in the rural community.
- Efficient development of rural roads, bridges and other infrastructure by identifying them according to priority.

A sum of Rs.272,061.80 million had been provided by the Parliament to the Head of

the Ministry of Transport and Highways during the year 2022 and out of it, a sum of Rs.214,962.40 million had been utilized at the end of the year under review. The

amount of allocation received, expenditure and savings for the year 2022 and the past 05 years for the Ministry of Transport and Highways shown in Figure 32.

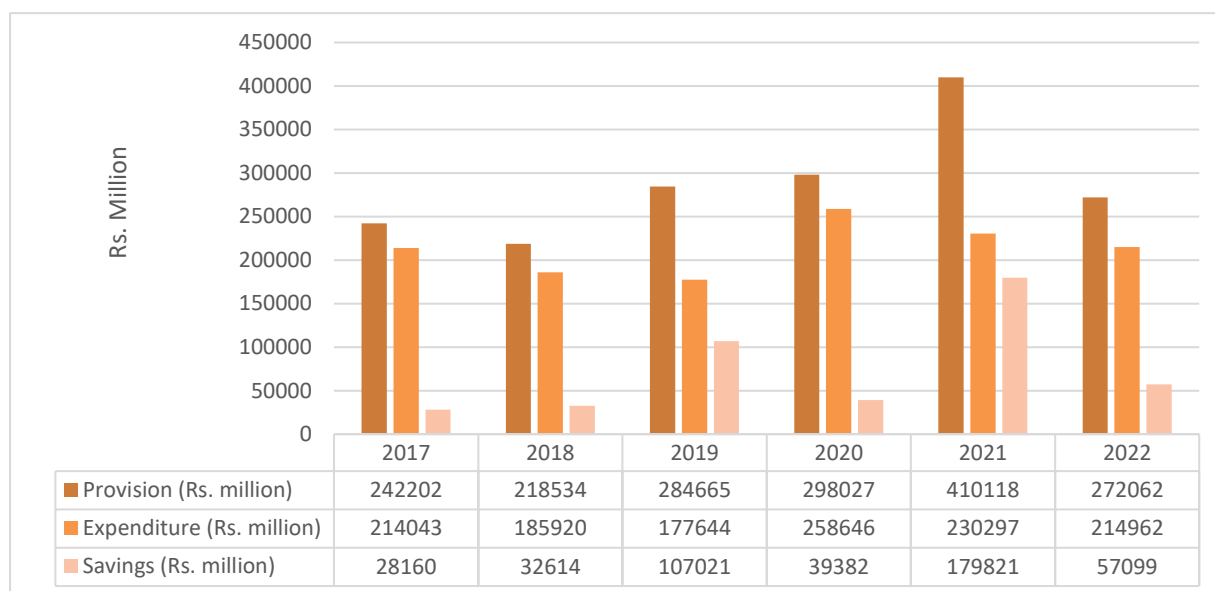


Figure 32 -The allocations given to the Ministry, utilization and savings during the past 6 year's period
Source - Annual Performance Reports

The total allocation given to the Ministry of Transport and Highways during the last 5 years from 2017 to 2021 is Rs.1,453,546 million and the total expenditure was Rs.1,066,550 million. Therefore, the savings were Rs.386,996.

Current progress of Government funded projects

- It was proposed to complete the Elevated Highway from the New Kelani Bridge to Athurugiriya Project in 2025 and be operated by an investor for 15 years. The project was to be executed as a Public Private

Partnership (PPE) on a Design – Build – Finance – Operate – Maintain and Transfer (DBFOMT) basis. The estimated cost of the project was Rs.193,000 million and the length of the proposed main lane was 16.4 km. The amount incurred on the project from local funds was Rs.1,182 million as at 31 December 2022 and the Project Steering Committee had decided to suspend the project activities with effect from 31 January 2023 even without the approval of the Cabinet of Ministers.

- The project activities of the Ruwanpura Expressway, with an estimated cost of Rs.54,695 million had started in 2016. Accordingly, the length of 76 km from Kahathuduwa interchange to Pelmadulla and 24.3 km of the section from Kahathuduwa to Ingiriya were handed over to the construction company on 03 May 2021 for construction work. The relevant construction work was scheduled to be completed in 2023. However, the contractor unilaterally suspended the construction work on 10 May 2022 after one year from the commencement of the construction due to failure to make payments on bills. An advance of Rs.3,012 million including VAT was paid to the construction company on 18 February 2022 from a loan obtained from the National Savings Bank and the above amount couldn't be recovered due to the contractor suspending the construction.

Baseline Road Development Project Phase III

Although 13 years had passed by the end of the year under review after the commencement of Phase III of the Baseline Road Development Project in 2009, the Official's Committee on Re-strategizing and Acceleration of Mega Projects had decided to stop the project

considering that it is not a project that can be implemented on priority. However, the Road Development Authority had vested in continuing the land acquisition activities. The construction work of the project had not started even by the time the project was suspended in January 2023 and a sum of Rs.3,720 million and Rs.49 million had been incurred on land acquisition costs and project management unit respectively as at 31 December 2022.

Programme of Developing 100,000 km of Alternative Roads

- The Secretary of the Line Ministry had informed to the Authority to revise and correct the overestimated Engineering Estimates prepared under the 100,000-kilometre alternative road rehabilitation programme that had been indicated by the audit. Further, the Secretary of the Ministry had informed to the audit on several occasions that the final bills would be paid after revising the overestimated contract estimates. However, the Secretary to the Ministry had subsequently instructed the Director General of the Authority to pay the agreed value for contracts signed before 27 April 2021 and after that date based on actual work done for contracts signed. Accordingly, the payment of Rs.115,435 million by the Authority as

at 31 December 2022 based on overestimates was doubtful in the audit.

- The total road distance awarded to contractors under the national, regional and rural 100,000 km alternative road rehabilitation programme as at 31 December 2022 was 17,847 km and the amount of work completed was also 6,298 km. The length of ongoing works was 11,549 km. A sum of Rs.142,821 million had been paid for these works by the end of the year under review and the value of outstanding bills payable on that date is Rs.16,810 million. It had obtained a sum of Rs.43,205 million from local banks, Rs.68,263 million under the Ministry Head and Rs.35,940 million through the issuance of Treasury bills to settle these expenses.
- The contract cost was overestimated by Rs.220 million in the preparation of estimates related to 119 roads in 42 road construction projects that were implemented only in Kurunegala, Polonnaruwa and Nuwara Eliya Districts due to overestimation of price rates of major work items, material transport distance increase than actual distance, increase in project monitoring

costs and administrative costs at a high rate and entering of abnormal values for raw material waste.

- A mobilization advance of 20 per cent of the contract value could be granted on submission of acceptable advance payment security as per the Government Procurement Guidelines. However, acceptable advance payment securities had been obtained only for 16 work orders while granting mobilization advances for 1,753 contract work orders given to the subcontractors by the Maga Neguma Construction Machinery Company.
- The validity period of 26 mobilization advance securities of Rs.590 million received from the contractors while providing mobilization advance to the contractors in Matara District had expired at the end of the year under review. However, relating to the roads that were not completed and suspended, action had not been taken by the responsible officers of the Road Development Authority to extend the validity period of the mobilization advance securities or hand them over to the Road Development Authority. It was not possible to recover Rs.399 million of mobilization advances paid

to the contractors due to this at the audited date of 15 March 2023.

- As revealed during the sample audits, the construction work on 74 contracts with a cost of Rs.1,736 million assigned to the Mega Neguma Construction Company in the Kegalle District had not started and work on 124 roads in Puttalam District had not been started. Further, although a sum of Rs.5,291 million were incurred on the development of 20 roads in Puttalam District and Rs.377 million were incurred on the development of 10 roads in Polonnaruwa District, The development works of the 208 roads in Puttalam District and the above construction had also been suspended. The road users were inconvenienced due to this and the raw materials brought for development activities remained unsafe.
- The 10 road development packages valued at Rs.62.74 million under the 02 contract packages in Matara District had become unusable for traffic due to the completely eroded of ABC layer and the roads had become to the early condition. Accordingly, the total sum of Rs. 17 million paid to the

contractors had become an idle expense.

Central Expressway Project – IV

The Project Management Unit of Central Expressway Project Phase 04 was established in 2016 and even though Rs.551 million had been incurred until 31 December 2022, the civil works of the project has not been started even at the time of suspended of the project at 28 February 2022. It had been decided to wind up the project by 31 December 2022.

Rural Roads and Other Infrastructure Sector

- A sum of Rs.616 million or 41 per cent of the provision of Rs.1,496 million allocated for the Rural Bridge Project had failed to be utilized in the year under review. Also, a provision of Rs.5,000 million had been allocated for the year 2022 for the rural road development programme and 72 per cent of the allocation or Rs.3,603 million had been used to pay outstanding bills because the new road programmes had not been started.
- The contracts were awarded to the State Development and Construction Corporation and the Road Development Authority for the construction of 463 bridges at an

estimated cost of Rs.7,204 million under the vehicle traffic allowable bridge construction project. Out of those bridges, 52 had been completed by the end of the year under review and the number of bridges those construction had not started was 175. There were 96 bridges with less than 25 per cent physical progress and 46 bridges between 25 and 50 per cent.

- Although it is planned to construct 1,000 bridges at a cost of Rs.1,500 million in the year 2020 under the Low Cost Bridge Project, only 22 bridges had been completed by the end of the year under review and the construction of 11 bridges had commenced.
- Under the Rural Roads Project, the construction contracts for the development of 38,718 rural roads at a cost of Rs.35,497 million identified through the District Coordinating Committees were given to the Local Authorities, Road Development Authority and Divisional Secretariats. But, only 6,423 rural road contracts had been implemented by the end of the year under review and its physical progress was below 16 per cent and the value of those work done was Rs.6,394 million.

Road Development Authority

- The payable loan balance by the Authority as at 31 December 2022 out of the loans obtained from the local banks was Rs.356,059 million and the amount of interest that had to be paid to the local commercial banks during the period of 05 years due to obtaining the loan was Rs.108,970 million. Further, the loan interest payable was Rs.37,669 million and the loan installment payable was Rs.2,502 million at the end of the year under review.
- Treasury Bonds valued at Rs.36,672 million had been issued due to the inability of the Treasury to provide provisions to settle the outstanding amount of loan interest and loan installments as at 31 December 2022 for the loan obtained from the local banks. Further, in addition to obtaining loans from local banks, Treasury Bills had been issued by 31 December 2022 for a sum of Rs.32,218 million due to be paid to 36 contractors for road construction works related to the 100,000 km road programme.
- Although the total length of A and B grade highways belonging to the Authority was 12,225 km, since the start of the capitalization of national

highways in 2018, only 3,267 km belonging to 285 roads had been capitalized as at 31 December 2022. Accordingly, the value for the length of 8958 km belonging to the A and B grades owned by the Road Development Authority was not stated in the Statements of Financial Position and this was 73 per cent of the total length of the road system.

- The value of advances given by the Authority to contractors for 10 construction projects was Rs.45,812 million and although, the advances of Rs.15.53 million included in those values given in relation to 05 projects had been given before the year 2015, the relevant balances had not been settled even at the end of the year under review. Further, the advance totalling of Rs.39,976 million had been paid for the contracts of Central Expressway Project Phase I, Central Expressway Project Phase III and Ruwanpura Expressway Project and work on 03 related projects had been suspended. Accordingly, the mobilization advance of Rs.45,812 million couldn't be recovered.

Subsidiary Companies of the Road Development Authority

- The financial statements had not been submitted to the audit after the accounting year 2015 by the Expressway Transport Company (Pvt) Ltd. which is a subsidiary of the Road Development Authority.
- Although the financial statements of the Authority stated that the Road Development Authority owns 99 per cent of the share of Maga Neguma Emulsion Product Company (Pvt) Ltd. which is a subsidiary of the Road Development Authority, it was mentioned that the Road Development Authority and another private party have 50 per cent shareholding each in the company as per the financial statements of the company.
- According to the Section 133 of the Companies Act No.07 of 2007, although a company should conduct the Annual General Meeting of the shareholders once every year, the 04 subsidiary companies belonging to the Authority had not complied accordingly.

- The going concern of the respective companies was doubtful due to the decision taken to wind up the 04 subsidiary companies owned by the

Authority as per No. CP/23/0394/608/033 dated 20 March 2023.

Construction and Engineering Division

Audit Observations

- **State Engineering Corporation of Sri Lanka**
 - Defaulting of statutory payments and payment of debt and interest
- **Construction Industry Development Authority**
 - Decrease in number of registered contractors
 - Non-takeover of the land to the authority on which the Construction Equipment Training Center is located
 - Maintaining an idle cash balance in a current account
 - Non-recovery of overpaid fuel allowance
 - Use of hostel without permission and without charging fees
- **Department of Buildings**
 - Abandoned projects
 - After incurring costs for projects, they were terminated while operation without completion
- **Department of Government Factories**
 - Projects have been terminated while operation
- **Lanka Building Materials Corporation Limited**
 - Increasing sales value by issuing false invoices
 - Non-recovery of money from Partner Company
- **Chamber of Construction Industry of Sri Lanka**
 - Running the affairs of the institution by a staff recruited on contract basis
- **Central Engineering Consultancy Bureau**
 - Tax evasion
 - Use of Quarters by Non-Official outside Parties
- **Central Engineering Services (Private) Ltd**

- **Operating losses incurred by fully completed construction projects**
 - **Payment of Liquidated damages due to project delays**
- **State Development and Construction Corporation of Sri Lanka**
 - **Decrease in contract revenue**
 - **Non-payment of dues**
- **Construction Guarantee Fund**
 - **Non-recovery of money paid by the fund for guarantees issued to employers without keeping a security**
 - **Retention of cash in the cash in transit account without releasing it to the contractors**
 - **Failure to install a management information system.**

Construction and Engineering Division

According to the 2022 report of the Central Bank of Sri Lanka, the value added in the construction sector was 4.4 percent in 2021, but it had declined by 20.9 percent in the year under review. This was mainly due to reasons such as non-availability of fuel and raw materials, rising cost of building materials, suppliers restricting supply of goods to the credit base and delayed payments for public sector projects.

Sri Lanka Engineering Corporation, Construction Industry Development Authority, Department of Buildings, Department of Government Factories, Lanka Building Materials Corporation Limited and Chamber of Construction Industry of Sri Lanka are 06 institutions which belongs to the construction and engineering sector are established under the Ministry of Urban Development and Housing. Under the Ministry of Irrigation Central Engineering Consultancy Bureau and Central Engineering Services (Private) Ltd, under the Ministry of Transport and Highways State Development & Construction Corporation and under the Deputy Secretary of the Treasury Construction Guarantee Fund, has been established.

Basic objectives and functions of these institutions

- To make arrangements for the development of the construction industry in Sri Lanka, to regulate, register, regularize and standardize the activities of the construction industry, to make arrangements for the establishment of the National Consultative Council on Construction, to implement the National Policy on Construction and to register and grade construction contractors.
- Manufacturing of building accessories, mechanical and electrical works, engineering works and consultancy works
- Building planning, estimating, construction and providing of related facilities, providing consultancy and project management services for buildings, maintenance, new additions and improvements of government buildings as per the financial allocations provided in the budget of government departments and government institutions.
- Providing of manufacturing, construction, repair and maintenance, and mechanical engineering consultancy services

- To be the leader in island wide supply of high quality building materials and equipment in accordance with the standards at competitive prices.
- To promote and protect the interests of construction personnel and encourage the development of the national construction industry.
- Providing multiple consulting services and construction, consulting services and engineering services for water resource development projects
- Execution of engineering projects such as bridges, highways, reservoirs, irrigation systems, hydropower plants, tunnels and canals, water supply projects, buildings and constructions.

State Engineering Corporation of Sri Lanka

Defaulting of statutory payments and payment of debt and interest

As at 31 December 2022, the contributions to be paid to the Employee Provident Fund and the surcharge thereon is Rs. 877 million and value added tax of Rs. 1,296 million and the surcharge imposed on it is Rs. 803 million statutory dues had not been paid by the corporation by 18 August 2023. Furthermore, the loan amount obtained from the state banks on the property and treasury collateral of the corporation was Rs. 2,737 million and the

interest payable in relation thereto was Rs. 1,136 million had not been paid till the end of 2022.

Construction Industry Development Authority

Decrease in number of registered contractors

Although the target of registration of construction contractors for the year 2022 was 1,090 the number of contractors registered was 1,618. Among these, the number of newly registered contractors was 445. The number of registered contractors had been decreased by 945 compared to last year.

Non-takeover of the land to the authority on which the Construction Equipment Training Center is located

The process of acquisition of the land belonging to the Urban Development Authority where the Construction Equipment Training Center was built in Pelawatta, Battaramulla by incurring Rs. 306 million by authority had not been completed by 31 December 2022.

Maintaining an idle cash balance in a current account

The head office of the Authority had maintained an average of Rs.307 million idle cash balance in a current account for over 5 years. Due to this, it was observed

that when calculating the interest income on the average interest rate, an interest income of Rs.149 million had been approximately lost by the authority.

Non-recovery of overpaid fuel allowance

Contrary to the Public Enterprise circular instructions dated 25 May 2015, 06 officers used 12,789 liters of fuel between the year 2019 and 2021 by exceeding the approved fuel limit. Accordingly, the over spent value of Rs. 1.6 million had not been recovered so far.

Use of hostel without permission and without charging fees

From the 8 room hostel available for residential facilities of the students undergoing training at the Construction Housing Planning Building (CHPB) located at Battaramulla, 05 rooms have been accommodated by the staff of the Authority and the staff of line Ministry without proper approval and charging any fees.

Department of Buildings

Abandoned projects

Nine projects worth of Rs. 244.23 million including project of moving the Ministry of Foreign Employment Promotion and Market Diversification to the Ministry of Labor building, construction of Kalutara Industrial Park, Construction of Kaithadi

Ayurveda Hospital, Construction of Mahaoya Medical Officer's Office Building etc, have been taken long time to start after signing the contract. Due to that contract amount exceeded the work estimate and was left unfinished due to shortage of raw materials and fuel.

After incurring costs for projects, they were terminated while operation without completion

23 construction contracts awarded to the Department of Buildings in the last 5 years were stopped without completion after incurring expenses of Rs.659 million.

Out of these, 20 projects were directly awarded by the Cabinet to the National Equipment and Machinery Organization. Even one project was awarded to the State Development and Construction Corporation, that project was also abandoned and the advance amount of Rs.1.37 million paid to the department for this project was offset for another project.

Department of Government Factories

Projects have been terminated while operation

The 4 projects received by the department from the state and semi-state institutions with the estimated value of Rs. 245 million in the year 2022 namely supply of 191 electric lamps to the Central Cultural Fund, Preparation of Baddegama Water

Supply System of Water Supply and Drainage Board, repair 20 adjustable beds in the Colombo North Teaching Hospital and repair the iron bridge in the Lunugamwehera National Park of the Department of Wildlife Conservation were terminated while operation due to non-payment of advances, non-approval of revised estimates.

Lanka Building Materials Corporation Limited

Increasing sales value by issuing false invoices

According to the computer generated sales report submitted by the company to the audit, 2,197 invoices have been issued for the sales value of Rs. 780 million regarding the repair and maintenance work in the official residence of Prime Minister and 05th Executive President from 26th March 2021 to 07th June 2023. However, according to the schedule given by the assistant marketing manager of the company on 06 October 2023, the number of invoices issued for this was 575 and the value was Rs.1, 158 million. It was found that 98 sales invoices for Rs. 559 million were falsely issued to increase the sales value and they were later founded to be cancelled.

Non-recovery of money from Partner Company

At the time of only allowing Building Materials Corporation Ltd which is a state-owned company to import and sell tiles in order to reduce the shortage of tiles in the market when import restrictions have been imposed due to the foreign exchange crisis in the country, Although the partner company that had been contacted for that had agreed to pay the money for the customers after depositing the money in the bank, the company's bank account had spent Rs. 64 million had not been collected.

Chamber of Construction Industry of Sri Lanka

Running the affairs of the institution by a staff recruited on contract basis

As there was no approved staff or recruitment and promotion scheme for recruitment of competent and permanent staff for smooth functioning of the Board, employees were recruited on contract basis. Out of which 16 officers were employed on contract basis for a period of 01 to 17 years as on 31 December 2022.

Central Engineering Consultancy Bureau

Tax evasion

Pursuant to Section 7 (2) of the Settlement of Delinquent Taxes (Special Provisions) Act No. 16 of 2010, the bureau had defaulted on payment of unpaid income tax, VAT and other taxes including PAYEE taxes and related fines to the Inland Revenue Department for the period 1996 to 2007 amounting to Rs.82.38 million.

Use of Quarters by Non-Official outside Parties

The Bureau has the land on which the official housing complex consisting of 15 housing units located at Sarana Road, Colombo 07 with the value of Rs.960 million and the value of the building was Rs.6.68 million as of 31 December 2022. Out of these 15 quarters, 05 quarters were allowed to be used by outside parties who are not officers of the Bureau.

Central Engineering Services (Private) Ltd

Operating losses incurred by fully completed construction projects

Central Engineering Services (Private) Ltd has incurred operating losses of Rs.667 million, Rs.888 million and Rs.973 million in the years 2022, 2021 and 2020 respectively from the fully completed

projects and the loss of Rs. 434 million was incurred from the 47 ongoing construction projects in the year under review.

Payment of Liquidated damages due to project delays

Regarding 59 projects Rs. 68.5 million had been deducted from the bills by the employers as liquidated damages. Out of that approvals had not been received for extending the requested time by 30 June 2023 regarding 47 projects, and the deducted liquidated damage amount of Rs. 2.1 million had remained unrecoverable.

State Development and Construction Corporation of Sri Lanka

Decrease in contract revenue

In the year under review, the contract income was Rs.2, 060 million, while it was Rs.3, 371 million in the previous year, so the contract income in the year under review had decreased by Rs.1, 311 million it means 39 percent as compared to the previous year.

Non-payment of dues

A loan of Rs. 1,848 million has been obtained by the Corporation from the banks on the property and treasury collateral of the corporation, according to the information submitted to the audit, the value added tax to be paid is Rs.1, 474

million and the surcharge imposed on non-remittance to the Inland Revenue Department is Rs.928 million also remained unpaid till the end of the year under review.

Construction Guarantee Fund

Non-recovery of money paid by the fund for guarantees issued to employers without keeping a security

The fund issues guarantees to the registered contractors without keeping any security and in case the performance of the contractors decreases, the employers apply the guarantee money from the fund and the amount paid by the fund to the employers was Rs.113 million rupees which had to be recovered back to the fund by 31 December 2022.

Retention of cash in the cash in transit account without releasing it to the contractors

The Ministry of Roads and Highways had provided Rs.31 billion to the fund in the year 2022 to pay the certified bills of 290 contractors carrying out the construction works under the 100,000 km rural road project, Out of which Rs.30 billion had been released for contracts. Including this remaining amount, an amount of Rs.279 million which was given by the Ministry

of Roads and Highways to release the contractors was retained by the fund in the cash in transit account on 31 December 2022 without being released to the contractors. Out of this amount, Rs. 127 million from a period of 01 year, Rs. 147 million from a period of 1-2 years, and Rs. 6 million from a period of more than 02 years had been withheld. Furthermore, the fund had not entered into a formal agreement with the Ministry of Roads and Highways to implement the above road development project, which was identified as complex and risky.

Failure to install a management information system

In 2015, the fund had entered into an agreement with Sri Lanka Telecom worth of Rs. 2.98 million to create and develop a management information system for the fund. According to the agreement, the total of Rs. 2.08 million or otherwise 70 percent of the contract value was paid as the first installment and the second installment which is to be paid after development to the concerned institution in 2015 and 2016. Although about 07 years have passed since the money was paid, the preparation of this management information system was not completed until 31 March 2023.

Aviation Sector

Audit Observations

- **Civil Aviation Authority**
 - **Failure to Credit Government Revenue to the Consolidated Fund**
 - **Non-preparation of a Development Plan**
 - **Abandoned Projects**
 - **Permission to Use Assets without Charging Lease Rent**
 - **Failure to Declare Airports and Aircraft Facilities**
- **Sri Lankan Airlines Limited and its Subsidiaries**
 - **Going Concern of the Company**
 - **Current Aircraft Fleet**
 - **Failure to Repay Loans**
 - **Receivables**
- **Airports and Aviation Services (Sri Lanka) (Private) Limited**
 - **Non-Issuance of Shares to Government of Sri Lanka for the Value of Net Asset**
 - **Temporary Suspension of Step II of the Bandaranaike International Airport Development Project - Phase II**

Aviation Sector

The formulation, implementation, follow-up, and evaluation of policies, programs and projects related to the port, shipping and aviation sector and related statutory institutions in accordance with the existing policies of the government and according to the instructions given on various occasions are the main functions of the Ministry. The Ministry provides necessary guidelines to the Civil Aviation Authority, Airports and Aviation Services (Sri Lanka) (Private) Limited and Sri Lankan Airlines Limited and its subsidiaries to achieve sustainable development goals related to the aviation sector.

Civil Aviation Authority

The Civil Aviation Authority, operating under the purview of the Ministry, envisions itself as a proficient and credible aviation safety regulator committed to ensuring the safe sky for all. The Authority is responsible for overseeing regulatory affairs at both international and domestic airports in Sri Lanka, primarily focusing on the implementation of international conventions established by the International Aviation Organization within the country.

The material and significant audit observations revealed during the course of audit regarding the Authority's discharge of duties and functions are summarized below.

Failure to Credit Government Revenue to the Consolidated Fund

In terms of Regulations 07 and 08 of the Extraordinary Gazette No. 1550/7 dated 22 May 2008 of the Democratic Socialist Republic of Sri Lanka, a surcharge of US \$ 60 or a sum equivalent to that amount shall be levied in respect of every passenger ticket issued or sold outside Sri Lanka for air travel originating in Sri Lanka and the surcharge so levied shall be credited to the Consolidated Fund. However, without crediting the surcharge of Rs.16,982 million so collected during the period from 2008 to 2022 to the Consolidated Fund, the Authority had recognized it as an income of the Authority. Furthermore, the audit did not receive the information necessary to verify whether the surcharges collected during the period from 2002 to 2007, following the Authority's establishment, were credited to the Consolidated Fund.

Non-preparation of a Development Plan

Although the Authority shall prepare an aviation development plan for Sri Lanka according to Section 7 (c) of the Sri Lanka Civil Aviation Authority Act No. 34 of 2002, it had not been prepared even by 23 June 2023.

Abandoned Projects

With a view to improving domestic air transport, plans had been drawn to establish three new domestic airports at Digana, Badulla and Puttalam through PPP provisions by the 2016 National Budget. Accordingly, as at 31 December 2022, the Authority had paid Rs.2 million to prepare survey plans and Environmental Impact Assessment (EIA) for the Basulla airport and the constructions of these three airports have been suspended at present.

Permission to Use Assets without Charging Lease Rent

The Airports and Aviation Services (Private) Limited had been given permission to use aircraft facilities and land included in the Third Schedule of the Sri Lanka Civil Aviation Authority Act, without entering into lease agreement and without levying rent.

Failure to Declare Airports and Aircraft Facilities

The Authority had not taken measures to declare 14 airports stipulated in the Second Schedule of the Sri Lanka Civil Aviation Authority Act, 08 aircraft facilities referred to in the Third Schedule and the relevant transferring orders in the gazette up to the year 2016. A gazette notification had been published in the year 2017 stating that 02 airports, 07 air facilities and land related to Katunayake and Ratmalana airports were to be vested in the authority. Furthermore, the gazette notifications related to Palali Airport and Batticaloa Airport had been published in 2019 and 2022, respectively. Despite 21 years passing as at 15 May 2023, the remaining airports referred to in the Act, have not been gazette.

Sri Lankan Airlines Limited and its Subsidiaries

Going Concern of the Company

The loss of the group (after tax) for the year ended 31 March 2022 was Rs. 163,583 million and the accumulated loss as at that date was Rs. 529,213 million. Further, the current liabilities over the current assets of the group as at that date amounted to Rs. 292,420 million and the total liabilities exceeding the total assets amounted to Rs. 426,424 million. Moreover, the company has suffered a net

loss of Rs. 166,370 million and an accumulated loss of Rs. 537,505 million for the year ending on 31 March 2022, and the current liabilities over the current assets of the company as at that date was Rs. 302,703 million and the total liabilities exceeding the total assets of the company was Rs. 437,037 million. However, financial statements had been prepared on the assumption of the ability of going concern as per the letter of the Secretary to the Treasury dated 08 November 2022 confirming the Government's assistance towards Sri Lankan Airlines to proceed with its operations on the Cabinet approval dated 25 October 2022. The financial statements for the years 2022/2023 have not been submitted to the audit as yet.

Current Aircraft Fleet

According to the requirement assessment of the Sri Lankan Air Lines, the necessity was for 27 aircrafts and 24 aircrafts are currently in operation. Out of which 08 aircraft were out of use (service) from time to time from July 2021 to 20 April 2023 and Rs.4,956 million had been paid as lease rent during that period. One of the above aircraft had continuously remained without using from July 2021.

Failure to Repay Loans

While increasing the indebtedness, the company had obtained US \$ 200 million equivalent to Rs. 37,960 million and Rs.26,250 million rupees loans from government banks during the year 2017/18. A sum of US \$14.63 million (approximately Rs. 2,776.77 million) had been paid as interest on this US \$ 200 loan during the year under review. However, none of these loan capital had been repaid up to 27 April 2023.

Receivables

According to the information received by the audit, the unpaid trade debtors as at 28 February 2023 was Rs. 24,050 million, of which an amount of Rs.2,321 million continued to exist for more than a period of 5 years.

Airports and Aviation Services (Sri Lanka) (Private) Limited

Non-Issuance of Shares to Government of Sri Lanka for the Value of Net Asset

Based on the Cabinet decision dated 17 August 2005, the Secretary to the Treasury had issued directives to assess the land and buildings of the airport currently owned by the Government, as well as the movable and immovable assets owned by the company. The directives also included undertaking the liabilities related to the airport development, which had been

serviced by the then Government of Sri Lanka, and issuing shares to the Government of Sri Lanka in respect of the value of net assets. Furthermore, at the request of the Company in relation to the implementation of above cabinet decision, the Attorney General had advised by the latter dated 08 February 2010 that a new cabinet approval be obtained, because the lands and buildings of the airport and all other movable and immovable assets currently owned by Civil Aviation Authority and the Government of Sri Lanka are subjected to mutual transfers. However, no measures had been taken by the Company to obtain a new cabinet decision so far.

Similarly, through the Gazette Notification dated 21 December 2017, the Minister had vested the Sri Lanka Civil Aviation Authority with the lands, buildings and structures owned by the Katunayaka Airport, Ratmalana Airport and the Rathmalana Civil Aviation training Centre, the Aththidiya Gagana communication transmission centre, Naval Communication Support Systems in Gampaha and Pamunugama, the Pidiruthalagala Radar Centre and the lands measuring 0.125 hectares that belonged to the Nuwara Eliya and Anuradhapura

holiday bungalows of the Civil Aviation Authority under the Civil Aviation Authority Act, No.34 of 2022. Accordingly, there arose a suspicion during the audit with regard to the ownership of the land and buildings used by the company. Nevertheless, only the buildings of the Bandaranaike International Airport had been revalued during the year under review, and so far, no action has been taken to issue shares to the Government of Sri Lanka upon completion of the total valuation.

Temporary Suspension of Step II of the Bandaranaike International Airport Development Project - Phase II

Due to non-submission of a certificate regarding the repayment capacity from the Ministry of Finance, as required by the special letter issued by the Treasury under the “Interim Policy on Foreign Debt of Sri Lanka” dated 12 April 2022, the contractor temporarily suspended the Step II of - Phase II of the Bandaranaike International Airport Development Project. Consequently, since the project was scheduled to be completed by 09 December 2022, a sum of Rs.15,730 million should have been certified for other charges and losses, including late fees to be paid to the contractor.

Transportation Sector

Audit Observations

- **Sri Lanka Railway Service (Projects)**
 - **Railway Project from Kurunegala to Habarana**
 - **Colombo City Based Railway Efficiency Improvement Project**
 - **Colombo Suburb Railway Project**
 - **Railway Line Project up to Mahawa/ Anuradhapura/ Omathhe - Phase-04**
- **Department of Sri Lanka Railways**
 - **Failure to recovery the outstanding revenue**
 - **Late fees and interests**
 - **Unsettled Letters of Credit**
 - **Payments for Undelivered Goods**
 - **Sri Lanka Railways Master Plan**
 - **Underutilized Assets**
 - **Train Operations**
 - **Installing 200 bells and electrical safety systems at ungraded railway crossings**
- **Sri Lanka Transport Board**
 - **Construction of the Orugodawatte Filling Station**
 - **Construction of 09 Emission Centers**
 - **Production of Retread Tyres**
 - **Action Plan**
 - **Failure to recover the compensation for damages**
 - **Fuel Shortage**
 - **Sahasara Bus Modernization Project**

- **National Transport Commission**
 - **Passenger passes**
 - **Underutilization of GPS devices**
 - **The Nisi Sariya Project**

Transportation Sector

For the purpose of fulfilling the mission of the transportation sector, which encompasses the implementation, development and sustainable maintenance of advanced transport infrastructure through the application of cutting-edge technological strategies, ultimately enhancing the living standard of the populace, the following functions had to be discharged by the Ministry of Transport, a State Ministry, Departments and the statutory bodies functioning under the purview of the Ministry.

- Formulation of policies, legislations and regulations essential for establishing a transportation system that ensures environmental sustainability.
- Taking essential measures to establish a top-tier road infrastructure, fostering public trust in the public transportation system.
- Introduction of guidelines, laws and rules to be followed to mitigate traffic congestion and road accidents
- Introduction of a futuristic e-ticketing system for public and private transport services and rail services to operate as a single mode of transport under a common format.
- Development of infrastructure facilities required to ensure common amenities and security associated with railway and bus stands.
- Maintenance of trains and buses required for train and bus service.
- Introducing a procurement systems that are essential for developing a local industrial system related to the field of bus production and transportation.
- Establishing and expanding the necessary facilities for the transportation of goods by trains to ports in Colombo, Hambantota, Kankesanthurai and Trincomalee.
- Streamlining the motor vehicle registration by making it people friendly, efficient and corruption free process through the application of information technology.
- Modernizing the Sri Lanka Transport Board to transform it into a profit generating institution and upgrading common facilities at the major bus stands.
- Rehabilitating the existing bus fleet and thereby introducing new eco-friendly buses for operation in Colombo and major city arrears, and formulating and implementing programmes to align private passenger transport with green transport concept.

- Establishing a transportation service that incentivizes investors to manufacture, repair and upgrade railway compartments, buses, and motor vehicles locally.
- Strengthening school bus services and student safety under the proper standards.
- Steering the Sri Lanka Transport Board to facilitate the transportation of passengers and goods, formalizing the provision of public transport services to rural areas.
- Regulating the transport services to a high standard to ensure the safety of passengers and transport services.

- Eradicating various malpractices in the issuance of driving licenses and motor vehicle registrations while ensuring efficiency in service delivery.

Provision amounting to Rs.67,710 million had been made for the Ministry of Transport, the State Ministry and two Departments by Parliament during the year under review in order to perform the aforesaid functions and out of this, a sum totaling Rs. 58,940 million had been utilized. Accordingly, Rs. 3,770 million or 6 per cent out of the provision made by Parliament had not been utilized. Details are given in Figure 34.

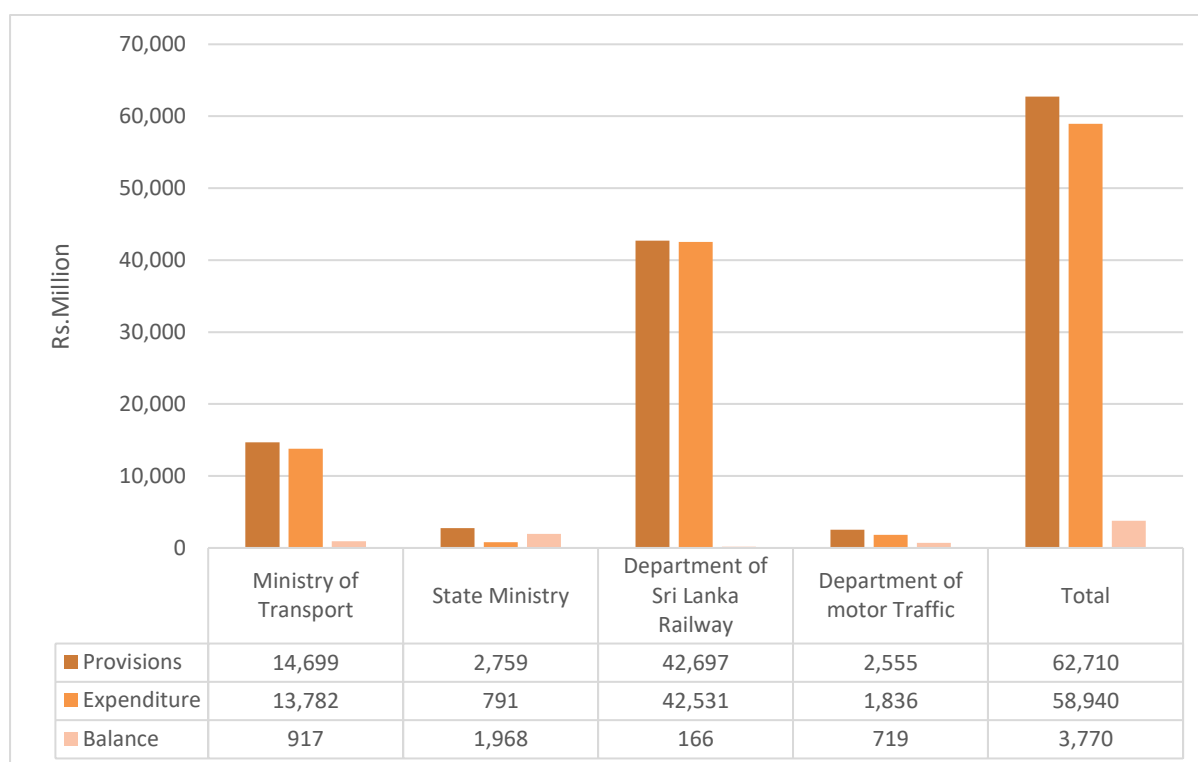


Figure 34 - Provisions and Expenditure

Source- Financial Statements 2022

The audit observations revealed relating to performing the above functions are summarized below.

Sri Lanka Railway Service (Projects) **Railway Project from Kurunegala to Habarana**

For the purpose of acquiring lands on both sides of this new railway proposed to be built from Kurunegala through Dambulla to Habarana centered on the economic center, a sum of Rs. 14560 million had been allocated in the annual estimates from the year 2010 to 2022. However, only 39 per cent, equivalent to Rs. 576 million, had been spent by 31 December 2022.

Even though 4,392 parcels of land in 57 Grama Niladharees' Divisions were proposed to be acquired relating to this project, only 149 plots had been acquired by properly signing and making payments as scheduled by 31 December 2022. The investors or means of funding for the construction of railway line from Kurunegala to Habarana had not been identified by the year 2022, and a total expenditure of Rs. 568 million had been incurred for the entire project from the year 2016 to 2022, with Rs. 349 million spent on land acquisition. Due to the government's policy decision to halt the

further implementation of the project, the above total expenditure incurred hitherto was observed to be fruitless.

Colombo City Based Railway Efficiency Improvement Project

This project was initiated giving priority to five objectives to improve the efficiency of the railway service. The loan agreement of US \$ 160 million entered into on 20 August 2019 relating to the project had been implemented from 06 September 2019. Although provisions of Rs. 2,538 million under the Asian Development Bank and Rs.200 million under the local funds had been allocated for this project in the year 2022, only Rs. 123 million or 61 per cent of the local funds had been spent during the year 2022. Similarly, out of the provision of US \$ 120 million to be utilized during the relevant period under the funds of the Asian Development Bank, only US \$ 20 million had been spent, and as a result, a sum of Rs.141 million had been paid to the Asian Development Bank as commitment fees by the end of the year.

Colombo Suburb Railway Project

This project had been commenced at an estimated total cost of Rs.1,654 million equivalent to US \$ 11.36 million with the objectives to develop feasibility studies, prepare detailed engineering plans for

transport projects and make provisions to support transport projects. On completion of the preparation of feasibility study report and the detailed plans in March 2021, they had been submitted to the Department of Sri Lanka Railways through the relevant line ministry. A sum of Rs. 1,446 million under the Asian Development Bank loan facility had been spent for the feasibility study and Rs.361 million had been paid as the installments related to that loan facility. Provided that, as the feasibility study remained idle for more than two years without implementation, it did not yield any benefit to the economy.

Railway Line Project up to Mahawa/ Anuradhapura/ Omathhe - Phase-04

For the renovation of railway line up to Mahawa-Anuradhapura- Omathhe under 04 phases subject to the terms of the agreement entered into with the Indian Exim Bank, quotations had been called from the Indian government companies. On 18 July 2019, an agreement worth US \$ 91 million had been reached with the Ircon International Limited to complete the project within 36 months from 29 November 2019. Even though the contractor was required to complete this project by 28 November 2022, the physical progress of this project was at a very poor

level, with approximately 35 per cent completion as at that date. The construction of the part of the track from Anuradhapura- Vaunia and Vaunia to Omathhe was in progress from January 2023 and it was scheduled to be completed by May 2022. However, the physical progress of the entire project stood at 44 per cent by February 2023 and the construction of the section from Mahawa-Anuradhapura had not been started as yet. Accordingly, it was observed that the construction of this project cannot be completed even in the year 2023.

Department of Sri Lanka Railways

Failure to recovery the outstanding revenue

In the year 2022, action had not been taken to recover an outstanding revenue of Rs.154 million, including the transport charges of Rs.8 million due from Tokyo Super Cement Ltd. , the transport charges of Rs.54 million due from the Ceylon Petroleum Stores Ltd, Rs.12 million due from goods transportation and other business activities, and Rs.80 million to be recovered from various persons and institutions in respect of leasing the railway reservation lands related to the period from 2008 to 2021.

Late fees and interests

Due to inefficient clearance activities in the import of goods, a colossal amount of money had to be paid as the late fees and interests annually, and Rs.74 million had been thus paid as late fees during the period 2018-2021, while the amount so paid in the year 2022 was Rs.5 million.

Unsettled Letters of Credit

The value of the unsettled Letters of Credit as at the end of the year 2022 amounted to Rs.249 million, of which 47 per cent or Rs.118 million were the old balances between 02 and 24 years. The reasons for not clearing these balances through the Goods Receiving Notes (GRN), even though more than 02 years had passed from making the payment were not submitted to the audit, and it was questionable in the audit regarding whether these payments were indeed made to suppliers for goods that were not delivered.

Payments for Undelivered Goods

Although payment for stores supplies should be made by the officer certifying payment after ensuring that the goods are received in proper quality and in correct quantities. However, without such assurance, a sum of Rs.96 million had

been paid for the goods that had not been supplied.

Sri Lanka Railways Master Plan

The main operating plan (Master Plan) formulated for the Department of Railways by spending a sum of US \$ 1.5 million received under grants of the Asian Development Bank had not been implemented.

Underutilized Assets

Out of the 100 commuters' compartments imported from China, only 17 compartments had been used for operations at present and the other compartments had been parked in the Maligawatta and Rathnalana yards, while several other compartments had been parked in the Puttalam railway station. Similarly, 06 power sets and 10 locomotive engines had been imported from India in the year 2021 at a cost of Rs.90 million, whereas 23 locomotive engines and 36 power sets remained underutilized during the year 2022.

Train Operations

Although the train operations began according to a schedule in the year 1865, there were complaints from train commuters that the trains were not running according to the schedule in the year 2022.

The number of train services scheduled in the year 2022 was 120,993 and the number of cancelled train services was 10,077. The number of train services that operated on time was 32,844, while 72 per cent of the planned train services did operate as scheduled.

Over an extended period, the train service, which contributes 6 percent of the total passenger transportation and 6.5 percent of goods transportation in Sri Lanka, has failed to increase its contribution. Additionally, the railway network, which originally spanned 1,521 kilometers in the year 1934, has shrunk by 56 kilometers to 1,465 kilometers in the year 2021 even after the addition of new 32 kilometers section up to Beliatta.

Installing 200 bells and electrical safety systems at ungraded railway crossings

As per the agreements, the installation of 200 road safety systems should have been completed and handed over by 27 January 2017. However, as of 01 August 2022, 10 out of 200 systems had not been properly tested and handed over to the Department of Railways. Nevertheless, by August 2022, a sum of Rs.1,003 million, which is 95 percent of the contract amount, had already been paid.

A total of 94 bells and electricity systems, including 60 out of 142 bells and electricity systems installed on the lower line (coastal belt) and 34 out of 46 bells and electricity systems installed on the Puttalam line had become inoperative even before the lapse of one year from their installation. Accordingly, around 50 per cent of the installed bells and electricity systems became dysfunctional, leading to fruitless expenditure of Rs.500 million.

Sri Lanka Transport Board

Construction of the Orugodawatte Filling Station

The Sri Lanka Transport Board had entered into an agreement with a private company on 20 March 2018 for the construction of Orugodawatta filling station at a cost of Rs.61 million. Although, the work was scheduled to be completed by 20 June 2018 according to the agreement, the constructions had not been completed and the filling station had not been utilized even by March 2023. Nevertheless, a sum of Rs.32 million had been paid to the contractor as at 31 December 2022. However, due to the contractor's failure to complete the work, the contract agreement was canceled and the Central Engineering Consultancy Bureau (CECB) was subsequently tasked with preparing an assessment report on the

work completed and an estimate for future work, but this assessment report and estimate had not been provided until March 2023. It was observed during the spot inspection on 10 April 2023 that the entire roof of the filling station had decayed. Due to making recommendations and payments for the work completed without considering the standard of the work and without adhering to the plans, the Board had incurred a loss of Rs. 9 million by April 2023. Similarly, 07 diesel and petrol pumps and a generator imported at a cost of Rs. 12 million had been stored insecurely and the warranty period of the generator had also exceeded as at 31 December 2022.

Construction of 09 Emission Centers

The Board had taken over the relevant kits from the Vehicle Emission Trust Fund of the Department of Motor Traffic on 26 April 2018 for the construction of 09 Vehicle Emission Centers at provincial level in 09 Provinces and the said Fund had spent Rs.22 million for this purpose. Out of the estimation of Rs.90 million for the civil construction works of these vehicle emission centres, a sum of Rs.28 million had been spent by 31 December 2022. Although the Road Construction Machinery Company and the Transport Board had entered into an agreement for

Rs. 50 million on 16 August 2018 for carpeting the grounds of these 09 emission centers with asphalt, the expenses incurred thereon was not submitted to the audit. These emission centers are not functioning at present, and the equipment worth Rs. 22 million provided by the emission trust fund were decaying. Further, the buildings constructed for these emission centres had been utilized for another purposes and the computers provided with the equipment kits had also been used for another activities. Accordingly, expenditure incurred thereon had become fruitless expenses.

Production of Retread Tyres

For the modernization of the tyres retreading factory with modern machinery and equipment with increased capacity with the objective of cost control through upgrading the facilities and condition, a sum of Rs. 50 million had been allocated for the year 2022 and the estimated cost had been Rs. 69.4 million. Although plans had been drawn to double the current capacity of the manufactory up to 15,000 units, due to not fulfilling that task, the 06 zones of the Board alone had purchased 53,706 retread tyres worth Rs.787 million by 31 December 2022. Further, although the tyre retreading could be done by utilizing the maximum production capacity

of the factory, the relevant regional offices and the depots had not taken steps to send the necessary tyres to the factory for retreading.

Action Plan

According to the 2022 Action Plan, the Board had prepared plans to operate 5,794 buses daily. To achieve this goal, plans had been drawn up to annually repair 840 engine sets and use in operations. The Treasury and the CTB had allocated Rs. 662 million for that purpose. Nevertheless, only 254 buses had been repaired by the Board and Rs. 77 million had been spent on the repairs.

Failure to recover the compensation for damages

A super luxury bus valued at Rs. 11 million, which was owned by the Katubedda luxury tourist transport service, had met with an accident on the expressway and subsequently withdrawn from the service without undergoing repairs. Despite having a full insurance coverage for the bus, the insurance corporation had denied compensation for the damages due to the failure of the depot officer to repair the bus within the stipulated time frame set by the insurance corporation.

Fuel Shortage

The amount of fuel stock to be available at the Maharagama depot on the last day of August 2022 was 326,772 liters, yet the recorded actual fuel stock in the tanks on that day was only 48,598 liters. Accordingly, a shortage of 278,174 liters of fuel worth Rs.120 million was observed and the reasons behind that shortage was not submitted to the audit. The board had also allocated Rs.37 million in the final accounts as at 31 December 2022 in respect of the existing shortage of fuel stock.

Sahasara Bus Modernization Project

With the aim of renovating nearly 23000 buses in order to increase passenger attraction for public transport, this project was designed for implementation covering the entire island between 2018 and 2023. Despite having an estimate of Rs. 26,860 million for that purpose, only Rs. 249 million, which is approximately 1 percent of the estimated amount, had been spent by the end of 2022, and of which nearly 73 percent of Rs. 181 million had been spent on the administrative activities of the project. As a result of the government's decision to halt the project midway due to its inefficiency, 500 out of the 1465 GPS devices that had already been purchased by the project had been handed over to the

National Transport Commission, while the remaining 965 were provided to the Ministry of Transport.

National Transport Commission

Passenger passes

According to section 28 of the National Transport Commission Act No. 37 of 1991, a passenger passes given to a certain individual under Section 24 should not be transferable to another person, but the entitlement of 33 passenger passes had been transferred in the year 2022.

Underutilization of GPS devices

Although the Commission had received 500 GPS devices from the Sahasara Project on 26 November 2021 to be installed in buses on the Galle Road Corridor, the total number of GPS devices installed by 16 February 2023 was 186 and action had not been taken to install the

remaining 314 devices in buses. Despite these GPS devices nearing the end of their warranty period, the Commission had not taken necessary action in this regard. Similarly, although Rs. 8 million had been spent in the year 2022 for the operating activities of the GPS system including its maintenance cost, the effectiveness of this project was limited as action had not been taken to install GPS systems for all passenger transport buses in the island. Further, 1,747 buses with registered licences of the Commission, that is 56 percent of the total number of buses, were in condition of installing GPS devices.

The Nisi Sariya Project

Despite the allocation of Rs. 34.5 million to maintain Nisi Sariya services and to implement 100 new projects in the year under review, the Commission had not taken measures to start any new services.

Ports and Shipping

Audit Observations

- **Implementation of Major Development Projects**
- **Delayed Projects**
- **Payment of Commitment Charges and Loan Interests due to failure of utilization of Loans**
- **International Hub of Container Operations and Market Share of Ports Authority**
- **Cargo Operations**
- **Vessel Arrivals at Colombo Port**
- **Declining of Terminal Operations**
- **Underutilization of East Container Terminal**
- **Underutilization of East Container Terminal**
- **Being Guarantee for loans taken by a subsidiary company of the Ports Authority**
- **Amounts receivable from the Treasury to the Port Authority**
- **Non-compliance with the Finance Act and the Ports Authority Act.**
- **Non-compliance with Ports Act.**
- **Failure of transferring the ownership of lands properly**
- **Uneconomic Expenditures**
- **Failure of issuing Share Right to Sri Lanka Ports Authority**
- **Failure of Formulating a Subsidiary Company Policy**
- **Transportation of Cargo**
- **Relative decline in number of cases of cargo transportation by Shipping Corporation**

Ports and Shipping

The following tasks and functions had to be performed by the Ministry of Ports, Shipping and Aviation, which operates 01 Departments and 05 Statutory Boards under it by providing high quality maritime services to all clients by developing Sri Lanka as the most competitive maritime service center in the South Asian Region with a vision to position Sri Lanka as the leading air transportation center in the Region.

- Formulation, implementation, monitoring, and evaluation of policies, programmes and projects, in relation to the subjects of ports, shipping and aviation, and those subjects that come under the purview of Departments, Statutory institutions and Public Corporations listed under the purview of Ministry based on the national policies implemented by the government.
- Development and Management of Commercial Harbors and expanding their investment opportunities.
- Development and administration of container yards, port oil installations, light houses and beacons.
- Ship owning and operating, ship managing, ship brokering and agency services coordinating and assist in

establishing consultative coordination between shipping services and users.

- Freight and shipping services and regulating coastwise passenger traffic
- Receiving wrecks and ocean salvages.
- Developing and regulating International and Domestic Airports and regulating levy of charges and quality of service delivery by airports.
- Expansion of International air services, air cargo facilities, promotion of domestic air travel, and regulation of private air services and registration of aircraft.

The Parliament had given Rs. 6,414 million to the Ministry of Ports, Shipping and Aviation to fulfill the above role in the year 2022 and, only Rs.2,800 million had been utilized by the end of the year under review. Accordingly, Rs.3,614 million has been remained in the year under review.

Quantitative and significant audit observations as revealed during the audit test checks carried out regarding the performance of the above tasks and functions by the Ministry of Ports, Shipping and Aviation and 01 Government Department and 05 Statutory Boards under it are summarized and given below.

Implementation of Major Development Projects

The saving out of the net provision Rs. 824 million to prepare a Feasibility Study Report for the Colombo North Port Development Project under the Development Programme of the Ministry of Ports, Shipping and Aviation as a percentage was 33 per cent and out of net provision for Port Access Elevated Highway Project to be constructed on towers amounted to Rs. 1010 million, the saving was 72 per cent. Further, due to the inability to implement and complete the planned project works of these 2 projects during the year as planned, the performance had remained at 95 per cent and 54.3 per cent respectively.

Delayed Projects

Due to the fact that the length of the Jaya Container Terminal, which is currently being carried out by the Sri Lanka Port Authority, is only 600 meters and as a result of the difficulty of handling 2 large vessels of 330 meters length at the same time and also the Authority loses business opportunities, the approval of the Cabinet of Ministers was given in July 2017 to extend the terminal by 120 meters and build the quay wall by 15 meters deep. As per the agreement entered into with the Port Authority and the Contractor on 29 November 2018, the cost of the contract

was Rs. 5,035 million (excluding VAT). According to the agreement, although the Notice of Commencement of the contract should be issued to the contractor not less than 7 days after being contracted, the Notice of Commencement of works had been issued with amendments on 23 November 2020 after 02 years period of time. Obtaining the approval again by renegotiation of the contract and make the improvement as suggested under the Decision of Cabinet of Ministers dated 29 September 2020 had mainly attributed to this delay. After the amendment, it had been expected to complete the above contract by 23 July 2022. The physical progress of this Project as at 31 December had been 42 per cent only.

Payment of Commitment Charges and Loan Interests due to failure of utilization of Loans

The agreement had been entered into on 10 January 2018 to obtain a loan of USD 45 million with the Government of Sri Lanka and Exim Bank of India for the rehabilitation of Kankesanthurai Port. Although 05 years had elapsed since the signing of the loan agreement, the construction works of the Port had not yet been commenced. Likewise, only US dollars 905,194 had been utilized from the loan amount and a sum of Rs. 12 million

had to be paid uneconomically as commitment charges on loans not received and loan interest.

International Hub of Container Operations and Market Share of Ports Authority

The Colombo Port was ranked 22nd in the world by carrying out operations of 6,862,178 Twenty Equivalent Units as per the Alpha Liner Report released on World's Port Operations for the year 2022 and there was a decline of 5.3 per cent as compared to the year 2021. The container handling of the Sri Lanka Ports Authority had decreased by 5 per cent in the year 2022 as compared to the year 2021.

Cargo Operations

Although the number of vessels that arrived at the major ports of Colombo, Galle, Hambantota and Trincomalee in the year 2018 was 4,933, that number had decreased to 4,073 by the year 2022. However, the number of Twenty Equivalent Units (TEUs) of containers handled had decreased from 7 million in 2018 to 6.862 million in the year 2022. Likewise, the number of conventional cargo handled had decreased from 10.1 million MT in 2018 to 6.249 million MT. by 2022. Details are shown in Table 22.

Description	2018	2019	2020	2021	2022
Number of Vessels Arrived	4,933	4,708	4,337	4,180	4,073
TEUs Cargo Handled (000 Unit)	7,047	7,228	6,854	7,249	6,862
Conventional Cargo Handled ('000 MT.)	10,136	9,530	8,894	9,229	6,249

Table 22 - Container units handled at major ports and conventional cargo volumes

Source - Performance Review Report 2022 of Sri Lanka Ports Authority

Vessel Arrivals at Colombo Port

The arrival of container vessels at the Colombo Port had decreased by 27 vessels or 0.7 per cent during the year under review as compared to the preceding year. There was slight increase in container vessel arrivals from 2017 to 2018 and a

gradual decline in container vessel arrivals after 2018 to 2021 as a result of arrival of large vessels instead of medium and small vessels and, a slight increase by the year 2022 were observed. A growth of 105 container vessels that is 03 per cent was

observed in the year 2022 as compared to the year 2021 .

Details are shown in Figure 35 and Figure 36 A decline in conventional and other

vessel arrivals were also observed from 50 per cent and 24 per cent respectively as compared to 2021.

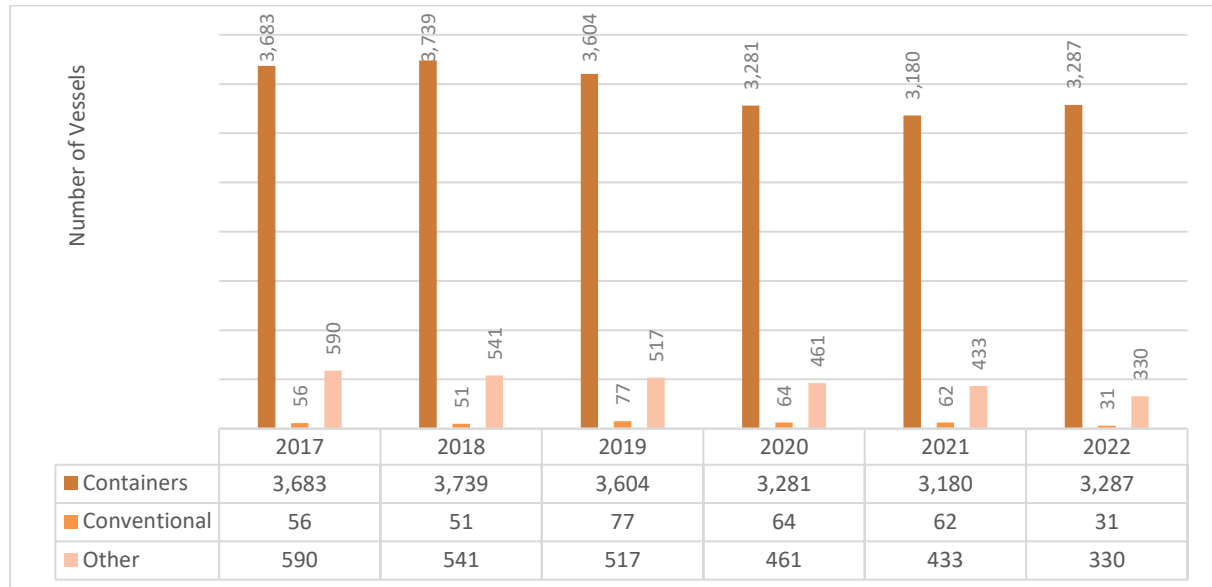


Figure 35 - Arrival of Vessels at Colombo Port - with the classification

Source - Performance Review Report 2022 of the Sri Lanka Ports Authority

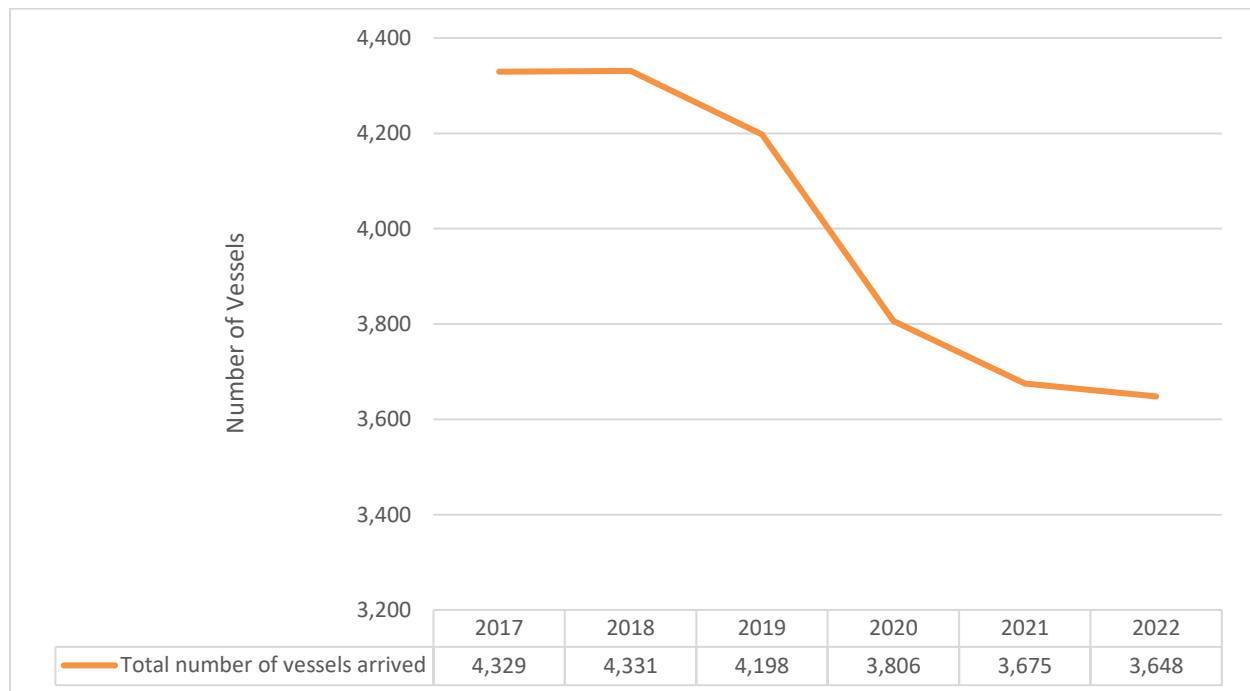


Figure 36 - Arrival of Vessels at Colombo Port - Total Number of Vessels

Source - Performance Review Report 2022 of the Sri Lanka Ports Authority

Declining of Terminal Operations

The Port of Colombo had handled 1,726,616 container units in 2001 and, that number had improved up to 6,862,184 container units by 2022. The market share of the Sri Lanka Ports Authority had declined from 81 per cent to 28 per cent in the Port of Colombo during the twenty-two years from 2001 to the end of 2022 in operation of these containers. The operations of the Ports Authority in Port of Colombo has been carried out by the Jaya Container Terminal (JCT) up to the year 2021 and the East Container Terminal

contributed to the operations from the year 2021 and the South Asian Gateway Terminal (SAGT) has started its operations in 2013 with a market share of 26 per cent, and the Colombo International Container Terminal (CICT) has started its operations in 2001 with a 46 per cent market share by 2022 in a competitive manner on long-term basis.

The details of container handling for the last five years are appear in Table 23.

Year	SLPA (Annual Terminal Capacity 3.550 million Twenty Equivalent Units of Containers)	Market Share	SAGT (Annual Terminal Capacity 1.950 million Twenty Equivalent Units of Containers)	Market Share	CICT (Annual Terminal Capacity 2.400 million Twenty Equivalent Units of Containers)	Mar ket Shar e	Total Container Units
2018	2,304,534	33	2,066,758	29	2,676,194	38	7,047,486
2019	2,282,618	32	2,052,153	28	2,893,566	40	7,228,337
2020	2,097,804	31	1,872,052	27	2,884,906	42	6,854,762
2021	2,198,334	30	1,838,693	25	3,212,331	45	7,249,358
2022	1,925,895	28	1,752,236	26	3,184,053	46	6,862,184

Table 23 - Details of Container Handling for the last five years

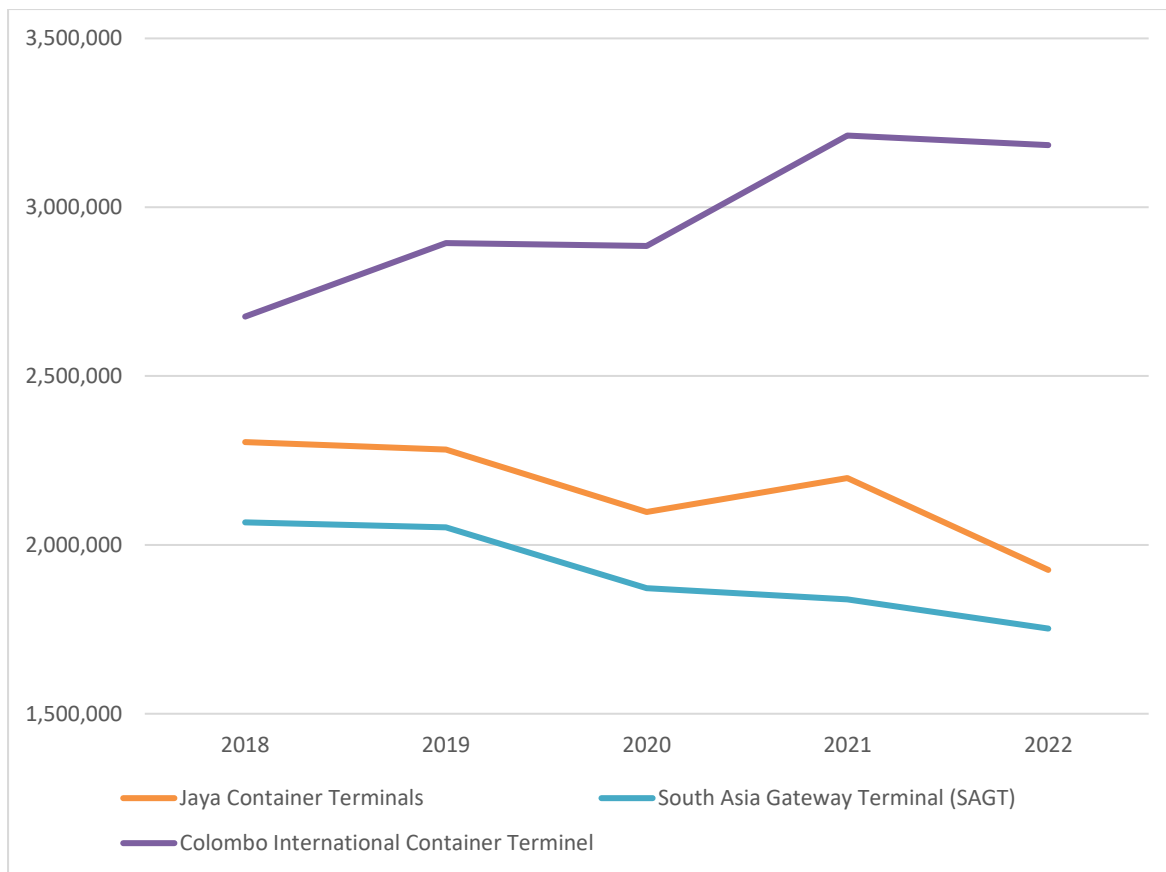


Figure 37 - Terminal Operations of Sri Lanka Ports Authority

Source - Performance Review Report 2022 of the Sri Lanka Ports Authority

The market share that Sri Lanka Port Authority had for container handling was gradually falling to the private sector as per the above data. In considering the Berth Occupancy Ratio related to the Container Operations of the Authority (JCT), it had been 64 per cent, 70 per cent, 72 per cent, 70 per cent and 63 per cent respectively in the years 2018, 2019, 2020, 2021 and 2022. Accordingly, the Terminal Utilization Rate of the Authority had decreased by 7 per cent in the year 2022. Although the capacity of all terminals of the Authority was 3.55

million units, the actual container operations in 2022 were 1.92 million units and although the capacity of SAGT and CICT Container Terminals were 1.95 million and 2.4 million units respectively, actual container operations in 2022 were 1.75 million units and 3.18 million units respectively and the CICT terminal had exceeded its maximum capacity also.

Underutilization of East Container Terminal

As a result of the decline in contribution of Ports Authority (in JCT) in container

handling as above, East Container Terminal (ECT) had been constructed to increase its capacity and the terminal capacity of the Sri Lanka Ports Authority had increased to 3.55 million Twenty Equivalent Units from the year 2021, due to the commencement of operational activities of the completed section from the year 2021.

Underutilization of East Container Terminal

Out of the container handling terminals constructed at Colombo Port at present, the Colombo International Container Terminal and East Container Terminal are the terminals where the large vessels with a deep basin for more than 14.25 meters depth can arrive.

The construction works on phase 1 of East Container Terminal for which funded by the Bank of Ceylon in connection with the Colombo Port Expansion Project with 18 meters deep and 440 meters long, with an annual capacity of 0.8 million containers at a cost of Rs.11,168 million had been completed in April 2016. Its operations had been commenced by installing three ship-to-shore cranes purchased for the Jaya Container Terminal (ECT) at East Container Terminal as per Decision of Board of Directors No. PA/HD/25 dated 07 February 2020. Then the approval had

been given by the Decision of the Cabinet of Ministers No. CMP/21/0198/328/005/TBR No. dated 09 February 2021 for the development of the East Container Terminal, to purchase operational equipment and to operate as a fully owned container terminal of the Sri Lanka Ports Authority. Seventeen large container vessels with a depth of more than 14.25 meters had arrived at the Terminal during the year 2022 and a number of 346,174 containers had been handled in the premises. The Terminal Capacity Utilization rate remained at 48 per cent in 2021 had reduced to 43 per cent in the year 2022. As a result of the delay in the relevant procurement to purchase the 12 large scale cranes (STS Cranes) and 40 automatic gantry cranes (ARMG Cranes) mounted on rails that can be operated from the ship- to - shore at an estimated cost of Rs. 282.56 million, the capacity of the Terminal could not be fully utilized during operations.

Being Guarantee for loans taken by a subsidiary company of the Ports Authority

The Magampura Port Management Company had been incorporated on 05 July 2013 under Companies Act No. 07 of 2007 as a subsidiary company of the Sri Lanka Ports Authority and the operational management of Hambantota

Port had been handed over to the Company through a management agreement. The Company had commenced its operations as a fuel supplier at the Hambantota Port with a license obtained from the Petroleum Corporation (CEYPETCO) and large quantities of fuel were imported with the aim of storage and re-export to international vessels. However, a considerable loss had occurred to the Company in fuel supply, primarily due to the drop of oil prices in the world market. The Company had obtained a loan amount of US\$ 24 million from a private bank in the year 2014. Out of which, a sum of USD 26.49 million (Rs. 9,617 million) as loan amount and interest had not been settled as at 12 October 2023 and it was also observed that the Company does not have enough assets to settle the debt. The operations of the Company had been stopped since November 2017 and, 02 cases had been filed against the Subsidiary Company and the Authority in the year 2020 in Colombo District Court and, the litigations had not been over even by the end of 2022 .

Amounts receivable from the Treasury to the Port Authority

The amount of Rs.4,778 million, including the installment paid by the Authority in the year 2017 amounted to Rs. 4,406 million and stamp duty amounted to Rs.372

million had not been received by the Authority even by 31 May 2023 for the loan amount taken for the Hambantota Port Construction Project. Further, even though the balance confirmations had been called by the Authority in this regard, the Treasury had not confirmed the balances and it was also observed that this balance was not included in the balances payable in the Government Financial Statements for the year 2022. As a result, there was an uncertainty about receiving of this amount.

Due to failure of payment of installments by the General Treasury for the dollar loan amount received from the Bank of Ceylon for the Oil Tank Construction Project under the Hambantota Port Development Project by the Treasury in due course, the Bank had recovered US Dollars 0.64 million equal to Rs. 377.84 million from the US Dollar Account carrying out by the Bank of Ceylon in the name of the Authority and , as it had not been received so far, there was an uncertainty about the receipt of that money.

Non-compliance with the Finance Act and the Ports Authority Act.

According to the Finance Act, if there is a surplus as per the financial statements of a Public Corporation in a particular year after making the deductions specified in

the Act, the balance should be credited to the Consolidated Fund. Likewise, a dividend not exceeding 8 per cent per annum (Minimum Rs. 607 million) should be paid to the Consolidated Fund on the value of the assets transferred to the Sri Lanka Ports Authority and the financial contribution made to the Authority in terms of Section 30 of the Sri Lanka Ports Authority Act No. 51 of 1979. The maximum dividend to be paid on the equity capital was Rs. 15,383 million only for the years in which the Authority made a profit during 43 years from the year 1979 to the year 2022 and only Rs. 1,585 million equal to 10 per cent had been credited to the Consolidated Fund. However, only Rs. 985 million that is 2 per cent of the profit after tax amounted to Rs. 39,433 million had been remitted to the General Treasury as dividends and any amount had not been remitted to the General Treasury for the year under review.

Non-compliance with Ports Act.

If the seized or confiscated goods are disposed of by the Department of Customs, all fees payable to the Authority should be paid to the Authority by the Department of Customs in terms of Sections 38 (1) (a) and (b) of Part (v) of the Sri Lanka Ports Authority Act No. 51 of 1979. Nevertheless, a sum of

Rs. 23 million to be received to the Authority for 6 seized containers had not been so recovered.

Failure of transferring the ownership of lands properly

Even though the land in extent 2 acres 3 roods 9.61 perches located at D.R. Wijewardena Mawatha, valued at Rs. 629 million had been handed over to the Urban Development Authority for the construction of the Lotus Tower, the land had not been transferred by Deed of Title, with taking off the value from the register as per the formal process.

Although land in extent 02 acres located at Canal Yard (West) Colombo 01 bordering to Main Street and Olcott Mawatha valued at Rs.946 million had been given to the Department of Customs to construct a building, actions had not been taken to transfer the land and to take off the value from the books.

The land in extent 01 acre 02 roods 14.9 perches located at Cyril C. Perera Mawatha valued at Rs. 84 million had been entrusted to the Urban Development Authority, legal transfers had not been completed by 31 December 2022 .

Uneconomic Expenditures

A loan agreement had been entered into between the Government of Sri Lanka and

the Japan Bank for International Cooperation (JBIC) on 28 March 2006 for the construction of a Multipurpose Terminal at Galle Port with the aim of developing the Southern Regions. Approval of the UNESCO should have been obtained for this construction near Galle Fort. Due to the fact that elapsing of more than 3 years, insufficient loan funds, and the non-extending of loan period, this Project had been suspended. The amount of Rs. 423 million spent for consultancy fees was shown under work- in- progress in the financial statements of the Authority for the year under review and the said expenditure had not been recognized as a capital or recurrent expenditure. Further, due to the failure of implementation of this Project, the amount spent above had become an uneconomical expenditure.

Failure of issuing Share Right to Sri Lanka Ports Authority

It had been stated that it was agreed to issue shares of the South Asia Gateway Terminal Company to the Authority at the value of Rs. 142 million for the exchange of the value of three cranes provided by the Authority at the time of establishment of Company in 2010. This amount or shares right, which was shown under other receivables in the financial statements, had not been given to the Authority even by the end of the year under review and the

respective Company had stated that there was no amount to be paid for the shares.

Due to not having a contractual relationship with the South Asia Gateway Terminal Company in this regard, the receipt of the shares of the relevant Company to the Authority was in an uncertain condition.

Failure of Formulating a Subsidiary Company Policy

Although the Board Approved Subsidiary Policy should be formulated for the subsidiary companies by the Parent Company and act accordingly as per the Corporate Governance Guidelines for Public Enterprises issued by the Public Enterprise Circular dated 16 November 2021, such a policy had not been formulated for the subsidiary companies owned by the Authority.

Transportation of Cargo

Ceylon Shipping Corporation Ltd. is a Fully State-owned Enterprise established to facilitate and support import and export transport operations in Sri Lanka. The government has subsidized have been given to this Company with the aim of minimizing importation, goods transportation, customs clearance and other services of public sector entities, by other shipping companies by providing those services by a state-owned local

transporter for retaining of foreign exchange in the country and, the Company owns the two vessels named Mv Ceylon Breeze and Mv Ceylon Princess for that. Ceylon Shipping Corporation conducts its operations with these 02 vessels as well as with vessels obtained on hire basis. Out of them, the Voyage and Charter hire are the two main sources of income.

Voyage (Earning revenue by making voyages by vessels of the Corporation)
Charter hire

The Company had taken a term loan of US\$ 70 million in 2016 for the purchase of the above two vessels and the loan capital balance to be paid to the bank has been revised from 15 years to 20 years as at 03 February 2018. Repayment of the loan should be made in biannual installments of USD 2 million each as per revised loan terms. Although USD 18 million should have been paid in installments up to 31 March 2022, the Company had paid only USD 12 million and the outstanding loan installment was USD 6 million at the end of the year under review.

Relative decline in number of cases of cargo transportation by Shipping Corporation

All government institutions should import goods through the Company as per the Cabinet Decision dated 21 January 2016 and the provisions of Public Finance Circular No. 415 dated 06 May 2005 and therein, the Company should give priority to the government institutions. However, the number of opportunities to transport cargo through the Company had relatively declined in examining the number of cases of transportation of cargo in public sector from 01 January 2018 to 31 December 2022. Details are as shown in Table 24.

Year	No.of Terms
2018	1981
2019	1790
2020	2172
2021	1533
2022	790

Table 24 - Number of cases of Cargo Transportation through the Company.

Buddhasasana, Religious and Cultural Affairs Division

Audit Observations

- **Vidyalankara International Buddhist Conference Hall is unusable due to structural weaknesses**
- **The abandoned project of the construction of permanent buildings for Dhamma Schools of economic difficulty**
- **Inability to complete the renovation of the John De Silva Memorial Theatre**
- **Failure to follow up on the providing facilities to Dambadiva pilgrims .**

Buddhasasana, Religious and Cultural Affairs Division

At the beginning of the year 2022, Ministry of Buddhasasana, Religious and Cultural Affairs, the State Ministry under it, 08 Departments and 11 statutory boards/ institutions had to perform the following functions and tasks and after the functional amendments related to the ministries made during the year, the State Ministry was abolished and 09 Departments and 10 statutory boards/ institutions were placed under the Ministry of Buddhasasana, Religious and Cultural Affairs.

- Implementation of the “Sasun Udawa” national programme to develop the necessary infrastructure for temples located in remote areas.
- Appropriate amendment of laws and ordinances necessary to protect national heritage.
- Conduct a whole study of the Central Cultural Fund and prepare the policy basis for its complete restructuring.
- Preparing the necessary policy and legal background for the Presidential task force and integrated archaeological heritage management.
- Creating a digital archaeology encyclopedia of all religions.
- Implementation of programmes to increase the productivity of existing institutions for the protection of national heritage.
- Providing facilities for promotion of printed works, drama, cinema, art and sculpture, music and dance industries.
- Introduce a formal mechanism in accordance with accepted international conventions for the payment of copyright based on locality.
- Set-up institutional structures to establish a full-fledged “theatre niche” and to establish a programme to ensure the professional security of artists.
- Providing specialized facilities for preservation and exhibition of artistic works.
- Coordination with the Ministry of Tourism to provide exhibition spaces for traditional and modern dancers and to sell the creations of artists and sculptors in tourist hotels and tourist attraction places.
- Coordination with the Presidential task force for archaeological heritage management in the Eastern Province

The Parliament had given a total of Rs.6,918 million in the year 2022 to the ministry and 09 departments under it to fulfill the above mentioned role and only

Rs. 5,983 million had been utilized by the end of the year under review. Accordingly, Rs. 935 million had been remained without utilization.

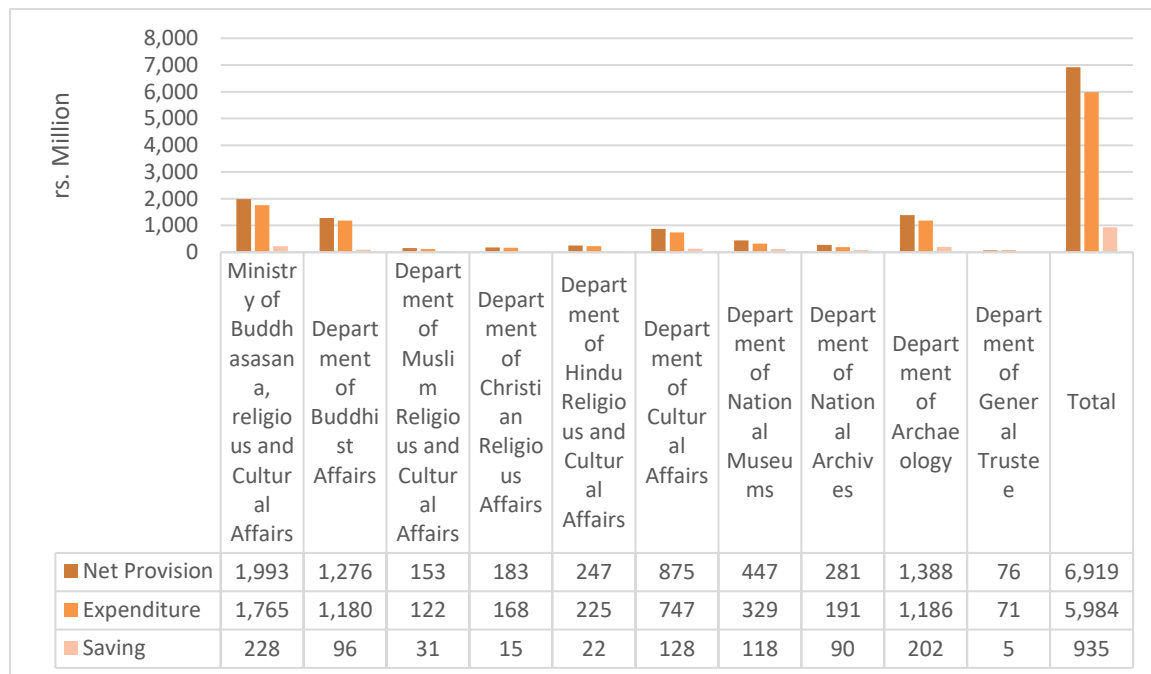


Figure 38 - Provisions and actual Expenditure

Source: 2022 Financial Statements

Quantitative and significant audit observations revealed in the sample audits conducted by the ministry and its sub departments and statutory bodies on the performance of the above work and tasks are summarized and mentioned below.

Vidyalankara International Buddhist Conference Hall is unusable due to structural weaknesses

The Vidyalankara International Buddhist Conference Hall, which was started in the year 2005 and it was scheduled to be completed on 30 September 2017, had incurred a cost of Rs. 1245 million until 31

December 2021 for the construction work up to 05 phases and although the construction work has been completed, due to existing defects in the foundation of the building, it has sunk front and back stairs similar to the main building, loose tiles and cracked walls connected to the entrance stairs, loose plaster floors of the lintels on the top floor of the building, infiltration of water from outside into the building leading to stagnation of water in the room with the central air conditioning system and where the water tanks were installed and as the fire extinguisher installed in the building expired on 10

November 2019, it remained idle by the end of the year 2022.

The abandoned project of the construction of permanent buildings for Dhamma Schools of economic difficulty

Although the Central Cultural Fund had sought cabinet approval for the construction of 367 permanent buildings by the State Engineering Corporation and the Development and Design Statutory Corporation for economically disadvantaged Dhamma schools, Rs. 872 million had been paid and the construction of 298 Dhamma school buildings had started on 31 May 2023 without cabinet approval. Although the total contract value as per the approved price of the technical committee was Rs. 1,175 million, the value of work done in terms of physical progress was Rs. 872 million. Accordingly, 367 buildings had been started, but the number of construction work completed buildings was 131.

Inability to complete the renovation of the John De Silva Memorial Theatre

An allocation of Rs. 1567 million had been allocated for the second phase of

renovation of John De Silva Theatre. Although Rs. 311 million, which is 20 percent of the total contract amount, has been paid in advance by 31 December 2022, the number of completed construction was equal to Rs. 86 million as at that date. Although the repair work of the theatre should be completed and handed over to the Department of Cultural Affairs on 09 December 2022, the repairs had not been completed until 20 April 2023.

Failure to follow up on the providing facilities to Dambadiva pilgrims .

The pilgrims are entitled to the convenience of obtaining free visas, the ease of obtaining passports and the severe security to the pilgrims by registering the Dambadiva pilgrimage organizers with the Ministry of Buddhasasana, Religious and Cultural Affairs, but a formal programme to inform the organizers and pilgrims about those facilities had not been implemented in the Ministry and there was no follow-up on whether the pilgrims would benefit from the expenditure reduction through the provision of free visa facilities.

Forests, Wildlife and Environment Division

Audit Observations

- **Ministry of Wildlife and Forest Resources Conservation**
 - Renting a building by ignoring the minimum bid.
- **Department of Wildlife Conservation**
 - Muthurajawela ecosystem
 - Elephant-human conflict
- **Department of National Zoological Gardens**
 - Non-exhibition of monkeys at Pinnawala Zoo
 - Construction is abandoned in between
- **Department of Forest Conservation**
 - Achieving Sustainable Development Goals
 - Decline in forest revenue
 - Dues have not been collected properly.
 - Non-recover of dues from land given for running a small-scale power plant
 - Planting for afforestation
 - Non Verification of Physical presence of vehicles
 - Failure to reduce Forest Crime
- **State Timber Corporation**
 - Inventory of Furniture remains Idle
 - Receivables for Credit sales
 - Waste of wood conversion.
- **Wildlife Conservation Fund**
 - Loss of revenue due to delay in implementation of entry fees for national protected areas

- **Zoological Garden Welfare and Development Fund**
 - Compliance with animal welfare strategies
 - Non establishment of animal quarantine centers.
- **Project of Ecosystem Conservation and Management**
- **Central Environment Authority.**
 - Non-establishment of Area Environmental Protection Management Committees
 - Project of generating electricity through waste
 - Failure to return money left over from project grants to the Treasury
 - Buying equipment idle
- **Marine Environment Protection Authority**
 - Non-reimbursement of ship casualty compensation
- **Department of Coastal Conservation and Coastal Resource Management**
 - Inability to collect fees
 - Inability to take action related to unauthorized constructions for which demolition orders have been issued
- **Coastal Protection Reward Fund**
 - Lack of proper system to identify prize money

Forests, Wildlife and Environment Division

With the vision of a sustainable land that preserves wildlife and forest resources, "for the purpose of fostering biodiversity through wildlife and forest conservation, in-site vegetation conservation and in-site and off-site fauna conservation, and for policy formulation, coordination, piloting and implementation of pilot institutions to promote sustainable timber industry. The mission is to provide leadership. To fulfill it, the Ministry of Wildlife and Forest Resources Conservation and three departments under it, a statutory body, three statutory funds and a foreign aid project existed and the ministry should have performed the following tasks.

- Formulation of policies relevant to the subject of wildlife and forest conservation in accordance with the laws and regulations to establish "Wildlife Conservation and Forest Conservation" in line with the Vision of Prosperity policy statement and other national policies expected to be implemented by the Government.
- Implementation of projects under National Budget, Public Investment and National Development Projects.
- Formulation, implementation, follow up and evaluation of the subjects and functions of the institutions under the purview of the Ministry and related policies, programs and projects.

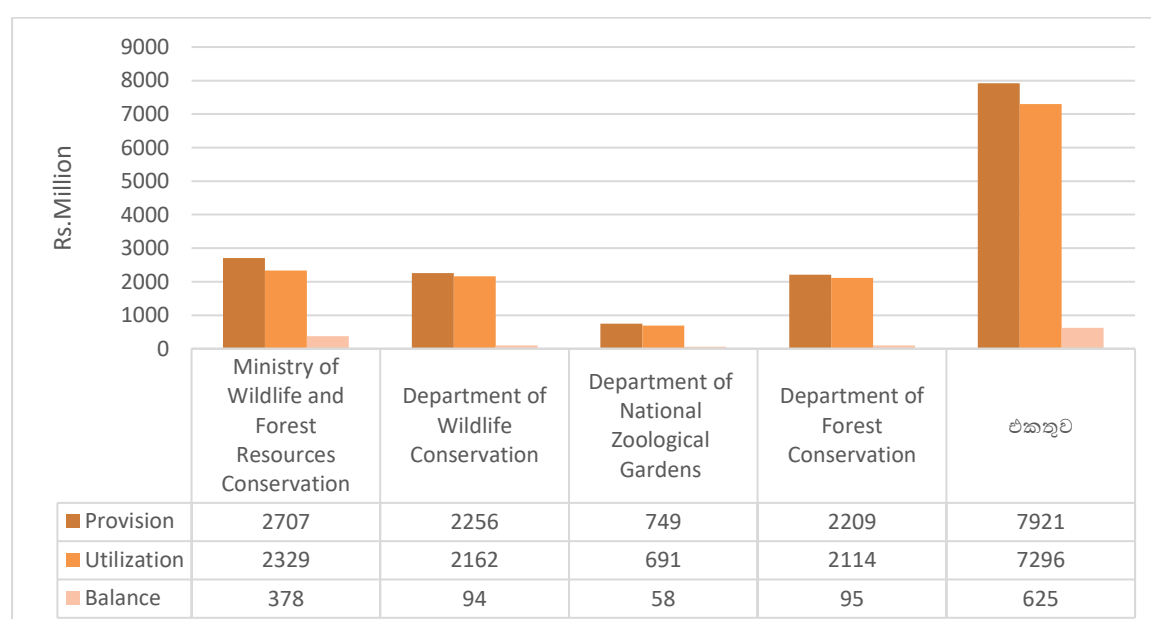


Figure 18 - Provisions and actual Expenditure

Source: 2022 Financial Statements

Ministry of Wildlife and Forest Resources Conservation

The significant and quantitative audit observations revealed during the sample audit regarding the performance of the above functions and tasks are summarized below.

Renting a building by ignoring the minimum bid

From 01 June 2016, to maintain the Ministry of Wildlife and Forest Resources Conservation in an area of 22,522 square feet in a six-story private building from 01 June 2021 to 31 May 2023 Rs.140 million had been paid. According to the prices called for this, the prices received from a nearby building were Rs.19 million less than those prices and the government's monthly assessment of Rs.8 million was neglected and the building had been rented. Adequate attention was also not given to allocating space facilities in a government building.

Department of Wildlife Conservation

Muthurajawela ecosystem

Although a 1,285 Hectare plot of Muthurajawela Ecosystem was gazetted as a sanctuary through Gazette No. 947/13 of 1996, the department had failed to mark the boundaries of the sanctuary even at the end of the year under review.

Elephant-human conflict

During the years 2021 and 2022, for the construction of electric fence, Rs.1,251 million and for its maintenance Rs.1,031 million had also been spent and the total length of the electric fence that had been built by 31 December 2022 was 4,756 kilometers. Nevertheless, considering the elephant deaths, human deaths, property damage and physical damage that occurred in the last 5 years, despite the construction of electric fences, there was no reduction in elephant-human conflict. The details are shown in Table 25.

Year	Elephant deaths	Human deaths	Property damage	Physical damage
2018	319	96	*838	*37
2019	407	122	*2,148	*145
2020	327	113	*850	*75
2021	375	142	*1,326	*58
2022	439	145	*2668	*179
Total	1,867	618	7,830	494

Table 25 - elephant deaths, human deaths, property damage and physical damage that occurred in the last 5 years

*The department does not have complete information as compensation is paid by district secretariats.

Department of National Zoological Gardens

Non-exhibition of monkeys at Pinnawala Zoo

Although the construction of the monkey island of Pinnawala Zoo, which was started in 2019, fully completed by the year 2021, it remained idle for more than a year without releasing animals (monkeys) to the premises.

Construction is abandoned in between

The National Zoological Department along with the National Institute of Machinery has invested Rs.176 million for 06 construction projects, due to the fact that the company did not work according to the agreements, the contracts were terminated in between and due to the fact that the projects were not given to another contractor, the Rs.70 million had been an idle expenditure. For 04 projects, the initial advance given to the National Machinery Institute was Rs.14 million should have been recovered.

Department of Forest Conservation

Achieving Sustainable Development Goals

"Protecting and restoring forests" and "Protecting, restoring and promoting sustainable use of terrestrial ecosystems and sustainably managed forests, combating desertification, preventing biodiversity loss" are the main objectives identified by the department for the year 2020. It was targeted to increase the forest cover to 32 percent by the year 2030 under 2 Sustainable Development Goals. However, information on performance in the year 2022, total forest population and overall progress towards achieving the Sustainable Development Goals was not provided.

Decline in forest revenue

According to the gazette announcement dated 06 May 2009 for the demolition of black stones in the lands under the management of the department, the Cabinet had approved the Joint Cabinet Memorandum dated 13 November 2020 to reduce the fees charged up to the year 2020 by 50 percent without reasonable cause. Accordingly, due to the reduction of fees, the income lost from breaking black stones in only 05 district offices is Rs.18 million.

Dues have not been collected properly

Rs.133 million needs to be recovered from a private company, which runs a black stone quarry and excavated 541,471 cubic meters of stone beyond the limit during the period from 2013 to 2019. According to the Cabinet approval given in October 2020 to be collected in monthly installments in the next 3 years, Rs.66 million from Rs.78 million had not been collected and Rs.5 million returned cheque also among them.

Non-recover of dues from land given for running a small-scale power plant

200 perches had been leased to private energy company since February 2015 to run a small-scale power plant. According to the agreements, Rs.5,000 per perch for annum to be received and Rs.1 million received for first year only and then no money was recovered. In addition to the contracted 200 perches, this company had used another 523.78 perches without permission and accordingly on 18 February 2023, the amount to be charged from the company for 723.78 perches for 08 years is Rs.40 million.

Planting for afforestation

Due to the absence of a planned program for planting or distributing saplings in due time, most of the 197,736 saplings planted

from the year 2019 at Sapling Nursery 02 in Mullative and the seedlings produced in the year 2022 and earlier at the Medagama Sapling Nursery affiliated to the Galgamuwa site forest office 67,375 out of 6,748 saplings, Rs.71 million saplings planted and maintained on a large scale during the period from 2019 to 2022 in Ecosystem Conservation and Management Project (ESCAMP) were died. Another large number of plants had grown abnormally.

Non Verification of Physical presence of vehicles

The vehicle pool belonging to the department has not been physically verified and information was presented that there are 711 vehicles. However, out of which the details of 288 vehicles were not submitted for audit and their physical presence could not be confirmed.

Failure to reduce Forest Crime

In the period from 2017 to 2022, Mulativu site forest office and Olumadu site forest office due to the fact that it is not possible to reduce forest crimes, not being able to finish the existing cases efficiently, and not taking steps to properly collect the fines related to the completed cases etc. 929 and 491 forest crimes such as unauthorized clearing of reserved forests,

felling of trees and transportation of timber were committed respectively. Also, there are a large number of crimes involving damage to 253 hectares of protected forests under the control of Kurunegala, Galgamuwa, Malsiripura, Kuliapitiya and Mahawa sites, and due to the slowness in resolving the cases, the government has not been able to collect the dues in due time. Forest crime wood was also piled up in a big way and was decaying.

State Timber Corporation

Inventory of Furniture remains Idle

From the year 2012 to 31 July 2022, the surplus furniture stock worth Rs.68 million cost, Rs.7 million worth of 32 items of furniture which had not been sold in the year 2022 and a Rs.3 million worth of very slow moving 12 furniture items, Rs.20 million worth furniture inventory manufactured from 2012 to 2021 but unpolished were there in the Boosa showroom warehouse and machine shop.

Receivables for Credit sales

For wood and wood-related furniture provided on credit basis, the amount due on 31 December 2022 was Rs.909 million, of which outstanding loans between 01 and 03 years were Rs.431 million, and loans of 04 years and above were Rs.60 million. Due to the repeated sale of goods

on credit to 24 institutions that have not paid the loan amount, the loan amount to be collected from those institutions is Rs.771 million.

Waste of wood conversion.

It was observed that 1,706,529 cubic decimeters or a percentage of 49 percent of the waste that had occurred during the conversion of timber in Ampara wood sawmill during the period from 2019 to 2022. During that period, 454,496 cubic decimeters of wood were 32 percent more than the requirement and that had been released. Also, during that period Rs.295 million worth a large stock of 3,718,422 cubic decimeters had been piled up due to lack of proper planning for efficient utilization.

Wildlife Conservation Fund

Loss of revenue due to delay in implementation of entry fees for national protected areas

Although the entry fees for the national protected areas under the Department of Wildlife Conservation had been amended by Gazette No. 2292/11 dated 08 August 2022 from that date, the fee revision was applied from 02 September 2022 and the old fee was charged until then. As a result, income of Rs.17 million had been lost in the two Yala National Park entrances

namely Yala North Galge Entrance and Yala Palatupana Entrance and 06 National Parks namely Kumana, Lahugala, Maduru Oya, Galoya, Wilpatthu, Galvesla.

Zoological Garden Welfare and Development Fund

Compliance with animal welfare strategies

Post mortems had not been conducted for 13 animal species according to Article II of the Code of Ethics included in the Animal Welfare Strategy updated in 2015 by the World Association of Zoological Gardens and Aquariums. Furthermore, according to its paragraph 03, the environment required for the natural behavior of animals should be prepared in the zoological garden, but on the contrary, as at 20 December 2022, 15 solitary animal and 56 animals without partners were on display in the zoological garden.

Non establishment of animal quarantine centers.

There was no quarantine center in the Dehiwala zoological garden to quarantine the animals infected with an infectious disease and the work of the quarantine center under construction in Gonapala had not been completed. As a result, in a short period of 02 months in the year 2022, a

white peacock and four peacock chicks had died due to an infectious disease.

Project of Ecosystem Conservation and Management

The main objective of the project was to conserve the ecosystems through increasing the management of the ecosystems and thereby obtain benefits for the people. But, a low amount of Rs.3,117 million or 38 percent allocated for the most important components of sustainable use of natural resources to improve and secure livelihoods and create elephant-human harmony, and Rs.4,386 million or 55 percent of the total allocation had also been spent to increase institutional capacity and investment capacity.

Central Environment Authority

Non-establishment of Area Environmental Protection Management Committees

According to the National Environment (Amendment) Act No. 56 of 1988, the authority is responsible for the physical planning of an environmental protection area. Environmental Protection Area Management Committees were not established for Muthurajawela Environmental Protection Area, Thalangama Environmental Protection Area, Gregory Lake Environmental

Protection Area, Walawwatta Waterana Environmental Protection Area and Bolgoda Environmental Protection Area. Therefore, it could not be confirmed that the problems arising from human activities and natural events are solved and the protection of those ecological zones is done properly.

Project of generating electricity through waste

Based on an agreement made with a private company on 8 August 2014, an agreement had been entered into without obtaining a performance guarantee for the contract related to a project to generate electricity from waste, but the project had not been started until now and there was a problem regarding the continued existence of the company. As a result, Rs.64 million incurred, and Rs.13 million incurred in

Marine Environment Protection Authority

Non-reimbursement of ship casualty compensation

In relation to the MV X Press Pearl shipwreck, including the expenses incurred by the authority and a part of the expenses incurred by other institutions, the amount that had been forwarded to the ship's insurance company for reimbursement in 13 cases was USD 48.41 million and 6.72

2009 for compost yard by pilisaru project and the machinery purchased to generate electricity using garbage was also useless.

Failure to return money left over from project grants to the Treasury

Action had not been taken to return Rs.19 million which had been left over from the project grants received from the treasury and foreign aid for a period of 04 to 09 years to treasury.

Buying equipment idle

Dusk Track DRX Desktops Model 8553 equipment and 02 Micro mate Instantal type vibration analysis equipment which were purchased by paying Rs.4 million and Rs.8 million respectively in the years 2016 and 2017 remained idle until the end of 2022 due to non-calibration in due time.

million and Rs.20 million. Information was submitted to the audit that the requested amount of USD 32.38 million has been rejected by the insurance company due to the estimated costs and including 25 percent administrative costs, and that reimbursements will not be made in the future.

Department of Coastal Conservation and Coastal Resource Management

Inability to collect fees

In relation to 04 licenses granted to Lanka Mineral Sand Limited during the period from 2007 to September 2020 and the license issued from September 2020 to September 2021, due to excavations carried out in excess of the quantity of sand cubes approved by the said institution, Rs.75 million fee had failed to be recovered.

Inability to take action related to unauthorized constructions for which demolition orders have been issued

During the period from 2012 to December 31, 2022, no action was taken to remove 2,069 illegal constructions out of 2,228 illegal constructions for which demolition

orders were issued. In 2022, action was not taken for 255 out of 861 unauthorized constructions identified to be taken in 13 districts.

Coastal Protection Reward Fund

Lack of proper system to identify prize money

Due to the lack of proper system of exchange of information between Magistrate Court, Police Department and Coastal Conservation and Coastal Resource Management Department in order to collect the fines collected by the courts, to the fund and to give them as rewards to the concerned parties, it was not possible to easily and quickly identify and remit the 40 percent fines to the treasury on time.

Investment Promotion Section

Audit Observations

- **Board of Investment of Sri Lanka**
 - **Non-compliance with Laws and Regulations**
 - **Non-payment of refund to the General Treasury**
 - **Underutilized premises**
 - **Dues from approved institutions to Board of Investment**

Investment Promotion Section

Often, the Shortage in Capital has been caused to slow rate in growth of per capita income in Asian countries such as Sri Lanka. To overcome this shortage, the best strategy is investment promotion. Accordingly, investment promotion means that working to create the required background for a country to be selected as a suitable place for investment. Thus, physical, theoretical, Financial and environmental facilities for investors are provided by Investment promotion. Accordingly, following duties and functions had been carried out by Ministry of Investment Promotion and 06 enterprises under that.

- Formulation, implementation, monitoring and evaluation of policies, programmes and projects, in relation to the subject of Investment Promotion and those subjects that come under the purview of Departments, Statutory Institutions and Public Corporations based on the national policies implemented by the government.
- Provision of public services under the purview of the Ministry in an efficient and people friendly manner.
- Reforming all systems and procedures using modern management techniques

and technology, thus ensuring that the functions of the Ministry are fulfilled while eliminating corruption and waste.

- Formulation of policies, strategies, programmes and projects to enhance regional trade and investment cooperation.
- Promotion of economic potential in Sri Lanka and thereby promote foreign direct investment and private sector investment.
- Promotion, regulation and monitoring of economic development zones.
- Establish the Colombo Lotus Tower as a Business Model and promote it as a Tourist Centre.
- Establishment of Technology Parks.
- Matters relating to expansion of digital technology ventures.

The provision totaling to Rs. 144 million had been given to Ministry of Investment Promotion by the Government in the year 2022 to carry out above functions and out of that, only Rs. 121 million had been utilized as at the end of the year under review. The details are presented in the Figure 40.

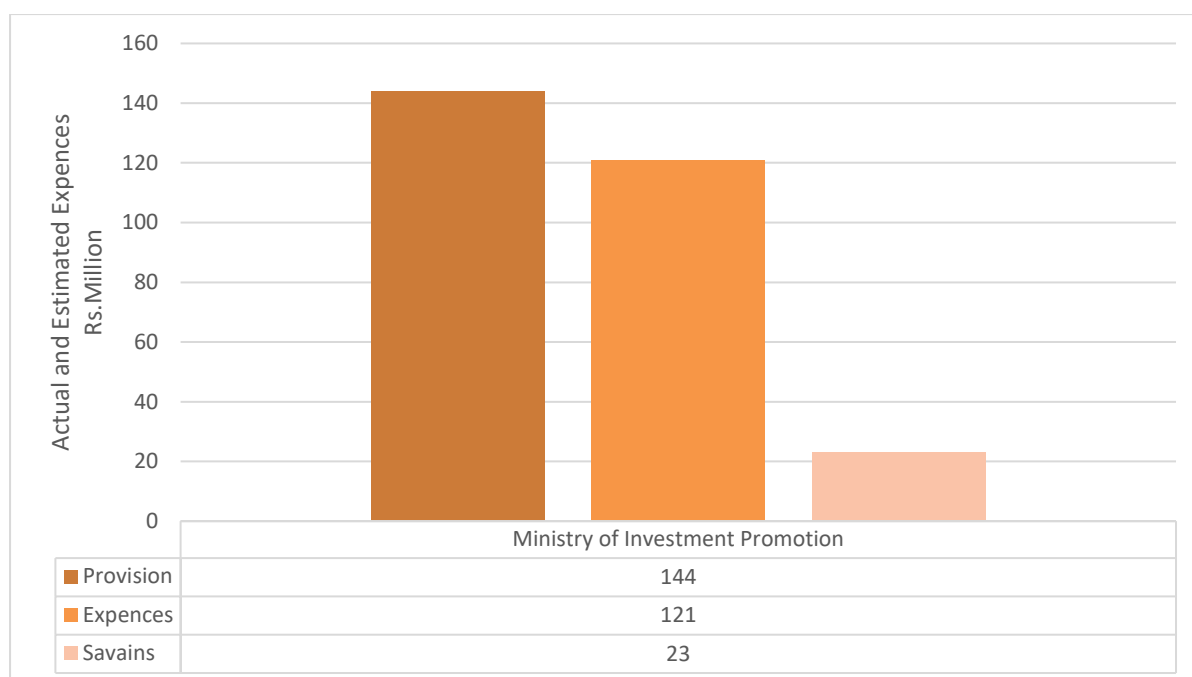


Figure 40 : Estimated and Actual expenses

Source: Financial Statement for the 2022

Quantitative and important audit observations revealed in the audit conducted regarding the performance of the above functions and tasks are summarized and given below

Board of Investment of Sri Lanka

Non-compliance with Laws and Regulations

According to the operation manual for state-owned enterprises, state-owned enterprises must obtain approval for their staff and allowances from the Treasury, but Board had paid Rs. 544 million as allowances and Rs. 68 million as bonuses without obtaining such approval from general treasury.

Non-payment of refund to the General Treasury

BOI had deducted an amount of Rs. 51 million from the contribution to the Consolidated Fund of Rs. 500 million as the recovery of salaries and allowances payable to special unit established under a Cabinet decision. However, at the end of May 2022, 08 officers out of 09 recruited had resigned from their posts and total payment for the 09 officers in 2022 was Rs. 19 million Therefore, it was observed that BOI had failed to refund the balance amount of Rs. 32 million to the Treasury as the Contribution to the Consolidated Fund and had shown under Receipt In Advance as at 31 December 2022.

Underutilized premises

An extent of 773.09 acres of land in 13 Zones were vacant as at 31 December 2022 and it represents 30 percent of the industrial area which was available for investors. Further, lands in Arabokka (Pharma Zone) and Bingiriya Export Processing Zone phase II with an extent of 751.7 acres and 282.9 acres respectively had been remained idle without being utilized as at 31 December 2022 since their inception. Only 800 meters had been utilized out of 10.8 km of internal road at

Mirijjawila Export Processing Zone, constructed at a cost of Rs. 516 million.

Dues from approved institutions to Board of Investment

The dues from BOI approved enterprises as at 31 December 2022 was Rs. 873 million and out of that a sum of Rs. 143 million or 16 percent had remained for more than 05 years. The Provision for impairment on dues was Rs. 359 million and it represents 41 percent of the total dues as at 31 December 2022.

Tourism Affairs Section

Audit Observations

- Utilization of provisions.
- Decrease in tourist arrivals and income.
- Increase in tourism development levy revenue against a backdrop of reduced tourism revenue.
- Transactions in the form of financial irregularities .
- Human resource management .
- An officer who is not part of the approved staff of the Sri Lanka Tourism Development Authority was appointed to the position of Acting Director General
- Taking over a jeep to the ministry that was referred for repairs in an accident
- Advances of foreign currency to foreign missions .
- Selection of an agency to conduct the promotional program apart from the procurement process .
- Procurement procedure had not been followed in conducting advertising programmes
- Non-commencement of operations on leased lands.
- Leasing of Rest Houses
- The continuous loss incurred on Authority owned National Holiday Resorts

Tourism Affairs Section

In many Asian countries, a major place in their foreign income has been given to the tourism industry and a major priority is given to the development of the necessary infrastructure for the development of the tourism industry. Although Sri Lanka is a country that attracts more tourists than many countries in the region, the tourism industry has suffered a major setback due to the lack of development of the infrastructure required for the development of the tourism industry and the lack of development of the basic facilities required by the tourists. But for the development and improvement of the country's tourism industry, the following tasks should have been performed by the following institutions .

- Preparing a work plan to develop it as an environmental and local cultural friendly tourism industry with broad individual participation .
- Preparing a special program for the safety of tourists .
- Identifying new attractive places for foreign tourists.
- Facilitating to conduct Business conferences, festivals, exhibitions and conferences to attract tourists.
- Providing investment and other facilities to the private sector to develop the tourism industry .
- Establishment of tourist service centers at road junctions connecting major tourist cities .
- Streamlining the process of approval of tourism facilities by establishing regional offices .
- Establishment of tourism training schools in major tourist cities and introduction of attractive skills development courses .
- Development of home related and community based tourism industry .
- Arrange for registration , training and identity verification of all tour guides and drivers .
- Introducing a special program to create a tourism-related business .
- Facilitating tourists through information technology .
- Implementation of a process through one coordination center under the concept of One Stop .
- Establishing high-quality tourist hotels and doubling the number of existing hotel rooms .
- Establishing a system of imparting correct knowledge and information to

tourist guides to disseminate accurate information about national heritage and archaeological sites among tourists.

Some of the facts observed during the audit of the duties performed by a ministry, a department, 02 no of bureaus, an institution and an Authority to carry out the above tasks are summarized below.

Utilization of provisions.

To fulfill the above role, a total of Rs.1,316 million had been provided by the Parliament , and by the end of the year under review, only Rs.901 million had been utilized. Accordingly a provision of Rs.415 million had not been utilized. Details are shown in figure 41.

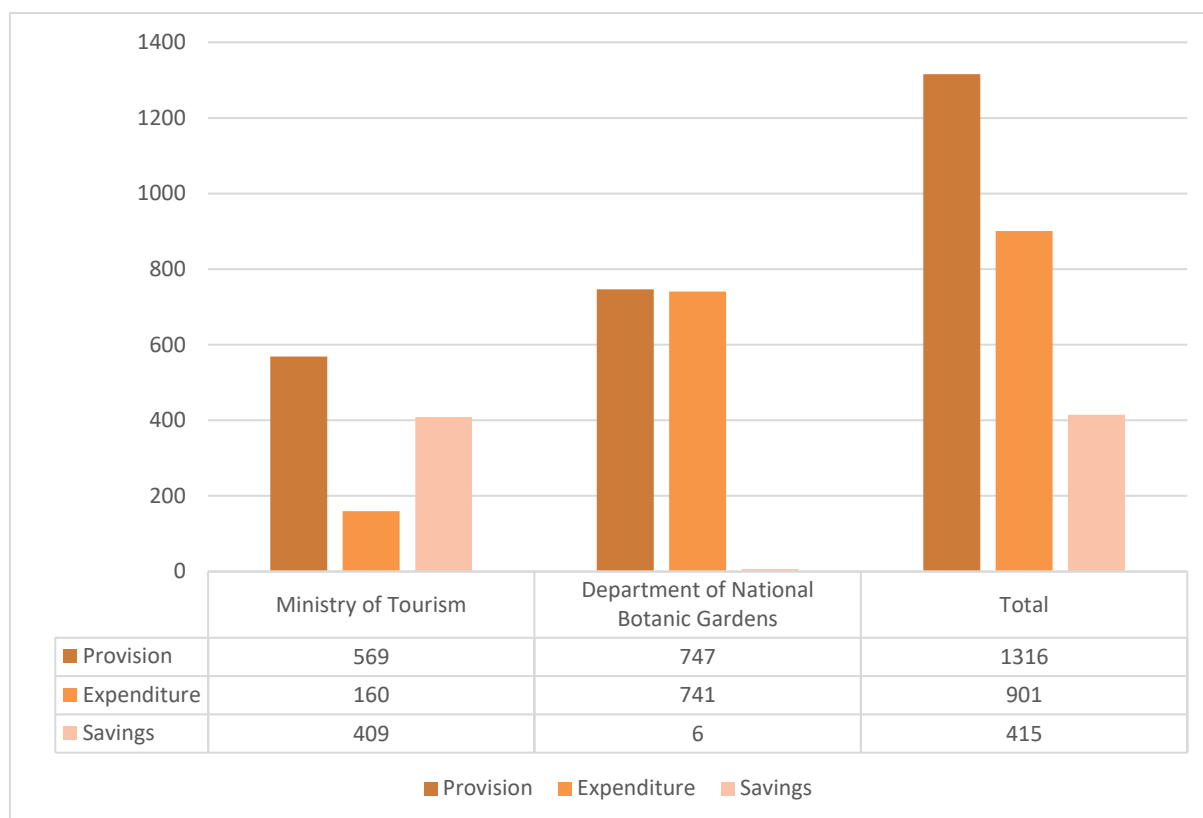


Figure 41 - Provision made by Parliament, Expenditure and Savings

Source - 2022 Financial Statements

Decrease in tourist arrivals and income.

In preceding year there were 194,495 no of foreign tourists had come to Sri Lanka and in the year under review, the number had increased to 719,978 no of tourists or 270 percent. This was due to the gradual recovery of the country, which had been closed from time to time due to the Covid pandemic. Due to the increase in the number of tourists, the restrictions on the functions and functions of the Ministry of Tourism and other agencies operating under it had been removed. Tourist arrivals in the year under review comparing with the last four years are shown in the figure 42 below. Also, in the year 2018 , an

income of Rs.71 1,961 million had been collected from tourism, but in the year 2019 , it had decreased to Rs.646,362 million and in the year 2020 , that income was Rs.124,189 million which decreased by 80.78 percent or Rs.522,173 million. In the year 2021, the income has further decreased to Rs. 100,620 million. But that income had been increased by 260 percent compared to the preceding year and reached to Rs.362,426 million in the year 2022. Considering the deterioration of the country's foreign exchange rates, the deterioration of the tourism industry was more backward. A description of that is shown in the figure 43 .

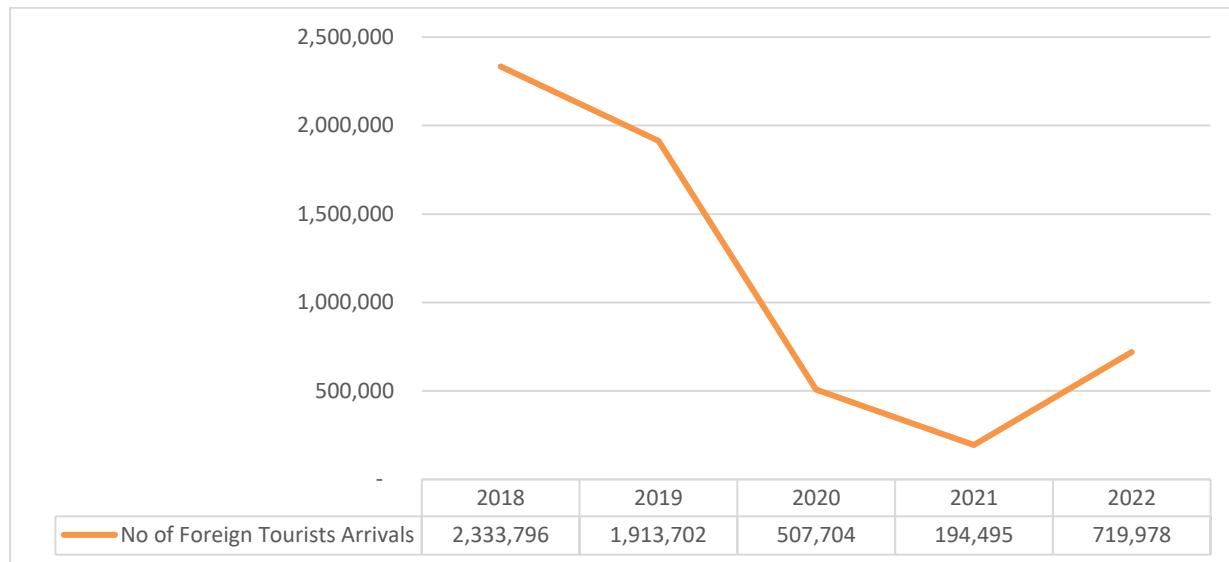


Figure 42 - Tourists arrival in the year under review and four preceding years

Source - Sri Lanka Tourism Development Authority

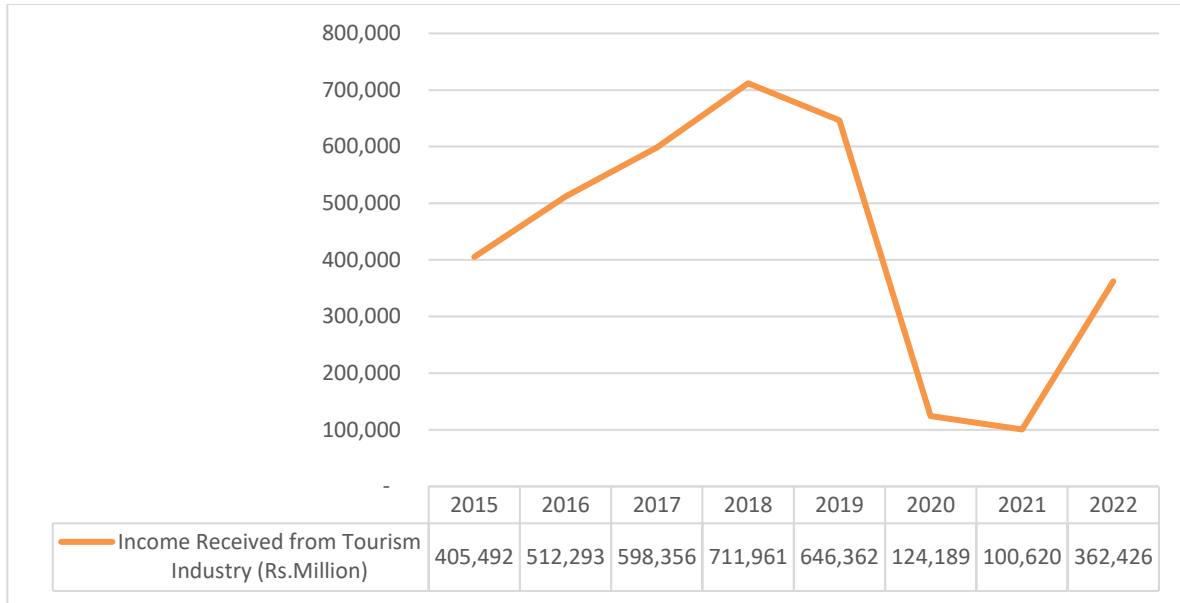


Figure 43 - Income Received from Tourism Industry

Source - Sri Lanka Tourism Development Authority

Increase in tourism development levy revenue against a backdrop of reduced tourism revenue

The tourism development levy revenue had increased gradually from 2013 and in 2018 it was Rs. to 1,482 million and from the year 2018 to the year 2020, the tourism development tax revenue had decreased rapidly. In the year 2021 it had increased up to Rs.809.7 million by 51 percent compared to preceding year. Also, the

Embarkation Levy income for foreign tourists has also increased gradually since 2013 and in 2018 it was increased to Rs.2,824.9 million. From 2019 to 2021 it had rapidly decreased to Rs.483.9 million. However, in the year 2022 the tourism development levy income had increased to Rs.1,426 million and the Embarkation Levy income had also increased to Rs.2,598 million. The details are given in figure 44.

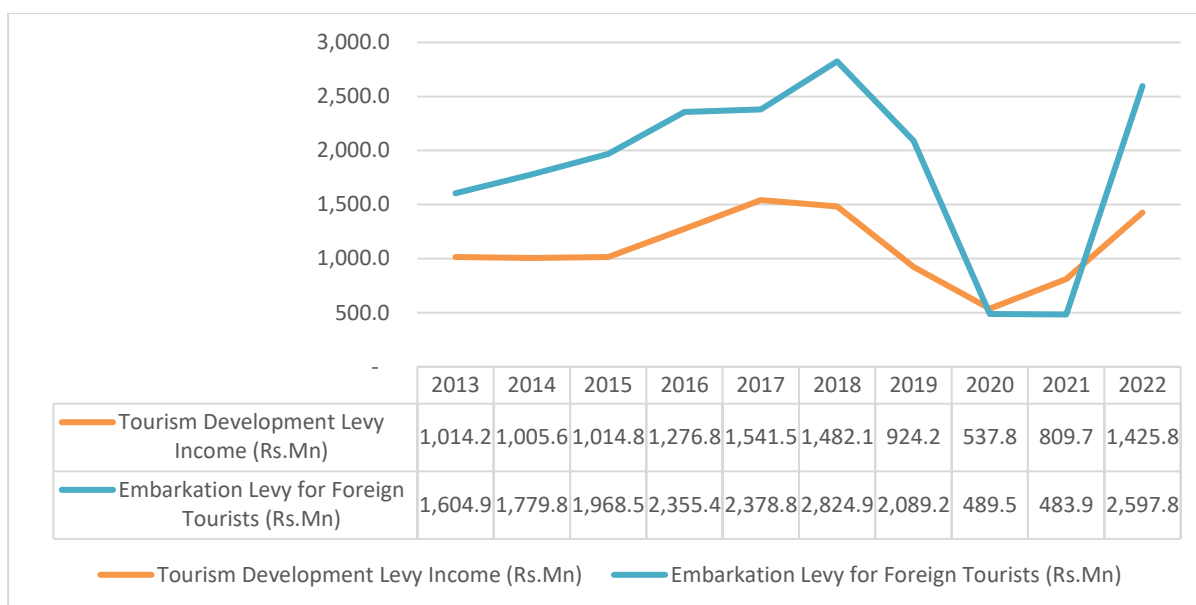


Figure 44 - Tourism Development Levy Income and Embarkation Levy for Foreign Tourists

Source - Sri Lanka Tourism Development Authority

Transactions in the form of financial irregularities

An insurance facility worth Rs.50 million had been obtained for the 04 institutions under the Ministry namely Sri Lanka Tourism Development Authority, Sri Lanka Tourism Promotion Bureau, Sri Lanka Convention Bureau and Sri Lanka Tourism and Hotel Management Institute by following the prescribed procurement process and without involving any insurance agent in the year 2021. Requests were made to the authority to pay a 10 percent commission to a designated insurance agent for a social care scheme. Accordingly, the relevant insurance company had paid a sum of Rs.4.8 million. But, the Director General of Sri Lanka Tourism Development Authority had

reported to the Bribery Commission and Fraud Investigation Bureau on 12 December 2022 on the advice of the Secretary to the Ministry regarding this transaction since there is no information about the hospitality program. However, a preliminary investigation had not even conducted by the Institute.

Human resource management

An officer who is not part of the approved staff of the Sri Lanka Tourism Development Authority was appointed to the position of Acting Director General

Although this officer had not performed any of the duties of her regular position from 10 March 2020 to 31 August 2022, only 25 percent of the initial salary

belonging to the acting position should be paid to the concerned officer as per the provisions of the Establishment Code, salaries and allowances from the Ministry and monthly telephone allowances and fuel allowances of Rs.5 million had been paid.

Taking over a jeep to the ministry that was referred for repairs in an accident

A jeep had been taken over under the name of the Secretary of the Ministry of Tourism on 22 July 2021, which was involved in an accident on 24 November 2019 while belonging to the Ministry of Development Strategies and International Trade and referred to a company for repairs at a cost of Rs.21 million. However, according to the insurance company, the market value of this vehicle was Rs. 16 million and the ministry was informed that only Rs. 9 million could be paid to complete the repair. So the outstanding repair cost of Rs. 12 million had to be bared by the Ministry.

Advances of foreign currency to foreign missions

The relevant balance confirmations had not been received for the balance at the end of the year of Rs.43 million which was sent by Sri Lanka Tourism Promotion Bureau to Foreign Missions of 24

Countries. Further, the foreign exchange profit of Rs. 33 million, which should have been recognized on the above balance, had not been accounted for at the end of the year under review.

Selection of an agency to conduct the promotional program apart from the procurement process

The selection of an agency to conduct the promotional program held in India from 18 to 20 May 2022 by the Sri Lanka Tourism Promotion Bureau had been conducted outside the procurement process. But the facts that led to such deviation had not been specifically reported. The amount paid to the agency for conducting the programs was Rs. 11 million.

Procurement procedure had not been followed in conducting advertising programmes

Sri Lanka Tourism Promotion Bureau had participated in an International Power Boats competition held in Bentota area during the year 2017 organized by Lanka Power Boats Association which was not included in the action plan. It had been agreed to contribute a sum of Rs.8 million under director board approval. However, there were non-submission of Bank Guarantee for 20 percent of total cost by the Association, not performing many

promotional activities by the Association, increasing agreed cost by Rs.3 million or a 42 percent, not following procurement procedure in selecting a Shipping company for the transportation of Power Boats from England, delay on holding Power Boats Competition and delay in submission of boats to the ship.

Non-commencement of operations on leased lands

There were 35 acres lands leased out to 5 companies in Yala tourism development zone in 2014 and another 16.8 acres lands were leased out to 2 companies in 2019 and 2020. However, only 2 companies were engaged in operational activities at the end of the year under review. Out of the 510.086 acres of land acquired for tourism development projects in Kuchchaveli in 2011 and 2014 , only 49 acres of lands was leased to 3 companies. However, only one company was engaged in operational activities from above 3 companies. The Authority had received 2057.90 acres of lands in 12 islands of Kalpitiya in 2010 and 2012, as free grants for tourism activities. Out of those 12 islands, only 206.74 acres of lands belonging to 05 islands had been leased out for 03 companies during the years of

2010, 2011 and 2020. However, none of those companies had commenced operations by the end of the year under review. Out of the leased companies, 2 companies had rent arrears of Rs.43 million and Rs.9 million respectively for 3 to 5 years.

Leasing of Rest Houses

Out of the 37 rest houses owned by the authority, 9 rest houses had not been leased out for a period of two to eight years, so the property remained underutilized. Aggregate values of arrears in rental income due from 34 guest houses as at the end of the year under review was Rs.30 million and out of which the arrears rental income over 4 years was Rs.13 million or 45 per cent from total arrears. It was observed that the actions taken to recover those were not in a satisfactory level.

The continuous loss incurred on Authority owned National Holiday Resorts

The total loss of the 05 National Holiday Resorts owned by the Authority for the year under review and the preceding year were Rs.51 million and Rs.73 million respectively. However, sufficient attention had not been paid to minimize the loss of those resorts.

Foreign Funded Projects

Audit Observations

- **Payment of the Commitment Charges due to non-completion of the project activities as per the Agreements**
- **Road Sector Projects**
 - **Integrated Road Investment Program**
 - **Second Integrated Road Investment Program**
 - **Inclusive Connectivity and Development Project**
 - **Kohuwala and Gatambe Flyover Construction Project**
 - **New Bridge Construction Project over the Kalani River**
 - **Southern Road Connectivity Project**
 - **Port Access Elevated Highway Project**
 - **Colombo National Highways Project (OPEC II)**
 - **Western Province National Highway Project (OPEC III)**
- **Water Supply Sector Projects**
 - **Incurring a significant amount of expenditure on projects that were decided to be terminated due to failure to complete the works on the scheduled date**
 - **Anuradhapura North Water Supply Project Phase 1**
 - **Failure to complete the projects started under the investment programme to improve water and wastewater management in Greater Colombo**
 - **Ambatale System Rehabilitation and Energy Saving Project**
 - **Jaffna and Kilinochchi Water Supply and Sanitation Project**
 - **Moratuwa Ratmalana Wastewater Disposal Project - Phase 2.**
 - **Urban Health Facility Improvement Project (Phase 02)**

- **Urban Development Sector Projects**
 - **Strategic Cities Development Programme**
 - **Project for Support to Colombo Urban Regeneration Project**
 - **Urban Project Preparatory Facility**
 - **Anuradhapura Integrated Urban Development Project**
 - **Greater Colombo Water and Wastewater Management Improvement Programme Phase 3**
- **Health Sector Projects**
 - **World Bank Loan-supported COVID 19 Emergency Response and Health Systems Preparedness Project**
- **Agricultural Sector Projects**
 - **Emergency Response Project to ensure food security and get proper prices for crop harvests**

Foreign Funded Projects

According to the Annual Report of the Ministry of Finance for the year 2022, the government had taken net foreign debts of Rs.2,035 billion from domestic sources and Rs.425 billion from foreign sources to meet the total budget deficit of Rs.2,460 billion in the year under review. Accordingly, compared to the net foreign debts of Rs.14 billion obtained from foreign sources in the previous year, the foreign borrowings had increased significantly in the year under review.

The Government had entered into 15 new foreign financial agreements with foreign development partners and lending agencies during the year under review and it will supposed to obtained USD 1,915 million in the ensuing years. This was consisted from loan facilities of US\$ 1,805.5 million and entire grant facilities of US \$ 109.7 million.

The highest foreign financial agreements were received for the trade sector in the year 2022 and it was US \$ 1,000 million or 52 percent of the entire foreign financial agreements. It was divided as US \$ 500 million to Electricity and Energy Sector and US \$ 203 million to humanitarian aids.

Payment of the Commitment Charges due to non-completion of the project activities as per the Agreements

The government had to be paid a sum of Rs. 19 billion Commitment Charges uneconomically due to the failure to release the loans according to the agreed time schedule entered into with the respective lending institutions for the investment projects implemented in the country from 2012 to 2022.

The following weaknesses in the project operating units were mainly affected to these idle Commitment Charges.

- i. Failure to complete the land acquisitions prior to the commencement of projects.
- ii. Failure to get prior approvals to be obtained from various agencies.
- iii. Failure to carry out project operations according to initial plans.
- iv. Failure to make proper climate and weather forecasts.

Road Sector Projects

Fund utilization and the financial and physical progress of foreign funded projects under the Ministry of Transport and Highways were as follows.

Name of the project		Loan		Utilization as at 31.12.2022		Project duration	Progress as at 31.12.2022 (%)	
		US \$ million	Rs. million	US \$ million	Rs. million	Years	Financial	Physical
1	Integrated Road Investment Program	800.00	104,000	526.47	91,418	06	66	63
2	Second Integrated road Investment Program	900.00	137,070	498.38	105,991	05	55	67
3	Badulla-Chenkaladi Road Improvement Project	120.00	15,600	69.11	12,171	08	86	93
4	OPEC Funded Road Network Development Project	40.00	4,560	33.08	4,844	09	88	88
5	Inclusive Connectivity and Development Project	150.00	54,000	6.63	2,194	05	4	25
6	Central Expressway Section -1	989.44	134,628	51.56	13,266	04	46	35
7	Design and Construction of Kohuwala and Gatambe Flyovers	52.00*	10,192	13.95*	3,411	2 1/2	48	49
8	Kandy Multimodal Transport Terminal Development Project	69.33	13,762	0.85	169	6 1/2	1	-
9	Landslide Disaster Protection Project	7,618.00	12,870	6,283.00 **	9,678	7 1/2	98	99
10	New Bridge Construction Project Over the Kelani River	35,020.00 **	46,755	31,782.00 **	87,036	09	91	100
11	Widening and Improvement of Roads and Bridges in Central and Uva Provinces Project	85.00	10,774	73.15	9,272		99	99
12	Transport Project Preparatory Facility	10.00	1,457	2.51	449	6 1/2	93	94
13	Reconstruction of 25 Bridges Project	10.00 ***	4,632	6.66	4,128	07	67	97
14	Southern Road Connectivity Project	70.36	14,274	68.68	12,395	08	98	86
15	Port Access Elevated Highway Project	293.89	46,382	108.26	28,447	09	81	54
16	Transport Connectivity and Assets Management Project	9.00	1,305	2.36	727	07	54	77
17	Colombo National	50.00	6,500	39.47	6,628	10	89	98

	Highway Project (OPEC II)							
18	Western Province National Highway Project (OPEC III)	17.00	2,210	13.28	2,501	08	96	97
19	Rakwana- Sooriyakanda A017 Road (OPEC IV)	40.00	5,498	0.91	320	02	9	5
	Total		<u>626,468</u>		<u>395,048</u>			

* Euro

** Japanese Yen

*** Kuwaiti Dinar

Table 26 - Fund utilization and the financial and physical progress of foreign funded projects under the Ministry of Transport and Highways

Source - Project Loan Agreements and Performance Reports

- 19 projects under foreign aids amounting to US Dollars 3,644 million, Euro 52.00 million, Kuwaiti Dinar 10.00 million and Japanese yen 42,638 million equivalent to Rs. 626,468 million were in operation and out of it, a sum of Rs. 395,048 million or 63.06 percent had been spent by the end of the year under review.
- Physical progress of the projects ranged from 0 per cent to 100 per cent and majority of the projects were running on extensions of time.
- Out of 19 projects, only 15 projects were ongoing during the year under review and actions had been taken to wind up 03 projects. Further, one project had been abandoned.
- The total number of land plots acquired in 14 projects was 48715 and the number of plots handed over to the Road Development Authority was only 5052 or 10 per cent under Section 44 of the Land Acquisition Act.

The audit observations revealed during the sample audits conducted in relation to the execution of foreign funded projects are summarized below.

Integrated Road Investment Program

27.43 km of 4 national roads and 2,199 km of 566 rural roads only had been completed as at 31 December 2022 out of 370 km of national roads and 2,905 km of rural roads selected for rehabilitation under the program in the year 2014 at a foreign and domestic investment of Rs.117,780 million. It was only 68 per cent of the expected progress. Inefficient contract management, fuel and material shortages

were mainly affected for this poor progress and 29 rural roads with a length of 72.22 km out of completed roads had not been handed over to the relevant government agencies as at 31 December 2022 due to failure to complete the relevant road packages entirely.

Second Integrated Road Investment Program

According to the Facilities Administration Manual updated in April 2021, although the program is expected to rehabilitate 417.75 km of national roads and 3338.87 km of 1349 rural roads in the Northern, Eastern, Uva and Western provinces, the rehabilitation works of 153.74 km of 13 national roads and 1,432.42 km of 557 rural roads only had been completed and handed over to the relevant agencies as at 31 December 2022. It was observed that inefficient contract management, fuel restrictions and material shortages had mainly affected to this situation.

Inclusive Connectivity and Development Project

Initially, a sum of US \$ 50 million had been allocated under the 2 component of the project for enhancing the supply chain and access to service for farmers at the initiation of the project. However, the provision allocated for the 2 Component had been obtained to implement the

Contingent Emergency Response Component (CERC). Therefore, the project objective of enhancing the supply chain for farmers under the second component couldn't be achieved.

Kohuwala and Gatambe Flyover Construction Project

Although the construction of Kohuwala flyover with an estimated cost of Rs.2,213 million was scheduled to be completed on 16 June 2023, the progress of it as at 31 December 2022 was only 73.5 per cent. Although the construction works of Gatambe flyover with an estimated cost of Rs.8,187 million are expected to be completed by 78 per cent by the end of the year under review, the actual progress was only 36 per cent. The delay in land acquisition and failure to make payments to the contractors were directly affected to this. According to the preliminary evaluation conducted by the Line Ministry in the year 2018, although it is expected to save around Rs.4 million per day by constructing flyovers at Kohuwala and Gatambe, achieving the results of the project was delayed due to delays in construction activities.

New Bridge Construction Project over the Kalani River

Although a sum of Rs. 943 million had been spent to acquire the required amount of land for the construction of the new Kelani Bridge, it was revealed in the audit that around 07 illegal residents were residing again at the end of the year under review because actions were not taken to prevent illegal residents from encroaching on that area again. Also, action had not been taken to take over the lands acquired for this project since 2014 to the Road Development Authority according to Section 44 of the Land Acquisition Act.

A communication building with a camera system was constructed at a cost of Rs. 24 million to monitor the new premise of the Kelani Bridge and this building and the camera system installed there had not been activated even as at 31 December 2022. Also, the inside parts of two air conditioners installed in this building had been removed by the thieves.

Southern Road Connectivity Project

The loan agreement for the project was signed on 27 May 2014 for a value of US\$ 70 million and the project was scheduled to be completed by 31 December 2018. However, the loan period deadline had been extended several times up to 31 December 2022 due to delays in the

construction of the project. Although the loan period was extended, a sum of Rs.478 million had failed to be utilized by the project before the maturity of the loan due to management inefficiency. Further, the project had been suspended by 31 December 2022 at the time of achieving a physical progress of only 86 per cent. It was observed that the cost to complete the rest of the project is Rs.2,536 million according to the new estimate approved on 21 March 2022.

Port Access Elevated Highway Project

- Although the physical progress of the contract for the civil construction works of the Port Access Flyover was 54 per cent as at 31 December 2022, the financial progress was Rs.23,430 million and it was 83 per cent of the total cost estimate of Rs.28,002 million. Further, According to the consultant's progress report, the original contract value was increased by 81 per cent or Rs.50,800 million due to price variations.
- The project had settled the existing staff of the Sri Lanka Ports Authority (SLPA) in rented buildings due to delays in the construction and handover of the Maritime Facility Centre building to the Sri Lanka Ports

Authority. A sum of Rs.117 million had been paid as at 31 December 2022 out of the total amount of Rs.195 million to be paid by the project in this regard.

- The project had requested the Asian Development Bank's concurrence on 02 February 2023 to cancel the implementation of the Electronic Toll Collection (ETC) system with an estimated cost of US \$ 28.4 million. The Secretary to the Ministry had stated in his letter that the remaining funds were not sufficient to implement this component due to the use of funds of this component to pay the contract price variations of the project components of the construction of the Port Access Road and the construction of the Marine Facility Centre. However, a sum of Rs.162 million had been incurred by the project as at 31 December 2022 for the consultancy services of the ETC system. Accordingly, the cancellation of the ETC system had lost the opportunity to use a single automated toll collection system for all expressways and it was revealed that the expenditure incurred may be an idle expenditure.

Colombo National Highways Project (OPEC II)

Orugodawatta Ambatale Road Phase I, II rehabilitation works had been commenced in 2017 and 2019 at a contract value of Rs.1,528 million and Rs.1,943 million respectively. Although the projects were scheduled to be completed in 2019 and 2021 respectively, the contract period had been extended until 31 December 2022. A sum of Rs.26.4 million in order to cover the daily expenses of the contractor due to the extension of the time period by 1204 days on the reasons including the failure of the contractor to release the work site for phase I, the Corona pandemic etc. and also a sum of Rs.71 million due to the extension of time by 428 days for phase II had to be paid.

Western Province National Highway Project (OPEC III)

The contract for the rehabilitation of Kaduwela Athurugiriya Road Phase I had been awarded on 29 January 2018 for a sum of Rs.1,065 million. Although the contract was scheduled to be completed on 28 July 2019, the contract period had been extended until March 2023 due to delays in land acquisition and the COVID pandemic. A sum of Rs.65 million had been paid by the project to the contractor in relation to the extension of the contract period.

Water Supply Sector Projects

33 projects were being implemented under the Water Supply Board with foreign loans and aids by the end of 2022 and the total estimated value of those projects was Rs.538,822 million. According to the financial statements, the total amount incurred on those projects was Rs.584,909 million at the end of the year. The time extensions had been given on 02 to 07 occasions for those projects due to the inefficiency of contractors, delays in land settlement, environmental issues and delays in the award of contracts. Accordingly, project periods were delayed ranging from 275 days to 2131 days.

Incurring a significant amount of expenditure on projects that were decided to be terminated due to failure to complete the works on the scheduled date

As per the recommendations of the Officials' Committee on Re-Strategizing and Acceleration of Mega Projects, 7 projects that were decided to be completed by 31 December 2022 had not been completed by that date and the suspension process on 12 projects that the government had decided to temporarily suspend was in process. That committee had further decided to terminate 10 projects in 2023 and temporarily suspend 2 projects. A total

of Rs.6,562 million had been incurred on 5 water supply projects that were decided to be terminated as such by the end of the year.

Anuradhapura North Water Supply Project Phase 1

The Irrigation Department had stopped the release of water to the project due to continuous protests by farmers' organizations in the area against the release of water to this project, which had been implemented in an area where dental disorders and kidney diseases have spread rapidly. However, although the Department of Irrigation had expressed its willingness to provide the full water capacity required for the project after the completion of the North Central Province Canal Project, there was a lot of uncertainty about getting the water capacity required for the project because the project which is being implemented under the Mahaweli Authority is still in the initial stage. Further, the government had incurred Rs.45 million Commitment Charges and Rs.1,309 million loan repayments for the project by the end of 2022.

Failure to complete the projects started under the investment programme to improve water and wastewater management in Greater Colombo

Under the financial contribution of the Asian Development Bank, a sum of Rs.40.40 billion had been incurred by the government and the Asian Development Bank at the end of 2022 with the main objectives of bringing down the Non-revenue Water Rate of 49 per cent in Colombo city in 2012 to 18 per cent by 2020, providing continuous 24-hour quality water supply in Colombo city and strengthening the activities of institutions. There was a big disturbance to the non-revenue water management activities as well as to achieving the desired objectives of the project due to the large number of bulk water meters installed under the project not operating as well. Also, a sum of Rs.1,166 million as interest on loan and a sum of Rs.209 million as Commitment Charges on the underutilized amount of loan and loan interest had been incurred by the government for this project by 31 December 2022.

Ambatale System Rehabilitation and Energy Saving Project

The objectives of this project were to remove old and less efficient pumps and replace them with new pumps in order to reduce the monthly energy cost of more

than Rs.203 million in the Ambatale water treatment plant and reduce friction loss by laying high capacity pipelines instead of small transmission pipe systems between 70 to 100 years old. Although the project works were initially planned to start in September 2014 and completed by June 2019 in 4 years and 9 months, the time was extended by another 4 years till June 2023 due to failed to complete by that date. Although it was lapsed over 8 years as at 31 December 2022 from the commencement date of the project activities, the overall physical progress achieved was a low percentage of 70.13 per cent and a total sum of Rs.11,047 million had been incurred for the project as at that date.

Jaffna and Kilinochchi Water Supply and Sanitation Project

Although the above project was planned to started in the year 2011 and completed in August 2017 under a project cost of Rs.34,492 million, the project period had been extended up to June 2026. The water source was changed due to a problem with the water source during the ongoing period after the commencement of the project and the scope of the project was changed by including the establishment of a Sea Water Reverse Osmosis unit after removing the primary objective of the project to provide sanitation facilities for 80,000 families

living in Jaffna and Kilinochchi Districts. Although the target physical progress of the Seawater Reverse Osmosis unit as at 31 December 2022 was 83 per cent, the actual physical progress achieved was 49 per cent.

Moratuwa Ratmalana Wastewater Disposal Project - Phase 2.

The loan agreement was signed with the donor agency in 2019 at a project cost of Rs.21,682 million and the contract had been signed with the contractor at a value of Euro 22.5 million and Sri Lankan Rs.4,116 million for the construction works. Although an advance of Rs.1,427 million for the contract was paid on 15 December 2021, the above advance had been retained by the contractor without sufficient performance due to the donor agencies had suspended the payment of loan installments since 2022. Although all loan withdrawals should be completed by 31 December 2023 as per the loan agreement, action had not been taken to award contracts such as the construction of new pumping stations, modernization of pumping stations and treatment plants, construction of wastewater treatment plants, providing wastewater connections, construction and construction consultancy contracts even as at 31 December 2022.

Urban Health Facility Improvement Project (Phase 02)

A contract was signed for this project with the donor agency in 2016 for a total project value of Rs.18,740 million. The project was not implemented as planned due to inefficiencies in the related procurement process and a sum of Rs.1,775 million was incurred on its initial activities by the end of 2022. The Government of Sri Lanka had paid Rs.190 million as Commitment Charges as at 31 December 2022 due to underutilization of the loan.

Urban Development Sector Projects

Strategic Cities Development Programme

- The construction works couldn't be implemented due to a failure to acquire the required lands for the construction of 16 flood control drain systems identified for flood control in Galle City. A sum of Rs.21 million had been paid for consultancy services in this project and these expenses had become an idle expense due to the project being abandoned.
- The agreed contract value for the construction of the Galle Moragoda main canal and temple bypass road was Rs. 845 million and the total

length of the canal was 4,250 meters. However, the entire benefit couldn't be granted to the public due to the suspension of the project by completed only 1850 meters at a cost of Rs.397 million. Failure to acquire the lands required for the construction of the project was affected to this situation.

- The Kandy Multimodal Transport Terminal (KMTT) project, which was one of the components of the strategic cities development programme valued at US \$ 202 million had been abandoned due to cancellation of allocated loan of US \$ 92 million by the donor.

Project for Support to Colombo Urban Regeneration Project

- The construction works of the Applewatta housing project for the construction of 700 housing units had been awarded to a Chinese company at a cost of Rs. 4,473 million. The construction works on this was planned to start on 27 October 2020 and be completed on 17 October 2023. According to the Annual Action Plan, although the physical performance of this project is expected to be 64 per cent, physical performance had been

achieved only 22 per cent by incurring Rs.1,145 million.

- The work on the Obeysekarapura housing project for the construction of 300 housing units with an estimated cost of Rs.1,982 million had been started on 5 May 2020. Although the project is expected to be completed on 21 October 2022, the project was terminated on 29 March 2022 due to poor performance of the contractor and at that time, it had achieved only 14 per cent progress by incurring Rs.271 million. However, no action had been taken by the Project or the Line Ministry to start this project up to now.

- Although 111.5 acres of land were expected to be developed by the end of 2022 under 11 land development projects under the 2 component of the Project Administration Manual, land and infrastructure developments had been done on only 4 acres of land and it was a very low percentage of 3.58 per cent of the targeted amount.

Urban Project Preparatory Facility

- According to the loan agreement, the loan amount provided was USD 4.65 million equal to Rs. 883 million and the project was planned to commence

on 06 March 2019 and to be completed on 31 March 2022.

- It was not possible to obtain the 68 consultation reports expected to be obtained by the project due to the suspension of all operational activities of the project on 18 August 2020.

Anuradhapura Integrated Urban Development Project

- The Anuradhapura Integrated Urban Development Project had started work on 5 packages with an estimated value of Rs.2,123 million in the year 2022 and the works had been completed in only 2 packages out of the 4 packages to be completed by 31 December 2022. There were also 7 project packages that were not awarded contracts and the agreed loan amount for those projects was Rs.5,025 million.
- Although a sum of Rs.288 million had been incurred on the basic works of construction of North and South Multimodal Transport Centres, the costs incurred had become idle due to the abandonment of those projects.

Greater Colombo Water and Wastewater Management Improvement Programme Phase 3

- Although the provision amounting to Rs.600 million from the European Investment Bank (EIB) and Rs.50 million from the Government of Sri Lanka had made for the implementation of Phase 03 of the Greater Colombo Water and Wastewater Management Improvement Programme, the project had not been executed as planned due to failure to award the contracts.
- In order to implement the 03 part of the investment programme, an amount of Rs.110 million or 55 percent of the allocation of Rs.200 million made under the Asian Development Bank loan, an amount of Rs. 576 million or 58 per cent of the allocation of Rs. 1,000 million made under the Asian Development Bank loan for infrastructure development in this program and an amount of Rs. 157 million or 79 per cent of the allocation of Rs. 200 million made under the Government of Sri Lanka were not utilized for the intended purposes. A sum of Rs.8 million had been transferred to other expenditure codes

and spent out of the provisions made by the Government of Sri Lanka.

- Although allocations of Rs.1,900 million under World Bank loans, Rs.1,400 million under grants and Rs.50 million under the Government of Sri Lanka had been made for the implementation of the Regional Development Support Project, 56 per cent or Rs.778 million of the allocations made under the World Bank grants were saved.
- Although 69 percent of Rs.300 million made under the Netherlands Government loan was incurred for the development of infrastructure in the Rural Bridge Project, 64 per cent or Rs.8 million out of the allocations of Rs.12 million made by the Government of Sri Lanka were saved.

Health Sector Projects

World Bank Loan-supported COVID 19 Emergency Response and Health Systems Preparedness Project

- Although 13,999,050 doses of Pfizer vaccine valued at Rs.16,102 million were procured by the project between December 2021 and January 2022 to prevent the COVID-19 pandemic, details related to the procurement process of those were not submitted to the audit.

- The approval had been given only for 04 batches of 781,560 vaccine doses while extending the expiration date by the Medicines Regulatory Authority.
- Although 11,839,500 out of the 20,907,900 Pfizer vaccine doses were given through vaccination programs, the vaccines were removed from usage due to expiration of relevant usage period of 30 days by some health institutions who were obtained vaccines for vaccination programs.

Agricultural Sector Projects

Emergency Response Project to ensure food security and get proper prices for crop harvests

Although 26 warehouses covering 11 district offices should be completed by the end of 2021 at a cost of Rs.223 million under providing of short term storage facilities under the national program to ensure food security and obtain proper prices for crops under the World Bank assistance, constructions had not been started in 15 warehouses as at 31 December 2022 and the construction works were not completed in one warehouse out of 11 warehouses those construction were started. All 10 construction completed warehouses remained idle.

Sports and Youth Affairs Sector

Audit Observations

- **International achievements won by Sri Lankan players.**
- **Abandoned projects without finished.**
- **Delays in project execution**
- **Annual Action Plans.**
- **Non-submission of financial statements for the year 2022 by national sports associations.**
- **Development of Diyagama Mahinda Rajapaksa International Sports Complex as a sports academy and international stadium.**
- **Construction of archery field and shooting field in Kurunegala Maliadeva Vidyalaya.**
- **National Center for Leadership Development.**
 - **The construction project has been stopped midway.**
 - **Inefficiently deploying government funds to build a sports complex in Bingiriya without considering utility.**
- **Sugathadasa National Sports Complex Authority.**
 - **The main entrance and iron fence construction project of Sugathadasa Outdoor Stadium has not been completed.**
 - **The project of constructing the boundary wall of Sugathadasa Outdoor Stadium has not been completed.**
 - **Non-maintenance of swimming pool and diving pool.**
 - **Non-clearance of retention moneybalances**

- **Sri Lanka Cricket.**
 - **Failure to settle the advance balances.**
 - **Non-recovery of sponsorship income.**
 - **Construction of a national cricket stadium and a multi-sports complex has been stopped half way.**
 - **The purpose of benefiting the cricket players has not been fulfilled.**
 - **Paying administrative expenses for associations that did not hold office elections.**
 - **Non-completion of construction work of swimming pools in cricket grounds**
- **National Youth Corps**
 - **Utilization of the funds given to the program for directing young people to jobs based on their skills for the currently running courses.**
 - **Repeal of the Youth Corps Act and not passing a new Act**
 - **Non-recovery of advances.**
 - **The action had not been taken to collect advances.**
 - **Non-registration of vehicles to be used in the name of the Crop**
- **National Youth Service Council**
 - **Non accounting of assets.**
 - **Not using computers for the purpose for which they were purchased.**
 - **Failure to submit financial reports of sports clubs and youth clubs to the management of the council.**

Sports and Youth Affairs Sector

The mission of the Ministry of Sports and Youth Affairs was to create a youth community that actively contributes to the national economy and contribute to building a united and prosperous country through a disciplined, sporting society. Ministry of Sports and Youth Affairs, Department of Sports Development to achieve that result. 10 statutory bodies including the National Youth Service Council, the National Youth Corps, the Sugathadasa National Sports Complex Authority and the Anti-Doping Agency, the Sports Fund and 66 sports associations were supposed to perform the following functions.

- Formulation, implementation, monitoring and evaluation of policies, programs and projects related to sports.
- Providing public services within the scope of the ministry in an efficient and public friendly manner.
- Restructuring all methods and procedures using modern management methods and technology to help ensure the performance of the Ministry's duties by eliminating waste and corruption.
- To take necessary measures to encourage sports activities in Sri Lanka and to promote and provide the

necessary infrastructure to achieve the desired objectives in the field of sports.

- Promotion of sports education, training and research.
- Formulation of new strategies and implementation of programs to be able to use sports to build the image of Sri Lanka internationally.
- Expanding the opportunities for athletes to participate in international competitions.
- To promote and co-ordinate the facilities necessary for the physical well-being of the general public.
- To promote sports medicine facilities and work to combat anti-doping in sports.
- Organization of sports societies and promotion of sports tournaments.
- Compilation and implementation of attitude development programs aimed at a national program that fulfills the aspirations of the youth.
- Implementation of international cooperative development programs focused on the youth.
- Implementation of skill development programs focused on unemployed youth.

- Regulatory and development activities related to youth organizations.
- Creating special programs aimed at the youth community so that the skills, talents and creativity of the youth will be socially recognized and they can develop their ambitions.
- Commencing a youth human resources bank to match local and foreign job opportunities.
- To take measures to create young entrepreneurs and to introduce and implement methods to provide them with the necessary incentives and new opportunities.
- To prepare and supervise all other activities related to the subjects

assigned to the related departments, established institutions and public corporations under the Ministry of Sports and Youth Affairs.

In the year 2022, a net allocation of Rs. 6,822 million had been given by Parliament to fulfill the above activities for the Ministry of Sports and Youth Affairs for the Department of Sports Development and at the end of the year under review, however only Rs. 4,908 million had been utilized. Thus at the end of the year Rs. 1,914 million was left in provision. The description is shown in Figure 45.

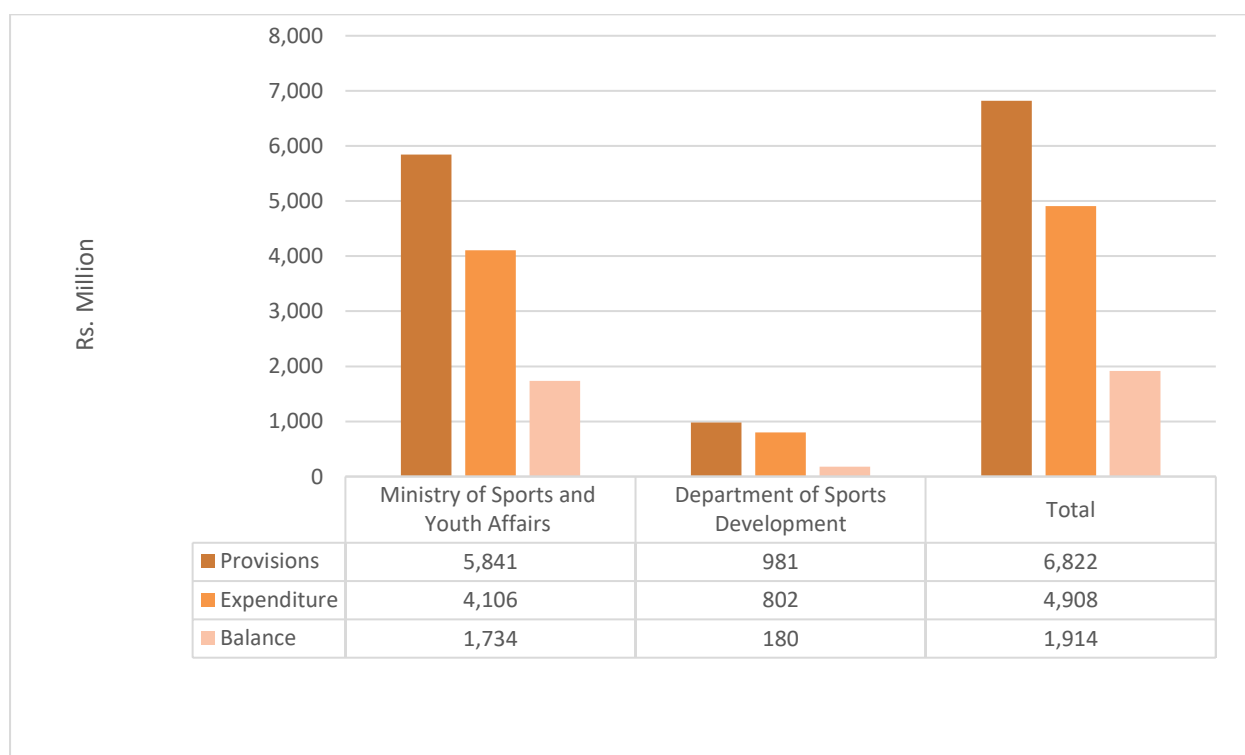


Figure 45 - Provisions and actual Expenditure

Source: 2022 Financial Statements

The audit observations revealed during the sample audit conducted on the Ministry of Sports and Youth Affairs and the departments and agencies under it regarding the performance of the aforementioned activities are summarized and given below.

International achievements won by Sri Lankan players

In the year under review, Sri Lankan athletes participated in 06 major international tournaments and won 20 medals in the form of 03 gold, 05 silver and 12 bronze. Also participated in Open Super 100 Badminton Tournament, Asia Cup Tournament and 2022 Asian Netball Championship and won the championship.

Abandoned projects without finished

The Sports Development Department has allocated Rs. 1,140 million and Rs. 324 million had been spent for 07 projects that were left unfinished due to lack of funds, problems with contractors and consultants etc.

Delays in project execution

The estimated cost of 6 projects brought forward by the Sports Development Department from previous years was Rs. 530 million and the cost spent on 31 December 2022 was Rs. 315 million. The completion of these projects had been

delayed due to various reasons and the increase in raw material prices and difficulties in making provisions had made it difficult to get the expected benefits from the expenditure so far spent on these projects.

Annual Action Plans

According to National Sports Association Orders No. 01 of 2016, National Sports Associations should prepare annual action plans for the upcoming year and submit them to the Director General three months before the end of the current year, however only 11 from 66 sports associations had submitted action plans for the year 2022.

Non-submission of financial statements for the year 2022 by national sports associations

According to the National Sports Associations Order No. 01 of 2016, financial statements certified by all national sports associations should be submitted to the Auditor General within 02 months after the end of the financial year, however the financial statements of 09 national sports associations had not been submitted to the Auditor General by August 2023.

Development of Diyagama Mahinda Rajapaksa International Sports Complex as a sports academy and international stadium

In the development of Diyagama Mahinda Rajapaksa International Sports Complex as a sports academy and international stadium from 2017 to 2022 Rs. 3,866 million had been budgeted and Rs.606 million had been spent. However, there were defects in the artificial track, the roof of the auditorium where the old track located was destroyed by the wind, and the construction of the small auditorium was not completed, non-completion of installation of generators and due to offering the contract without agreement of kitchen repairs, Rs. 5.4 million receivable was non-recovery etc. due to the non-fulfillment of the expected works of this project, the expected return on the invested amount was not achieved.

Construction of archery field and shooting field in Kurunegala Maliadeva Vidyalaya

Rs. 12 million had been estimated on 28 March 2018 for the construction of archery and shooting field in Kurunegala Maliadeva Vidyalaya. A contract value of Rs.12 million was awarded to a private contractor to be completed in 6 months. however only Phase-I of the project was completed and the intended purpose could not be achieved due to non-use of the

playground for archery and shooting sports.

National Center for Leadership Development

The Ministry of Sports and Youth Affairs had spent Rs. 266 million and Rs. 72 million respectively from 2018 to 2022 for the capital and recurring expenses of the National Center for Leadership Development. In the year 2022, the main training programs conducted by the center were 19 staff training programs, 14 future-ready youth leadership programs, 55 entrepreneurship training programs and 6 leadership skill development trainings for government officials, however only 4 programs were actually conducted respectively 24, 7 and 1.

The construction project has been stopped midway

From the year 2015 to the year 2017, for the construction of the National Museum, Rs. 90 million with an estimated provision and Rs. 71 million had been spent due to the stopping of the project, the amount spent had become a idle expense and the objectives of the project had not been achieved. The construction of the museum was stopped and the office of the National Sports Council and the National Selection Committee were established in that building.

Inefficiently deploying government funds to build a sports complex in Bingiriya without considering utility

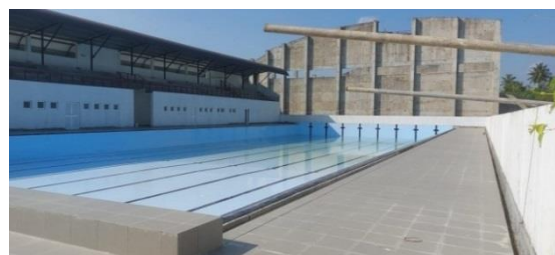
The Cabinet approved the construction of a sports complex near the Kurunegala Welagedara Stadium in the year 2011 however, according to that, instead of choosing a land near Kurunegala city, A plot of land was selected in Bingiriya, 55 km away from Kurunegala city. For the construction of a pavilion on this land, Rs. 86 million and for the construction of an indoor stadium Rs. 207 million and Rs. 87 million were spent for the construction of a swimming pool, however their construction work was stopped midway. The building materials such as iron bars brought to the site for this construction were decaying. Accordingly, due to this wrong decision, Rs. 380 million had been spent uneconomically and the parties responsible for that wrong decision had not been identified. Also, the 15 ½ acres of land on which the sports complex was built had not been acquired to the Ministry of Sports.



pavilion



Indoor Stadium



Swimming Pool

Sugathadasa National Sports Complex Authority

The main entrance and iron fence construction project of Sugathadasa Outdoor Stadium has not been completed

The Sugathadasa outdoor stadium main entrance and iron fence construction project which commenced in the year 2019 for values of Rs. 50 million should be completed by 10 May 2020, however Rs. 32 million had been spent and more than 03 years, the work had not been completed.

The project of constructing the boundary wall of Sugathadasa Outdoor Stadium has not been completed

The construction work on the project to build the perimeter wall of Sugathadasa

Outdoor Stadium, which included in the work in progress for cost Rs.18 million, had started on 18 September 2019 and was supposed to be completed on 18 December 2019. Due to the Covid 19 epidemic situation in the country, lack of raw materials and weather conditions, the contract period has been extended by the concerned consulting firm until 21 December 2021, however the construction work of this project has not been completed yet.

Non-maintenance of swimming pool and diving pool

The pump station installed for the main swimming pool and diving pool of Sugathadasa National Sports Complex Authority had not been repaired since 2010. Although there was a need to repair this pumping station from the year 2020, the maintenance cost had also increased due to the water leakage due to the non-repair. However the authority had not yet repaired the pumping station. Also the children's pool is not being used for training as it is dipping and has not yet been repaired.

Non-clearance of retention money balances

The action had not been taken to settle the total retention balance of Rs.87 million coming from the year 2014 shown in the

financial statements as at 31 December 2022 by the authority.

Sri Lanka Cricket

Failure to settle the advance balances

For the construction of R. Premadasa International Cricket Stadium in the year 2018 and Mahinda Rajapaksa International Cricket Stadium in the year 2020 respectively Rs. 9 million and Rs. 12 million, Rs. 6 million given for the construction of 07 Turf Wickets in Monarawila Cricket Stadium in the year 2021 and Rs. 7 million given for the construction of Vidyarthi Vidyalaya Stadium had not been settled.

Non-recovery of sponsorship income

The sponsorship rights income due for the tour of Sri Lanka to South Africa was Rs. 37.1 million in the year 2018, was stated in the financial statements, however according to the complaint made by the institution to the Criminal Investigation Department on 04 October 2018, a legal action was underway.

Construction of a national cricket stadium and a multi-sports complex has been stopped half way

The project to build a national cricket stadium and a multi-sports complex in Polonnaruwa Higurakgoda area for international standards is planned to be completed in October 2018 and started on

17 August 2017 and Rs. 154 million had been spent by 31 December of the year under review, however the Sri Lanka Cricket had failed to achieve the desired goals so far.

The purpose of benefiting the cricket players has not been fulfilled

According to the request of the Director General of the Sports Development Department, the Sri Lanka Cricket had credited Rs. 10 million to the Army Project Account in 2018 to complete the remaining work on the Kilinochchi cricket ground, however the expected purpose of benefiting the players and cricket practitioners of the province was not fulfilled therefore Sri Lanka Cricket had failed to archive the desired goal.

Paying administrative expenses for associations that did not hold office elections

According to the constitution of the Southern Province Cricket Association, its officers did not hold the general meeting annually and the office election was not held once in 3 years, however the Sri Lanka Cricket had been paid Rs. 84 million from 2006 to 2016 to the Southern Province Cricket Association for administrative work, sports competitions and sports development.

Non-completion of construction work of swimming pools in cricket grounds

The contract award for the construction of a swimming pool at Pallekele International Cricket Stadium was made on 20 November 2019 and the construction work started on 04 December 2019 and an amount of Rs. 147 million had been spent, however the construction work of the project was not completed by the end of the year under review. Rs. 37 million Rangiri Dambulu International Cricket Stadium swimming pool construction project was awarded to the contract on 20 November 2019, however the construction work of the project was not completed till the year under review.

National Youth Corps

Utilization of the funds given to the program for directing young people to jobs based on their skills for the currently running courses

An additional provision of Rs. 90 million had been made to provide theoretical knowledge and training to the personnel in the Sri Lankan labor market with the aim of directing the youth to jobs based on their skills, in the year 2022. For that, the institute had prepared plans to implement a job-oriented training program consisting of 16 courses for 4,499 trainees with 07 private vocational training institutes. Even though 2 of the above job-oriented training

courses are already implemented by the institution's provision, however Rs. 26 million had been utilized for The above implemented courses by the provision.

Repeal of the Youth Corps Act and not passing a new Act

Although more than 12 years have passed since the Cabinet decision dated 15 December 2011, according to the decision of the Council, in order to better and effectively fulfill the task of empowering the youth community in the country, the existing Youth Corps Act has not been revised and a new Act has been adopted.

Non-recovery of advances

Although the contract agreements related to 5 training centers at the crop whose construction work had been stopped were canceled between 02 and 06 years, the amount paid to the contractors in the years 2016-2017 was Rs. 61 million and the advances were not recovered by the crop

The action had not been taken to collect advances

The Cabinet had approved the construction of 10 new centers and 21 building units of the existing centers by a government agency outside of the open tender process in the year 2016. Due to the weak progress of this construction, it was canceled by a Cabinet decision taken in the year 2022.

Rs. 109 million in advance amount to be charged and further advance of Rs. 38 million given in the years 2016 and 2017 had not been collected.

Non-registration of vehicles to be used in the name of the Crop

According to paragraph 02 of Asset Management Circular No. 02/2017 dated 21 December 2017, 08 vehicles costing Rs.31 million were not registered in the name of the Crop.

National Youth Service Council

Non accounting of assets

According to paragraph 27 of Sri Lanka Public Sector Accounting Standard 01 on 31 December 2022, 235 acres related to 61 lands enjoyed by the council were not disclosed in the financial statements and the value of 06 acres of 58 perches owned by the council was accounted .

Not using computers for the purpose for which they were purchased

Although 25 laptops were purchased at a cost of Rs. 3.7 million in the year 2022 to start a Japanese language course with the aim of providing employment in Japan, due to the fact that the relevant course had not been started, the laptops were issued to various sections of the council that are not related to the above purpose.

Failure to submit financial reports of sports clubs and youth clubs to the management of the council

According to National Youth Service Council Act, sports clubs and youth clubs were established to carry out the functions of the Act, even though it was stated that the work carried out by the council should

be maintained in the council's own fund. The council's staff and physical resources were used for the activities of these societies, which had financial assets of Rs. 21 million, and the financial reports of those councils were not submitted to the management.

Provincial Council

Audit Observations

- **Submitting of provincial council Financial Stataements**
- **Provincial Council Revenue and Expenditure**
 - **Provincial Council income**
 - **Provincial council expenses**
- **Capital Expenditure and personal emoluments Expenditure**
- **Savings and Investments**
- **Provincial Council Assets**
- **Provincial council Liabilities.**
- **North Central Provincial Council**
- **Southern Provincial Council**
- **Central Provincial Council**
- **North West Provincial Council.**
- **Northern Provincial Council.**
- **Eastern Provincial Council**
- **Western Provincial Council**
- **Sabaragamuwa Provincial Council.**
- **UVA Provincial Council.**

Provincial Councils

According to Article 154 A (1) that had been amended by the 13th Constitutional Amendment passed by the Parliament in 1987 to amend the Constitution of the Democratic Socialist Republic of Sri Lanka, 09 provincial councils Western, Central, South, North-West, North-Central, Uva, East, North, Sabaragamuwa Provinces. were established.

A provincial council is under the control of the Governor and a Chief Secretary acts as the administrative officer. A Chief Minister is the head of the legislature and a provincial council consists of 05 ministers including the chief minister.

The Provincial Council Act No. 42 of 1987 has been passed by the Parliament to make arrangements regarding the working procedure to be followed by the Provincial Councils, matters related to the Provincial Council public service and related or ancillary matters.

As the term of office of the existing 09 provincial councils has ended, those councils have been considered dissolved as per the provisions of Article 154 (e) of the Constitution.

Accordingly, the Sabaragamuwa, East and North Central Provincial Councils from the year 2017, North-West, Central and Northern Provincial Councils from the year 2018, and the Western, Uva and Southern Provincial Councils from the year 2019 had been continue without a council as per the provisions of Clause (a) were maintained by the Governors of each Provincial Council in terms of the provisions of Section 2(1) (a) of the Provincial Councils (Ancillary Provisions) Act No. 12 of 1989.

Submitting of provincial council Financial Statements

Each Provincial Council shall prepare and submit financial statements to the Auditor General to reflect the financial position and operational results of the Council's fund. According to Article 154(3) of the Constitution and Section 23(1) of Provincial Council Act No. 42 of 1987, that financial statements should be audited by the Auditor General.

From the beginning until now, a uniform accounting system was not introduced to prepare the financial statements of the provincial councils and in the years 2021 and 2022, 09 provincial councils had

prepared financial statements following various methods. The various bases such as accrual basis, cash basis or improved cash basis were used, and some provincial councils had prepared financial statements for the years 2021 and 2022 according to generally accepted accounting principles and some provincial councils according to public sector accounting standards.

Fether the preparing of those financial statements, the values of the financial statements were recorded using different formats, names and sources. Neither the government nor the provincial councils had issued a formal uniform guide or Circular for the preparation of the provincial council fund financial statements, and it was impossible to make decisions by analyzing and comparing them.

It was observed that due to the lack of specific guidance, the provincial councils had the ability to hide, omit or present information in a way that misleads the decision makers.

However, taking into account the existing conditions, the points that can be analyzed regarding several important components are given below.

Provincial Council Revenue and Expenditure

The income and expenditure of the provincial councils were reconciled subject to the situation that the provincial councils used accrual basis, cash basis, improved cash basis as alternatives and did not follow uniform methods.

Provincial Council income

The income of a provincial council consist of various sources including government grants, tax revenue and non-tax revenue. The total income collected in the year 2022 by 09 Provincial Councils was Rs. 419,307 million. In that income Rs. 56,726 million tax revenue and Rs. 19,277 million non-tax and other revenue and the total grant given by the government to the provincial councils was Rs. 343,304 million were also included. Accordingly, 82 percent of the total revenue collected by the provincial councils consisted of grants from the government.

Provincial council expenses

Every provincial council incurs recurrent expenditure including personal emoluments, other goods and services maintenance costs and development costs in the form of development annually. The total expenditure of Rs. 403,544 million had been incurred for the year 2022 by the 09 Provincial Councils. 96 percent of that

cost or Rs. 387,118 million as recurrent expenditure and 4 percent or Rs. 16,426 million had also been spent as capital expenditure. Therefore 77 percent of the total recurrent expenditure or Rs. 298,401 million had been spent by the provincial councils as personal emoluments.

Capital Expenditure and personal emoluments Expenditure

In the year 2022, when Rs. 298,401 million had been spent as personal emoluments expenditure, only Rs. 16,426 million had been spent for the development activities of those provinces. Details are given below.

Provincial Council	Total revenue as on 31 December 2022 Rs.million	Total expenditure as on 31 December 2022 Rs.million	Surplus (Deficit) as at 31 December 2022 Rs.million	Government grants as at 31 December 2022 Rs.million
Western	102,093	86,877	15,216	62,062
Central	48,375	51,247	(2,872)	42,859
Southern	52,219	52,997	(778)	45,357
North-Western	49,760	47,368	2,392	41,647
North Central	27,519	27,655	(136)	24,757
Uva	30,772	34,101	(3,329)	28,519
Eastern	33,984	31,633	2,351	31,680
Northern	33,959	31,314	2,646	29,395
Sabaragamuwa	40,626	40,352	273	37,028
Total	419,307	403,544	15,763	343,304

Table 27 – Revenue and Expenditure of Provincial Councils as at 31 December 2022

Savings and Investments

The Provincial Councils had underutilized grants from the government or received allocations from the central government

without properly estimating provincial council income and had invested large sums of money in fixed deposits.

Provincial Council	The balance as at 31 December 2022 Rs.million	The balance as at 31 December 2021 Rs.million
Western	25,500	12,000
Southren	3,888	3,388
North -Western	9,703	6,964
Sabaragamuwa	3,050	-

Table 28 – Investments of Provincial Councils

Since there was no uniform accounting system, it was not possible to confirm whether the investments of other provincial councils exist or not during the audit.

In addition, as at 31 December 2022, 09 Provincial Councils had a cash and bank balance as stated below.

Provincial Council	Cash and bank balance Rs.million
Western	5,041
Central	910
Southern	588
North Western	1,252
North Central	3,137
Uva	1,603
Eastern	1,278
Northern	2,646
Total	18,408

Table 28 – Cash and bank balances of Provincial Councils

While giving allocations to the Provincial Councils, institutions such as the Treasury, Finance Commission, Ministry of Local Government did not pay attention to the investments and savings made by the Provincial Councils.

Provincial Council Assets

The total assets of the provincial council as at 31 December 2021 was Rs. 374,492million and it was identified as Rs. 409,697 million as at 31 December 2022, which is a growth of 9 percent. The total non-financial assets of the Provincial Councils was Rs. 325,898 million in the year 2022, or 80 percent were non-financial assets out of which Uva Provincial Council had the highest amount of non-financial assets amounting to Rs. 85,806 million. However, it was observed that many provincial councils, including the Western Provincial Council, did not

take timely action to assess and account assets including land and buildings, to conduct revalue in a timely manner, and to properly take over and account for the

assets being used, so the comparative analysis was not effective. Details are shown in Table 30.

Provincial Council	The balance of non-financial assets as at 31 December 2022 Rs. million	The balance of total asset as at 2022 December 31 Rs. million	The balance of total asset as at 2021 December 31 Rs. million
Western	27,890	64,965	40,361
Central	6,683	9,258	11,294
Southern	49,091	58,358	55,372
North	84,011	96,693	87,869
North Central	26,921	31,997	31,396
Uva	85,806	88,220	91,843
Eastern	15,906	18,007	16,802
Northern	21,886	25,763	24,930
Sabaragamuwa	7,703	16,436	14,625
Total	325,897	409,697	374,492

Table 28 – Assets belonging to Provincial Councils

Provincial council Liabilities

The total liabilities of the Provincial Council as at 31 December 2021 was Rs. 11,893 million, and it was Rs. 10,967 million in the year ended 31 December 2022. Out of the total liabilities in the year 2022, Rs. 2,605 million or 24 percent were liabilities of the Northern Provincial Council.

North Central Provincial Council

- In the year 2022, the total net allocation for the North Central Provincial Council was Rs. 25,157 million, of which Rs. 22,101 million had been utilized. Accordingly, the amount saved from the total net provision made to the Provincial Council was Rs. 3,055 million which was 12 percent of the total allocation.

- Annual co-operative society contribution to the pension fund of the North Central Province Co-operative Employees' Pension and Social Security Benefit Scheme, for the pension fund, the annual cooperative Society Contribution was Rs. 8 million and an annual amount received from the Provincial Council Fund was Rs. 10 million with annual receipts of Rs. 18 million. However the annual pension expense for 560 employee beneficiaries of the fund is Rs. 26 million, the future existence of the fund is uncertain and the amount to be paid as pension for the beneficiaries for the years 2021 and 2022 is Rs. 18 million.
- During the year under review, the Vehicle Repair Division of the North Central Province Development Design and Machinery Agency spent Rs. 23 million the purchase of spare parts had been done without competitive bidding as per the procurement guidelines.
- Out of the 811 schools belonging to the provincial education department, the number of schools supervised by the Divisional and Regional Offices in the year 2022 was only 376. Out of the schools that were under supervision, the average performance of 114 schools was lower than 60 percent, and results of GCE (O/L) and (A/L) examinations conducted for school students at the national level in comparison with other provinces, the North Central Province had taken the 9th position.
- 63 principals and teachers who were attached to North Central Provincial schools were released to other institutions for a period ranging from 02 months to 32 years, and for 61 of those released teachers, from the date of release to the end of the reviewed year, the relevant officials reported to work, attendance and departure. Without verifying the information about leave etc. And without verifying the information about the allowances received from the released institutions, the sum of salaries and allowances paid to the said officials by the Zonal Education Offices was Rs. 257 million.
- Due to the fact that 290 schools have not been assigned grade level principals, the teachers belonging to the teaching service have been given acting positions to perform the duties of the principal position, however the grade level principals of 122 schools

have been performing the duties of the deputy principal position.

- Based on the provisions of the Chief Ministry, under the Nearest School Best School program, Padaviya Mahasen Maha Vidyalaya, Padaviya Mahasen Primary School and Padaviya Parakramapura Primary School was receive Rs. 66 million for 05 construction projects were contracted for completion between 2 October 2016 and 12 February 2017, however those contracts were left unfinished, and the amount paid for them was Rs. 14 million.

Southern Provincial Council

- As at 31 December 2022, there was a court fine balance of Rs. 40 million in the Galle, Matara and Hambantota Cooperative Development Assistant Commissioner's Offices, which had to be settled, and this amount had not been identified and promptly paid to the relevant beneficiary societies. Also, in this balance, there was an unrecognized balance of Rs. 28 million related to the period before the year 2022.
- While the Road Development Authority has established a separate

unit for vehicle repairs, during the year under review, Rs.7 million was spent on repairs of vehicles owned by the Authority from external institutions.

- From May 2019 to 31 December 2022, Rs. 35 million were paid as fuel allowances to 39 officials in 23 positions in 08 institutions of the Southern Provincial Council. Among them, Rs. 5 million rupees were paid for super petrol and super diesel which are not in accordance with the national budget circular dated 02 January 2014.
- According to the circular of the President's Secretary dated 12 October 2018, office allowances cannot be paid after the dissolution of the Provincial Council, however office allowances of Rs. 2 million were paid to the Chairman of the Southern Provincial Council from October 2019 to October 2022.
- 1,131 elected members for 49 local government authorities in Galle, Matara and Hambantota districts in accordance with the Assets and Liabilities Declaration Act and the Presidential Secretary's circular of 18 May 2007. From year 2018 to year 2022, the members are 536, 652, 739,

689, and 771 had not submitted their assets and liabilities statements annually.

- From the date of notification of the Auditor General's decision regarding surcharges under the Pradeshiya Sabha Act The surcharge holder shall pay the relevant amount to the Local Government Commissioner within 14 days. But for 11 surcharge certificates with a value of Rs. 9 million issued by the Auditor General on various occasions. At the end of the year under review, the provisions of the said Act had not been acted upon.
- In March 2018, an agreement was reached with the Sri Lanka Information and Communication Agency for the electronic revenue project of the Department of Motor Traffic and payment of Rs. 6 million was made and although the project was scheduled to be completed by April 2022, it was not completed. Due to the fact that the project was not completed on the scheduled date, an additional cost of Rs. 3 million had to be incurred for re-printing of licenses.

- Without preparing a project report, on the proposal of the honorable governor, all the government agencies of the southern province were integrated and contracted with a contract company for an amount of Rs. 14 million on 7 October 2020 to create a mail management computer program. Although an amount of Rs. 28 million had been spent for this project in the year 2021, the work was not completed within the stipulated time as per the agreement. Also, for this purpose, 86 scanners were purchased for 21 million rupees and distributed to the institutions where the system will be installed, but the expected objectives of the project were not fulfilled.

Central Provincial Council

- According to the Central Provincial Development Plan, as at 31 December of the year under review, 15 new work proposals worth Rs.31 million out of 1006 work proposals with an estimated value of Rs.2,181 million had not been started, the progress of 35 new work proposals with an estimated value of Rs.123 million remained below 50 percent. Also, the number of proposals with an estimated value of Rs. 123 million and more than 50 percent completed work was 26.

- An irregularity of Rs. 14 million had been committed by the Hanguranketha Zonal Education Office from the current account maintained by the Hanguranketha People's Bank from the year 2011 to December 2021 through the balance of teachers' salaries and allowances, meanwhile, by 31 December 2022, an amount of Rs. 3. million was to be charged further. In this regard, the Chief Secretary of the Central Province had sent the preliminary investigation committee report to the Secretary of the Central Province Ministry of Education, but at the end of the year under review, no further action had been done in this regard.
- During the period from 2016 to 2021, in the salary processing of the Office of the Director of Regional Health Services in Kandy, which is under the Provincial Health Services Department, two officers who performed salary duties, paid 52 million rupees to 14 bank accounts and 1. million rupees which are not confirmed by the bank account numbers, a total amount of Rs. 53. million had been wrongly remitted. Regarding this incident, according to the financial regulations, the responsible parties were not identified and disciplinary actions were not taken against them.
- During the year under review, the Governor's personal staff had paid Rs. 1. million as allowances to the drivers of the Governor's official vehicles and security vehicles for the running summaries submitted by the drivers of the Governor's official vehicles and security vehicles, contrary to the provisions of the Establishment Code of the Democratic Socialist Republic of Sri Lanka.
- Contrary to the instructions of the President's Secretary's Public Expenditure Management Circular dated 12 October 2018 nearly one million rupees had been paid for 02 official vehicles of the Governor for the period of 24 months from May 2020 to April 2022 in relation to 6720. liters of fuel.
- According to the information presented by the Provincial Health Services Department, the damages of Rs. 65 million related to 79 accidents that happened to the vehicles attached to the department, although between 01 and 18 years have passed since the

accident occurred. Action had not been taken to recover damages and other investigations were not completed

- 3 soil laboratories were modernized by spending Rs.9 million from the allocations allocated under the organic fertilizer production program and for that soil laboratory equipment value Rs. 44 million was received and even though 09 months had passed on 24 February 2023, the date of audit, the relevant soil testing activities Due to the non-availability of the required chemicals and other equipment to the soil laboratories, it was not possible to achieve the desired objectives of this program.
- During the year under review, a total of Rs. 44 million was spent on 17 tasks that were contrary to the purpose of the project to strengthening the primary health care system implemented by the provincial health department.
- In the Central Province, Rs. 9 million surcharge money related to 10 surcharge certificates issued by the Auditor General for 05 local government authorities between 2019 and 2022 had not been collected by the

local government department at the end of the reviewed year.

- The advance balance of Rs. 172 million, which had been given to the health department of the central government, had not been settled.
- The arrears of rent for 196 out of 219 shops belonging to the Provincial Passenger Transport Service Authority located in Kandy, Matale and Nuwara Eliya districts for the period from 2001 to 31 December 2022 was Rs. 16 million and as at the audit date had not been recovered. Agreements were not reached for this 13 shops.
- In accordance with Section 268 of the Pradeshiya Sabha Act and the Housing and Urban Development Ordinance, Katukitula Rest House, which was built in 2010 at a cost of Rs. 7 million without a plan, was ordered to be demolished by the Chairman of the Kothmale Pradeshiya Sabha, considering it an unauthorized construction and Rs 1 million had been spent on repairs.
- The collection of 04 institutions operating under the Provincial Health Services Department remained inactive

due to the inability to use 34 machines and equipment worth Rs. 12 million. The action had not been taken inspected, repaired, put into use or disposed.

- Under the Entrepreneurship Agricultural Export Village Program in the year under review, 54 micro-water supply kits with a total of Rs. 6 million were given to the beneficiary farmers in Dekinda and Weligodawatta domains under a 70 percent government contribution, and 1500 liter plastic water tanks and 500 liter plastic water tanks were given in relation to that. Although about 08 months have passed since the fertilizer tanks were given to the farmers, by the date of inspection, 04 October 2022, the equipment remained idle.
- At the end of the year under review, acting principals were appointed for 505 principal vacancies in the 15 regional education offices belonging to the Central Provincial Education Department, but at the end of the year under review, the principals of Kandy, Danuwara, Gampala, Katugastota, Wategama, Naula, Theldeniya, Haguranketha and Matale regions. There was a surplus of 188 graders.

- Although there are 63 school work assistant positions approved for Theldeniya Regional Education Office, by the end of the year under review, 137 person were employed and 74 person were redundant.

North West Provincial Council

- The total net allocation for the North West Provincial Council was Rs.38,791 million, of which Rs.37,367 million had been utilized by the end of the year under review. Accordingly, there was a provision surplus of Rs. 1,424 million or about 4 percent of the net provision. Of that total balance, Rs.717 million or about 32 percent is from capital provision, while the balance of recurrent provision was Rs.706 million or about 2 percent.
- By the end of the reviewed year, Rs.98 million had to be collected under the long-term land leases of the North West Provincial Land Commissioner's Department in relation to 17 cases in 10 Divisional Secretariat jurisdictions for a period of 01 to 12 years.
- The main operating income of the North West Human Resources Development Authority, security and sanitation services, has a receivable of

Rs. 56 million and Rs. 130 million respectively at the end of the year under review, and the balances from more than a year ago are Rs. 28 million and was Rs.13 million.

- The North West Local Government Department did not take prompt action regarding 07 surcharge certificates amounting to Rs. 3.33 million issued by the Auditor General between 2009 and 2014.
- According to the Co-operative Societies Act every registered society shall pay an amount not exceeding 10 percent of the annual net profit and not less than Rs.500 as contribution to the Co-operative Fund every year as prescribed by the Registrar, but from the Co-operative Societies to the Co-operative Fund as at 31 December of the year under review, the amount due was Rs. 77 million.
- At the end of the year under review, there were reports of Rs. 99 million of frauds or shortfalls in the co-operative societies located in two co-operative assistant commissioner divisions of the Co-operative Development Department of the North-West

Province, but the related investigations were conducted at a weak level.

- North Western Provincial Health Services Department received drugs worth Rs. 15 million from the Medical Supply Division (MSD) in the Kurunegala Regional Health Office between 2014 and 2022 for the need of drugs in the Kurunegala district and a stock of 37,716 surgical items of unknown value remained in poor condition, and it had not been removed till the end of the year under review.
- A current account belonging to the North West Provincial Human Resource Development Authority had been in overdraft status for many years and had paid Rs. 1 million as overdraft interest in the year under review, but the balance of 04 savings accounts was Rs. 66 million at the end of the year under review.
- At the end of the year under review, there was a balance of Rs. 8 million in a Tsunami Deposit fixed deposit account, which is renewed with the annual interest money of the Chief Minister's Fund, and no policy decision was taken regarding the use of this

money and that value was omitted from the financial statements of the North West Provincial Council.

- Wariyapola Tissue Culture Laboratory, Wariyapola Tissue Culture Laboratory, which operated as a Corona virus quarantine center, was not restarted as a tissue culture laboratory until the end of 2020. Although Rs. 21 million had been spent to build a new tissue culture laboratory at Mawathagama Denverwatta Government Farm in 2019, its construction had not been completed till the end of the year under review.
- Although Rs.139 million had been spent for the construction of the new auditorium of the North-West Janakala Foundation by the year 2019, its construction had not been completed till the end of the year under review. Also, the transformer which had been installed at a cost of Rs 8. million. and Rs. 11 million respectively the water tank and the substation building, which were constructed at a cost of Rs. 11 million, remained idle until the end of the year under review.

- The project was not completed at the end of the year under review, although an expenditure of Rs. 10 million was incurred in the year 2020 under the provincial specific development grants for the construction of the Valakumbura clay production and training center of the North West Provincial Industrial Development Department.
- On 31 December 2021, the North West Provincial Department of Agriculture has released Of the 50 Solar Power Dalers that were purchased at a cost of 16 million, 04 and 07 machines were given to the Kurunegala and Wariyapola Agriculture Zone Offices respectively, and 08 machines were given to the Wariyapola Farm, and were not distributed to the farmers until the end of the year under review. There was no follow-up on the effective utilization of the 31 units provided to the farmers.

Northern Provincial Council

- To 47 employees of the Road Passenger Transport Authority and its Chairman without obtaining the approval of the concerned Provincial Minister as per the circular of the Department of Public Enterprises

During the year under review and the previous year, a total amount of Rs.5 million was paid as transport allowances, telephone allowances, special allowances and fuel allowances.

- The amount remitted to the Northern Provincial Treasury for the period 2016 to 2019 was Stamp duties amounting to Rs.266 million were kept in the deposit account, but they were not remitted to the relevant local government authorities in the prescribed period.
- According to Section 03 of the Private Medical Institutions Act No. 21 of 2006, private medical institutions must be referred to the Private Health Services Regulatory Council through the Provincial Health Services Director and obtain a registration certificate, but without obtaining such a certificate, 167 private pharmacies were operating in the provincial jurisdiction.
- For the period from 2018 to 2020, under the Nearest School Best School program, the total contracted for 34 schools for a period of 06 to 12 months is Rs. 515 million worth of building construction, 34 agreement period

extensions were given for more than double the original agreement period, from 12 to 26 months, but the relevant project has not been completed even now.

- In the financial statement of the Northern Provincial Council under losses and waivers, Rs. 20 million, investigations into the financial fraud had not been completed and the funds of the Provincial Council had not been recovered.
- Pursuant to the Municipal Council Ordinances, Urban Council Ordinances and Pradesiya Sabha Acts under the respective local government authorities to regulate and regulate matters of public health, public utility services, public roads, and fulfill the duties of the council which are the welfare, convenience and welfare of the people. The money earned from public taxes should be used for this, but for the purpose of earning interest income, 33 out of 34 local government authorities in the Northern Province spent Rs. 4,388 million had been invested in fixed deposits for the purpose of earning interest.

Eastern Provincial Council

- The government Grant had been increased from Rs. 20,482 million to Rs. 29,964 million or 46 percent, the revenue collection of the provincial council was declined significantly from Rs. 3,839 million to Rs. 2,596 million by 32 percent. Also the recurrent expenses had been increased from Rs. 30,643 million to Rs. 32,895 million by 7.3 percent during the year 2022.
- The budget allocation of Rs. 2,575 million had been made for various capital expenditure in the year under review without estimate by the Eastern Province, only Rs. 1,634 million had been spent. The provincial development programs such as agricultural improvement, livelihood development activities expected to achieve in the year under review is Rs. 941 million were left unimplemented.
- Due to the fact that the work started in the year 2021 with the expenditure of Rs. 22 million under the Provincial Specific Development Grants was not completed by 31 March 2023, it was not possible to implement the expected tourism services in a way that could

promote tourism in the Eastern Province.

- Since January 2018, the provincial council had kept a balance of approximately Rs.414 million in three bank current accounts idle without being used for any purpose and by the end of December 2022, it had increased to Rs.640 million. As above, between January 2018 and December 2022, the government had incurred a financial loss of approximately Rs.281 million by allowing money to remain inactive in bank current accounts.
- In connection with the construction of 02 bridges on Malwatu Suripodei road built with World Bank Assistance, due to having to follow the Arbitration process, an amount of Rs. 150 million had to be paid as compensation and as a result a loss of Rs. 72 million had been incurred for the provincial council.
- Rs. 58 million as contribution to the Employees' Provident Fund and Employees' Trust Fund had been paid to the respective service providers during the year under review for employees employed in sanitary and security services however there was no

evidence to confirm whether these contributions were remitted to the respective institutions. Rs. 6 million calculated on the above contributions as value added tax had been informally paid to that institution; however the informal payments had not been recovered so far.

Western Provincial Council

- According to the Presidential Secretary's Public Expenditure Management Circular dated 12 October 2018, the maximum number of official vehicles allocated for the use of Governors is 02 and a security vehicle, however the Governor of Western Province had deployed 04 official vehicles including a security vehicle.
- A Financial and Performance Report Review Committee was established with the approval of the Governor to investigate the matters mentioned in the Auditor General's reports and the officers who participated in that committee during normal duty hours were paid Rs. 3 million contrary to the National Budget Circular.
- According to the President's Secretary's Public Expenditure Management Circular No. PS/CSA/11-

18 dated 12 October 2018, provision was not made for the payment of housing rent allowance for the Provincial Council Chairman, from the year 2009 to the year 2022 at Rs.50,000 per month, totaling Rs.8 million. A house rent allowance was paid.

- Under the Road Passenger Service Charter of the Provincial Council of the Western Province, passenger service permits for the routes on which buses can run for passenger transport in the Western Province should be issued only to the bus drivers who are selected through the tender procedure. However contrary to that, as at 31 December 2022, out of 6,161 passenger service licenses that had been issued, 5,064 licenses or 82 percent of the number of licenses had been issued outside of a formal tender procedure.
- A Prado jeep valued at Rs. 27 million was given to the chairman of the district coordination committee, which does not belong to the scope of the Western Provincial Council, on the approval of the provincial governor, and the insurance fees of Rs. 557,770 were paid by the council secretariat

from 07 December 2021 to 29 December 2023.

- The bus, which was purchased for Rs. 3 million in the year 2007 for the heavy vehicle training courses of the Road Passenger Transport Authority's Central Training School, had been idle and unsafely parked at the Homagama bus stand yard for almost 03 years.
- Although 50,000 identity card containers valued at Rs.3 million were purchased in the year 2018 for the registration program of the three-wheel bureau, which is controlled under the authority of three-wheelers registered in the Western Province, they remained idle for almost 05 years.
- 02 concrete placing machines valued at Rs.158 million were purchased by the Road Development Authority in 2012, however they were underutilized by only using 420 machine hours for the construction of 15 roads within 10 years.
- The curb machine, which was purchased for Rs.6 million in the year 2012, was parked idle at the Divulapitiya default yard without

being used in any project since the date of purchase.

- Rs.2 million in the year 2021 and Rs.3 million in the year 2022 for the installation of MIS software for the personnel and training department, a total of Rs. 5 million had been spent, however the related software system had not been utilized by May 2023.
- Although Rs.17 million was spent in the year under review to repair the roof and wall of the Meerigama "Seth Sevana" Elderly Home, the building remained unusable even by May 2023 due to the lack of installation of doors and windows.
- The Makola Certified School's computer unit, minor employee housing and the sports hall built at a cost of Rs.11 million in 2021 remained idle even by June 2023.
- Under the General Education Modernization Project (GEMP), goods valued at Rs. 11 million purchased for the Greenpath Training Center in the year 2021 remained idle for over a year by 31 December 2022.

- Due to an accident in the year 2022, a vehicle that was given to a Member of Parliament in Gampaha District, which does not belong to the scope of the Provincial Council, the repair cost was Rs. 19 million. For that, the relevant insurance company had agreed to pay an amount of Rs. 7 million and the remaining amount of Rs. 12 million had been paid by the provincial council.
- A cab owned by Sri Jayawardenepura Kotte Municipal Council with an assessed value of Rs.7 million was completely destroyed by fire on 31 August 2017. Although the driver in charge of the vehicle and the officer who used the vehicle are responsible for this, the officer who used the vehicle had retired from the Provincial Public Service without taking relevant disciplinary action against him, however he was still retained in the provincial service on contract basis.
- According to the National Budget Circular dated 01 January 2014, without calculating the fuel allowance based on the average petrol and diesel prices on the first day of the month, 52 officers entitled to official vehicles had been given monthly allowances based on the price of super petrol and super diesel as per liter of fuel on the first day of the month. After calculating the fuel allowance, Rs. 6 million had been overpaid during the period from 2011 to October 2022.
- 1/3 and 1/4 of the officers' basic salary was being paid as an allowance from 01 August 2004 to April 2023 without obtaining the recommendations of the National Salary and Carder Commission and the approval of the General Treasury and from 21 April 2019 the official of the VI Western Provincial Council has over despite the fact that a new provincial council has not been elected, the total allowance paid was 1/4 of the basic salary of the officials was Rs. 15 million.
- Although there is no ability to pay an allowance as monthly housing rent according to the Establishment Code, 11 officials holding the highest positions of the Western Provincial Council had been paid a monthly housing allowance of Rs. 20 million for more than 05 years.
- Although 10 years had passed since the installation of the Decanting machine valued at Rs. 28 million, which was

provided by the Road Development Authority in 2012 to melt bitumen for asphalt production, only 535,680 kg of bitumen had been used in the production till the end of the year under review and when purchasing the machine, there was no focus on the economic benefit to the organization.

- All the work and services of the Provincial Council should be done according to the terms of the 2006 Procurement Guidelines and the Procurement Manual, however the contract was awarded to the Economic Development Bureau for Rs.59 million annually without conducting procurements according to the guidelines in obtaining the security service of the Provincial Council building.
- The letter of award of the permit was sent to the selected applicants who invited bids to provide passenger service permits to several bus routes in the province. Although the buses should be added to the transport service and start the transport service within 60 days from the date of receipt of the said letter, although 01 year 08 months had passed since 18 applicants who had paid a total of Rs.14 million

had obtained passenger service permission, the buses had not been put in to run. The main purpose of issuing passenger service passes was not fulfilled as they were not added to the run.

- The Provincial Road Development Authority had called the quotation from only one company in the purchase of materials required for the construction of road signboards in the year 2022. Accordingly, Rs. 9 million had been paid extra for only two materials required for installing signboards.
- The action had been taken to re-employing 50 officers for Island Wide Positions in the Western Provincial Council and Western Province local authorities without obtaining the prior approval of the Public Service Commission only on the approval of the Provincial Governor, re-employing the retired officers on contract basis and extend the contract period of the supposed officers.
- 135 schools in the Western Provincial Council had been closed as at the end of the year under review,

- 06 quarters, 02 teachers' quarters in schools in Colombo district, one quarter, 02 teachers quarters in Gampaha district, 05 quarters and 35 quarters in Kalutara district and other buildings of the respective college not being used as quarters. Since it had been used for other work, the principals and teachers working in those colleges had lost the opportunity to do their work easily and the provincial council had lost the opportunity to get income.
- 18 officers of the Council Secretariat of the Western Province have been working at the same workplace for between 05 to 30 years as at 31 December 2022.
- The Provincial Road Development Authority had employed 515 employees in excess of the approved staff for the authority's work as 362 employees under the substitute basis and 153 employees under the contract basis and had not prepared a manpower plan and got the staff approved accordingly.
- In the schools located in 03 districts of Colombo, Gampaha and Kalutara in the Western Province, 20 principals in

the education administration service, 262 principals in the principal service, 256 deputy principals, 47 assistant principal and 1,893 teachers in the service were vacant.

Sabaragamuwa Provincial Council

- According to the Preliminary Investigation Report issued in January 2022 regarding the Sabaragamuwa Development Design and Machinery Authority by the Secretary of the Provincial Chief Ministry, the damages of Rs. 54 million identified were not recovered from the responsible officials.
- Rs. 6 million has been paid to the members of the Library Service Board, from the year 2015 to the year 2022, however the objectives of setting up the Library Service Board have not been achieved. Also, in the year 2016, the Sabaragamuwa Library Service Board allocated Rs. 9 million and although 20,651 books were purchased, 7,028 of them were idled in a library hall for a period of 08 years.
- As per the Presidential Secretariat circular instructions, where no provision has been made for the fuel allowance of one officer to be given to

another officer, during the Governor's stay away from the island, he was entitled to the fuel allowance of nearly Rs. one million was paid to the private secretary and the payments were to be collected from the approved and certified officials

- In accordance with the Public Enterprises Circular, the Sabaragamuwa Road Passenger Transport Authority has not paid the dividends related to the provincial council fund for the past year and while funds have been received from the provincial treasury for the expenses of the authority, according to the authority's employee service minute, Rs. 2 million had been paid as allowances on holidays saved.
- Although the Sabaragamuwa Road Passenger Transport Authority cannot be surety for the debts of private bus owners according to the Charter, the authority had stood surety for such debts. Due to non-payment 31 of them paid amounting to Rs. 3 million, the Authority was liable as guarantor.

UVA Provincial Council

- After the end of the official term of the 6th Uva Provincial Council, Rs. 4 million were paid in salaries and allowances for 11 officers of the personal staff of the chairman, who was a nominal position, from 01 January 2022 to 31 July 2022, without obtaining any service to the Uva Provincial Council.
- Uva Provincial Council had spent Rs.41 million by the year 2022 on the Udawala tourist resort, which was started in 2013 without conducting a feasibility study, but the provincial council had not opened the resort and shops for tourists by August 2022. So far the council has not been able to generate income.
- In the year 2016, which was estimated at Rs. 131 million and was awarded for Rs. 88 million, for the construction contract of the five-storey housing complex for the officials of the Uva Provincial Council, Rs. 50 million has been paid but the industry has not been completed till now. Due to delay in the construction work of the project, its cost had increased to Rs.205 million. Accordingly, due to the weakness of the provincial administration, 56

percent or Rs. 74million had to be spent more.

- With the aim of increasing patient care services and generating income by providing Ayurvedic facilities to foreign nationals, for the construction of kitchen and medicine room of Ballaketuwa Ayurveda Hospital, Rs. 24 million has been estimated, Although Rs. 19.2 million contracts had been reached, about 45 percent of the works had been completed and the construction work had been stopped, so it was not possible to fulfill the relevant objective.
- Uva Provincial Health Services Department, based on Provincial Council allocations, in the year 2021 will spend Rs. 4 million, the work of establishing a medical air system at the Bandarawela District Hospital was

completed by 17 August 2021 and this system remained idle by 18 November 2022.

- Although 02 solar cell electricity systems were installed at the cost of Rs.6 million rupees in the period from 2016 to 2019 for the drugs stores of Monaragala Divisional Health Services Directorate and Regional Medical Supply Division, as at 15 December 2022, those solar cell systems were not in working condition.
- For the period 2000-2016 in the Mahiyangana Education Zone, 24 teachers were appointed for 24 teacher instructor positions that are not included in the teacher service constitution, and a total of Rs. 72 million were paid as salaries for the period from January 2020 to September 2022

Local Authorities

Audit Observations

- **Presentation of financial statements and audit opinions**
- **Collection of assessment tax, rent, license fee and other income.**
 - **Failure to recover income promptly**
 - **Non-recovering of recoverable court fines and stamp fees**
 - **Capital Income**
- **Assets and liabilities**
 - **Land and buildings**
 - **Motor vehicles**
 - **Investments**
 - **Cash and bank accounts**
 - **Loans of local authorities.**
- **Failure to collect surcharges**
- **important points observed during the audit of the respective local authorities**

Local Authorities

Presentation of financial statements and audit opinions

The local government in Sri Lanka is operated by 341 local government authorities and those local government authorities are 24 municipal councils operated by authority 252 of the Municipal Council Ordinance and 41 Urban councils

operated by authority 255 of the said Act and Pradeshiya Sabha Act No. 15 of 1987. It consists of 276 Pradeshiya Sabhas. The table 31 shows a summary of the submission of the accounts of these local government authorities for the year 2022 for audit and the Auditor General's opinions on those accounts.

Type of local government	Number of councils for which accounts are to be submitted	Number of councils that submitted accounts	Number of councils issued audit reports	Audit opinion as per reports issued on 15.08.2023			
				Un Qualified	Qualified	Adverse Opinion	Disclaimer
Municipal Council	24	24	24	18	-	03	03
Urban Council	41	41	41	39	-	01	01
Pradeshiya Sabha	276	275	275	263	02	04	06
Total	341	340	340	320	02	08	10

The financial statement audit of Kutchveli Pradeshiya Sabha for the year 2022 was not submitted.

Table 31 - submission of the accounts of these local government authorities for the year 2022 for audit and the Auditor General's opinions

Collection of assessment tax, rent, license fee and other income.

The income billed for various taxes, rents and license fees of the above local authorities was Rs. 34,284 million in the year under review, the details of which are given in Table 32.

Type of local government	Rates and Tax Rs.million	Rent Rs.million	License Fees Rs.million	Other Income Rs.million	Total Income Rs.million
Municipal Council	7,699	1,592	444	6,736	16,471
Urban Council	1,380	875	94	1,446	3,795
Pradeshiya Sabha	2,357	2,822	441	8,398	14,019
Total	11,435	5,289	979	16,580	34,284

Table 32 - The income billed for various taxes, rents and license fees of the local authorities

Observations

- Due to the delays in the assessment of assessment tax in the local government for a period of 05 to 10 years, due to failure to identify developed areas and not collect assessment tax and issue compliance certificates and revise the tax after granting development permits, a large amount of assessment tax that should have been collected remained uncollected.
- Many local authorities were missing out on rental income due to not assessing rents on time, delaying collection of assessed rents and not updating lease agreements.
- Before the start of the year, a survey was conducted on trade licenses and the income should be billed accordingly, however instead of billing only the income received by the

council, a large amount of trade license income was lost.

- Non-enactment of by-laws for collection of revenue, non-updating of by-laws, weaknesses in tender procedure for annual lease of revenue collection ownership and other recoverable revenue had been lost.

Failure to recover income promptly

The arrears of revenue due to the local authorities was Rs. 20,347 million as at 31 December of the year under review, the details of which are given in Table 33.

Type of local government	Rates and Tax Rs.million	Rent Rs.million	License Fees Rs.million	Other Income Rs.million	Total Arrears Rs.million
Municipal Council	7,314	1,968	80	2,190	11,553
Urban Council	1,288	638	7	215	2,148
Pradeshiya Sabha	2,008	1,270	55	3,312	6,645
Total	10,610	3,876	143	5,718	20,347

Table 33 - The arrears of revenue due to the local authorities as at 31 December

The following reasons were effected to these arrears.

- Non-compliance with provisions of Acts for collection of assessment and tax.
- Failure to comply with the terms of rental agreements to collect rental income.
- The legal action was not taken to collect arrears of trade license fees.
- Levy of other revenue and non-compliance with provisions of Acts, Bye-laws and Agreements.

Non-recovering of recoverable court fines and stamp fees

According to the financial statements of the local authorities as at 31 December of the year under review, court fines of Rs. 1,628 million and stamp fees of Rs.10,589 million should have been collected from the provincial councils. The details are shown in Table 34.

Type of local government	Court Fines Rs. million	Stamp Fees Rs. million	Total Rs. million
Municipal Council	121	3,180	3,302
Urban Council	28	902	930
Pradeshiya Sabha	1,479	6,507	7,986
Total	1,628	10,589	12,217

Table 34 – Receivable court fines and stamp fee

The provincial council had neglected to give the court fines and stamp fees to the local government authorities as scheduled, and it had adversely affected to the budget and planning process of the local government authorities.

Capital Income

During the year under review, to local authorities, Central Government from provincial councils and other sources Rs. 7,129 million capital assistance was received and including council funds Rs. 8,996 million had been utilized during the year. Details are given in Table 35.

Type of local government	Capital Income Rs. Million	Capital Expenditure Rs. Million	Balance Remained Rs. Million
Municipal Council	1,870	2,312	89,694
Urban Council	1,318	1,106	775,506
Pradeshiya Sabha	3,940	5,577	2,733
Total	7,129	8,996	3,596

Table 35 - Capital Income, Capital Expenditure and Balance Remained in Local Authorities

Assets and liabilities

Land and buildings

Local government owns most of the commercial value land and buildings in the country. According to the financial statements, the value of them is Rs. 229,246 million. The details are shown in Table 36.

Type of local government	Amount Rs.million
Municipal Council	88,333
Urban Council	50,876
Pradeshiya Sabha	90,037
Total	229,246

Table 36 – Value of the lands and buildings owns to Local Authorities

Included in the value of land and buildings above, from land and buildings, only the local governments of the Western Provinces and North Central Provinces, according to the Sri Lanka Public Sector Accounting Standard for Local Government Authorities, the assets were recalculated at the current market price and shown in the accounts.

Motor vehicles

The number of motor vehicles owned by the local authorities was 10,792 and their value was Rs. 26,877 million as at 31 December 2022. The details are shown in Table 37.

Type of local government	Number of vehicles	Amount Rs.million
Municipal Council	3,145	11,238
Urban Council	1503	2,966
Pradeshiya Sabha	6144	12,674
Total	10,792	26,877

Table 37 – Number of motor vehicles owns to Local Authorities

Investments

Since the main purpose of the local government authorities is to fulfill the tasks assigned by the Act, for that purpose, the expenses should be planned and the budget should be prepared in accordance with the income of the council. However due to the lack of proper preparation of the budget and supplementary estimates in most of the local government authorities, the provisions were left and they were invested in fixed deposits and other deposits with the purpose of earning income. The details are shown in table 38.

Type of local government	Investment amount Rs.million
Municipal Council	7,942
Urban Council	3,159
Pradeshiya Sabha	9,850
Total	20,951

Table 38 – Investments of fixed deposits and other deposits

It was a problematic situation to maintain their funds as fixed deposits when the public health, public utility services, public roads and public welfare activities assigned to the local government authorities were not performed properly.

Cash and bank accounts

The cash balance in hand and held in the bank accounts of local authorities was Rs. 7,821 million as at 31 December of the year under review. The Details are shown in Table 39.

Type of local government	amount Rs.million
Municipal Council	880
Urban Council	1,103
Pradeshiya Sabha	5,838
Total	7,821

Table 39 - The cash balance in hand and held in the bank accounts of local authorities

Loans of local authorities

According to the presented financial statements, the amount of loan taken by the local government authorities from the Local Loan Development Fund (LLDF)

and other institutions was Rs. 7,068 million. The details are shown in Table 40.

Type of local government	Loans from Local Loan Development Fund Rs. million	Other loans Rs. Million	Total Rs. million
Municipal Council	1,417	3,286	4,703
Urban Council	1,293	128	1,422
Pradeshiya Sabha	656	287	943
Total	3,367	3,701	7,068

Table 40 - the amount of loan taken by the local government authorities

Failure to collect surcharges

- During the year under review, in accordance with Section 226 of the Municipal Council Ordinance, Section 182 of the Urban Council Ordinance and Section 172, No 15 of 1987 Pradeshiya Sabha Act, the Auditor-General collected from 135 persons 10 surcharges had been issued to recover Rs. 6 million to council funds, however the said surcharges had not been recovered.

In addition to the above general observations, the important points observed during the audit of the respective local authorities are summarized below.

Central Government obtained from Asian Development Bank, USD 232 million to improve the sewerage system of the Colombo Municipal Council by 31 December 2022, Rs. 23,210 million has been invested, of which Rs. 19,971 million without taking actions to account or disclose, and had agreed to repay from that amount Only Rs.3,239 million had been accounted.

- Purchased and donated as grant by the Negombo Municipal Council during the period from 2018 to 2020, Rs. 17 million 7 assets were lying idle in the stores unused.

- During the repair of the electrical system of the Municipal Council building of the Ratnapura Municipal council, an amount of Rs. 5.3 million and 1,046 labor days had been spent. However, a formal plan (Electric Drawing) and a cost estimate had not been prepared and approved by a chartered electrical engineer.
- Ambilipitiya Urban Council installed an LED advertising board in the year 2019, It was planned to cover the cost of Rs. 3 million in 20 months. However, 34 months after installing the advertising board, the income was only Rs.35,500.
- For the compost yard of Nivitigala Pradeshiya sabha, from the year 2019, spend Rs. 9.3 million and received from the Provincial Council on 8 August 2022, Rs. one millionth beller machine was also not used due to lack of electricity.
- The construction of the Ayagama market was started without getting a land suitability certificate and then only the foundation and the column shaft were built, although the agreement was terminated on mutual agreement in the year 2022, however, Rs. 2 million had been overpaid for the completed work.
- The two-stored building Built by Rs, 27 million at Velioya town of Balangoda Pradeshiya Sabha in the year 2015, remained unused by the end of the year 2022.
- The Municipal Council Ordinance did not make provision in aid of an illness of a Municipal Councilor of the Kurunegala Municipal Council, however Rs. one million had been paid for illness of a Municipal Councilor.
- Master Drainage Plan related to the development of Kurunegala city for revision related field inspection on 17 May 2022 Rs. 540,000 was paid to the Sri Lanka Land Development Corporation as an advance. The revision of this drainage plan should be completed immediately however it was not done until as at 31 December 2022.
- By the Water Division of the Municipal Council, to detect changes in water consumption, to install bulk water meters and to update the piped water distribution system, Although 06 types of water equipment valued at Rs. 2 million had been purchased, it remained unused in stores.

- The agreements had been entered for the Construction of Central Market Phase I in Kurunegala Municipal Council with a private company for Rs. 949 million, however because the Construction Industry Development Authority (CIDA) has asked for higher qualifications than the registered ratings in calling for bids for these construction contracts, only the bids of the bidders who are in deal with the Municipal Council were received and the space for open competition was closed for the open competitors and the offer was done Rs. 270 million more than the estimated amount.
- According to the committee report of the provincial engineering department in the construction of the central market by the Kurunegala Municipal Council, without making a comparison between the gross market price and the basic estimate for 20 main work items, the estimated value of the work item 01 and 15 of the engineering estimate, Preliminaries and air conditioning items, the estimate value had been increased by Rs. 76 million.
- In the construction of the Kurunegala Municipal Council Central Market, regarding the variations in the provisional sum values mentioned in the estimate, the action had not been taken to discuss with the contractor fulfill the contract items for estimate price by the project therefore Rs. 93 million had to be over paid for 03 items.
- The abnormal price rates exceeding North Western Province Building Shedule Rates (BSR) had been used for Central Market Construction in Kurunegala Municipal Council therefore Rs. 35 million had been overpaid.
- In the repair of the MC-Plaza building of the Kurunegala Municipal Council, in violation of the procurement guidelines, Rs. 20 million additional work had been done. Although this additional work should not exceed 10 percent of the value of the engineering estimate, 53 percent of the additional work was done without fulfilling the work items of the engineering estimate.
- In the repair of the MC – Plaza building of the Kurunegala Municipl Council, the value of 23 items not fulfilled in the agreed value of the approved engineering estimate is Rs. 20 million which was 53 percent extra work of the estimated value.
- In the repair of the MC-Plaza building of the Kurunegala Municipal Council, due

to the preparation and payment of special price rates for additional work without using the rates of the building price analysis, Rs. 20 million had been overpaid for 08 work items.

- Kurunegala Municipal Council did not get a cost advantage from the Sundarapola Solid Waste Management Center contracts. Rs. 240 million in a project worth Rs. 100 million had been contracted, however this work to be done within Rs. 100 million was not specifically identified and contracted by the Municipal Council. Rs. 57 million from the contract amount had been paid as at 25 August 2022 the date of audit conducted.
- Chilaw Municipal Council had leased the Shirley Koraya Hall to Chilaw Hospital in the year 2017 without a agreement and the rent payable to the Municipal Council was Rs. 3 million had not been recovered
- Issued items from the main stores of Wennappuwa Pradeshiya Sabha amounting to Rs. 3 million were not included in the Maintenance Store Register, it was not possible to confirm whether they were used for the relevant purpose.
- The membership and water fee deficit of 4 water projects run by the Karuwalagaswewa Pradeshiya Sabha is Rs. 2 million as at 31 October 2022.
- The key money to be received by the Council on the sale of all the shops in Alpha Mall of Puttalam Municipal Council is Rs. 717 million, however almost 03 years have passed since the implementation of the project, the value collected by the council was Rs. 253 million only which was 35 percent of the total value.
- During the physical inspection of the solar street lights installed for the Kandy Municipal Council playground in the year under review, more than the value to be paid for one street lamp is Rs. 1 million was overpaid for 13 lampposts.
- Even though land in Kandy, Kadawatsatara and Gangawata Korale Pradeshiya Sabha area was sold at auction, 1 percent of the assessed value of Rs. 3 million commissions was not recovered.
- In the year 2005, only 02 storeys were built in the 03-storey Gampola Public Market, which was built with Rs. 96 million by Local Loans and

Development Funds. As 100 of its 197 shops have been closed for 17 years, this area has also allowed for various malpractices.

- Based on the provisions of Provincial Councils and Ministry of Local Government, there was a contract for Rs. 13 million for the construction of a guest house at the Knuckles Tourism Center. Out of which Rs. 4 million had been paid by the year 2017, however the half-built building was being destroyed.
- For 11 programs in the past 5 years for the promotion and protection of public health within the city of Nuwara Eliya, Rs. 111 million had been allocated. They were not used for their intended purpose. Also, for the maintenance and improvement of 107 drain and canals Rs. 15 million had been allocated in the budget, however 93 projects had not been completed by the end of the year under review.
- In Matale District, solid waste management center was established in 2017 at a cost of Rs.307 million for waste management. Also, a capacity development project was implemented in the year 2021 at a cost of Rs. 90 million under the provisions of the Provincial

Council and the Ministry of Local Government. However till the end of the day of the year under review, only 25 metric tons of fertilizer had been produced.

- The upper floor of the super market located in Matale Municipal Council area was contracted and leased for 2000 square feet for a 3D cinema, however 3,972 square feet had been used in excess of the contracted amount as at 31 December 2022, therefore the income of Rs. 4 million had been lost for the council.
- In the financial statements of the 13 local government authorities operating in the Trincomalee district of the Eastern Province, Although there were Rs. 1,307 million worth of land and buildings, there were no deeds or survey plans to confirm their ownership.
- Almost 03 metric tons of compose and non-compose garbage was disposed of in the Mahiyangana Pradeshiya Sabha area every day. 06 years prior to the year under review, for waste recycling activities. A permanent garbage yard and an office building had been constructed at a cost of Rs.16 million. Due to the protest of the people living in

area, the waste recycling work at that place was not done until the end of the year under review and the relevant building remained idle.

- In the Mahiyangana Pradeshiya Sabha, as the collected garbage was informally dumped in the open area of the new waste management center, there was a risk of insects such as flies breeding, a bad smell spreading, and the mixed garbage being washed away during the rains and joining the Mahaweli river that flows near the garbage yard. In the previous year and the year under review, for the waste management activities at this place, Rs. 38 million had been spent.
- In relation to 07 local authorities in Monaragala district, the rental income of machines amounting to Rs. 21 million had not been collected as at 31 December 2022.
- According to the gazette notification dated 24 December 2021, industrial and commercial businesses located in the Anuradhapura Municipal Council area belonging to 33 categories of fire protection service charges should be charged Rs. 2,500 each, however because the charges have not been collected in such categories, about Rs. 5

million annually, the Municipal Council had lost an income.

- The arrears due at the end of the year under review for the rental of machines and vehicles belonging to eleven Pradeshiya Sabha in Anuradhapura district is Rs. 11 million.
- Assets valued at Rs. 53 million belonging to eleven local authorities in Anuradhapura district, non-utilization or, it remained idle because it was not finished for use.
- The arrears of water charges for 12 water projects run by four Pradeshiya Sabha in Anuradhapura district amounted to Rs. 6 million at the end of the year under review.
- Under the Pibidemu Polonnaruwa project, 92 new public market stalls that were completed in 2019 and handed over to the Higurakgoda Pradeshiya Sabha at a cost of Rs. 27 million remained vacant even at the end of the year under review. Under that, the income lost only in respect of the year under review is Rs. 13 million.

- Although the capacity of compost that can be produced by the Kawshima machine which was installed in the Lankapura Pradeshiya Sabha in 2019 by the solid waste unit of the Ministry of Local Government and Provincial Councils at a cost of Rs. 145 million, the amount of waste required for such a capacity in the jurisdiction is not collected and excessive. The machine remained underutilized due to maintenance costs.
- As a long-term solution to manage 35 tons of garbage generated daily in the Matara Municipal Council and the project to generate electricity from garbage was signed on 8 August 2014 between the Matara Municipal Council, the Central Environment Authority and a private company. An area of 05 acres of Kotawilawatta land was given for a period of 25 years in behalf of the above. However, for a period of 08 years, the garbage of that land was piled up in the open ground by a cost of Rs. 41 million had been paid as rent and covered with soil, however the exposure of the garbage mountain as before had turned the cost of burying the garbage was an idle expense.
- According to the financial statements of the Matara Municipal Council, the loan amount and interest given by the Asian Development Bank for the construction of the bus station, the super market and the purchase of machinery and equipment is Rs. 55 million. However, according to the Urban Development Authority, the balance is Rs. 148 million and the reasons for the difference had not been reconciled and settled.
- 11 stores balances valued at Rs. 26 million included in the stock summary submitted by the Akurassa Pradeshiya Sabha with the financial statements prepared at the end of the year under review were not accounted and the said balances were not physically available to the council.
- An amount of Rs. 6 million was informally spent on 04 contractors and a farmer's organization to dig and remove mud from 08 canals located in the Weligama Pradeshiya Sabha area, and expenses were incurred from the Sabha fund without approval for those works which are not within the scope of the Pradeshiya Sabha.

- 07 various constructions of 03 local authorities in Matara district on the provisions of the State Ministry of Provincial Councils and Local Government at a cost of Rs. 24 million work was stopped in the middle way, so it was not possible to achieve the desired objectives by starting the construction and the constructed parts were also being destroyed.
- In the case of a businessman who has not submitted information that he has obtained a development license within the urban area belonging to the Weligama Pradeshiya Sabha, after checking and proceeding according to the planning and development orders/regulations of the Urban Development Authority, The council had not taken action to formalize the construction after charging Rs.6 million fees.
- According to the facts revealed during the field inspection conducted on 22 November 2022 and according to the documentary evidence, 02 building plans which were not approved by the Planning Committee of the Weligama Pradeshiya Sabha were fraudulently approved by the Chairman with his official seal and as at the date of the field inspection, accordingly a 1,205 square feet residential two-storey building and a commercial building were constructed.
- In the year under review, during the purchase of 100 perches from the land bearing Plan No. 35/215, adjacent to the Kamburugamuwa Garbage Project, a land owned by the former chairman of the Weligama Pradeshiya sabha was sold to a third party for Rs. 1 million and the said land was bought back to the Sabha in 02 months for Rs.9 million, therefore the council fund had incurred a losses.
- Working as a member of the Tangalle Urban Council from the year 2008 to the present and also working as a lessee of a bus stand shop belonging to that council is ineligible for membership. however from the year 2008 till up to now the total is Rs. 2 million allowances were paid to that member.

